

OFFICIAL STATEMENT

Dated April 20, 2020

Rating:

S&P: "AA"/"A-"

Insurance: BAM

**(See "BOND INSURANCE" and
OTHER INFORMATION**

- Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$2,400,000

CITY OF HEREFORD, TEXAS

(Deaf Smith County)

GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020

Dated Date: April 15, 2020

Due: February 15, as shown on page 2

Interest Accrues from Delivery Date (defined below)

PAYMENT TERMS . . . Interest on the \$2,400,000 City of Hereford, Texas General Obligation Refunding Bonds, Series 2020 (the "Bonds") will accrue from the date of initial delivery, will be payable August 15 and February 15 of each year, commencing August 15, 2020, until maturity and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds 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. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof within a maturity. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE OBLIGATIONS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "THE OBLIGATIONS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), and are direct obligations of the City of Hereford, Texas (the "City"), payable from a direct annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the issuance of the Bonds (the "Bond Parameters Ordinance"). In the Bond Parameters Ordinance, the City Commission delegated to the City Manager or Mayor (each a "Pricing Officer") authority to complete the sale of Bonds through the execution of a pricing certificate (the "Pricing Certificate" and together with the Bond Parameters Ordinance the "Bond Ordinance"). The Pricing Certificate was executed by the Pricing Officer on April 20, 2020, which completed the sale of the Bonds (see "THE OBLIGATIONS - Authority for Issuance" and "THE OBLIGATIONS - Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding debt (the "Refunded Obligations"), as shown on SCHEDULE I hereto, for debt service savings, and (ii) to pay the costs of issuing the Bonds.



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company. See "BOND INSURANCE" and "OTHER INFORMATION - Ratings".

CUSIP PREFIX: 427110

**SEE MATURITY SCHEDULE, 9 DIGIT CUSIP AND REDEMPTION PROVISIONS
ON PAGE 2**

SEPARATE ISSUES. . . . The Bonds are being offered by the City concurrently with the City of Hereford, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates") under a common Official Statement, and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations". The Obligations are separate and distinct securities offerings being issued and sold independently except for being offered through the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including without limitation the type of obligation being offered, its terms for payment, the security for its payment, the treatment of interest on the respective Obligations for federal income tax purposes, and the rights of the holders.

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the initial purchaser (the "Bond Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see APPENDIX C - "Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Bonds will be available for delivery through the facilities of DTC on or about May 14, 2020 (the "Delivery Date").

MATURITY SCHEDULE

<u>Maturity (February 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
2021	\$ 295,000	5.000%	1.150%	BG5
2022	310,000	5.000%	1.250%	BH3
2023	325,000	5.000%	1.350%	BJ9
2024	340,000	5.000%	1.450%	BK6
2025	360,000	5.000%	1.550%	BL4
2026	375,000	5.000%	1.600%	BM2
2027	395,000	4.000%	1.650%	BN0

(Interest Accrues from the Delivery Date)

- (1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data 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 the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. None of the City, the Financial Advisor or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers shown herein.

NO OPTIONAL REDEMPTION . . . The Bonds are not subject to optional redemption prior to their stated maturity.

OFFICIAL STATEMENT

Dated April 20, 2020

Rating:

S&P: "AA"/"A-"

Insurance: BAM

**(See "BOND INSURANCE" and
OTHER INFORMATION
– Ratings" herein)**

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein.

THE CERTIFICATES HAVE BEEN BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

\$3,630,000

CITY OF HEREFORD, TEXAS

(Deaf Smith County)

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020

Dated Date: April 15, 2020;

Due: February 15, as shown on page 4

Interest Accrues from Delivery Date (defined below)

PAYMENT TERMS . . . Interest on the \$3,630,000 City of Hereford, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates") will accrue from the date of initial delivery, will be payable February 15 and August 15 of each year, commencing February 15, 2021, until maturity 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 ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or any integral multiple 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 OBLIGATIONS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "THE OBLIGATIONS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act of 1971"), as amended, and constitute direct obligations of the City of Hereford, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's waterworks and sewer system, as provided in the ordinance authorizing the Certificates (the "Certificate Ordinance") (see "THE OBLIGATIONS - Authority for Issuance" and "THE OBLIGATIONS - Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City's water system, including water rights and water wells; (ii) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City's sewer system, including lift stations and related infrastructure; and (iii) professional services rendered in relation to such projects and purposes and the financing thereof.



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 Build America Mutual Assurance Company. See "BOND INSURANCE" and "OTHER INFORMATION – Ratings".

CUSIP PREFIX: 427110

SEE MATURITY SCHEDULE, 9 DIGIT CUSIP AND REDEMPTION PROVISIONS ON PAGE 4

SEPARATE ISSUES. . . The Certificates are being offered by the City concurrently with the City of Hereford, Texas, General Obligation Refunding Bonds, Series 2020 (the "Bonds") under a common Official Statement, and such Certificates and Bonds are hereinafter sometimes referred to collectively as the "Obligations". The Obligations are separate and distinct securities offerings being issued and sold independently except for being offered through the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including without limitation the type of obligation being offered, its terms for payment, the security for its payment, the treatment of interest on the respective Obligations for federal income tax purposes, and the rights of the holders.

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser (the "Certificate Purchaser", and together with the Bond Purchaser, the "Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see APPENDIX C - "Form of Bond Counsel's Opinion").

DELIVERY . . . It is expected that the Certificates will be available for delivery through the facilities of DTC on or about May 14, 2020 (the "Delivery Date").

MATURITY SCHEDULE

<u>Maturity (February 15)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
2021	\$ 255,000	5.000%	1.150%	BP5
2022	310,000	5.000%	1.250%	BQ3
2023	325,000	5.000%	1.350%	BR1
2024	340,000	5.000%	1.450%	BS9
2025	360,000	5.000%	1.550%	BT7
2026	375,000	4.750%	1.600%	BU4
2027	390,000	4.000%	1.650%	BV2
2028	410,000	4.000%	1.700%	BW0
2029	425,000	4.000%	1.750%	BX8
2030	440,000	4.000%	1.800%	BY6

(Interest Accrues from the Delivery Date)

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NO OPTIONAL REDEMPTION . . . The Certificates are not subject to optional redemption prior to their stated maturity.

This Official Statement, which includes the cover page, the Schedule and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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

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

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

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 STATEMENT.

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Obligations or the advisability of investing in the Obligations. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "Bond Insurance" and "APPENDIX D - SPECIMEN MUNICIPAL BOND INSURANCE POLICIES".

TABLE OF CONTENTS

OFFICIAL STATEMENT SUMMARY.....	6	FINANCIAL INFORMATION	28
CITY OFFICIALS, STAFF, AND CONSULTANTS.....	8	TABLE 12 - GENERAL FUND REVENUES AND	
ELECTED OFFICIALS.....	8	EXPENDITURES HISTORY	28
SELECTED ADMINISTRATIVE STAFF.....	8	TABLE 13 - MUNICIPAL SALES TAX HISTORY	29
CONSULTANTS AND ADVISORS	8	INVESTMENTS	30
INTRODUCTION.....	9	TABLE 14 - CURRENT INVESTMENTS	31
PLAN OF FINANCING	9	TAX MATTERS	32
THE OBLIGATIONS.....	10	CONTINUING DISCLOSURE OF INFORMATION.....	34
BOND INSURANCE.....	17	OTHER INFORMATION	35
BOND INSURANCE RISKS.....	18	SCHEDULE I.....SCHEDULE OF REFUNDED	
TAX INFORMATION.....	19	OBLIGATIONS	
TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL		APPENDICES	
OBLIGATION DEBT	23	GENERAL INFORMATION REGARDING THE CITY	A
TABLE 2 - VALUATION AND TAX SUPPORTED DEBT		EXCERPTS FROM THE ANNUAL FINANCIAL REPORT	B
HISTORY	24	FORM OF BOND COUNSEL'S OPINIONS.....	C
TABLE 3 - TAX RATE, LEVY, AND COLLECTION HISTORY	24	SPECIMEN MUNICIPAL BOND INSURANCE POLICIES.....	D
TABLE 4 - TEN LARGEST TAXPAYERS	24		
TABLE 5 - TAX ADEQUACY	25		
TABLE 6 - ESTIMATED OVERLAPPING DEBT	25		
DEBT INFORMATION	26		
TABLE 7 - GENERAL OBLIGATION DEBT SERVICE			
REQUIREMENTS	26		
TABLE 8 - INTEREST AND SINKING FUND BUDGET			
PROJECTION.....	27		
TABLE 9 - COMPUTATION OF SELF-SUPPORTING DEBT	27		
TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL			
OBLIGATION BONDS	27		
TABLE 11 - OTHER OBLIGATIONS	27		

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

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Obligations 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 Hereford is a political subdivision and home rule municipal corporation of the State, located in Deaf Smith County, Texas. The City covers approximately 5.34 square miles (see “INTRODUCTION – Description of City”).

THE OBLIGATIONS..... The \$2,400,000 General Obligation Refunding Bonds, Series 2020 are to mature on February 15 in the years 2021 through and including 2027 (see “THE OBLIGATIONS – Description of the Obligations”).

The \$3,630,000 Combination Tax and Revenue Certificates of Obligation, Series 2020 are to mature on February 15, 2021 through and including 2030 (see “THE OBLIGATIONS – Description of the Obligations”).

PAYMENT OF INTEREST Interest on the Bonds accrues from the date of initial delivery, and is payable August 15, 2020, and each February 15 and August 15 thereafter until maturity (see “THE OBLIGATIONS – Description of the Obligations”).

Interest on the Certificates accrues from the date of initial delivery, and is payable February 15, 2021, and each August 15 and February 15 thereafter until maturity (see “THE OBLIGATIONS – Description of the Obligations”).

AUTHORITY FOR ISSUANCE The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance (the “Bond Parameters Ordinance”) passed by the City Commission of the City. In the Bond Parameters Ordinance, the City Commission delegated to the City Manager or Mayor (each a “Pricing Officer”) authority to complete the sale of Bonds through the execution of a pricing certificate (the “Pricing Certificate”). The Pricing Certificate was executed by the Pricing Officer on April 20, 2020, which completed the sale of the Bonds.

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the “State”) particularly Subchapter C of Chapter 271, Texas Local Government Code (the “Certificate of Obligation Act of 1971”), as amended, and an ordinance (the “Certificate Ordinance”) passed by the City Commission of the City.

See “THE OBLIGATIONS – Authority for Issuance”.

SECURITY FOR THE

OBLIGATIONS..... The Bonds constitute direct obligations of the City, payable from a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City.

The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the City’s waterworks and sewer system, as provided in the ordinance authorizing the Certificates.

See “THE OBLIGATIONS – Security and Source of Payment”.

QUALIFIED TAX-EXEMPT

OBLIGATIONS..... The Obligations have been designated as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”).

NO OPTIONAL REDEMPTION The Obligations are not subject to optional redemption prior to their stated maturity (see “THE OBLIGATIONS – No Optional Redemption”).

TAX EXEMPTION..... In the opinion of Bond Counsel, the interest on the Obligations will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS” herein.

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City’s outstanding debt (the “Refunded Obligations”), as shown on SCHEDULE I hereto, for debt service savings, and (ii) to pay the costs of issuing the Bonds.

Proceeds from the sale of the Certificates will be used for paying the City’s contractual obligations incurred for (i) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City’s water system, including water rights and water wells; (ii) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City’s sewer system, including lift stations and related infrastructure; and (iii) professional services rendered in relation to such projects and purposes and the financing thereof.

RATING The Obligations have been rated “AA” by S&P Global Ratings, a division of Standard & Poor’s Financial Services LLC (“S&P”) by virtue of the respective municipal bond insurance policies to be issued by Build America Mutual Assurance Company. The Obligations have an unenhanced underlying rating of “A-” by S&P. See “BOND INSURANCE RISKS,” “BOND INSURANCE” and “OTHER INFORMATION - Ratings”.

BOOK-ENTRY-ONLY SYSTEM..... The definitive Obligations will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Obligations may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations 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 Obligations (see “THE OBLIGATIONS – Book-Entry-Only System”).

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita	% of Total Tax Collections
2016	14,941	\$554,089,080	\$ 37,085	\$ 1,685,000	0.30%	\$ 113	100.09%
2017	14,898	562,692,579	37,770	4,275,000	0.76%	287	99.31%
2018	14,810	584,664,654	39,478	3,728,000	0.64%	252	99.02%
2019	14,810	614,077,350	41,464	3,170,000	0.52%	214	100.16%
2020	14,810	655,162,165	44,238	6,030,000 ⁽⁴⁾	0.92%	407	84.49% ⁽⁵⁾

(1) Source: Municipal Advisory Council of Texas.

(2) As reported by Deaf Smith County Appraisal District on City’s annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Includes self-supporting debt (see Table 1 for detailed information on self-supporting debt).

(4) Projected. Includes the Obligations and excludes the Refunded Obligations.

(5) Collections as of January 31, 2020.

For additional information regarding the City, please contact:

City of Hereford
 Steve Bartels
 Asst. City Manager/Finance Manager
 224 N. Lee Avenue
 Hereford, Texas 79045
 Phone: 806.363.7100

or
 Specialized Public Finance Inc.
 Vince Viaille
 Managing Director
 4925 Greenville Avenue, Suite 1350
 Dallas, Texas 75206
 Phone: 214.373.3911

CITY OFFICIALS, STAFF, AND CONSULTANTS

ELECTED OFFICIALS

<u>City Commission</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Tom E. Simons Mayor	5 Years	May, 2021	Retired
Cathy Bunch Mayor Pro Tem	11 Years	May, 2020	Self-Employed
Jose A. Garza Commissioner Place One	11 Years	May, 2021	Clerk
Angie Alonzo Commissioner Place Two	22 Years	May, 2020	Housing Development Manager
Clint Savoini Commissioner Place Three	1 Year	May, 2021	Executive Sales Representative
Linda Cumpton Commissioner Place Four	6 Years	May, 2020	Retired
Rocky Bhakta Commissioner Place Six	3 Years	May, 2020	Hotel/Motel Owner

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Vacant	City Manager	N/A
Steve Bartels	Asst. City Manager/Finance Manager	27 Years
Suzanne Finch	City Secretary	17 Years

CONSULTANTS AND ADVISORS

Auditors McGinty & Associates, LLP
Hereford, Texas

Bond Counsel McCall, Parkhurst & Horton L.L.P.
Dallas, Texas

Financial Advisor.....Specialized Public Finance Inc.
Dallas, Texas

OFFICIAL STATEMENT

RELATING TO

\$2,400,000
CITY OF HEREFORD, TEXAS
GENERAL OBLIGATION REFUNDING BONDS,
SERIES 2020

\$3,630,000
CITY OF HEREFORD, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2020

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$2,400,000 City of Hereford, Texas, General Obligation Refunding Bonds, Series 2020 (the “Bonds”) and \$3,630,000 City of Hereford, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2020 (the “Certificates”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Ordinance and the Certificate Ordinance (the Bond Ordinance and the Certificate Ordinance are sometimes collectively referred to herein as the “Ordinances”).

There follows in this Official Statement descriptions of the Obligations and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Financial Advisor.

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City was incorporated in 1906. The City operates under a Council/Manager form of government with a City Commission comprised of the Mayor and six Commissioners. The term of office is two years with the terms of the Mayor and two of the Commissioners terms expiring in odd-numbered years and the other terms of the four Commissioners 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, sanitation services, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 15,370. The City covers approximately 5.34 square miles.

PLAN OF FINANCING

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations will be paid on May 19, 2020, the redemption date of the Refunded Obligations, from funds to be deposited with the Escrow Agent (as defined herein) pursuant to an Escrow Deposit Agreement by and between the City and BOKF, NA, Dallas, Texas (the “Escrow Agent”). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Purchaser and other available City funds, if any are necessary, the City will deposit with the Escrow Agent the full cash amount required to pay all amounts coming due on the Refunded Obligations on the redemption date and to accomplish the discharge and final payment of the Refunded Obligations on the redemption date. Such funds will be held by the Escrow Agent in a trust clearing account pending their disbursement to redeem the Refunded Obligations on the redemption date. By the deposit with the Escrow Agent in such trust clearing account, the City will have effected the defeasance of the Refunded Obligations in accordance with the applicable law.

Specialized Public Finance Inc., acting as Financial Advisor to the City, will provide a sufficiency certificate (the “Certificate”) verifying at the time of delivery of the Bonds to the Purchaser that the full cash amount deposited into the Escrow Fund will be sufficient to pay on the redemption date the principal of and interest on the Refunded Obligations. The Certificate will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Obligations.

By the deposit of the Bond proceeds and cash, if any, with the Escrow Agent, the City will have effected the defeasance of the Refunded Obligations pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the ordinance authorizing the issuance of the Refunded Obligations. As a result of such defeasance, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the cash held for such purpose by the Escrow Agent, and the Refunded Obligations will not be deemed as being outstanding obligations of the City payable from the sources and secured in the manner provided in the ordinance authorizing their issuance or for any other purpose.

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS . . . The Obligations are dated April 15, 2020 and mature on February 15 in each of the years and in the amounts shown on pages 2 and 4 hereof. Interest on the Bonds will accrue from the date of initial delivery of the Bonds to the Purchaser, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15 of each year, commencing August 15, 2020 until maturity. Interest on the Certificates will accrue from the date of initial delivery of the Certificates to the Purchaser, 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 February 15, 2021 until maturity. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the book-entry-only system described herein. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations 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 Obligations. See “Book-Entry-Only System” herein.

Interest on the Obligations 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 (hereinafter defined), and such interest shall be paid (i) by check sent 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 method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Obligations will be paid to the registered owner at their stated maturity upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Obligations, all payments will be made as described under “THE OBLIGATIONS – Book-Entry-Only System” herein. If the date for any payment on the Obligations shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended (“Chapter 1207”); and an ordinance adopted by the City Commission (the “Bond Parameters Ordinance”). In the Bond Parameters Ordinance, the City Commission delegated to the City Manager or Mayor (each a “Pricing Officer”) authority to complete the sale of Bonds through the execution of a pricing certificate (the “Pricing Certificate”, and together with the Bond Parameters Ordinance, the “Bond Ordinance”). The Pricing Certificate was executed by the Pricing Officer on April 20, 2020, which completed the sale of the Bonds.

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the “Certificate of Obligation Act of 1971”), as amended, and an ordinance (the “Certificate Ordinance”) passed by the City Commission of the City.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds constitute direct obligations of the City, payable from a direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City.

The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus net revenues of the City’s waterworks and sewer system, as provided in the Certificate Ordinance.

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

NO OPTIONAL REDEMPTION . . . The Obligations are not subject to optional redemption prior to their stated maturity.

DTC NOTICE PROVISIONS . . . The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Obligations, will send any notice of proposed amendment to the Ordinances or other notices with respect to the Obligations only to DTC. Any failure by DTC to advise any DTC Participant, or of any DTC Participant (defined below) to notify the beneficial owner, shall not affect the validity of the action premised on any such notice. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants or the persons for whom DTC Participants act as nominees with respect to the payments on the Obligations or the providing of notice to DTC Participants, or beneficial owners of the selection of portions of the Obligations. See “THE OBLIGATIONS – Book-Entry-Only System” herein.

DEFEASANCE . . . The Ordinances provide for the defeasance of the Obligations when the payment of the principal of and premium, if any, on the Obligations, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or authorized escrow agent, in trust (1) lawful money of the United States of America sufficient to make such payment or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provides

for such payment, and when proper arrangements have been made by the City with the Paying Agent/Registrar for the payment of its services until all defeased Obligations shall have become due and payable, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Obligations, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities. The Ordinances provide that “Defeasance Securities” means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Obligations. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the defeasance is approved by the Commissioner’s Court of the City, 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 defeasance is approved by the Commissioner’s Court of the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

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 Obligations. Because the Ordinance does not contractually limit such investments, registered owners will 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 U.S. Treasury securities used as Defeasance Securities or that ratings for any other Defeasance Security will be maintained at any particular rating category.

Upon making such deposit in the manner described, such defeased Obligations shall no longer be deemed outstanding obligations secured by the Ordinance, but will be payable only from the funds and Defeasance Securities deposited in 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 or for any other purpose.

The City may modify the categories of Defeasance Securities that are eligible to defease the Obligations to accommodate requests from potential investors.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Obligations is to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and credited by DTC while the Obligations are registered in its nominee’s 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Obligations. The Obligations will be issued as fully-registered Obligations 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 Obligation certificate will be issued for each maturity of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

All payments on the Obligations 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 Obligations held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City does not take any responsibility for the accuracy thereof.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Obligations 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 Obligations, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the book-entry-only system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, or the Purchaser.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Ordinances, 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 Obligations are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or 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/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued with respect to the Obligations, printed Obligations, will be delivered to the owners thereof, and thereafter the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

Obligations may be assigned by the execution of an assignment form on the Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the designated 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 Obligations issued in an exchange or transfer of Obligations 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 Obligations 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 a form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. See “THE OBLIGATIONS – Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date.

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“Record Date”) for the interest payable on the Obligations on any interest payment date means the close of business on the last business day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date”, which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of an Obligation 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.

OBLIGATIONHOLDERS’ REMEDIES . . . If the City defaults in the payment of principal or interest on the Obligations when due, or if it fails to make payments into any fund or funds created in the respective Ordinances, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the respective Ordinances, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Obligations if there is no other available remedy at law to compel performance of the Obligations or the respective Ordinances 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 Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinances do not provide for the appointment of a trustee to represent the interest of the holders of the Obligations upon any failure of the City to perform in accordance with the terms of the Obligation 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. On June 30, 2006 Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous language.” Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, holders of the Obligations may not be able to bring such a suit against the City for breach of the covenants in the Obligations or in the Ordinances. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Obligations. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151 through .160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities under certain circumstances.” The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services to cities.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. V. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson I*”), that governmental immunity does not imbue a city with derivative immunity when it performs a proprietary, as opposed to a governmental, function in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests LTD. V. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) (“*Wasson II*”), and together with *Wasson I* (“*Wasson*”), ruling 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 at the time it entered

into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the State's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

As noted above, the Ordinances provide that holders of the Obligations may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinances. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). 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 Obligations 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 remedies would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that all opinions relative to the enforceability of the Ordinances and the Obligations are qualified with respect to the customary rights of debtors relative to their creditors, with respect to principles of governmental immunity, and with respect to general principles of equity that permit the exercise of judicial discretion.

AMENDMENTS TO THE ORDINANCES . . . In the Ordinances, the City has reserved the right to amend the Ordinances without the consent of any holder for the purpose of amending or supplementing the Ordinances to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinances that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinances under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinances that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

The Ordinances further provide that the holders of the Obligations, aggregating in principal amount a majority of the aggregate principal amount of then outstanding Obligations that are the subject of a proposed amendment, shall have the right from time to time to approve any amendment not described above to the respective Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Obligations so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Obligations; (ii) reducing the rate of interest borne by any of the outstanding Obligations; (iii) reducing the amount of the principal of payable on any outstanding Obligations; (iv) modifying the terms of payment of principal or of interest on outstanding Obligations, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Obligations necessary for consent to such amendment. Reference is made to the respective Ordinances for further provisions relating to the amendment thereof.

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding obligations (the "Refunded Obligations") for debt service savings; and (ii) to pay costs associated with the issuance of the Bonds (see "SCHEDULE I – SCHEDULE OF REFUNDED OBLIGATIONS" herein).

Proceeds from the sale of the Certificates will be used for paying the City's contractual obligations incurred for (i) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City's water system, including water rights and water wells; (ii) acquiring, constructing, installing, and equipping additions, improvements, extensions, and equipment for the City's sewer system, including lift stations and related infrastructure; and (iii) professional services rendered in relation to such projects and purposes and the financing thereof.

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Obligations, together with available funds of the City, if any, will be applied approximately as follows:

	<u>Bonds</u>	<u>Certificates</u>
SOURCES OF FUNDS:		
Par Amount	\$ 2,400,000.00	\$ 3,630,000.00
Reoffering Premium	289,985.15	514,668.90
Transfer from Prior Issue Debt Service Funds	16,335.64	-
Total Sources of Funds	<u>\$ 2,706,320.79</u>	<u>\$ 4,144,668.90</u>
USES OF FUNDS:		
Deposit to Construction Fund	\$ -	\$ 4,000,000.00
Deposit to Escrow Fund	2,617,730.71	-
Purchaser's Discount	26,840.08	67,539.68
Costs of Issuance/Rounding Amount	61,750.00	77,129.22
Total Uses of Funds	<u>\$ 2,706,320.79</u>	<u>\$ 4,144,668.90</u>

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INFECTIOUS DISEASE OUTBREAK – COVID-19 . . . A respiratory disease named “coronavirus disease 2019” (COVID-19) has recently spread throughout much of the world, including Texas and elsewhere in the U.S. On March 11, 2020, COVID-19 was declared a pandemic by the World Health Organization. The U.S. Centers for Disease Control and Prevention (CDC) has warned that widespread transmission of COVID-19 in the United States is likely to occur. To slow the spread of COVID-19 in the U.S., the U.S. government has imposed bans on travel from various countries, including China and many countries in Europe. Many companies, including some in Texas, have imposed restrictions on business travel and employee gatherings and/or have encouraged or required their employees to telecommute. Some local Texas governments have banned large gatherings. Some schools and universities have altered their schedules or closed temporarily.

POTENTIAL IMPACT OF COVID-19 . . . A continued spread of COVID-19, and measures taken to prevent or reduce such spread, could adversely impact state, national and global economic activities and, accordingly, adversely impact the financial condition and performance of the City; the extent of such impact could be material.

Businesses and individuals appear to be altering their behaviors in a manner that is having negative impacts on global and local economies. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries, including manufacturing.

Measures taken to prevent or reduce the spread of COVID-19 could limit the growth of or reduce economic activity in the State and the City, which in turn could limit the growth of or reduce the City’s ad valorem and sales tax collections. In addition, further or extended reductions in the value of stocks and other investments could impact employee retirement plans or other funds and could require actions by the State. Due to the recent and unprecedented nature of the spread of COVID-19, the duration and extent of the potential impact of COVID-19 on the Texas economy and the City’s revenues, expenses, and cash flow are uncertain and cannot be quantified at this time.

FEDERAL ACTIONS . . . On March 13, 2020, the President declared the coronavirus pandemic a national emergency and announced up to \$50 billion for state and local governments to respond to the outbreak.

STATE ACTIONS . . . The Texas Department of State Health Services (DSHS) is the lead state agency responding to and coordinating the State’s response to COVID-19, and it has provided information available at <https://www.dshs.texas.gov/coronavirus/>

The State has taken various steps intended to safeguard communities and protect public health, including:

- On March 19, 2020, the Governor issued the following executive orders:
 - Order No. 1 – Every person in Texas shall avoid social gatherings in groups of more than 10 people.
 - Order No. 2 – People shall avoid eating or drinking at bars, restaurants, and food courts, or visiting gyms or massage parlors; provided, however, that the use of drive-thru, pickup, or delivery options is allowed and highly encouraged throughout the limited duration of this executive order.
 - Order No. 3 – People shall not visit nursing homes or retirement or long-term care facilities unless to provide critical assistance.
 - Order No. 4 – Schools shall temporarily close.
- On March 18, 2020, the Governor issued a proclamation authorizing all political subdivisions holding general or special elections on May 2, 2020 to postpone their elections to the November 3, 2020 uniform election date.
- On March 13, 2020, the Governor issued a disaster proclamation, certifying that COVID-19 poses an imminent threat of disaster for all counties in the state of Texas.
- On March 10, 2020, the Governor and the Texas Department of Insurance announced that health insurers and health maintenance organizations operating in Texas have been asked to waive certain costs associated with COVID-19 for individuals covered by state regulated insurance plans.
- On March 5, 2020, the Governor and DSHS announced that six public health labs within Texas’ Laboratory Response Network were equipped to perform COVID-19 testing and that four additional labs in the network were directed to become similarly equipped.
- On March 3, 2020, the Governor announced twice-weekly multi-agency state planning and emergency response meetings with the Texas Emergency Management Council on COVID-19.

CITY’S RESPONSE TO COVID-19 . . . The City has issued a stay at home order that will last until May 7, 2020 and is encouraging all citizens to follow the guidelines set by Governor Abbott and President Trump.

BOND INSURANCE

BOND INSURANCE POLICY . . . Concurrently with the issuance of the Obligations, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policies for the respective Obligations (the “Policies”). The Policies guarantee the scheduled payment of principal of and interest on the Obligations when due as set forth in the forms of the Policies included as an exhibit to this Official Statement. The Policies are not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY . . . BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Obligations, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Obligations. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Obligations 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 Policy), and BAM does not guarantee the market price or liquidity of the Obligations, nor does it guarantee that the rating on the Obligations will not be revised or withdrawn.

Capitalization of BAM . . . BAM’s total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$534.9 million, \$132.5 million and \$402.4 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Obligations or the advisability of investing in the Obligations. In addition, BAM 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 BAM, supplied by BAM and presented under the heading “BOND INSURANCE”.

Additional Information Available from BAM . . . Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of obligations that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those obligations. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes obligations insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM’s website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all obligations insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such obligations. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Obligations, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Obligations. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Obligations, whether at the initial offering or otherwise.

BOND INSURANCE RISKS

BOND INSURANCE RISK FACTORS . . . In the event of default of the scheduled payment of principal of or interest on the Obligations when all or a portion thereof becomes due, any owner of the Obligations shall have a claim under the respective Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Obligations 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 respective 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 Obligations will not be subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “THE OBLIGATIONS – Obligationholders’ 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 Obligationholders.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Obligations are payable solely from ad valorem taxes levied, within the limited prescribed by law, as further described in “THE OBLIGATIONS – Security and Source of Payment”. In the event the Insurer becomes obligated to make payments with respect to the Obligations, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Obligations.

If Policies are acquired, the long-term ratings on the Obligations 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 Obligations, 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) for the Obligations (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. None of the City, the City’s Financial Advisor or the Initial Purchaser 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, recent 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 Obligations. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Obligations and the claims-paying ability of any such bond insurer, particularly over the life of the Obligations.

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TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Deaf Smith County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code 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 the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence 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 residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the appraised value of the property for the preceding tax year, (b) the appraised value of the property for the preceding tax year and (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of members appointed by the Board of Directors of the Appraisal District.

The Appraisal District is required to review the value of property with the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the Texas Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000 depending upon the degree of disability or whether the exemption is applicable to a surviving spouse or children; provided, however, that beginning in the 2009 tax year, a disabled veteran who receives from the from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. In addition, and subject to certain conditions, surviving spouses of a deceased veteran who had received a disability rating of 100% will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

Under Article VIII, Section 1-b(h) and State law, a city at its option may provide a prohibition on increasing the total ad valorem tax, except for increases attributable to certain improvements, on the residence homestead of a disabled person or person 65 years of age or older above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based on the disability or age of the owner or (2) the year the city chooses to establish the tax limitation. The above-referenced tax limitation is transferable to (1) a different residence homestead within the city and (2) to a surviving spouse so long as the property was the

residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. On the receipt of a petition signed by five percent of the registered voters of the City, the City shall call an election to determine by majority vote whether to establish such a tax limitation. If improvements (other than repairs or improvements required to comply with governmental requirements) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax limitation may not be repealed or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and Section 1-d-1.

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.

Article VIII, Section 1-j of the Texas Constitution, provides that certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for one hundred seventy-five (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.

Article VIII, Section 1-n of the Texas Constitution, provides that 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 one hundred seventy-five (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 Freeport Property or Goods-in-Transit exemptions for items of personal property.

Article VIII, Section 1-I, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

The City may create one or more tax increment financing zones within the City ("TIRZ"), under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. Other overlapping taxing units levying taxes in the TIRZ may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIRZ in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIRZ. Taxes levied by the City against the values of real property in the TIRZ in excess of the "frozen" value are not available for general City use but are restricted to paying or financing "project costs" within the TIRZ. The City also may enter into tax abatement agreements to encourage economic development. Under such tax abatement agreements, a property owner agrees to construct certain improvements on its property. The City 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. A tax abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

NO-NEW-REVENUE TAX RATE AND VOTER-APPROVAL TAX RATE . . . 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” mean 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 for all property in the City to the City Council by August 1 of each year, 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 Obligations.

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.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 15 of each year and the final installment due on August 15.

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

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

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

CITY APPLICATION OF TAX CODE . . . The City does grant an exemption to the market value of the residence homestead of persons 65 years of age or older and does not grant an exemption to the market value of the residence homestead of the disabled.

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.

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 Deaf Smith Appraisal District collects taxes for the City.

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

The City does tax freeport property.

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

The City has not established a formal tax abatement policy.

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TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2019/2020 Market Valuation Established by the Deaf Smith County Appraisal District (excluding exempt property)	\$ 804,955,390
Less Exemptions/Reductions at 100% Market Value:	<u>\$ 149,793,225</u>
2019/2020 Net Taxable Assessed Valuation	<u><u>\$ 655,162,165</u></u>
City Funded Debt Payable from Ad Valorem Taxes	
General Obligation Debt (as of 2/29/20)	\$ 270,000 ⁽¹⁾
The Bonds	2,400,000
The Certificates	3,630,000
General Obligation Debt Payable from Ad Valorem Taxes	<u>\$ 6,300,000</u>
Less: Self-Supporting Debt ⁽²⁾	
Waterworks and Sewer System General Obligation Debt	<u>\$ 6,300,000</u>
General Purpose Funded Debt Payable from Taxation (as of 2/29/20)	\$ -
Ratio General Obligation Debt to 2020 Taxable Assessed Valuation	0.96%
Ratio General Purpose Funded Debt to 2020 Taxable Assessed Valuation	0.00%

2020 Estimated Population - 14,810
Per Capita Taxable Assessed Valuation - \$44,238
Per Capita General Obligation Debt Payable from Ad Valorem Taxes - \$425
Per Capita General Purpose Funded Debt - \$0

(1) Excludes the Refunded Obligations.

(2) Includes the Obligations. It is the City’s policy to provide for debt service on Waterworks and Sewer System General Obligation Debt from revenues of the Waterworks and Sewer System (see “Table 9 – Computation of Self-Supporting Debt”). This policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

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TABLE 2 – VALUATION AND TAX SUPPORTED DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2016	14,941	\$ 554,089,080	\$ 37,085	\$ 1,685,000	0.30%	\$ 113
2017	14,898	562,692,579	37,770	4,275,000	0.76%	287
2018	14,810	584,664,654	39,478	3,728,000	0.64%	252
2019	14,810	614,077,350	41,464	3,170,000	0.52%	214
2020	14,810	655,162,165	44,238	6,030,000 ⁽⁴⁾	0.92%	407

(1) Source: Municipal Advisory Council of Texas.

(2) As reported by Deaf Smith County Appraisal District on City’s annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Includes self-supporting debt (see Table 1 for detailed information on self-supporting debt).

(4) Projected. Includes the Obligations and excludes the Refunded Obligations.

TABLE 3 - TAX RATE, LEVY, AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2016	\$ 0.31370	\$ 0.31370	\$ -	\$ 1,738,177	98.54%	100.09%
2017	0.33000	0.33000	-	1,856,886	98.09%	99.31%
2018	0.33000	0.33000	-	1,929,393	98.02%	99.02%
2019	0.33000	0.33000	-	2,026,455	98.78%	100.16%
2020	0.33000	0.33000	-	2,162,035	84.21% ⁽¹⁾	84.49% ⁽¹⁾

(1) Collections as of January 31, 2020.

TABLE 4 - TEN LARGEST TAXPAYERS ⁽¹⁾

Name of Taxpayer	2019/2020 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
W.E. Hereford LTD	\$ 69,002,640	10.53%
Arrowhead Mills Inc	12,386,590	1.89%
XCEL Energy	11,386,540	1.74%
Wal-Mart Real Estate Business Trust	9,566,580	1.46%
Burlington Northern & Santa Fe	8,932,460	1.36%
Advanta US, Inc	8,602,770	1.31%
United Supermarkets, LLC	5,402,590	0.82%
Atmos Energy/West-Tex Division	5,343,420	0.82%
Ferrell Ross Roll MFG	4,275,360	0.65%
Love’s Travel Stop & Country Stores	4,142,510	0.63%
	<u>\$ 139,041,460</u>	<u>21.22%</u>

(1) As shown in Table 4, above, the top ten taxpayers of the City account for approximately 21.22% of the City’s tax base. Adverse developments in economic conditions could adversely impact the taxable values in the City, resulting in less tax revenue. If any major taxpayer were to default in the payment of taxes, the City’s ability to make timely payment of debt service on the Bonds may be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process.

TABLE 5 - TAX ADEQUACY⁽¹⁾

Maximum Annual Principal and Interest Requirements, 2021	\$ 857,646
\$0.1378 Tax Rate at 95% Collection Produces	\$ 857,673

(1) Includes the Obligations and self-supporting debt (see Table 1 for detailed information on self-supporting debt). Excludes the Refunded Obligations.

TABLE 6 - 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	Total Funded Debt As of 2/29/20	Estimated % Applicable	City's Overlapping Funded Debt As of 2/29/20
City of Hereford	\$ 6,300,000	100.00%	\$ 6,300,000 ⁽¹⁾
Deaf Smith County	-	43.44%	-
Deaf Smith Co. Hospital District	24,985,000	43.44%	10,853,484
Hereford ISD	20,935,000	42.57%	8,912,030
Total Direct and Overlapping G.O. Debt			\$ 26,065,514
Ratio of Direct and Overlapping G.O. Debt to Taxable Assessed Valuation			3.98%
Per Capita Overlapping G.O. Debt			\$ 1,760

(1) Includes the Obligations and self-supporting debt (see Table 1 for detailed information on self-supporting debt). Excludes the Refunded Obligations.

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DEBT INFORMATION

TABLE 7 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt ⁽¹⁾			The Bonds ⁽²⁾			The Certificates ⁽³⁾			Total Debt Service Requirements	Less: System- Supported Debt Service ⁽⁴⁾	Total Tax- Supported Debt Service
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total			
2020	\$ 581,000	\$ 72,425	\$ 653,425	\$ -	\$ 29,335	\$ 29,335	\$ -	\$ -	\$ -	\$ 682,760	\$ 682,760	\$ -
2021	-	-	-	295,000	108,675	403,675	255,000	198,971	453,971	857,646	857,646	-
2022	-	-	-	310,000	93,550	403,550	310,000	143,413	453,413	856,963	856,963	-
2023	-	-	-	325,000	77,675	402,675	325,000	127,538	452,538	855,213	855,213	-
2024	-	-	-	340,000	61,050	401,050	340,000	110,913	450,913	851,963	851,963	-
2025	-	-	-	360,000	43,550	403,550	360,000	93,413	453,413	856,963	856,963	-
2026	-	-	-	375,000	25,175	400,175	375,000	75,506	450,506	850,681	850,681	-
2027	-	-	-	395,000	7,900	402,900	390,000	58,800	448,800	851,700	851,700	-
2028	-	-	-	-	-	-	410,000	42,800	452,800	452,800	452,800	-
2029	-	-	-	-	-	-	425,000	26,100	451,100	451,100	451,100	-
2030	-	-	-	-	-	-	440,000	8,800	448,800	448,800	448,800	-
	<u>\$ 581,000</u>	<u>\$ 72,425</u>	<u>\$ 653,425</u>	<u>\$ 2,400,000</u>	<u>\$ 446,910</u>	<u>\$ 2,846,910</u>	<u>\$ 3,630,000</u>	<u>\$ 886,252</u>	<u>\$ 4,516,252</u>	<u>\$ 8,016,587</u>	<u>\$ 8,016,587</u>	<u>\$ -</u>

(1) Excludes the Refunded Obligations.

(2) Interest on the Bonds has been calculated at the rates set forth on page 2 hereof.

(3) Interest on the Certificates has been calculated at the rates set forth on page 4 hereof.

(4) A portion of the Obligations will be treated as self-supporting.

TABLE 8 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/20		\$ 682,760
Interest & Sinking Fund Balance, Fiscal Year Ending 9/30/19	\$ 453,874	
Budgeted Interest and Sinking Fund Tax Collections	-	
Self-Supporting Debt	682,760	<u>\$ 1,136,634</u>
Estimated Balance, Fiscal Year Ending 9/30/20		<u>\$ 453,874</u>

TABLE 9 - COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

Waterworks and Sewer System Net Revenue, Fiscal Year Ended 9/30/19	\$ 2,835,356
Less: Revenue Bond Requirements, Fiscal Year Ended 9/30/20	<u>-</u>
Balance Available for Other Purposes	\$ 2,835,356
Requirements of System General Obligation Debt, Fiscal Year Ended 9/30/19	\$ 667,384
Percentage of System General Obligation Debt Self-Supporting	100.00%

(1) The Obligations are intended to be self-supporting debt paid from revenues of the Waterworks and Sewer System. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service (see "Table 7 – General Obligation Debt Service Requirements").

TABLE 10 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

The City has no authorized but unissued general obligation bonds.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

TABLE 11 - OTHER OBLIGATIONS

Long-Term Debt of the Governmental Funds as of September 30, 2019, consists of the following:

First Financial Bank, monthly payments of \$7,061, including interest at 2.25%, through October 2019, secured by fire truck.

First Financial Bank, monthly payments of \$3,169, including interest at 2.25%, through March 2020, secured by dump trucks.

First Financial Bank, monthly payments of \$4,521, including interest at 3.25%, through January 2022, secured by fire truck.

First Financial Bank, monthly payments of \$3,763, including interest at 3.25%, through November 2021, secured by road grader.

First Financial Bank, monthly payments of \$2,465, including interest at 4.25%, through March 2023, secured by golf carts.

For more detailed information concerning the Long-Term Debt, see Appendix B, "Excerpts from the City's Annual Financial Report" – Note 5.

EMPLOYEE RETIREMENT PLAN . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense.

Employees of the City were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.61% and 10.56% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019, were \$557,309, and were equal to the required contributions.

For more detailed information concerning the Employee Retirement Plan, see Appendix B, "Excerpts from the City's Annual Financial Report" – Note 14.

FINANCIAL INFORMATION

TABLE 12 - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

	Fiscal Year Ended September 30,				
<u>Revenue:</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Property Taxes	\$ 2,052,496	\$ 1,936,165	\$ 1,877,411	\$ 1,768,201	\$ 1,747,963
Sales Taxes	1,643,758	1,688,649	1,609,453	1,565,305	1,500,401
Franchise Taxes	1,077,209	1,089,995	1,041,957	1,054,168	1,102,318
Motel Occupancy Taxes	221,399	229,729	224,648	210,479	170,647
Charges for Services	3,545,063	3,276,225	3,283,893	3,260,678	3,315,810
Grant Revenue	200,000	2,192	2,231	87,738	46,737
Interest Income	12,803	7,935	4,519	3,781	2,139
Contributions	18,100	17,150	19,305	44,401	25,277
Miscellaneous Revenue	27,195	84,381	55,801	22,718	37,174
Total Revenues	\$ 8,798,023	\$ 8,332,421	\$ 8,119,218	\$ 8,017,469	\$ 7,948,466
<u>Expenditures:</u>					
General Government	\$ 813,293	\$ 884,057	\$ 957,151	\$ 823,351	\$ 813,606
Public Safety	3,505,514	3,375,656	3,363,739	3,276,799	2,996,518
	209,283	-	-	-	-
Street and Public Works	1,431,334	1,609,083	1,645,724	1,582,646	1,440,346
Sanitation and Health	1,740,531	1,570,329	1,585,657	1,589,862	1,574,514
Parks and Recreation	1,682,834	1,727,386	1,620,214	1,652,908	1,487,745
Airport	392,937	344,449	329,217	298,304	280,190
Capital Outlays	1,272,759	964,703	868,979	1,103,107	1,822,124
Debt Service:					
Principal Retirement	236,355	258,152	242,956	227,552	237,935
Interest Charges	15,391	19,222	19,966	13,790	16,660
Total Expenditures	\$ 11,300,231	\$ 10,753,037	\$ 10,633,603	\$ 10,568,319	\$ 10,669,638
Excess (Deficit) of Revenues over Expenditures	<u>\$ (2,502,208)</u>	<u>\$ (2,420,616)</u>	<u>\$ (2,514,385)</u>	<u>\$ (2,550,850)</u>	<u>\$ (2,721,172)</u>
Other Financing Sources (Uses):					
Transfers In	\$ 2,100,000	\$ 2,400,000	\$ 1,800,000	\$ 1,050,000	\$ 2,150,000
Settlement Proceeds	-	-	-	682,140	-
Sale of Assets	45,951	-	16,398	19,976	31,662
Loan Proceeds	-	132,925	457,816	-	579,528
Operating Transfers Out	(4,611)	-	-	-	-
Total Other Financing Sources (Uses)	\$ 2,141,340	\$ 2,532,925	\$ 2,274,214	\$ 1,752,116	\$ 2,761,190
Net Change in Fund Balances	\$ (360,868)	\$ 112,309	\$ (240,171)	\$ (798,734)	\$ 40,018
Fund Balance at Beginning of Year	\$ 210,889	\$ 98,580	\$ 338,751	\$ 1,137,485	\$ 1,097,467
Fund Balance at End of Year	<u>\$ (149,979)</u>	<u>\$ 210,889</u>	<u>\$ 98,580</u>	<u>\$ 338,751</u>	<u>\$ 1,137,485</u>

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, V.T.C.A., Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; in addition the City levies a sales and use tax of ½ of 1% for property tax reduction. Proceeds of these sales and use taxes are credited to the General Fund and are not pledged to the Obligations. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. Revenue from this source, for the years shown, has been:

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2016	\$ 2,336,499	134.42%	\$ 0.4217	\$ 156
2017	2,403,574	129.44%	0.4272	161
2018	2,521,245	130.68%	0.4312	170
2019	2,453,666	121.08%	0.3996	166
2020	1,091,308 ⁽²⁾	50.48%	0.1666	74

(1) Source: the Texas Comptroller. Includes ½ cent tax for Economic Development 4A.

(2) Collections as of January 31, 2020.

FINANCIAL POLICIES

Basis of Accounting . . . The modified accrual basis of accounting is used by all governmental fund types and agency funds. The accrual basis of accounting is utilized by proprietary fund types. See APPENDIX B, “Excerpts from the City’s Annual Financial Report”.

General Fund . . . This fund is the City’s primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

Special Revenue Funds . . . These funds are used to account for the proceeds of specific resources (Other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds . . . These funds are used for the acquisition and construction of major capital facilities, which are not financed by the Water and Sewer Fund.

Budgetary Procedures . . . Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP). Annual appropriated budgets are adopted for the governmental and proprietary fund types. All annual appropriations lapse at fiscal year end. The City follows the subsequent procedures in establishing operating budgets:

1. The City Manager, at least sixty (60) days prior to the beginning of each budget year (October 1), shall submit to the City Commission a proposed budget and explanatory budget message.
2. The City Commission provides at least one public hearing for the general public in which all public comments are heard.
3. The operating budget is legally enacted by the City Commission through the passage of an ordinance not later than August 15th of each respective year.
4. Upon written recommendation of the City Manager, the Commission may at any time transfer any unencumbered appropriation balance or any portion thereof within a department to another department.
5. Budgeting control is maintained at the departmental level with the assistance of monthly expense reports. The reports list the budgetary items by line, fund, department, etc. The accounting department maintains an encumbrance system incorporated with its purchase order procedure and this allows the City to monitor strict cash flow.

INVESTMENTS

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . . 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 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 (the "FDIC") 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 FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the Public Funds Investment Act, Chapter 2256 of the Texas Government Code (the "PFIA"), (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City's account, (iii) 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 (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) 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 FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds 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, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described by clauses (1) or (12), which are 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) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least A-1 or P-1 or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations 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 (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral 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 designated by the City, (v) 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 (vi) 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 "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

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

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

The investment officer of a local government is allowed to invest bond proceeds or pledged revenue only to the extent permitted by the PFIA and in accordance with (i) statutory provisions governing the debt issuance (or lease, installment sale, or other agreement) and (ii) the local government’s investment policy regarding the debt issuance or the agreement.

Under Texas law, the City’s investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived.” At least quarterly the City’s investment officers must submit an investment report to the Commissioners Court detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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 strategies and (b) Texas law. No person may invest City funds without express written authority from the Commissioners Court.

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

TABLE 14 – CURRENT INVESTMENTS

As of January 31, 2020 the City’s investable funds were invested in the following categories:

Description	Market Value	% of Total Based on Market Value
Certificates of Deposit	\$ 1,801,902	39.52%
Bank Accounts	6,878,649	60.48%
	<u>\$ 8,680,551</u>	<u>100.00%</u>

TAX MATTERS

OPINIONS . . . On the date of initial delivery of the Obligations, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Obligations for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Obligations will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations. See APPENDIX C - Form of Bond Counsel's Opinion.

In rendering the foregoing opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, (b) covenants of the City contained in the Obligation documents relating to certain matters, including arbitrage and the use of the proceeds of the Obligations and the property financed or refinanced therewith. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Obligations to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Obligations in order for interest on the Obligations to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Obligations to be included in gross income retroactively to the date of issuance of the Obligations. The foregoing opinion of Bond Counsel is conditioned on compliance by the City with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Issue.

The foregoing opinion of Bond Counsel represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. None of the aforementioned opinions is a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Obligations.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Obligations or the projects financed with the proceeds of the Obligations. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Obligations, or as to whether the Internal Revenue Service would agree with any of aforementioned opinions of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the holders of the Obligations may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT . . . The initial public offering price to be paid for one or more maturities of the Obligations may be less than the maturity amount thereof or one or more periods for the payment of interest on the Obligations may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Securities"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Security, and (ii) the initial offering price to the public of such Original Issue Discount Security would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Obligations less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Security in the initial public offering 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 Security equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Security prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Security 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 Security was held by such initial owner) is includable in gross income.

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

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

COLLATERAL FEDERAL INCOME TAX CONSEQUENCES . . . The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Obligations. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excessive passive income, foreign corporation subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT WITH THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF THE OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE OBLIGATIONS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Obligations, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Obligations, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

STATE, LOCAL AND FOREIGN TAXES . . . Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Obligations under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

FUTURE AND PROPOSED LEGISLATION . . . Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Obligations under Federal or state law and could affect the market price or marketability of the Obligations. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Obligations should consult their own tax advisors regarding the foregoing matters.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as "qualified tax-exempt obligations." An issuer may designate obligations as "qualified tax-exempt obligations" only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The City has designated the Obligations as "qualified tax-exempt obligations" and has certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Obligations will not be subject to the 100% disallowance of interest expense allocable to interest on the Obligations under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Obligations will be reduced by 20% pursuant to section 291 of the Code.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Obligations qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) regarding the City's continuing disclosure obligations, because the City does not currently have outstanding more than \$10,000,000 in aggregate principal amount of municipal securities (excluding securities offered in transactions that were exempt from the Rule) and no person is committed by contract or other arrangement with respect to payment of the Obligations. Pursuant to the exemption, in the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. 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") through its Electronic Municipal Market Access (EMMA) system, free of charge at www.emma.msrb.org.

ANNUAL REPORTS . . . The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement that is customarily prepared by the City and publicly available, which currently consists of an annual audited financial statement. The City will update and provide this information within twelve months after the end of each fiscal year ending in or after 2020. The City will provide the updated information to the MSRB through the EMMA information system in accordance with recent amendments to Rule 15c2-12 (the "Rule") promulgated by the SEC.

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 SEC, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial information and operating data of the type described in the preceding paragraph by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

NOTICES OF CERTAIN EVENTS . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Obligations to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, 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 debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation of the City, or a guarantee of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such 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 any such financial obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. For the purposes of the above describe event notices (15) and (16), the term "financial obligation" means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) a guarantee of (i) or (ii); provided however, that a "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org. The foregoing information to be provided described under “Annual Reports” and “Notice of Certain Events” may also be obtained from: Suzanne Finch; City Secretary; City of Hereford, Texas; 224 N. Lee Street, Hereford, Texas 79045; Phone: (806) 363-7100.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of certain 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 Obligations at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

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

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS . . . The Obligations have been rated “AA” by S&P, by virtue of the respective municipal bond insurance policies to be issued by Build America Mutual Assurance Company. The Obligations have an unenhanced underlying rating of “A-” by S&P. An explanation of the significance of such ratings may be obtained from the respective company furnishing the ratings. The ratings reflect only the respective views of such companies and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of any of such ratings may have an adverse effect on the market price of the Obligations.

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE . . . The sale of the Obligations 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 Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations be assigned a rating of “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 Obligations are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Obligations 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 Obligations are legal investments for various institutions in those states.

LEGAL OPINIONS . . . The delivery of the Obligations is subject to the approval of the Attorney General of Texas, who will deliver its opinions, to the effect that the Obligations are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and, with respect to the Certificates, from a limited pledge (not to exceed \$1,000) of surplus net revenues of the City's waterworks and sewer system, and based upon examination of such transcripts of proceedings, the approving legal opinions of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City ("Bond Counsel"), to like effect and to the effect that the interest on the Obligations will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The forms of Bond Counsel's opinions are attached hereto as APPENDIX C.

Though it may represent the Purchaser from time to time in matters unrelated to the issuance of the Obligations, Bond Counsel has been engaged by and only represents the City in the issuance of the Obligations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form or 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 describing the Obligations in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal opinion will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System.

The legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of 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.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, 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.

PURCHASER . . . After requesting competitive bids for the Bonds, the City accepted the bid of SAMCO Capital Markets, Inc. (the "Bond Purchaser") to purchase the Bonds at the interest rates shown on page 2 of the Official Statement at a price of 110.964% of par. The Bond Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Bond Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Bond Purchaser.

After requesting competitive bids for the Certificates, the City accepted the bid of SAMCO Capital Markets, Inc. (the "Certificate Purchaser") to purchase the Certificates at the interest rates shown on page 4 of the Official Statement at a price of 112.318% of par. The Certificate Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Certificate Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Certificate Purchaser.

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

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements.

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

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 Ordinances authorizing the issuance of the Obligations approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Obligations by the Purchaser.

Tom E. Simons

Mayor
City of Hereford, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

Combination Tax and Revenue Certificates of Obligation, Series 2017

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
August 1, 2017	2/15/2021	4.250%	\$ 324,000
	2/15/2022	4.250%	338,000
	2/15/2023	4.250%	353,000
	2/15/2024	4.250%	369,000
	2/15/2025	4.250%	385,000
	2/15/2026	4.250%	401,000
	2/15/2027	4.250%	419,000
			<u>\$ 2,589,000</u>

Redemption Date: 5/19/2020
Redemption Price: 100%

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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GENERAL INFORMATION

THE CITY

The City of Hereford, county seat, is located at the intersection of U.S. Highways 60 and 385 in Deaf Smith County. The City is located 50 miles from Amarillo and 100 miles from Lubbock. Deaf Smith County is a Texas Panhandle county bordering New Mexico with an economy based on agriculture.

POPULATION

The 2010 U.S. Census population for the City was 15,370 and Deaf Smith County was 19,372.

ECONOMY

Deaf Smith County's economy is based on agriculture, varied industries, meat packing and offset printing. The County is a leading agricultural county in Texas with income derived from dairies, feed-lot operations, cotton, wheat, sorghum and corn. Approximately 50 percent of crops are irrigated.

LABOR FORCE ESTIMATES ⁽¹⁾

	December,	Annual Averages			
	2019	2018	2017	2016	2015
Civilian Labor Force	8,402	8,474	8,359	8,614	8,802
Total Employment	8,189	8,236	8,104	8,345	8,525
Total Unemployment	213	238	255	269	277
Percent Unemployment	2.5%	2.8%	3.1%	3.1%	3.1%

(1) Source: Texas Labor Market Information.

TRANSPORTATION

Deaf Smith County is traversed by U.S. Highways 60 and 385 and State Highway 214. The County also has a well developed system of farm-to-market roads.

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APPENDIX B

EXCERPTS FROM THE
CITY OF HEREFORD, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2019

The information contained in this Appendix consists of excerpts from the City of Hereford, Texas Annual Financial Report for the Year Ended September 30, 2019, 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.

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Commission
City of Hereford, Texas

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 Hereford, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's 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.

Auditors' 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 Hereford, Texas, as of September 30, 2019, 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.



McGinty & Associates, LLP
Certified Public Accountants

205 W. 4th Street, Suite 201
Hereford, Texas 79045
(806) 364-6432

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the budgetary comparison information, the schedule of changes in net pension liability and related ratios, the schedule of employer contributions and the schedule of changes in total OPEB liability and related ratios on pages 39 through 42 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 the 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.

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Hereford, Texas' basic financial statements. The combining statements on pages 43 and 44 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

These combining statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 statements are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

McBerty + Associates LLP

Hereford, Texas
March 4, 2020

CITY OF HEREFORD, TEXAS

**STATEMENT OF NET POSITION
SEPTEMBER 30, 2019**

	Primary Government			Component Unit HEDC
	Govern- Mental Activities	Business- Type Activities	Total	
ASSETS				
Cash.....	\$ 183,419	\$ 5,414,703	\$ 5,598,122	\$ 6,263,331
Investments.....	483,069	1,317,150	1,800,219	-
Receivables (Net):				
Property Taxes	63,888	-	63,888	-
Accounts	259,239	795,151	1,054,390	-
Due from State	-	392,875	392,875	-
Other	2,632	-	2,632	-
Internal Balances.....	(275,241)	275,241	-	-
Due from Component Unit....	19,086	-	19,086	-
Inventories.....	25,506	209,361	234,867	-
Restricted Assets.....	-	826,976	826,976	-
Capital Assets:				
Non-Depreciable	1,234,087	3,185,005	4,419,092	137,220
Depreciable, Net	8,187,748	11,429,276	19,617,024	5,655
Total Assets	<u>10,183,433</u>	<u>23,845,738</u>	<u>34,029,171</u>	<u>6,406,206</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>1,110,606</u>	<u>312,760</u>	<u>1,423,366</u>	<u>25,943</u>
LIABILITIES				
Bank Overdraft.....	296,716	-	296,716	-
Accounts Payable.....	551,880	123,956	675,836	866
Accrued Liabilities.....	-	19,572	19,572	-
Deferred Revenue.....	-	15,625	15,625	-
Due to Primary Government..	-	-	-	19,086
Non-Current Liabilities:				
Due Within One Year	145,788	609,350	755,138	-
Due in More Than One Year	187,608	2,632,087	2,819,695	-
Net Pension Liability ...	2,853,722	803,645	3,657,367	66,660
Total OPEB Liability	207,626	58,470	266,096	4,850
Deposits.....	-	307,044	307,044	-
Total Liabilities	<u>4,243,340</u>	<u>4,569,749</u>	<u>8,813,089</u>	<u>91,462</u>
DEFERRED INFLOWS OF RESOURCES	<u>194,290</u>	<u>54,714</u>	<u>249,004</u>	<u>4,538</u>
NET POSITION				
Net Investment in				
Capital Assets	9,088,439	11,372,844	20,461,283	142,875
Restricted for:				
Debt Service	-	453,874	453,874	-
Capital Improvements	-	373,102	373,102	-
Police	9,963	-	9,963	-
Parks	8,114	-	8,114	-
Unrestricted.....	<u>(2,250,107)</u>	<u>7,334,215</u>	<u>5,084,108</u>	<u>6,193,274</u>
Total Net Position	<u>\$ 6,856,409</u>	<u>\$19,534,035</u>	<u>\$26,390,444</u>	<u>\$ 6,336,149</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITIES
YEAR ENDED SEPTEMBER 30, 2019

	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
FUNCTIONS/PROGRAMS:					
Primary Government:					
Governmental Activities:					
General Government	\$ 859,338	\$ 318,009	\$ -	\$ -	\$ (541,329)
Public Safety	4,003,966	349,033	3,700	262,468	(3,388,765)
Municipal Court	216,086	14,103	-	-	(201,983)
Streets and Public Works	1,700,030	27,627	-	-	(1,672,403)
Sanitation and Health	1,743,312	2,352,554	-	-	609,242
Parks and Recreation	1,980,346	265,119	61,500	-	(1,653,727)
Airport	471,191	218,618	-	-	(252,573)
Total Governmental Activities	<u>10,974,269</u>	<u>3,545,063</u>	<u>65,200</u>	<u>262,468</u>	<u>(7,101,538)</u>
Business-Type Activities:					
Water and Sewer Utilities	4,447,028	7,215,311	-	-	2,768,283
Total Business-Type Activities	<u>4,447,028</u>	<u>7,215,311</u>	<u>-</u>	<u>-</u>	<u>2,768,283</u>
Total Primary Government	<u>\$15,421,297</u>	<u>\$10,760,374</u>	<u>\$ 65,200</u>	<u>\$ 262,468</u>	<u>\$ (4,333,255)</u>
Component Unit:					
Hereford Economic Development Corp.....	\$ 162,501	-	-	-	\$ (162,501)
Total Component Units	<u>\$ 162,501</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ (162,501)</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF ACTIVITIES (continued)
YEAR ENDED SEPTEMBER 30, 2019

	Primary Government		Component
	Governmental	Business-	Unit
	Activities	Activities	HEDC
		Total	
Net (Expense) Revenue . . .	<u>\$ (7,101,538)</u>	<u>\$ 2,768,283</u>	<u>\$ (4,333,255)</u>
			<u>\$ (162,501)</u>
General Revenues:			
Taxes:			
Property Taxes	2,049,846	-	-
Sales Taxes	1,643,758	-	817,888
Franchise Taxes	1,077,209	-	-
Motel Occupancy Taxes	221,399	-	-
Lease Income	-	91,000	-
Interest Income	14,534	114,365	126,825
Miscellaneous	27,195	-	-
Sale of Assets	39,980	185,701	-
Transfers	<u>2,100,000</u>	<u>(2,100,000)</u>	<u>-</u>
Total General Revenues and Transfers	<u>7,173,921</u>	<u>(1,708,934)</u>	<u>944,713</u>
Change in Net Position	72,383	1,059,349	782,212
Net Position - Beginning	<u>6,784,026</u>	<u>18,474,686</u>	<u>25,258,712</u>
Net Position - Ending	<u>\$ 6,856,409</u>	<u>\$19,534,035</u>	<u>\$ 6,336,149</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2019

	General Fund	Other Governmental Funds	Total
<u>ASSETS</u>			
Cash.....	\$ 27,708	\$ 155,711	\$ 183,419
Investments.....	483,069	-	483,069
Receivables (Net):			
Property Taxes	63,888	-	63,888
Accounts	259,239	-	259,239
Other	2,632	-	2,632
Due from Other Funds.....	76,256	-	76,256
Due from Component Unit.....	19,086	-	19,086
Inventories.....	25,506	-	25,506
	<u>\$ 957,384</u>	<u>\$ 155,711</u>	<u>\$1,113,095</u>
 <u>LIABILITIES</u>			
Bank Overdraft.....	\$ 296,716	\$ -	\$ 296,716
Accounts Payable.....	480,546	71,334	551,880
Due to Other Funds.....	275,234	76,263	351,497
Total Liabilities	<u>1,052,496</u>	<u>147,597</u>	<u>1,200,093</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>			
Unavailable Property Tax Revenue.....	54,867	-	54,867
Total Deferred Inflows of Resources	<u>54,867</u>	<u>-</u>	<u>54,867</u>
 <u>FUND BALANCES</u>			
Nonspendable:			
Inventories	25,506	-	25,506
Restricted for:			
Police	9,963	-	9,963
Parks	-	8,114	8,114
Unassigned.....	(185,448)	-	(185,448)
Total Fund Balances	<u>(149,979)</u>	<u>8,114</u>	<u>(141,865)</u>
	 <u>\$ 957,384</u>	 <u>\$ 155,711</u>	 <u>\$1,113,095</u>
Total Liabilities and Fund Balances			

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

BALANCE SHEET - GOVERNMENTAL FUNDS (continued)
SEPTEMBER 30, 2019

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION:

Total Fund Balance - Total Governmental Funds	\$ (141,865)
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets of \$24,842,739, net of accumulated depreciation of \$15,420,904 are not financial resources and, therefore, are not reported in governmental funds	9,421,835
Deferred outflows of resources are not available financial resources and, therefore, are not reported in governmental funds	1,110,606
Long-term property tax receivables are not available to pay current period expenditures and, therefore, are unavailable in governmental funds	54,867
Long-term liabilities are not due and payable in the current period and are not reported in governmental funds	(333,396)
Net pension liability is not due and payable in the current period and is not reported in governmental funds	(2,853,722)
Total OPEB liability is not due and payable in the current period and is not reported in the governmental funds	(207,626)
Deferred inflows of resources are not due and payable in the current period and are not reported in governmental funds	<u>(194,290)</u>
Net Position of Governmental Activities	<u>\$6,856,409</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Other Governmental Funds	Total
REVENUES:			
Property Taxes.....	\$2,052,496	\$ -	\$2,052,496
Sales Taxes.....	1,643,758	-	1,643,758
Franchise Taxes.....	1,077,209	-	1,077,209
Motel Occupancy Taxes.....	221,399	-	221,399
Charges for Services.....	3,545,063	-	3,545,063
Grant Revenue.....	200,000	62,468	262,468
Interest Income.....	12,803	1,731	14,534
Contributions.....	18,100	47,100	65,200
Miscellaneous Revenue.....	27,195	-	27,195
	<u>8,798,023</u>	<u>111,299</u>	<u>8,909,322</u>
EXPENDITURES:			
Current:			
General Government	813,293	-	813,293
Public Safety	3,505,514	2,500	3,508,014
Municipal Court	209,283	-	209,283
Streets and Public Works	1,431,334	-	1,431,334
Sanitation and Health	1,740,531	-	1,740,531
Parks and Recreation	1,682,834	19,042	1,701,876
Airport	392,937	-	392,937
Capital Outlays.....	1,272,759	87,029	1,359,788
Debt Service:			
Principal Retirement	236,355	-	236,355
Interest Charges	15,391	-	15,391
	<u>11,300,231</u>	<u>108,571</u>	<u>11,408,802</u>
EXCESS (DEFICIT) OF REVENUES			
OVER EXPENDITURES.....	(2,502,208)	2,728	(2,499,480)
OTHER FINANCING SOURCES (USES):			
Transfers In.....	2,100,000	4,611	2,104,611
Transfers Out.....	(4,611)	-	(4,611)
Sale of Assets.....	45,951	-	45,951
	<u>2,141,340</u>	<u>4,611</u>	<u>2,145,951</u>
NET CHANGE IN FUND BALANCES	(360,868)	7,339	(353,529)
FUND BALANCES:			
Beginning of Year.....	210,889	775	211,664
End of Year.....	<u>\$ (149,979)</u>	<u>\$ 8,114</u>	<u>\$ (141,865)</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS (continued)
YEAR ENDED SEPTEMBER 30, 2019

RECONCILIATION OF THE STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES:

Net Change in Fund Balances - Total Governmental Funds \$ (353,529)

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 Outlays	1,359,788
Depreciation Expense	(930,214)

Governmental funds report payments to the pension plan and the OPEB plan as expenditures; however, in the statement of activities, pension expense is recorded in accordance with GASB 68 and OPEB expense is recorded in accordance with GASB 75:

Benefit Plan Payments	568,772
Benefit Plan Expense	(800,167)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Change in unavailable deferred property tax revenue	(2,651)
--	---------

Governmental funds report the disposal of capital assets to the extent proceeds are received from the sale. In the statement of activities, only the gain or loss is reported for each disposal:

Gain on Sale of Assets	39,980
Proceeds from Sale of Assets	(45,951)

The proceeds of debt issuance provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position:

Loan Proceeds	-
Debt Repayments	236,355

Change in Net Position of Governmental Activities \$ 72,383

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF NET POSITION - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2019

<u>CURRENT ASSETS</u>	
Cash.....	\$ 5,414,703
Investments.....	1,317,150
Receivables (Net):	
Accounts	795,151
Due from State	392,875
Due from Other Funds.....	275,241
Inventories.....	209,361
	<u>8,404,481</u>
 <u>NONCURRENT ASSETS</u>	
Restricted Assets.....	826,976
Capital Assets:	
Non-Depreciable	3,185,005
Depreciable, Net	11,429,276
	<u>15,441,257</u>
 Total Assets	 <u>23,845,738</u>
 <u>DEFERRED OUTFLOWS OF RESOURCES</u>	
	<u>312,760</u>
 <u>CURRENT LIABILITIES</u>	
Accounts Payable.....	123,956
Accrued Liabilities.....	19,572
Due to Other Funds.....	-
Deferred Revenue.....	15,625
Long-Term Debt, Amounts Due Within One Year.....	609,350
	<u>768,503</u>
 <u>NONCURRENT LIABILITIES</u>	
Long-Term Debt, Amounts Due in More Than One Year.....	2,632,087
Net Pension Liability.....	803,645
Total OPEB Liability.....	58,470
Deposits.....	307,044
	<u>3,801,246</u>
 Total Liabilities	 <u>4,569,749</u>
 <u>DEFERRED INFLOWS OF RESOURCES</u>	
	<u>54,714</u>
 <u>NET POSITION</u>	
Net Investment in Capital Assets.....	11,372,844
Restricted for:	
Debt Service	453,874
Capital Improvements	373,102
Unrestricted.....	7,334,215
	<u>7,334,215</u>
 Total Net Position	 <u>\$19,534,035</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND
NET POSITION - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2019

OPERATING REVENUES:

Water Billings.....	\$ 5,485,493
Sewer Billings.....	1,566,992
Penalties.....	153,573
Service Taps.....	6,480
Miscellaneous.....	2,773
	<u>7,215,311</u>

OPERATING EXPENSES:

Personnel Cost.....	1,476,799
Repairs and Maintenance.....	892,456
Depreciation and Amortization.....	769,224
Heat, Light and Power.....	637,231
Insurance.....	206,703
Supplies and Chemicals.....	152,319
Fuel.....	39,667
Water Purchases.....	33,665
Dues and Fees.....	26,617
Travel.....	13,994
Telephone.....	13,938
Lab Expense.....	11,692
Uniforms.....	7,807
Miscellaneous.....	6,932
Property Taxes.....	4,996
Rents.....	3,493
	<u>4,297,533</u>

Income from Operations..... 2,917,778

NONOPERATING REVENUES (EXPENSES):

Lease Income.....	91,000
Interest Income.....	114,365
Sale of Assets.....	185,701
Interest and Fiscal Charges.....	(149,495)
	<u>241,571</u>

Income Before Transfers..... 3,159,349

Transfers Out..... (2,100,000)

CHANGE IN NET POSITION..... 1,059,349

Net Position - Beginning..... 18,474,686

Net Position - Ending..... \$19,534,035

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND
YEAR ENDED SEPTEMBER 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES:

Cash Received from Customers.....	\$7,081,941
Other Operating Receipts.....	2,774
Cash Paid to Suppliers for Goods and Services.....	(3,060,412)
Cash Payments to Employees for Services.....	<u>(1,188,947)</u>
Net Cash Provided by (Used for) Operations.....	<u>2,835,356</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

Rents Received.....	86,500
Transfers to Other Funds.....	<u>(2,100,000)</u>
Net Cash Provided by (Used for) Noncapital Financing Activities	<u>(2,013,500)</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:

Proceeds from Sale of Assets.....	633,702
Acquisition and Construction of Capital Assets.....	(2,063,286)
Principal Paid on Bond Maturities.....	(558,000)
Principal Paid on Notes Payable.....	(351,051)
Interest and Fees Paid on Long-Term Debt.....	<u>(160,314)</u>
Net Cash Provided by (Used for) Capital and Related Financing Activities	<u>(2,498,949)</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Redemption of Certificates of Deposit.....	325,989
Investment Income.....	114,365
Purchase of Certificates of Deposit.....	<u>(2,578)</u>
Net Cash Provided by (Used for) Investing Activities.....	<u>437,776</u>

NET INCREASE (DECREASE) IN CASH (1,239,317)

Cash, Beginning of Year.....	<u>7,480,996</u>
Cash, End of Year.....	<u>\$6,241,679</u>

Cash - Unrestricted	\$5,414,703
Cash - Restricted	<u>826,976</u>
	<u>\$6,241,679</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CASH FLOWS - WATER AND SEWER FUND (continued)
YEAR ENDED SEPTEMBER 30, 2019

RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO
NET CASH PROVIDED BY (USED FOR) OPERATIONS:

Income (Loss) from Operations	\$2,917,778
Adjustments to Reconcile Net Income to Net Cash Provided by Operations:	
Depreciation	769,224
Changes in Assets and Liabilities:	
(Increase) Decrease in Accounts Receivable	(528,613)
(Increase) Decrease in Inventory	66,614
Increase (Decrease) in Pension & OPEB Related Accounts	72,504
Increase (Decrease) in Water Deposits	5,141
Increase (Decrease) in Accounts Payable	(465,024)
Increase (Decrease) in Accrued Property Taxes	(2,268)
Net Cash Provided by (Used for) Operations	<u>\$2,835,356</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2019

	<u>Employee Retirement Fund</u>	<u>Golf Course/ Team Fund</u>	<u>Total</u>
<u>ASSETS</u>			
Cash.....	\$ 2,375	\$ 20,634	\$ 23,009
Deferred Compensation Plan Assets	<u>173,319</u>	<u>-</u>	<u>173,319</u>
Total Assets	<u>175,694</u>	<u>20,634</u>	<u>196,328</u>
<u>LIABILITIES</u>			
Due to General Fund.....	<u>2,375</u>	<u>257</u>	<u>2,632</u>
<u>NET POSITION</u>			
Held for Employee Retirement.....	173,319	-	173,319
Held for Golf Course/Golf Team...	<u>-</u>	<u>20,377</u>	<u>20,377</u>
Total Net Position	<u>\$ 173,319</u>	<u>\$ 20,377</u>	<u>\$ 193,696</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
YEAR ENDED SEPTEMBER 30, 2019

	Employee Retirement Fund	Golf Course/ Team Fund	Total
<u>ADDITIONS</u>			
Employee Contributions.....	\$ 3,458	\$ -	\$ 3,458
Advertising Revenue.....	-	-	-
Investment Income.....	5,082	504	5,586
Total Additions	<u>8,540</u>	<u>504</u>	<u>9,044</u>
<u>DEDUCTIONS</u>			
Benefits.....	548	-	548
Administrative Expense.....	778	-	778
Golf Course/Team Expense.....	-	-	-
Total Deductions	<u>1,326</u>	<u>-</u>	<u>1,326</u>
Change in Net Position	7,214	504	7,718
Net Position - Beginning	<u>166,105</u>	<u>19,873</u>	<u>185,978</u>
Net Position - Ending	<u>\$ 173,319</u>	<u>\$ 20,377</u>	<u>\$ 193,696</u>

See Accompanying "Notes to Financial Statements"

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Hereford operates under a Council-Manager form of government and provides the following services: public safety, streets, sanitation and health, culture and recreation, public improvements, planning and zoning, airport operations, water and sewer utilities, and general administrative service. The following is a summary of the more significant policies:

A. The Reporting Entity:

The accompanying financial statements present the City's primary government and the component unit, Hereford Economic Development Corporation (HEDC), over which the City exercises significant influence. Significant influence or accountability is based on operational or financial relationships with the City (as distinct from legal relationships). The HEDC was incorporated in 1994 for the purpose of providing economic assistance to businesses located in or relocating to the City of Hereford and the surrounding area. Separate financial statements for the HEDC are not issued.

B. Government-Wide and Fund Financial Statements:

Government-Wide Financial Statements:

The government-wide financial statements include the statement of net position and the statement of activities. These statements report financial information for the City as a whole. The primary government and component unit are presented separately within the financial statements with the focus on the primary government. Individual funds are not displayed, but the statements distinguish governmental activities, generally supported by taxes and City general revenues, from business-type activities, generally financed in whole or part with fees charged to external customers.

The statement of activities reports the expenses of a given function offset by program revenues directly connected with the functional program. A function is an assembly of similar activities and may include portions of a fund or summarize more than one fund to capture the expenses and program revenues associated with a distinct functional activity. Program revenues include: (1) charges for services which report fees, fines and forfeitures, and other charges to users of the City's services; (2) operating grants and contributions which finance annual operating activities; and (3) capital grants and contributions which fund the acquisition, construction, or rehabilitation of capital assets. These revenues are subject to externally imposed restrictions to these program uses. Taxes and other revenue sources not properly included with program revenues are reported as general revenues.

Fund Financial Statements:

Fund financial statements are provided for governmental, proprietary, and fiduciary funds. Major individual governmental and proprietary funds are reported in separate columns with composite columns for non-major funds.

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

The financial statements of the City are prepared in accordance with generally accepted accounting principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements and applicable Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, unless they conflict with GASB pronouncements.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (continued):

The government-wide statements report using the economic resources measurement focus and the accrual basis of accounting. Reimbursements are reported as reductions to expenses. Proprietary fund financial statements also report using this same focus and basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax revenues are recognized in the year for which they are levied while grants are recognized when grantor eligibility requirements are met.

Governmental fund financial statements report using the current financial resources focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Available means collectible within the current period or soon enough thereafter to pay current liabilities. The City considers revenues to be available if they are collected within 60 days of the end of the fiscal year. Expenditures are recorded when the related fund liability is incurred, except for long-term debt principal and interest which are reported as expenditures in the year due.

D. Fund Types and Major Funds:

The City considers its General Fund and its Water and Sewer Fund to be major funds.

General Fund:

The General Fund is the primary fund of the City. It is used to account for all financial resources not accounted for in another fund.

Special Revenue Funds:

Special Revenue Funds are used to account for the proceeds of specific resources (other than major capital projects) that are legally restricted to expenditures for specified purposes.

Capital Projects Funds:

Capital Project Funds account for financial resources to be used for the acquisition and construction of major capital facilities, which are not financed by the Water and Sewer Fund.

Water and Sewer Fund:

The Water and Sewer Fund is used to account for operations of the utility system, which is financed and operated in a manner similar to private business enterprises. For the purpose of its statement of cash flows, the City considers all highly liquid debt instruments purchased with maturity of three months or less to be cash equivalents.

Fiduciary Funds (not included in government-wide statements):

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments, or other funds.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

E. Capital Assets and Depreciation:

The City's property, plant, equipment, and infrastructure with useful lives of more than one year are stated at historical cost, except for street paving, curbs and gutters. The City is not required to retroactively capitalize infrastructure and has not done so for governmental funds infrastructure. The City, however, will prospectively capitalize all infrastructure. The City's property, plant, equipment, and infrastructure are comprehensively reported in the government-wide statements. Donated assets are stated at fair value on the date donated. The costs of normal maintenance and repairs that do not add to the asset value or materially extend the useful lives are not capitalized. Capital assets, including those of the component unit, are depreciated using the straight-line method over the estimated useful lives of the assets. When capital assets are disposed, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in the operations.

Estimated useful lives are as follows:

Buildings	40 Years
Improvements, Other than Buildings	10-40 Years
Machinery and Equipment	5-20 Years

F. Long-Term Debt:

In the government-wide and proprietary fund financial statements, outstanding debts are reported as liabilities. The governmental fund financial statements recognize the proceeds of debt as other financing sources of the current period and repayments of debt as expenditures of the current period.

G. Use of 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 at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

H. Inventories:

Inventories are stated at cost using the first-in, first-out method.

I. Date of Management's Review:

Management has evaluated subsequent events through March 4, 2020, the date the financial statements were available to be issued.

J. Proprietary Fund Revenues and Expenses:

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer Fund are charges for water and sewer services. Operating expenses for the Water and Sewer Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

K. Restricted Resources:

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 they are needed.

L. FUND EQUITY:

In the government-wide and proprietary fund financial statements, equity is classified as net position and displayed in three components:

- 1) Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
- 2) Restricted net position consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through enabling legislation.
- 3) Unrestricted net position consists of all other assets that do not meet the definition of "restricted" or "net investment in capital assets."

In the governmental funds financial statements, equity is classified as fund balance. Fund balance is further classified as follows:

- 1) Nonspendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual requirements.
- 2) Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to enabling legislation.
- 3) Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the City through formal action of the highest level of decision making authority. The City Council is the highest level of decision making authority that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action by the City Council is taken to remove or revise the limitation.
- 4) Assigned includes fund balance amounts that are constrained by the City's intent to be used for specific purposes, but are neither restricted nor committed. Intent can be stipulated by the City Council. With the exception of the General Fund, this is the residual fund balance of the classification for all governmental funds with positive balances.
- 5) Unassigned includes the residual balance of the General Fund that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued):

M. Pensions:

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

N. Defined Benefit Other Postemployment Benefit Plan:

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to the OPEB plan, and OPEB expense have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms for the OPEB plan.

NOTE 2 - BUDGETS AND ACCOUNTABILITY:

The City Manager submits an annual budget in accordance with applicable state laws and regulations. The budget is presented to the City Commission for review, and public hearings are held to address priorities and the allocation of resources. Before the start of the next fiscal year, the City Commission adopts the budget for City operating funds. Once approved, the City Commission may amend the legally adopted budget when unexpected modifications are required in estimated revenues and appropriations.

NOTE 3 - RESTRICTED ASSETS:

The Water and Sewer Fund has \$453,874 in cash, which is restricted for debt service of bonds payable and \$373,102 in cash, which is restricted for water system improvements.

NOTE 4 - RECEIVABLES, UNCOLLECTIBLE ACCOUNTS, AND DEFERRED INFLOWS OF RESOURCES:

Significant receivables include amounts due from customers primarily for utility services and trash collection, and amounts due from property taxes receivable. Allowances for non-collectible accounts have been recorded based on the estimated amount of uncollectible accounts. The allowance in the general fund is \$70,505 and the allowance in the Water and Sewer Fund is \$130,218.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year.

In the governmental fund financial statements, property taxes receivable are recorded at the total amount of delinquent taxes owed at the fiscal year end. If delinquent taxes are not paid within 60 days of the fiscal year end, they are recorded as a deferred inflow of resources.

In the government-wide financial statements, property taxes receivable and related revenue include all amounts due the City regardless of when the cash is received. Over time, substantially all property taxes are collected.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5 - LONG-TERM DEBT:

Long-term debt of the Governmental Funds as of September 30, 2019, consists of the following:

	<u>Balance</u> <u>9-30-18</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9-30-19</u>	<u>Due Within</u> <u>One Year</u>
First Financial Bank, monthly payments of \$7,061, including interest at 2.25%, through October 2019, secured by fire truck	\$ 90,526	\$ -	\$(83,533)	\$ 6,993	\$ 6,993
First Financial Bank, monthly payments of \$3,169, including interest at 2.25%, through March 2020, secured by dump trucks	56,003	-	(37,131)	18,872	18,872
First Financial Bank, monthly payments of \$4,521, including interest at 3.25%, through January 2022, secured by fire truck	166,916	-	(49,503)	117,413	51,192
First Financial Bank, monthly payments of \$3,763, including interest at 3.25%, through November 2021, secured by road grader	135,518	-	(41,321)	94,197	42,728
First Financial Bank, monthly payments of \$2,465, including interest at 4.25%, through March 2023, secured by golf carts	<u>120,788</u>	<u>-</u>	<u>(24,867)</u>	<u>95,921</u>	<u>26,003</u>
	<u>\$569,751</u>	<u>\$ -</u>	<u>\$(236,355)</u>	<u>\$333,396</u>	<u>\$145,788</u>

Future maturities of long-term debt of the Governmental Funds are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$145,788	\$ 9,198	\$154,986
2021	124,148	4,835	128,983
2022	48,977	1,373	50,350
2023	<u>14,483</u>	<u>179</u>	<u>14,662</u>
	<u>\$333,396</u>	<u>\$ 15,585</u>	<u>\$348,981</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 5 - LONG-TERM DEBT (continued):

Long-term debt of the Water and Sewer Fund as of September 30, 2019, consists of the following:

	<u>Balance</u> <u>9-30-18</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>9-30-19</u>	<u>Due Within</u> <u>One Year</u>
First Financial Bank, annual payments of \$320,000, plus interest at 1.84%, through August 2019, secured by certificates of deposit.....	\$ 323,669	\$ -	\$ (323,669)	\$ -	\$ -
First Financial Bank, monthly payments of \$2,510, including interest at 3.25%, through Jan. 2022, secured by equipment.....	94,910	-	(27,382)	67,528	28,350
Water and Sewer 2010 series general obligation refunding bonds, dated Oct. 1, 2010, due in annual installments through Sep. 1, 2020, bearing interest rates of 2.00% to 4.00%	530,000	-	(260,000)	270,000	270,000
Water and Sewer 2017 series combination tax and revenue certificates of obligation, dated Sep. 21, 2017, due in annual installments through Feb. 15, 2027, bearing an interest rate of 4.25%	3,198,000	-	(298,000)	2,900,000	311,000
	<u>4,146,579</u>	<u>-</u>	<u>(909,051)</u>	<u>3,237,528</u>	<u>\$ 609,350</u>
Unamortized premium	<u>11,580</u>	<u>-</u>	<u>(7,671)</u>	<u>3,909</u>	
	<u>\$4,158,159</u>	<u>\$ -</u>	<u>\$ (916,722)</u>	<u>\$3,241,437</u>	

Future maturities of long-term debt of the Water and Sewer Fund are as follows:

<u>Year Ending</u> <u>September 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2020	\$ 609,350	\$ 129,216	\$ 738,566
2021	353,285	103,987	457,272
2022	347,893	89,147	437,040
2023	353,000	74,396	427,396
2024	369,000	59,054	428,054
2025 to 2027	<u>1,205,000</u>	<u>78,264</u>	<u>1,283,264</u>
	<u>\$3,237,528</u>	<u>\$ 534,064</u>	<u>\$3,771,592</u>

Revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The City is in compliance with all significant bond indentures and restrictions.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 6 - COMPENSATED ABSENCES:

Employees of the City of Hereford are entitled to paid vacation days and paid sick days depending on job classification, length of service, and other factors. It is impracticable to estimate the amount of compensation for future absences, and accordingly, no liability has been recorded in the accompanying financial statements. It is the policy of the City to recognize the costs of compensated absences when actually paid to employees.

NOTE 7 - CITY FARM LEASE:

The City owns farm land near its wastewater treatment facility and leases this land to an individual for agricultural purposes. The lease term is for one year beginning January 1, 2019, with an annual rental of \$62,500.

NOTE 8 - RISK MANAGEMENT:

The City is exposed to various risks of loss related to torts; theft of, damage to, or destruction of assets; errors or omissions; injuries to employees; and other claims of various natures. The City purchases insurance from Texas Municipal League Intergovernmental Risk Pool (TML-IRP) to indemnify it in the event of loss. The City pays annual premiums for such coverage. TML-IRP purchases re-insurance, and the City does not retain risk of loss exceeding deductibles. The City has had no significant reduction in insurance coverage from the previous year and claims have not exceeded coverage in the last three years.

NOTE 9 - DEFERRED OUTFLOWS AND 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.

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 also has one item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *unavailable property tax revenue*, is reported only in the general fund balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 10 - DEPOSITS AND INVESTMENTS:

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Cash Deposits

The City's cash deposits at September 30, 2019, were entirely covered by FDIC insurance and pledged collateral held by the agent bank.

Investments

The City is required by Government Code Chapter 2256, the Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must be written; primarily emphasize safety of principal and liquidity; address investment diversification, yield, and maturity and the quality and capability of investment management; and include a list of the types of authorized investments in which the investing entity's funds may be invested; and the maximum allowable stated maturity of any individual investment owned by the entity.

The Public Funds Investment Act (Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas, (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) mutual funds, (8) local government investment pools, (9) guaranteed investment contracts, and (10) common trust funds.

The City's investments at September 30, 2019, are shown as follows:

<u>Type of Security</u>	<u>Fair Value</u>	<u>Percentage of Total</u>	<u>Credit Rating</u>	<u>Investment Maturity</u>
<u>Primary Government:</u>				
Certificates of Deposit	<u>\$1,800,219</u>	<u>100.00%</u>	N/A	Less than one year

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 10 - DEPOSITS AND INVESTMENTS (continued):

Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the City was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk. At September 30, 2019, the City's investments are rated as to credit quality as shown above.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by deposit insurance plus the amount of the pledged securities. At year end, the City was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single user. At year end, the City's exposure to concentration of credit risk is shown above as the percentage of each investment type.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the City's exposure to interest rate risk is summarized in the above table. Since the investments are certificates of deposit, the rate of return is guaranteed and the City is not exposed to any interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the City was not exposed to foreign currency risk.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing or the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 11 - CAPITAL ASSETS:

Following is a summary of the capital asset activity for the year ended September 30, 2019:

	<u>Beginning</u>				<u>End</u>
	<u>Of Year</u>	<u>Additions</u>	<u>Retirements</u>		<u>Of Year</u>
<u>Primary Government:</u>					
Governmental Activities:					
Non-Depreciable Assets:					
Land.....	\$ 619,289	\$ -	\$ -		\$ 619,289
Construction in Progress	107,229	507,569	-		614,798
Depreciable Assets:					
Buildings.....	3,267,191	-	-		3,267,191
Improvements.....	8,988,844	260,283	-		9,249,127
Machinery & Equipment:	10,705,510	591,936	(205,112)		11,092,334
	<u>23,688,063</u>	<u>1,359,788</u>	<u>(205,112)</u>		<u>24,842,739</u>
Accumulated Depreciation	<u>14,689,831</u>	<u>930,214</u>	<u>(199,141)</u>		<u>15,420,904</u>
Governmental Activities					
Net Capital Assets	<u>\$ 8,998,232</u>	<u>\$ 429,574</u>	<u>\$ (5,971)</u>		<u>\$ 9,421,835</u>
Business-Type Activities:					
Non-Depreciable Assets:					
Land.....	\$ 2,616,381	\$ 646,742	\$ (448,000)		\$ 2,815,123
Construction in Progress	122,130	2,011,364	(1,763,612)		369,882
Depreciable Assets:					
Buildings.....	1,073,827	45,268	-		1,119,095
Water and Sewer System	23,321,633	990,270	-		24,311,903
Machinery & Equipment:	2,306,938	133,254	-		2,440,192
	<u>29,440,909</u>	<u>3,826,898</u>	<u>(2,211,612)</u>		<u>31,056,195</u>
Accumulated Depreciation	<u>15,672,690</u>	<u>769,224</u>	<u>-</u>		<u>16,441,914</u>
Business-Type Activities					
Net Capital Assets	<u>\$13,768,219</u>	<u>\$ 3,057,674</u>	<u>\$ (2,211,612)</u>		<u>\$14,614,281</u>
Primary Government Net					
Capital Assets	<u>\$22,766,451</u>	<u>\$ 3,487,248</u>	<u>\$ (2,217,583)</u>		<u>\$24,036,116</u>
<u>Component Unit:</u>					
Hereford Economic Development Corp:					
Non-Depreciable Assets:					
Land.....	\$ 137,220	\$ -	\$ -		\$ 137,220
Depreciable Assets:					
Furniture & Equipment:	40,061	-	-		40,061
	<u>177,281</u>	<u>-</u>	<u>-</u>		<u>177,281</u>
Accumulated Depreciation	<u>32,011</u>	<u>2,395</u>	<u>-</u>		<u>34,406</u>
Component Units Net					
Capital Assets	<u>\$ 145,270</u>	<u>\$ (2,395)</u>	<u>\$ -</u>		<u>\$ 142,875</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 11 - CAPITAL ASSETS (continued):

Depreciation expense was charged to governmental functions as follows:

General Government	\$ 24,479
Public Safety	370,511
Streets and Public Works ..	231,452
Sanitation and Health	560
Parks and Recreation	231,738
Airport	<u>71,474</u>
	<u>\$930,214</u>

NOTE 12 - DEFERRED COMPENSATION PLAN:

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code 457. PEBSCO is the independent plan administrator. Employees who choose to participate may elect the amount of their contributions, within legal limits, and defer federal income taxation on that portion of their salaries and the earnings thereon. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death or unforeseeable emergency. Under the terms of IRC Section 457, the employee's contributions and all income attributable to the investment of such amounts are the property of the City until paid or made available to the participants or their beneficiaries. The plan assets represent a general liability of the City to its employees whose rights to the fair market value of their participant shares are equal to the rights of other general creditors.

It is the City's opinion that it has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor. The City believes that it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

NOTE 13 -- INTERNAL BALANCES AND TRANSFERS:

Internal balances result from the time lag between the dates that (1) interfund reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made. There are no interfund balances that are not expected to be repaid by September 30, 2020. Following is a summary of interfund balances:

	<u>Due From:</u>			<u>Total</u>
	<u>General Fund</u>	<u>Other Gov't Funds</u>	<u>Water & Sewer Fund</u>	
<u>Due To:</u>				
General Fund	\$ -	\$ 76,256	\$ -	\$ 76,256
Other Gov't Funds	-	-	-	-
Water and Sewer Fund	<u>275,234</u>	<u>7</u>	-	<u>275,241</u>
	<u>\$275,234</u>	<u>\$ 76,263</u>	<u>\$ -</u>	<u>\$351,497</u>

The City makes transfers from the Water and Sewer Fund to the General Fund to subsidize expenses of the General Fund when considered necessary by city management. During the year the City transferred \$2,100,000 from the Water and Sewer Fund to the General Fund.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 14 - EMPLOYEE RETIREMENT PLAN:

A. Plan Description

The City participates as one of 887 plans in the nontraditional, joint-contributory, hybrid defined benefit 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 (CAFR) that can be obtained at www.tmrs.com.

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

B. Benefits Provided

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

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

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

Employee Deposit Rate	5.0%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Retirement Eligibility (Expressed as age/years of service)	60/5,0/25
Updated Service Credits	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

Employees Covered by Benefit Terms

At the December 31, 2018, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	47
Inactive employees entitled to but not yet receiving benefits	35
Active employees	<u>92</u>
Total	<u>174</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 14 - EMPLOYEE RETIREMENT PLAN (continued):

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6% or 7% of employee gross earnings, and the City matching percentages are either 100%, 150% or 200%, both as adopted by the governing body of the City. Under 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 were required to contribute 5.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 10.61% and 10.56% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019, were \$557,309, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, 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, 2018, actuarial valuation was determined using the following actuarial assumptions.

Inflation	2.5% per year
Overall Payroll Growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. 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.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 14 - EMPLOYEE RETIREMENT PLAN (continued):

D. Net Pension Liability (continued)

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 various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic Equity	17.50%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	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 the statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive 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 HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 14 - EMPLOYEE RETIREMENT PLAN (continued):

D. Net Pension Asset (continued)

Changes in the Net Pension Liability

Following is a summary of the changes in Net Pension Liability/(Asset):

	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability/ (Asset) (a)-(b)
Balance at 12/31/2017	\$21,450,142	\$19,188,507	\$ 2,261,635
Changes for the Year:			
Service Cost	585,034	-	585,034
Interest on Total Pension Liability	1,439,639	-	1,439,639
Changes of Benefit Terms	-	-	-
Difference in Expected/Actual Experience	(356,669)	-	(356,669)
Changes of Assumptions	-	-	-
Benefit Payments, Including Refunds	(829,336)	(829,336)	-
Contributions - Employer	-	538,346	(538,346)
Contributions - Employee	-	253,701	(253,701)
Net Investment Income	-	(574,746)	574,746
Administrative Expenses	-	(11,109)	11,109
Other	-	(580)	580
Balance at 12/31/2018	<u>\$22,288,810</u>	<u>\$18,564,783</u>	<u>\$ 3,724,027</u>

Sensitivity Analysis

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

	1% Decrease	Current Discount Rate	1% Increase
Net Pension Liability/(Asset)	<u>\$6,837,630</u>	<u>\$3,724,027</u>	<u>\$1,163,199</u>

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.

E. Pension Expense and Deferred Inflows/Outflows of Resources

Pension Expense

For the year ended September 30, 2019, the City recognized pension expense of \$854,773 calculated as follows:

Service Cost	\$ 585,034
Interest on Total Pension Liability	1,439,639
Current Period Benefit Changes	-
Employee Contributions	(253,701)
Projected Earnings on Plan Investments	(1,295,224)
Administrative Expense	11,109
Other Changes in Fiduciary Net Position	580
Recognition of Current Year Outflow(Inflow) of Resources:	
Liabilities	(64,614)
Assets	373,994
Amortization of Prior Year Outflows(Inflows) of Resources:	
Liabilities	41,489
Assets	16,467
Total Pension Expense	<u>\$ 854,773</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 14 - EMPLOYEE RETIREMENT PLAN (continued):

E. Pension Expense and Deferred Inflows/Outflows of Resources (continued)
Deferred Inflows/Outflows of Resources

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Difference in Expected and Actual Experience	\$ (244,481)	\$ -
Difference in Assumption Changes	-	30,414
Difference in Projected and Actual Earnings on Pension Plan Investments	-	994,458
Contributions Made Subsequent to the Measurement Date	-	415,775
Total	<u>\$ (244,481)</u>	<u>\$1,440,647</u>

The amount of \$415,775 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:

<u>Year Ended December 31,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2019	\$ 337,265
2020	91,300
2021	72,543
2022	312,882
2023	(33,599)
Thereafter	-
	<u>\$ 780,391</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 15 - SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB):

A. Plan Description

The City contributes to a cost-sharing multiple-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a separate trust administered by the TMRS Board of Trustees and is a voluntary program in which the City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

B. Benefits Provided

Contributions are made monthly based on the covered payroll of employee members of the City. The contractually required contribution rate is determined annually, and the rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the City. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The contributions to the SDBF are pooled for investment purposes with those of the pension retirement fund described above. The TMRS Act requires the pension retirement fund to allocate investment income to the SDBF on an annual basis. The funding policy of the plan is to assure adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers.

As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis. Any excess contributions and investment income over payments then become net position available for postemployment benefits other than pension benefits (OPEB). The City's contributions to SDBF for the year ended September 30, 2019, were \$11,463.

Payments from this fund are similar to group term life insurance benefits, and are paid to the designated beneficiaries upon receipt of an approved application for payment. The death benefit for active employees provides a lump sum payment approximately equal to the employee's annual salary. The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. The obligations of this plan are payable only from the SDBF and are not an obligation of, or claim against, the pension retirement fund.

Employees Covered by Benefit Terms

At the December 31, 2018, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	37
Inactive employees entitled to but not yet receiving benefits	9
Active employees	<u>92</u>
Total	<u>138</u>

C. Accounting Policies

An irrevocable trust has not been established that meets the criteria in paragraph 4 of GASB Statement No. 75; therefore, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 15 - SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) (continued):

D. Actuarial Methods and Assumptions

Significant methods and assumptions used in the December 31, 2018 actuarial valuation are as follows:

Actuarial Cost Method	Entry Age Normal
Discount Rate	3.71% as of December 31, 2018
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Retiree's Share of Benefit Related Costs	\$0
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements of GASB No. 68.
Mortality Rates - Service Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

E. Total OPEB Liability

Following is a summary of the changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/2017	\$ 282,344
Changes for the Year:	
Service Cost	9,133
Interest on Total OPEB Liability	9,446
Changes of Benefit Terms	-
Difference in Expected/Actual Experience	(9,866)
Changes of Assumptions	(17,067)
Benefit Payments	<u>(3,044)</u>
Balance at 12/31/2018	<u>\$ 270,946</u>

Sensitivity Analysis

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, 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 (2.71%) or 1 percentage point higher (4.71%) than the current rate:

	1%	Current Discount Rate	1%
	Decrease		Increase
Net Pension Liability/(Asset)	<u>\$316,807</u>	<u>\$270,946</u>	<u>\$234,257</u>

CITY OF HEREFORD, TEXAS

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019

NOTE 15 - SUPPLEMENTAL DEATH BENEFIT PLAN (OPEB) (continued):

F. OPEB Expense and Deferred Outflows of Resources
OPEB Expense

For the year ended September 30, 2019, the City recognized OPEB expense of \$1,675 calculated as follows:

Service Cost	\$ 9,133
Interest on Total OPEB Liability	9,446
Current Period Benefit Changes	-
Administrative expenses	-
Recognition of Deferred Outflow of Resources:	
Differences Between Expected and Actual Experience	(1,473)
Changes in Assumptions or Other Inputs	400
Total OPEB Expense	<u>\$ 17,506</u>

Deferred Outflows of Resources

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to its OPEB plan from the following sources:

	<u>Deferred Inflows</u> <u>of Resources</u>	<u>Deferred Outflows</u> <u>of Resources</u>
Difference in Expected and Actual Experience	\$ (8,393)	\$ -
Difference in Assumption Changes	(668)	-
Contributions Made Subsequent to the Measurement Date	-	8,662
Total	<u>\$ (9,061)</u>	<u>\$ 8,662</u>

The amount of \$8,662 reported as deferred outflows of resources related to OPEB plans 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 of resources related to OPEB plans will be recognized in OPEB expense as follows:

<u>Year Ended December 31,</u>	<u>Net Deferred</u> <u>Outflows of</u> <u>Resources</u>
2019	\$ (1,073)
2020	(1,073)
2021	(1,073)
2022	(1,073)
2023	(1,956)
Thereafter	(2,813)
	<u>\$ (9,061)</u>

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APPENDIX C

FORM OF BOND COUNSEL'S OPINIONS

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PROPOSED FORM OF OPINION OF BOND COUNSEL

*An opinion in substantially the following form will be delivered by McCall,
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds,
assuming no material changes in facts or law.*

**CITY OF HEREFORD, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,400,000**

AS BOND COUNSEL FOR THE CITY OF HEREFORD, TEXAS, (the “Issuer”) in connection with the issuance of the General Obligation Refunding Bonds described above (the “Bonds”), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Bonds and in the ordinance of the Issuer authorizing the issuance and sale of the Bonds (the “Ordinance”). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance and sale of the Bonds, including executed Bond Number T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered in accordance with law; and that, except as may be limited by laws applicable to the Issuer relating to sovereign immunity of political subdivisions, bankruptcy, reorganization and other similar matters affecting creditors’ rights generally or by general principles of equity which permit the exercise of judicial discretion, the Bonds constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law, as provided in the Ordinance.

IT IS FURTHER OUR OPINION THAT, except as discussed below, the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not “specified private activity bonds”, and that, accordingly, interest on the Bonds will not be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”).

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on and assume continuing compliance with, certain representations contained in the federal tax certificate of the Issuer and covenants set forth in the Ordinance, relating to, among other matters, the use of the project being refinanced and the investment and expenditure of the proceeds and certain other amounts used to pay or to secure the payment of debt service on the Bonds, and the report or certificate verifying the sufficiency of the amounts deposited to the escrow fund will be sufficient to pay the principal of and interest on the refunded obligations on the redemption date, the accuracy of which we have not independently verified. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.



EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the Issuer. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem 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 whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

Respectfully,

PROPOSED FORM OF OPINION OF BOND COUNSEL

*An opinion in substantially the following form will be delivered by McCall,
Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the
Certificates, assuming no material changes in facts or law.*

**CITY OF HEREFORD, TEXAS
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2020
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$3,630,000**

AS BOND COUNSEL FOR THE CITY OF HEREFORD, TEXAS (the “Issuer”) in connection with the issuance of the Certificates of Obligation described above (the “Certificates”), we have examined into the legality and validity of the Certificates, which bear interest from the dates and mature on the dates, and are subject to redemption, in accordance with the terms and conditions stated in the text of the Certificates and in the ordinance of the Issuer authorizing the issuance and sale of the Bonds (the “Ordinance”). Terms used herein and not otherwise defined shall have the meaning given in the Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance and sale of the Certificates, including executed Certificate Number T-1.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized, issued, and delivered in accordance with law; and that, except as may be limited by laws applicable to the Issuer relating to sovereign immunity of political subdivisions, bankruptcy, reorganization and other similar matters affecting creditors’ rights generally or by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law, and that the Certificates are additionally secured by and payable from limited surplus revenues of the Issuer’s waterworks and sewer system, remaining after payment of all operation and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with all of the Issuer’s revenue bonds or other obligations (now or hereafter outstanding), which are payable from all or any part of the net revenues of the Issuer’s waterworks and sewer system, as provided in the Ordinance.

IT IS FURTHER OUR OPINION THAT, except as discussed below, the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not “specified private activity bonds” and that, accordingly, interest on the Certificates will not be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”).

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined



to be inaccurate or upon if the Issuer fails to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates, including the amount, accrual or receipt of interest on, the Certificates. Owners of the Certificates should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Certificates is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer, or the disclosure thereof in connection with the sale of the Certificates, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of and assessed valuation of taxable property within, and the sufficiency of the pledged revenues of, the Issuer. 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.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem 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 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 Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

Respectfully,

APPENDIX D

SPECIMEN MUNICIPAL BOND INSURANCE POLICIES

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer 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, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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SPECIALIZED PUBLIC FINANCE INC.
FINANCIAL ADVISORY SERVICES