NEW ISSUE
BOOK-ENTRY-ONLY

PRELIMINARY OFFICIAL STATEMENT
June 3, 2020

S&P: "Applied For"
(See "RATINGS" and "BOND INSURANCE" herein.)

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of delivery thereof, subject to the matters described under "TAX MATTERS" herein.

THE BONDS WILL BE DESIGNATED AS
"QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS

$3,890,000*
CITY OF GONZALES, TEXAS
(A political subdivision of the State of Texas located in Gonzales County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020

Dated: June 1, 2020 (interest to accrue from Delivery Date) **Due: March 1, as shown on inside cover**

The $3,890,000* City of Gonzales, Texas, General Obligation Refunding Bonds, Series 2020 (the "Bonds") are being issued by the City of Gonzales, Texas (the "City") 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 to be adopted by the City Council on June 11, 2020 authorizing the issuance of the Bonds (the "Bond Ordinance"). In the Ordinance, and as permitted by Chapter 1207, the City Council delegated to certain City officials the ability to execute an approval certificate (the "Approval Certificate", and collectively with the Bond Ordinance, the "Ordinance") to establish the final terms of the Bonds. The Bonds will be payable from the levy of an annual ad valorem tax, within the limitations prescribed by law, upon all taxable property within the City. (See "THE BONDS – Security and Source of Payment" and "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations" herein.)

Interest on the Bonds will accrue from the Delivery Date (defined herein) and will be payable March 1 and September 1 of each year, commencing September 1, 2020, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months.

The definitive Bonds will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by U.S. Bank National Association, Houston, Texas, as Paying Agent/Registrar, to Cede & Co., which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used to refund a portion of the City's currently outstanding obligations as disclosed in Schedule I attached hereto (the "Refunded Obligations") and to pay costs of issuance of the Bonds. See "SCHEDULE I" herein.

Application has been made to municipal bond insurance companies to have the payment of principal of and interest on the Bonds insured by a municipal bond insurance policy. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)

SEE MATURITY SCHEDULE ON INSIDE COVER

The Bonds are offered when, as and if issued and accepted by the initial purchaser (the "Underwriter"), subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Kelly Hart & Hallman LLP, Fort Worth, Texas, counsel for the Underwriter. The Bonds are expected to be available for initial delivery through the services of DTC on or about July 9, 2020 (the "Delivery Date").

SAMCO CAPITAL MARKETS

* Preliminary, subject to change.

Base CUSIP[1]: 382010

MATURITY SCHEDULE

$3,890,000*
CITY OF GONZALES
GENERAL OBLIGATION REFUNDING BONDS,
SERIES 2020

Maturity Date (3/1)	Principal Amount*	Interest Rate	Yield	CUSIP No Suffix [1]
2021	$ 260,000			
2022	270,000			
2023	280,000			
2024	290,000			
2025	305,000			
2026	315,000			
2027	330,000			
2028	340,000			
2029	350,000			
2030	370,000			
2031	385,000			
2032	395,000			

(Interest to accrue from the Delivery Date)

The City reserves the right, at its option, to redeem Bonds having stated maturities on or after March 1, 2030, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2029 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption."

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(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisor, nor the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

***** Preliminary, subject to change.

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities and Exchange Commission, this document may be treated as an "official statement" of the City with respect to the Bonds described herein that has been deemed "final" by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover page 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 a promise or guarantee of the Underwriter. 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 Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of the 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.

THIS OFFICIAL STATEMENT IS INTENDED TO REFLECT FACTS AND CIRCUMSTANCES ON THE DATE OF THIS OFFICIAL STATEMENT OR ON SUCH OTHER DATE OR AT SUCH OTHER TIME AS IDENTIFIED HEREIN. NO ASSURANCE CAN BE GIVEN THAT SUCH INFORMATION MAY NOT BE MISLEADING AT A LATER DATE. CONSEQUENTLY, RELIANCE ON THIS OFFICIAL STATEMENT AT TIMES SUBSEQUENT TO THE ISSUANCE OF THE BONDS DESCRIBED HEREIN SHOULD NOT BE MADE ON THE ASSUMPTION THAT ANY SUCH FACTS OR CIRCUMSTANCES ARE UNCHANGED.

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

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

NEITHER THE CITY, THE FINANCIAL ADVISOR, NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR ANY POTENTIAL BOND INSURER OR ITS MUNICIPAL BOND GUARANTY POLICY AS DESCRIBED HEREIN UNDER THE CAPTIONS "BOND INSURANCE" AND "BOND INSURANCE RISK FACTORS."

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The City	The City of Gonzales, Texas (the "City") is the County seat of Gonzales County. The City is located at the intersection of U.S. Highways 183 and 90 and State Highway 97, 804, and 111 and is 69 miles east of San Antonio, 63 miles south of Austin and 137 miles west of Houston. The City is a home-rule municipality and operates under a City Council-Manager form of government.
The Bonds	$3,855,000* General Obligation Refunding Bonds, Series 2020, dated June 1, 2020, maturing as described on the inside cover page of this Official Statement.
Security for the Bonds	The Bonds will be payable from the levy of an annual ad valorem tax, within the limitations prescribed by law, upon all taxable property within the City. (See "THE BONDS – Security and Source of Payment" herein.)
Redemption Provisions of the Bonds	The City reserves the right, at its sole option, to redeem Bonds having stated maturities on or after March 1, 2030, in whole or in part thereof, in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. (See "THE BONDS – Optional Redemption" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date of delivery thereof, subject to matters discussed herein under "TAX MATTERS" (See "TAX MATTERS" and "Appendix D - Form of Bond Counsel's Opinion" herein.)
Qualified Tax-Exempt Obligations	The City will designate the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions" herein.)
Use of Proceeds	Proceeds from the sale of the Bonds will be used to refund a portion of the City's currently outstanding obligations as disclosed in Schedule I attached hereto (the "Refunded Obligations") and to pay costs of issuance of the Bonds. See "SCHEDULE I" herein.
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, and an ordinance (the "Bond Ordinance") to be adopted by the City Council on June 11, 2020 authorizing the issuance of the Bonds. In the Bond Ordinance, and as permitted by Chapter 1207, the City Council delegated to certain City officials the ability to execute an approval certificate (the "Approval Certificate", and collectively with the Bonds Ordinance, the "Ordinance") to establish the final terms of the Bonds.
Bond Insurance	The City has made application to several municipal bond insurance companies. No representation is hereby made that the City will use municipal bond insurance in connection with the issuance of the Bonds. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)
Ratings	An application for a contract rating on the Bonds has been made to S&P Global Ratings ("S&P"). (See "RATINGS", "BOND INSURANCE" and BOND INSURANCE RISK FACTORS" herein.)
Payment Record	The City has never defaulted on the payment of its bonded indebtedness.
Future Bond Issues	The City does not anticipate the issuance of additional tax debt during the next 12 months.
Delivery	When issued, anticipated on or about July 9, 2020.

* Preliminary, subject to change.

CITY OF GONZALES, TEXAS
820 St. Joseph Street
Gonzales, Texas 78629

ELECTED OFFICIALS

CITY COUNCIL

Name	Term Expires (May)	Occupation
Connie L. Kacir Mayor	2022	Retired Commercial Banker/Community Volunteer
Dan Blakemore Mayor Pro-Tem, District 4	2020[1]	Retired Financial Services
Tommy Schurig Council Member, District 2	2021	Retired, Guadalupe Valley Electric Co-Op
Gary A. Schroeder Council Member, District 1	2021	Lease Operator- Penn Virginia Oil and Gas
Bobby O'Neal Council Member, District 3	2020[1]	Retired, Guadalupe Valley Electric Co-Op

[1] Due to the outbreak of COVID-19, the City postponed its elections scheduled for May 2, 2020 to November 3, 2020. The officials whose terms would have expired in May will continue to serve until a successor is elected and sworn into office.

APPOINTED OFFICIALS

Name	Position	Length of Time in Current Position
Tim Patek	City Manager	2 Years
Laura Zella	Director of Finance	3 Years
Kristi Gilbert	Interim City Secretary	3 Months

BOND COUNSEL AND ADVISORS

Bond Counsel
McCall, Parkhurst & Horton L.L.P.
700 North St. Mary's, Suite 1525
San Antonio, Texas 78205

Certified Public Accountants
BrooksWatson & Co., PLLC
14950 Heathrow Forest Parkway, Suite 530
Houston, Texas 77032

Financial Advisor
RBC Capital Markets, LLC
303 Pearl Parkway, Suite 220
San Antonio, Texas 78215

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The Cover Page, Table of Contents and Appendices attached hereto are part of the Official Statement

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PRELIMINARY OFFICIAL STATEMENT
relating to

$3,890,000*
CITY OF GONZALES, TEXAS
(A political subdivision of the State of Texas located in Gonzales County)
General Obligation Refunding Bonds, Series 2020

INTRODUCTORY STATEMENT

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

There follows in this Official Statement a description of the $3,855,000* City of Gonzales, Texas, General Obligation Refunding Bonds, Series 2020 (the "Bonds") and certain information about 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 and, during the offering period, from the Financial Advisor, upon payment of reasonable copying, handling, and delivery charges. Certain capitalized terms used in this Official Statement have the meanings assigned to them in the ordinance authorizing issuance of the Bonds approved by the City Council of the City on June 11, 2020 (the "Bond Ordinance"), except as otherwise indicated herein.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Financial and statistical information included in this Official Statement resulted from operations of the City that occurred well before the world-wide spread (which generally began in March 2020) of the coronavirus pandemic known as "COVID- 19." The full effect of the COVID-19 pandemic on the City is not known as of this time, but it is expected to materially reduce certain revenue sources of the City in comparison to recent fiscal years included in this Official Statement. For more information see "INFECTIOUS DISEASE OUTLOOK (COVID-19)."

Copies of the final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board, through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

INFECTIOUS DISEASE OUTLOOK (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the "President") declared the Pandemic a national emergency and the Texas Governor (the "Governor") declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the "disaster declarations"). On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on March 19, 2020 of Executive Order GA-08 which, among other things, imposed strict limitations on social gatherings. On March 31, 2020, the Governor issued Executive Order GA-14 which, among other things, extended the social gathering limitation until April 30, 2020 and temporarily closed school districts throughout the State through May 4, 2020, unless otherwise extended, modified, rescinded or superseded by the Governor. Then, on April 17, 2020, the Governor issued Executive Order GA-16, which further extended the social gathering limitation, and extended the closure of Texas school districts to in person attendance through the remainder of the 2019-2020 school year. On April 27, 2020, the Governor released the Governor's Report to Open Texas and a new series of executive orders which together lay out the plan for reopening a group of closed businesses throughout the State in a phased approach. Phase I of the plan calls for allowing many customer-oriented businesses, such as restaurants and retail stores, to reopen on May 1, 2020, with occupancy restrictions in place of generally 25% of capacity. The Governor also announced in a press conference that if there were no COVID-19 "flare ups" his plan includes increasing the 25% capacity limitations to 50% capacity limitations on May 18, 2020, as well as potentially opening other businesses as part of Phase 2 of the plan. On May 18, 2020, the Governor announced in a press release plans to proceed with Phase 2 of the ongoing plan to safely and strategically open Texas while minimizing the spread of COVID 19. Under Phase 2, beginning May 22, 2020, bars and a number of other businesses and activities that remained closed under Phase I will be allowed to reopen with a 25% occupancy restriction and certain businesses such as

*Preliminary, subject to change.

restaurants and retail stores that opened during Phase I, will be allowed to increase their occupancy to 50%. For the full text of the Governor's executive orders, see: https://lrl.texas.gov/legeLeaders/governors/displayDocs.cfm?govdoctypeID=5&governorID=45.

In addition to the actions by the state and federal officials, many local officials have declared a local state of disaster and have passed "shelter-in-place" orders or ordinances. The City Council declared a Public Health Emergency and issued a Declaration of Local Disaster. The City's Declaration of Local Disaster expired on April 30, 2020, and the City is currently following the most recent executive order issued by the Governor. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. 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 and could negatively impact the ability of taxpayers of the City to pay ad valorem taxes levied by the City and customers of services provided by the City to pay for such services, which in turn could limit the growth of or reduce the City's revenue collections. The City continues to monitor the spread of COVID- 19 and is working to address the potential impact of COVID-19. While the potential impact of COVID-19 on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the City's financial condition.

THE BONDS

General Description

The Bonds will be dated June 1, 2020, and will be issued in fully-registered form, in denominations of $5,000 or any integral multiple thereof within a maturity. Interest on the Bonds will accrue from the Delivery Date and will be paid semiannually on March 1 and September 1 of each year, commencing September 1, 2020, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature on the dates and in the amounts as set forth on the inside cover page hereof.

Principal and interest on the Bonds are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM." In the event the Book-Entry-Only System is discontinued, the interest on the Bonds will be payable to the registered owner as shown on the security register maintained by U.S. Bank National Association, Houston, Texas, as the initial Paying Agent/Registrar, as of the fifteenth (15th) day of the month next preceding such interest payment date, by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the designated office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorize to close, and payment on such date shall have the same force and effect as if made on the original date payment was due. The City will initially use the Book-Entry-Only System of the Depository Trust Company ("DTC"), New York, New York, in regard to the issuance, payment and transfer of the Bonds. Such system will affect the timing and method of payment of the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

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 the Bond Ordinance. In the Bond Ordinance, and as permitted by Chapter 1207, the City Council delegated to certain City officials the ability to execute an approval certificate (the "Approval Certificate", and collectively with the Bond Ordinance, the "Ordinance") to establish the final terms of the Bonds.

Purpose

Proceeds from the sale of the Bonds will be used to refund a portion of the City's currently outstanding obligations as disclosed in Schedule I attached hereto (the "Refunded Obligations") and to pay costs of issuance of the Bonds. See "SCHEDULE I" herein.

Refunded Obligations

The Refunded Obligations shall be redeemed on the redemption date shown on Schedule I hereof from funds to be deposited with U.S. Bank National Association, Houston, Texas, as escrow agent (the "Escrow Agent") pursuant to an escrow agreement between the City and the Escrow Agent (the "Escrow Agreement").

The Ordinance provides that the City will deposit certain proceeds of the sale of the Bonds along with other lawfully available funds of the City, if any, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held by the Escrow Agent in an escrow account (the "Escrow Fund") irrevocably pledged to the payment of the principal of and interest on the respective Refunded Obligations and may be used to purchase direct obligations of the United States of America or obligations of any 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 of the purchase thereof are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent ("Escrow Securities").

Simultaneously with the issuance of the Bonds, the City will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to their stated maturity on the redemption date shown in Schedule I hereof, on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the Escrow Securities, if any, and cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations pursuant to the terms of the ordinance authorizing the issuance of the Refunded Obligations and in accordance with State law, including Chapter 1207. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance on the verification described below by Robert Thomas CPA, the Refunded Obligations are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement. See Appendix D, "Form of Legal Opinion of Bond Counsel" herein.

Robert Thomas CPA, a nationally recognized accounting firm, will verify the mathematical accuracy of schedules provided by the Financial Advisor at the time of delivery of the Bonds to the Underwriter and that the Escrow Securities will mature at such times and yield interest in amounts, together with uninvested funds, if any, in the Escrow Fund, sufficient to pay the principal of and interest on the Refunded Obligations as the same shall become due by reason of stated maturity or earlier redemption (see "VERIFICATION OF ARITHMETICAL COMPUTATIONS"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. Such maturing principal of and interest on the Escrow Securities will not be available to pay principal of or interest on the Bonds.

By the deposit of the cash and Escrow Securities, if any, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations in accordance with law and pursuant to the terms of the ordinance authorizing the issuance of the Refunded Obligations. Thereafter, the City will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Obligations. It is the opinion of Bond Counsel (defined herein) that as a result of such defeasance and in reliance upon the report of Robert Thomas CPA, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Securities, if any, and any 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 ad valorem taxes of the City nor for the purpose of applying any limitation on the issuance of debt.

Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. (See "LEGAL MATTERS" herein.)

Security and Source of Payment

In the Ordinance, the City covenants that it will levy and collect an annual ad valorem tax, within the limitations prescribed by law, against all taxable property located within the City sufficient to meet the debt service requirements on the Bonds. See "AD VALOREM PROPERTY TAXATION."

Optional Redemption

The City reserves the right, at its sole option, to redeem Bonds having stated maturities on or after March 1, 2030, in whole or in part thereof, in principal amounts of $5,000 or any integral multiple thereof, on March 1, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Notice of Redemption for the Bonds

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. The notice with respect to an optional redemption of Bonds may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the City retains the right to rescind such notice at any time prior to the scheduled redemption date if the City delivers a certificate of an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption will be of no effect if such moneys are not so deposited or if the notice is so rescinded. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING

THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC Redemption Provisions

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Defeasance of Bonds

The Ordinance provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent (or other financial institution permitted by applicable law), in trust (1) money sufficient to make such payment and/or (2) Defeasance Securities that mature as to principal and interest in such amounts and at such times to ensure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for such Bonds. 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 Bonds, 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 Ordinance provides that "Defeasance Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent and, (d) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds. The City has additionally reserved 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.

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

Amendments

In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance as may be required (i) by the provisions of the Ordinance, (ii) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission , or (iii) in connection with any other change which is not to the prejudice of the Registered Owners.

The Ordinance further provides that the holders of the respective Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to amend, change, modify or rescind any provisions therein; provided, however, that without the consent of 100% of the holders affected, no such amendment, change, modification, or rescission shall: (i) extend the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof or the rate of interest thereon, (ii) give any preference to any Bond over any other Bond, (iii) extend any waiver of default to subsequent defaults, or (iv) reduce the aggregate principal amount of the Bonds required for consent to any such amendment, change, modification, or rescission.

Record Date

The record date ("Record Date") for determining the person to whom the interest is payable on the Bonds on any interest payment date means the fifteenth (15^{th}) day of the month next preceding the date that each interest payment is due.

Special Record Date for Interest Payment

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

Limitation on Transfer of Bonds

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond (i) 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, or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable by the registered owner of the uncalled balance of a Bond.

Mutilated, Destroyed, Lost, or Stolen Bonds

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

Payment Record

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

SOURCES AND USES OF BOND PROCEEDS

The following table shows the estimated sources and uses of the proceeds of the Bonds:

Sources:	
	Principal Amount of the Bonds
	[Net] Premium/Discount Amount on the Bonds
	Total Sources of Funds
Uses:	
	Deposit to Escrow Fund
	Costs of Issuance and Underwriter's Discount
	Total Uses of Funds

ENFORCEMENT OF REMEDIES

The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 30 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions.

The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

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

In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers municipalities and relates to contracts entered into by municipalities for providing goods or services to municipalities. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

As noted above, the Ordinance provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. 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).

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. 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.

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

BOND INSURANCE

The City has applied for a bond insurance policy to guarantee the scheduled payment of principal of and interest on the Bonds. The City has yet to determine whether an insurance policy will be purchased on the Bonds. If an insurance policy is purchased, the following are risk factors relating to bond insurance.

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under the applicable Bond Insurance Policy (the "Policy") for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the City which is recovered by the City from the certificate owner as a voidable preference under applicable bankruptcy law is covered by the insurance policy, however, such payments will be made by the insurer (the "Bond Insurer") at such time and in such amounts as would have been due absent such prepayment by the City unless the Bond Insurer chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer without appropriate consent. The Bond Insurer may direct and must consent to any remedies and the Bond Insurer's consent may be required in connection with amendments to any applicable certificate documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. (See "RATINGS" herein for further information.)

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

Neither the City or Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

DTC, the world's largest 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 bonds. 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 industries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar for the Bonds is U.S. Bank National Association, Houston, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Bonds. If the Paying Agent/Registrar is replaced by the City, the Paying Agent/Registrar, promptly upon the appointment of its successor, is required to deliver the registration records to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City 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 of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Bonds affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Paying Agent/Registrar.

Future Registration

In the event the use of the "Book-Entry-Only System" for the Bonds should be discontinued, printed physical Bonds will be delivered to the registered owners of the Bonds and thereafter such Bonds may be transferred, registered and assigned on the registration books only upon their presentation and surrender to the Paying Agent/Registrar, and such registration and transfer 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 and transfer. The Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the owner's request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of

$5,000 of principal amount for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

AD VALOREM PROPERTY TAXATION

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of Gonzales Central Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable.

Local Option Freeze for the Elderly and Disabled

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

Other Exempt Property

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

Tax Increment Reinvestment Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "tax increment". During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Tax Abatement Agreements

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

For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM PROPERTY TAXATION – City Application of Property Tax Code" herein.

Public Hearing and Maintenance and Operation Tax Rate Limitations

The following terms as used in this section have the meanings provided below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

Debt Tax Rate Limitations

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported 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 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

City and Taxpayer Remedies

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

Owners of certain property with a taxable value of at least $50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

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

Levy and Collection of Taxes

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. Taxpayers 65 years old or older, disabled veterans or an unmarried surviving spouse of a disabled veteran, are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

City's Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes.

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

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts.

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

City Application of Property Tax Code

The City does not grant a local option exemption of the market value of all residence homesteads.

The City does grant a local option exemption of the market value of the residence homestead of persons 65 years of age or older.

The City does grant a local option freeze on taxes for persons 65 years of age or older or disabled persons.

The City does not permit split payments (except as described in " – Delinquent Tax Provision"), and discounts are not allowed. The City contracts with Gonzales County for billing and collection of property taxes.

The City does not tax Freeport Property.

The City does not tax Goods-in-Transit.

The City does not participate in a TIRZ.

The City does offer tax abatements.

The City has two agreements negotiated under Chapter 380, Texas Local Government Code:

On October 10, 2017 the City executed an agreement with BYK USA, Inc. ("BYK"), a developer, pursuant to Chapter 380 of the Texas Local Government Code. Under the agreement, the City agrees to waive permit fees and public works fees, and to reimburse, for a ten year period during the term of the agreement, ad valorem taxes paid by BYK for three separate phases, in accordance with the following schedule:

Phase I	Percentage of City Ad Valorem Taxes Reimbursed		Phase II	Percentage of City Ad Valorem Taxes Reimbursed		Phase III	Percentage of City Ad Valorem Taxes Reimbursed
Investment exceeds $8,500,00.00	85%		Investment exceeds $30,500,00.00	85%		Investment exceeds $4,700,00.00	85%
Investment between $6,500,000.00 and $8,499,999.99	80%		Investment between $25,000,000.00 and $30,499,999.99	80%		Investment between $4,000,000.00 and $4,699,999.99	80%
Investment between $5,500,000.00 and $6,499,999.99	75%		Investment between $24,000,000.00 and $24,999,999.99	75%		Investment between $3,000,000.00 and $3,999,999.99	75%
Investment below $5,500,000.00	0%		Investment below $24,00,000.00	0%		Investment below $3,000,000.00	0%

On May 29, 2013, the City executed an agreement with Avalonpark, Texas, L.P. (the "Avalonpark"), pursuant to Chapter 380 of the Texas Local Government Code. During the term of the agreement (which terminates on the first to occur of (a) January 1, 2028 or (b) receipt by Avalonpark of the full amount of $1,500,000 (the "Maximum Reimbursement Amount")), and only to the extent that Avalonpark, its successors, and/or its tenants has paid taxes and the City has received ad valorem tax revenues, sales taxes, and hotel occupancy tax revenues from the project, the City is required to pay to Avalonpark eighty percent (80%) of the ad valorem tax revenue and sales tax and hotel occupancy tax revenues generated from the project two times per year (on or before July 1 and December 31 of each year), until the Maximum Reimbursement Amount is paid to Avalonpark in full.

Delinquent Tax Provision

Property within the City is assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1 of each year. Mineral values are assessed on the basis of a twelve-month average. Taxes become due upon receipt of the tax statement, usually October of the same year, and become delinquent on February 1 of the following year. Split payments are not permitted except that taxpayers over 65 and taxpayers qualifying for the disabled person exemption are allowed to pay taxes on their residential homestead in four equal payments before February 1, April 1, June 1 and August 1. Discounts are not allowed.

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

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

After July, penalty remains at 12%, and 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 incur the penalty 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 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% of the delinquent tax penalty and interest charge may be added. 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.

INVESTMENTS

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) 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 (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (iv) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3- 3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) 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 (7) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by SEC Rule 2a-7; (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. 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.

Investment Policies

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 includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, 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 PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

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

Additional Provisions

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

See Table 12 in Appendix A for a description of the City's investments.

PENSION PLANS AND DEFERRED COMPENSATION PLANS

Pension and Retirement Fund

All qualified employees of the City are members of the Texas Municipal Retirement System. Covered employees of the City contribute 5% of gross covered salary. The City's contribution is determined annually by actuarial study as a percent of gross covered payroll. For the calendar year 2019, the rate was 10.68%. For additional information, refer to the notes to the Combined Financial Statements for the year ended September 30, 2019, in Appendix C herein.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., San Antonio, 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"), (i) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (ii) the Bonds 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 Bonds. (See Appendix D - Form of Bond Counsel's Opinion.)

In rendering its 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, and (b) covenants of the City contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property refinanced therewith, and the verification report provided by Robert Thomas CPA. Failure by the City to observe the aforementioned representations or covenants could cause the interest on the Bonds 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 Bonds in order for interest on the Bonds 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 Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel to the City is conditioned on compliance by the Issuer with such requirements, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The 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 Bonds.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the projects refinanced with the proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion 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 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 Bonds (the "Original Issue Discount Bonds") may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year. In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Bonds 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 Bond 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 Bond 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 Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond 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 Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each accrual period and ratably within each such accrual period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond 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 Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds 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 Bonds 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 Bonds 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 Bonds.

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 Bonds. This discussion is based on Existing Law, which is 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 Subchapter C earnings and profits, and excess passive investment income, foreign corporations 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 THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, 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 Bonds, 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 Bonds 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.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to withholding under Sections 1471 through 1474 or backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

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 Bonds under federal or state law and could affect the market price or marketability of the Bonds. 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 Bonds should consult their own tax advisors regarding the foregoing matters.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than $10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City expects to designate the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. In furtherance of that designation, the City will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds $10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of $10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."**

LITIGATION

On July 13, 2017, the Austin Presbyterian Theological Seminary (the "Petitioner") filed suit against the City in Gonzales County alleging, among other things, that the City inversely condemned the J.B. Wells Park (the "Property"). The Property consists of approximately 300 acres, upon a portion of which the City constructed and maintains an event facility and equestrian center, a rodeo and sports arena, and a recreational vehicle campground. The Property was left to the City by J.B. Wells, Jr. for use as a public park, subject to reversion to the Petitioner in the event the City used the Property for any other purpose. In alleging inverse condemnation, the Petitioner contends that the City's current use of the Property is non-conforming, that such non-conforming use has triggered the Petitioner's reversionary interest, and that the City's actions amount to a taking of the Petitioner's property interests without adequate compensation. The Petitioner is seeking compensation for the taking, and has also asked the court to determine the extent to which the Petitioner may be entitled to any income generated from the allegedly non-conforming use of the Property, attorney's fees, court and litigation costs, pre and post judgment interest and other damages. The City sought relief by filing a plea to the jurisdiction in which the City refuted the Petitioners claims and asserted governmental immunity. The trial court denied the City's plea to the jurisdiction.

The City appealed and, on June 13, 2019, the 13th District Court of Appeals affirmed the judgement of the trial court (In re Estate of Wells, No. 13-18-00161-CV, 2019 WL 2462348 (Tex. App. June 13, 2019). A trial on the merits has not yet been scheduled, but is not expected to occur until fall 2020 at the earliest. The claim, as asserted, is not covered by the City's liability insurance carrier meaning all costs of the litigation and any award of monetary relief to the Petitioner will be paid directly from the available assets of the City. The City cannot predict the amount of damages that might be awarded to the Petitioner in the event of an adverse judgement, which could have a material effect on the City's finances.

Except as described above, in the opinion of various officials of the City, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the City in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the City.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds 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 Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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

LEGAL MATTERS

The City will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are a valid and legally binding general obligation of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds, issued in compliance with the provisions of the Ordinance, are valid and legally binding general obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Underwriter and the Financial Advisor from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Bonds. In its capacity as Bond Counsel, such firm has reviewed the information relating to the Bonds and the Ordinance contained in this Official Statement under the captions "THE BONDS" (except under the subcaption "Payment Record"), "ENFORCEMENT OF REMEDIES", "REGISTRATION, TRANSFER AND EXCHANGE," "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations", "TAX MATTERS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "LEGAL MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subcaption "Compliance with Prior Undertakings"), and APPENDIX D (except for financial and statistical data under such captions), and such firm is of the opinion that the information contained under such captions and in such appendix is a fair and accurate summary of the information purported to be shown and is correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriter by its counsel, Kelly Hart & Hallman LLP, Fort Worth, Texas.

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

RATINGS

The City has made application to S&P Global Ratings ("S&P"), for a bond rating on the Bonds. The rating of the Bonds by S&P reflects only the views of S&P at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

AUTHENTICITY OF FINANCIAL INFORMATION

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

USE OF INFORMATION IN OFFICIAL STATEMENT

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at the yields shown on page ii of this Official Statement less an underwriting discount of $_______. The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing the Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

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

In the ordinary course of its various business activities, the Underwriter and its respective affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as the Financial Advisor to the City in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has assisted in drafting this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. The fees for Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds.

VERIFICATION OF ARITHMETICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by RBC Capital Markets, LLC on behalf of the City relating to (a) computation of the sufficiency of the anticipated receipts from the Escrow Securities, together with the initial cash deposit, if any, to pay, when due, the principal, interest and early redemption premium requirements, if any, of the Refunded Obligations, and (b) computation of the yields on Escrow Securities and the Bonds were verified by Robert Thomas CPA, certified public accountants. Such computations were completed using certain assumptions and information provided by RBC Capital Markets, LLC on behalf of the City. Robert Thomas CPA, has restricted its procedures to recalculating the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

The report will be relied upon by Bond Counsel in rendering its opinion with respect to the excludability from federal income taxation of interest on the Bonds and with respect to the defeasance of the Refunded Obligations.

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 thereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Financial Information

The City will provide this updated financial information and operating data to the MSRB annually in an electronic format as prescribed by the MSRB. 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 in Table 1 and 3 through 15 in Appendix A. The City will update and provide this information within six months after the end of each fiscal year, commencing in 2020. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The City will provide audited financial statements within twelve months after the end of each fiscal year, commencing in 2020, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements of the type described above by the required time and will provide audited financial statements when and if such audited financial statements become available. Any financial statements will be prepared in accordance with the accounting principles described in Appendix C or such other accounting principles as the City may be required to employ from time to time pursuant to Texas law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must make available updated financial and operating data by the end of March in each year and financial statements by the end of September 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. The City will provide the updated information to the MSRB in an electronic format, which will be available to the general public without charge via the MSRB's Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Notice of Occurrence of Certain Events

The City also will provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten (10) 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 or 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 Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional paying agent/registrar or change of name of the paying agent/registrar, if material; (15) incurrence of a "Financial Obligation" of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), 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. Neither the Bonds nor the Ordinance make any provision for liquidity enhancement, credit enhancement (except the City has made application for Bond Insurance), or require the funding of debt service reserves.

For these purposes, (a) any event described in clause (12) of 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 the state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

Notice of Failure to Timely File

The City also will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the provisions described above.

Availability of Information

All information and documentation filing required to be made by the City in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines, by and through EMMA. Access to such filings will be provided, without charge to the general public, by the MSRB through EMMA at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain 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 the Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of the Bonds may seek a writ of mandamus to compel the City to comply with its agreement. No default by the City with respect to its continuing disclosure agreement shall constitute a breach of or default under the Ordinance for purposes of any other provision of the Ordinance. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws. The City's undertakings and agreements are subject to appropriation of necessary funds and to applicable legal restrictions.

The City's continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of the Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

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.

AUTHORIZATION OF THE OFFICIAL STATEMENT

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

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

CITY OF GONZALES, TEXAS

____
Mayor
City of Gonzales, Texas

ATTEST:

____
Interim City Secretary
City of Gonzales, Texas

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SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

	Maturity Date	Interest Rate	Par Amount	Call Date	Call Price
Certificates of Obligation, Series 2011	03/01/2021	3.00%	$ 290,000	07/23/2020	100.00
	03/01/2022	3.00	300,000	07/23/2020	100.00
	03/01/2023	3.00	310,000	07/23/2020	100.00
	03/01/2024	3.50	320,000	07/23/2020	100.00
	03/01/2025	3.50	330,000	07/23/2020	100.00
	03/01/2026	3.50	340,000	07/23/2020	100.00
	03/01/2027	4.00	355,000	07/23/2020	100.00
	03/01/2028	4.00	370,000	07/23/2020	100.00
	03/01/2029	4.00	380,000	07/23/2020	100.00
	03/01/2030	4.00	400,000	07/23/2020	100.00
	03/01/2031	4.00	415,000	07/23/2020	100.00
	03/01/2032	4.00	430,000	07/23/2020	100.00
			$4,240,000		

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APPENDIX A

FINANCIAL INFORMATION REGARDING THE CITY OF GONZALES, TEXAS

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FINANCIAL INFORMATION REGARDING
THE CITY OF GONZALES, TEXAS

Table 1-Valuations, Exemptions and Tax Supported Debt

2019/20 Market Valuation Established by Gonzales County Appraisal District	$ 484,330,174
Less: Exemptions/Reductions at 100% Market Value	
Disabled Veterans	$ 1,270,730
Productivity Loss/Other	8,129,000
10% Cap Loss	615,920
Total	$ 10,015,650
2019/20 Net Taxable Assessed Valuation	$ 474,314,524
City Funded Debt Payable from Ad Valorem Taxes (As of May 15, 2020):	
Outstanding General Obligation Debt	$ 10,160,000 (1)(2)
The Bonds	3,890,000 (2)
Total General Obligation Debt Payable From Ad Valorem Taxes	$ 14,050,000
Less: Self Supporting General Obligation Debt	
Outstanding General Obligation Debt	$ 6,365,800 (3)
Total Self-supporting General Obligation Debt	$ 6,365,800
Net General Obligation Debt	$ 7,684,200
Interest and Sinking Fund Balance as of September 30, 2019	$ 59,174
Ratio Total General Obligation Debt to Net Taxable Assessed Valuation	2.96%
Estimated Population	7,628
Per Capita Total General Obligation Funded Debt	$ 1,842
Per Capita Net Taxable Assessed Valuation	$ 62,181

(1) Net of the Refunded Obligations.
(2) Preliminary, subject to change.
(3) The City expects that available revenues from its Economic Development Fund and Hotel/Motel Tax Fund will be sufficient to pay all debt service on its Combination Tax and Revenue Certificates of Obligation, Series 2015, and that available revenues from its Electric System will will be sufficient to pay all debt service on its Combination Tax and Surplus Electric System Revenue Certificates of Obligation, Series 2017. The City expects that a portion of the debt service on its Combination Tax and Revenue Certificate of Obligation, Series 2019 will be payable from transfers from the City's Water, Wasterwater, and Elecetric System, with the remainder being paid from an interest and sinking tax levy. The City expects to levy an interest and sinking tax rate to pay for debt service on the Bonds.

Table 2 - Estimated Overlapping Debt Statement

Taxing Body	Amount	As of	Percentage Overlapping	Amount Overlapping
Gonzales County	$ -	05/15/2020	12.92%	$ -
Gonzales ISD	20,575,000	05/15/2020	29.39%	6,046,993
Gonzales Healthcare Systems	465,000	05/15/2020	12.92%	60,078
Total Overlapping Debt				$ 6,107,071
City of Gonzales	**$ 14,050,000** (1)	**05/15/2020**	**100.00%**	**$ 14,050,000**
Total Direct and Overlapping Debt				$ 20,157,071

Ratio Direct and Overlapping Debt to Net Taxable Assessed Valuation	4.25%
Ratio Direct and Overlapping Debt to Total Assessed Valuation	4.16%
Per Capita Direct and Overlapping Debt	$2,643

(1) Net of the Refunded Obligations. Includes the Bonds. Preliminary, subject to change.

Table 3 - Taxable Assessed Valuation by Category [(1)]

	Taxable Appraised Value for Fiscal Year Ended:					
	09/30/2020		09/30/2019		09/30/2018	
Category	**Value**	**% of Total**	**Value**	**% of Total**	**Value**	**% of Total**
Real, Residential, Single Family	$ 202,147,200	41.74%	$ 196,686,030	43.80%	$ 193,899,430	43.39%
Real Residential, Multi-Family	9,452,630	1.95%	9,692,700	2.16%	10,014,980	2.24%
Real, Vacant Lots/Tracts	3,980,890	0.82%	4,171,580	0.93%	4,248,980	0.95%
Real, Acreage (Land Only)	7,804,270	1.61%	7,862,310	1.75%	7,424,970	1.66%
Real, Farm and Ranch Improvements	4,832,090	1.00%	4,970,310	1.11%	5,134,350	1.15%
Real, Commercial and Industrial	146,627,760	30.27%	125,305,600	27.90%	123,813,590	27.71%
Real, Minerals and Oil	7,790	0.00%	7,790	0.00%	18,210	0.00%
Real, Tangible Personal, Utilities	5,318,780	1.10%	6,258,220	1.39%	6,606,710	1.48%
Tangible Personal, Commercial & Industrial	98,803,897	20.40%	89,031,970	19.83%	90,746,970	20.31%
Mobile Homes	2,909,240	0.60%	2,882,670	0.64%	2,881,250	0.64%
Residential Inventory	1,364,127	0.28%	1,164,580	0.26%	1,086,360	0.24%
Intangible	-	0.00%	-	0.00%	-	0.00%
Special Inventory/Other	1,081,500	0.22%	1,031,510	0.23%	951,630	0.21%
Total Appraised Value	$ 484,330,174	100.00%	$ 449,065,270	100.00%	$ 446,827,430	100.00%
Less: Total Exemptions	10,015,650		9,186,820		11,186,270	
Taxable Assessed Value	$ 474,314,524		$ 439,878,450		$ 435,641,160	

	09/30/2017		09/30/2016	
Category	**Value**	**% of Total**	**Value**	**% of Total**
Real, Residential, Single Family	$ 177,918,290	41.26%	$ 172,560,210	40.07%
Real Residential, Multi-Family	9,805,070	2.27%	9,021,560	2.09%
Real, Vacant Lots/Tracts	4,200,770	0.97%	3,995,280	0.93%
Real, Acreage (Land Only)	8,000,330	1.86%	8,111,880	1.88%
Real, Farm and Ranch Improvements	4,321,890	1.00%	5,453,450	1.27%
Real, Commercial	126,127,130	29.25%	131,821,160	30.61%
Real, Minerals and Oil	20,450	0.00%	7,810	0.00%
Real, Tangible Personal, Utilities	7,287,990	1.69%	8,007,580	1.86%
Tangible Personal, Commercial & Industrial	88,332,670	20.48%	87,087,990	20.22%
Mobile Homes	2,788,130	0.65%	2,711,810	0.63%
Residential Inventory	1,094,220	0.25%	324,330	0.08%
Intangible	-	0.00%	-	0.00%
Special Inventory	1,319,840	0.31%	1,557,920	0.36%
Total Appraised Value	$ 431,216,780	100.00%	$ 430,660,980	100.00%
Less: Total Exemptions	9,160,550		9,821,760	
Taxable Assessed Value	$ 422,056,230		$ 420,839,220	

(1) Obtained from property tax reports provided by the Gonzales County Appraisal District and the State of Texas Comptroller of Public Accounts.

Table 4 - City Sales Tax History

Fiscal Year Ended[1]	Sales Tax Collections	% of Ad Valorem Tax Levy	Equivalent Ad Valorem Tax Rate
03/31/2011	$ 963,596	129.39%	$ 0.32429
03/31/2012	1,425,900	189.58%	0.46876
03/31/2013	1,553,271	207.60%	0.48350
09/30/2013[2]	826,889		0.25739
09/30/2014	1,874,823	286.50%	0.52746
09/30/2015	1,898,902	291.52%	0.47196
09/30/2016	1,448,172	215.85%	0.34412
09/30/2017	1,508,489	205.60%	0.35741
09/30/2018	1,780,877	155.53%	0.40879
09/30/2019	1,816,922	142.74%	0.41305

(1) The City Council approved a change to the City's fiscal year from March 31 to September 30. Therefore, the fiscal year ended on September 30, 2013 reflects a 6-month period from April 1, 2013 to September 30, 2013. All subsequent years, beginning 2013/14, reflect a 12-month fiscal year.
(2) Due to the timing of tax levies and collections, the Fiscal Year Ended September 30, 2013 levy fell under the 2012 tax year, most of which was collected during the Fiscal Year Ended March 31, 2013.

Table 5 - Valuation and Tax Supported Debt History

Fiscal Year Ended[1]	Taxable Assessed Valuation	Percent Increase Over Prior Year	Tax Supported Debt at End of Year	Ratio of Debt to Assessed Valuation
03/31/2012	$ 304,186,470	2.37%	$ 6,255,000 [2]	2.06%
03/31/2013	321,256,130	5.61%	6,075,000 [2]	1.89%
09/30/2013	321,256,130	0.00%	6,075,000 [2]	1.89%
09/30/2014	355,443,530	10.64%	5,830,000 [2]	1.64%
09/30/2015	402,343,830	13.19%	8,755,000 [2]	2.18%
09/30/2016	420,839,220	4.60%	8,430,000 [2]	2.00%
09/30/2017	422,056,230	0.29%	9,685,000 [2]	2.29%
09/30/2018	435,641,160	3.22%	9,230,000 [2]	2.12%
09/30/2019	439,878,450	0.97%	14,400,000 [2]	3.27%
09/30/2020	474,314,524	7.83%	13,550,000 [2][3]	2.86%

(1) The City Council approved a change to the City's fiscal year from March 31 to September 30. Therefore, the fiscal year ended on September 30, 2013 reflects a 6-month period from April 1, 2013 to September 30, 2013. All subsequent years, beginning 2013/14, reflect a 12-month fiscal year.
(2) The City expects that available revenues from its Economic Development Fund and Hotel/Motel Tax Fund will be sufficient to pay all debt service on its Combination Tax and Revenue Certificates of Obligation, Series 2015, and that available revenues from its Electric System will be sufficient to pay all debt service on its Combination Tax and Surplus Electric System Revenue Certificates of Obligation, Series 2017. The City expects to levy an interest and sinking tax rate to pay for debt service on the Bonds.
(3) Net of the Refunded Obligations. Includes the Bonds. Preliminary, subject to change.

Table 6 - Tax Rate, Levy and Collection History

Fiscal Year Ended[(1)]	General Fund	Interest and Sinking Fund[(2)]	Total Tax Rate	Total Tax Levy	% Current Collections	% Total Collections
03/31/2011	$ 0.26030	$ -	$ 0.26030	$ 744,712	95.68%	101.16%
03/31/2012	0.25180	-	0.25180	752,134	85.90%	96.10%
03/31/2013	0.23290	-	0.23290	748,206	86.70%	100.80%
09/30/2013[(3)]	0.23290	-	0.23290			
09/30/2014	0.18450	-	0.18450	654,380	97.00%	102.91%
09/30/2015	0.16280	-	0.16280	651,382	98.10%	102.03%
09/30/2016	0.15950	-	0.15950	670,905	96.79%	100.69%
09/30/2017	0.17690	-	0.17690	733,685	95.55%	100.64%
09/30/2018	0.27500	-	0.27500	1,145,051	96.69%	102.33%
09/30/2019	0.19900	0.10600	0.30500	1,272,902	95.74%	101.62%
09/30/2020	0.19860	0.13940	0.33800	1,603,183	(In process of collection)	

Source: City's audited financial statements, and the City.

(1) The City Council approved a change to the City's fiscal year from March 31 to September 30. Therefore, the fiscal year ended on September 30, 2013 reflects a 6-month period from April 1, 2013 to September 30, 2013. All subsequent years, beginning 2013/14, reflect a 12-month fiscal year.

(2) The City expects that available revenues from its Economic Development Fund and Hotel/Motel Tax Fund will be sufficient to pay all debt service on its Combination Tax and Revenue Certificates of Obligation, Series 2015, and that available revenues from its Electric System will will be sufficient to pay all debt service on its Combination Tax and Surplus Electric System Revenue Certificates of Obligation, Series 2017. The City expects to levy an interest and sinking tax rate to pay for debt service on the Bonds.

(3) Due to the timing of tax levies and collections, the Fiscal Year Ended September 30, 2013 levy fell under the 2012 tax year, most of which was collected during the Fiscal Year Ended March 31, 2013. The city did not levy a separate tax for this fiscal year as the collections were part of the previous levy.

Table 7 - Capital Leases

Fiscal Year Ending	Principal	Interest	Total
2020	$ 181,387	$ 10,877	$ 192,264
2021	105,200	5,846	111,046
2022	108,083	2,963	111,046
Total	$ 394,670	$ 19,686	$ 414,356

Source: City's Comprehensive Annual Financial Report for Fiscal Year Ended September 30, 2019.

Table 8 - Ten Largest Taxpayers

Name of Taxpayer	Nature of Property	Fiscal Year Ending 30-Sep-20	Percent of Total
BYK Additives	Chemical Additives	$ 46,862,900	9.88%
Wal-Mart Stores	Retailer	12,614,690	2.66%
Adams Extract	Food Additives	7,897,700	1.67%
Purina Mills	Agriculture Feed	7,328,770	1.55%
Guadalupe Valley Electric Coop	Utility	7,261,850	1.53%
HEB	Retailer	6,741,000	1.42%
Tyson Foods Inc	Poultry Products	4,967,960	1.05%
A. Guerra Enterprises	Hotel/Lodging	6,700,570	1.41%
Krishna Gonzales LLC	Real Estate	4,566,590	0.96%
Touchstone Realty-Gonzales	Real Estate	3,739,770	0.79%
		$ 108,681,800	22.91%

Tax Value Concentration

As shown in Table 8 above, the top ten taxpayers in the City currently account for approximately 22.91% of the City's tax base. Adverse developments in economic conditions could impact these taxpayers and the tax values in the City, resulting in less local tax revenues. If any major taxpayer were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process which can only occur annually, or, perhaps, to sell tax anticipation notes until such amounts could be collected, if ever. See "ENFORCEMENT OF REMEDIES – Default and Remedies" in this Official Statement.

Table 9 - Tax Secured Debt Service

Fiscal Year Ended 30-Sep	Current Outstanding General Obligation Debt Service[(1)]	The Bonds[(2)] Principal	The Bonds[(2)] Interest	The Bonds[(2)] Total	Less: Self-Supporting Debt Service[(3)]	Net Outstanding General Obligation Debt Service
2020	$ 967,185		$ 44,255	$ 44,255	$ 425,988	$ 585,453
2021	725,250	$ 260,000	146,400	406,400	552,556	579,094
2022	728,100	270,000	138,450	408,450	557,481	579,069
2023	725,344	280,000	128,800	408,800	556,756	577,388
2024	726,450	290,000	117,400	407,400	555,481	578,369
2025	721,575	305,000	105,500	410,500	548,913	583,163
2026	721,219	315,000	93,100	408,100	551,944	577,375
2027	719,700	330,000	80,200	410,200	553,794	576,106
2028	721,900	340,000	66,800	406,800	554,444	574,256
2029	718,400	350,000	53,000	403,000	549,575	571,825
2030	719,200	370,000	38,600	408,600	554,088	573,713
2031	719,200	385,000	23,500	408,500	552,875	574,825
2032	723,300	395,000	7,900	402,900	555,938	570,263
2033	848,900	-	-	-	832,219	16,681
2034	850,900	-	-	-	831,506	19,394
2035	851,700	-	-	-	834,438	17,263
2036	621,000	-	-	-	605,606	15,394
2037	623,900	-	-	-	605,213	18,688
2038	620,900	-	-	-	603,756	17,144
2039	617,100	-	-	-	606,131	10,969
	$ 14,671,223	**$ 3,890,000**	**$ 1,043,905**	**$ 4,933,905**	**$ 11,988,700**	**$ 7,616,428**

(1) Net of the Refunded Obligations. Preliminary, subject to change.
(2) Preliminary, subject to change. Interest calculated at an assumed rate for purposes of illustration.
(3) The City expects that available revenues from its Economic Development Fund and Hotel/Motel Tax Fund will be sufficient to pay all debt service on its Combination Tax and Revenue Certificates of Obligation, Series 2015, and that available revenues from its Electric System will will be sufficient to pay all debt service on its Combination Tax and Surplus Electric System Revenue Certificates of Obligation, Series 2017. The City expects that a portion of the debt service on its Combination Tax and Revenue Certificate of Obligation, Series 2019 will be payable from transfers from the City's Water, Wasterwater, and Elecetric System, with the remainder being paid from an interest and sinking tax levy. The City expects to levy an interest and sinking tax rate to pay for debt service on the Bonds.

Table 10 - Tax Adequacy

Fiscal Year Ended September 30, 2020 Taxable Assessed Valuation	$ 474,314,524
Debt Service for the Fiscal Year Ended September 30, 2020	585,453
Indicated Interest and Sinking Fund Tax Rate	0.1394
Indicated Interest and Sinking Fund Tax Levy @ 96% Collections	634,747

Table 11 - General Fund Revenues and Expenditures

	Fiscal Years Ended September 30,				
	2019	**2018**	**2017**	**2016**	**2015**
Revenues					
Taxes	$ 3,080,295	$ 2,699,095	$ 2,544,074	$ 2,443,472	$ 2,873,251
Licenses and permits	65,586	88,583	48,938	58,503	89,967
Intergovernmental	131,804	56,951	-	-	43,569
Parks	213,929	158,787	169,353	137,230	145,797
Court Fees and Fines	88,955	115,274	179,450	178,927	159,487
Investment Income	47,328	18,127	5,910	7,476	5,612
Miscellaneous	783,926	620,745	554,094	523,497	689,362
Grant Revenues	-	-	181,188	236,035	-
Total Revenues	**$ 4,411,823**	**$ 3,757,562**	**$ 3,683,007**	**$ 3,585,140**	**$ 4,007,045**
Expenditures					
General government	$ 1,872,441	$ 1,877,624	$ 1,870,595	$ 1,879,600	$ 1,755,455
Public safety	3,411,141	3,346,578	3,169,802	3,462,211	3,079,080
Parks and recreation	802,676	699,277	766,561	833,266	908,731
Street	464,935	661,850	472,633	551,961	783,821
Library	243,846	228,765	357,723	215,103	208,496
Airport	61,673	70,999	54,249	132,069	38,105
Museum	72,829	71,041	64,134	75,997	79,576
Debt Service	249,251	186,909	186,910	186,909	56,898
Capital Outlay	759,708	-	158,172	486,979	1,210,073
Total Expenditures	**$ 7,938,500**	**$ 7,143,043**	**$ 7,100,779**	**$ 7,824,095**	**$ 8,120,235**
Revenues Over (Under) Expenditures	$ (3,526,677)	$ (3,385,481)	$ (3,417,772)	$ (4,238,955)	$ (4,113,190)
Other financing sources (uses)[(1)]	$ 4,321,402	$ 4,429,488	$ 3,281,982	$ 4,015,639	$ 3,097,380
Fund Balance - Beginning	**$ 1,321,022**	**$ 277,015**	**$ 426,104**	**$ 649,420**	**$ 1,622,600**
Prior Period Adjustment	**-**	**-**	**(13,299)**	**-**	**42,630**
Fund Balance - Ending	**$ 2,115,747**	**$ 1,321,022**	**$ 277,015**	**$ 426,104**	**$ 649,420**

Source: City's Comprehensive Annual Financial Report for Fiscal Years Ended September 30, 2015 - September 30, 2019.
(1) Other financing sources represent transfers from the City's Electric Fund, Water Fund, Wastewater Fund, and Solid Waste Fund.

Table 12 - Current Investments (as of September 30, 2019)

Investment Description	Total Invested	Percent
Certificates of Deposit	$ 816,589	7.73%
External investment pools	9,746,676	92.27%
Total	**$ 10,563,265**	100.00%

Source: City's Comprehensive Annual Financial Report for Fiscal Year Ended September 30, 2019.

Table 13 - Waterworks and Sewer System Fund Revenues and Expenditure History

	Fiscal Years Ended September 30,				
	2019	**2018**	**2017**	**2016**	**2015**
Operating Revenues:					
Charges for Sales and Services	$ 3,169,564	$ 3,289,984	$ 3,166,678	$ 2,922,690	$ 3,467,045
Total Revenues	**$ 3,169,564**	**$ 3,289,984**	**$ 3,166,678**	**$ 2,922,690**	**$ 3,467,045**
Operating Expenses:					
Cost of Sales	$ 1,398,936	$ 1,295,188	$ 1,292,742	$ 1,376,884	$ 1,695,461
Special Charges	870	336	395	-	51,603
Depreciation	656,214	694,326	716,195	802,583	719,021
Total Expenditures	**$ 2,056,020**	**$ 1,989,850**	**$ 2,009,332**	**$ 2,179,467**	**$ 2,466,085**
Excess/(Deficiency) of Revenues Over Expenditures	$ 1,113,544	$ 1,300,134	$ 1,157,346	$ 743,223	$ 1,000,960
Non-Operating Revenues	$ 2,189,213	$ 5,268,475	$ 7,815	$ 212,065	$ 1,173,356
Non-Operating Expenses/Transfers	(1,179,263)	(1,321,853)	(1,620,084)	(1,698,348)	(3,078,880)
Total Other Sources (Uses)	$ 1,009,950	$ 3,946,622	$ (1,612,269)	$ (1,486,283)	$ (1,905,524)
Beginning Fund Balance	17,492,544	12,276,002	12,627,947	13,371,007	14,527,052
Prior Period Adjustment	(10,398)	(30,214)	102,978	-	(251,481)
Ending Fund Balance	**$ 19,605,640**	**$ 17,492,544**	**$ 12,276,002**	**$ 12,627,947**	**$ 13,371,007**

Source: City's Comprehensive Annual Financial Report for Fiscal Years Ended September 30, 2015 - September 30, 2019.

Table 14 - Historical Customer Count and Gallons Pumped

Calendar Year	Water Customers	Sewer Customers	Gallons Pumped
2014	3,115	2,849	730,000,000
2015	3,205	2,852	648,150,000
2016	3,143	2,875	584,192,000
2017	3,179	2,901	580,750,000
2018	3,167	2,907	557,020,000
2019	3,163	2,921	455,700,000

Source: The City's Finance Department.

Table 15 - Electric System Fund Revenues and Expenditures

	Fiscal Years Ended September 30,				
	2019	**2018**	**2017**	**2016**	**2015**
Operating Revenues:					
Charges for Sales and Services	$ 9,839,594	$ 10,789,959	$ 9,526,968	$ 8,716,804	$ 9,306,353
Total Revenues	**$ 9,839,594**	**$ 10,789,959**	**$ 9,526,968**	**$ 8,716,804**	**$ 9,306,353**
Operating Expenses:					
Cost of Sales	$ 6,237,082	$ 6,562,196	$ 6,360,113	$ 6,313,141	$ 7,731,113
Special Charges	-	172	32,558	29,169	29,226
Depreciation	128,884	158,037	174,220	188,075	196,322
Total Expenditures	**$ 6,365,966**	**$ 6,720,405**	**$ 6,566,891**	**$ 6,530,385**	**$ 7,956,661**
Excess/(Deficiency) of Revenues Over Expenditures	$ 3,473,628	$ 4,069,554	$ 2,960,077	$ 2,186,419	$ 1,349,692
Non-Operating Revenues/Transfers In	$ 312,327	$ 108,616	$ 82,168	$ 193,624	$ 119,436
Non-Operating Expenses/Transfers Out	(3,186,456)	(3,189,248)	(2,279,507)	(2,307,992)	(1,943,326)
Total Other Sources (Uses)	$ (2,874,129)	$ (3,080,632)	$ (2,197,339)	$ (2,114,368)	$ (1,823,890)
Beginning Fund Balance	4,379,071	3,411,356	2,628,188	2,556,137	3,202,425
Prior Period Adjustment	-	(21,207)	20,430	-	(172,090)
Ending Fund Balance	**$ 4,978,570**	**$ 4,379,071**	**$ 3,411,356**	**$ 2,628,188**	**$ 2,556,137**

Source: City's Comprehensive Annual Financial Report for Fiscal Years Ended September 30, 2015 - September 30, 2019.

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APPENDIX B

GENERAL INFORMATION REGARDING THE CITY OF GONZALES AND GONZALES COUNTY, TEXAS

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GENERAL INFORMATION REGARDING THE CITY OF GONZALES AND GONZALES COUNTY, TEXAS

General Description

The City of Gonzales is located at the intersection of U.S. Highways 90 and 183 and also on State of Texas Highways 97,304 and 111. The City, with a 2010 population of 7,237, is the County Seat and principal commercial center of Gonzales County. The City is governed by a Mayor, elected at-large, and four Council Members elected by place. All are elected for three-year, staggered terms. The City Manager is responsible for the day-to-day administration of the City and reports to the City Council of the City. The Tax Assessor–Collector is responsible for collecting ad valorem taxes, certain State and City fees, and other taxes.

Gonzales was established in August 1825, as the Capital of Empresario Green DeWitt's Colony. This Colony was located at the junction of the San Marcos and Guadalupe Rivers. It was the westernmost American settlement until after the close of the Texas Revolution. It is located 69 miles east of San Antonio, 63 miles south of Austin and 137 miles west of Houston.

Gonzales County

Gonzales County, with a 2010 census population of 19,807 has an economy based on agriculture and light manufacturing. The County is rated among the top in the State in the production of eggs, broilers, turkeys, large beef-cattle and pecan production. Other products of importance to the economy are swine, horses, pecans, watermelons, peanuts, corn, grain sorghum and hay. The Gonzales area industry consists of agri-business (milling of feed, processing of pecans, eggs and chickens), mining and refining clay products, and consumable food products.

Labor Force Statistics

State of Texas

	2020[(a)]	2019	2018	2017	2016
Labor Force	14,286,245	14,045,312	13,848,080	13,589,208	13,347,311
Employed	13,777,994	13,551,791	13,314,203	13,002,828	12,731,137
Unemployed	508,251	493,521	533,877	586,380	616,174
Unemployed Rate	3.6%	3.5%	3.9%	4.3%	4.6%

Gonzales County

	2020[(a)]	2019	2018	2017	2016
Labor Force	9,714	9,578	9,552	9,383	9,574
Employed	9,429	9,320	9,262	9,056	9,169
Unemployed	285	258	290	327	405
Unemployed Rate	2.9%	2.7%	3.0%	3.5%	4.2%

(a) As of February 2020.

Recreation and Culture

More than 250 acres of combined parklands are maintained within the City, including a public library, museum, swimming pool, and historical squares. The main attraction is the 169 acre Independence Park on the banks of the Guadalupe River. Among the recreational amenities provided in this park are a nine-hole golf course, baseball fields, softball quadraplex, picnic areas, rodeo grounds, a soccer field, volleyball courts, and an R.V. park.

The Guadalupe and San Marcos Rivers, as well as two man-made lakes offer excellent fishing, canoeing, swimming and water skiing. Nearby is a state park offering the opportunity to observe many types of birds, along with deer, squirrels, and other wildlife.

Cultural Attractions

The Pioneer Village Living History Center offers visitors a glimpse of 1800's homes and lifestyles from Gonzales' past, while the Memorial Museum and Amphitheater houses local historical items, such as the Come and Take It Cannon.

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APPENDIX C

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

The information contained in this APPENDIX consists of excerpts from the City of Gonzales, 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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COMPREHENSIVE
ANNUAL FINANCIAL REPORT

of the

City of Gonzales, Texas

For the Year Ended
September 30, 2019

Prepared by the Finance Department

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City of Gonzales, Texas

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CITY OF GONZALES

COME AND TAKE IT

820 St. Joseph Street
P.O. Drawer 547
Gonzales, Texas 78629
Phone (830) 672-2815
www.gonzales.texas.gov

March 30, 2020

The Honorable Mayor and City Council
of the City of Gonzales:

The Texas Local Government Code states that a municipality shall have its records and accounts audited annually and shall have annual financial statements prepared based on the audit. The Code also states that the annual financial statements, including the auditor's opinion on the statements, shall be filed in the office of the municipal secretary or clerk within 180 days after the last day of the municipality's fiscal year. The Comprehensive Annual Financial Report (CAFR) of the City of Gonzales, Texas (the City) for the year ended September 30, 2019, is hereby submitted to fulfill that requirement.

Responsibility for both the accuracy of the presented data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds and account groups of the City. All disclosures necessary to gain an understanding of the City's financial affairs have been included. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

BrooksWatson & Co., PLLC, has issued an unmodified ("clean") opinion on the City of Gonzales' financial statements for the year ended September 30, 2019. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (the "MD&A") immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

PROFILE OF THE CITY OF GONZALES

The City of Gonzales, founded in 1825, is located 62 miles south of Austin, 70 miles east of San Antonio, and 60 miles north of Victoria. According to the U.S. Census Bureau the estimated population of the City of Gonzales is 7,606 as of July 1, 2018 and serves as the county seat of Gonzales County. Gonzales is a Home Rule Charter City and operates under the Council-Manager form of government. The elected body is made up of a Mayor elected at large and four Council members elected by district. Length of office for all Council members and the Mayor are three-year terms. The City Council appoints the City Manager, the City Attorney, and the Municipal Court Judge. All other staff members work either directly or indirectly under the direction of the City Manager.

The Combined Financial Statements of the City of Gonzales include all government activities, organizations, and functions for which the City exercises significant oversight responsibility. The criteria considered in determining governmental activities to be reported within the City's combined financial statements are based upon and consistent with those set forth in GASB Statement No. 61, "The Financial Reporting Entity". Based on this criterion the Gonzales Economic Development Corporation is included in this report.

The City Council appoints several boards and commissions, which do not meet the established criteria for inclusion in the reporting entity and are therefore excluded from this report. They are the following:

1. Library Board
2. Housing Authority Board
3. Zoning Commission
4. Zoning Board of Adjustments / Sign Control Board
5. Main Street Advisory Board
6. Community Empowerment Board
7. Airport Zoning Board

The City provides services to its citizens that are considered necessary and meaningful and that can be provided by the City at a reasonable cost. Major services provided under general government and enterprise functions are: police and fire protection, electric, water, wastewater and solid waste, park and recreational facilities, library services, street upkeep and maintenance, and general administrative services. Other services include code enforcement, building inspection, animal control, museum, cemetery, airport, and economic development. The City operates a municipal court as established by the City's charter.

LOCAL ECONOMY:

The City of Gonzales, the South Central Texas Region, and the State of Texas have experienced steady economic growth over the last several years with continued expansion expected. In the State of Texas, Gonzales County ranks in the top five counties in the state for both poultry production and volume of beef cows. Businesses within the City that support agricultural production, including feed mills, feed stores, machinery supply and repair businesses, have continued to benefit from the local economy. Through the downtown revitalization efforts, tourism has become a developing industry for the area. As a result, restaurants, convenience stores, motels, and bed and breakfasts have increased sales. The City's major sources of revenue are sales and ad valorem property taxes and have fluctuated according to prevailing business conditions.

According to the Bureau of Labor Statistics, the September 2019 average for Gonzales County's unemployment rate was 2.6%. One area of concern is the lack of a skilled work force. The City as well as the area's economic development groups have combined efforts to make Gonzales a better place to live and work. The Economic Development Corporation is committed to marketing the City's assets and encouraging small business and entrepreneurial activity. With such projects as Victoria College Gonzales Center and J. B. Wells Park the quality of life as well as the economy will enjoy a boost. The community of Gonzales is growing slowly but steadily, and management sees this as a long-term trend.

FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City of Gonzales operates.

LONG-TERM FINANCIAL PLANNING

The fund balance reserves of the General Fund and Proprietary Funds are continually improving, but not where the City would like for them to be. The City continues to take steps to correct this and will continue to monitor the balance month by month. Monitoring is accomplished through continual refinement of long-range fund projections.

A major goal for the year ending September 30, 2019, was to maintain and upgrade municipal facilities in order to continue to provide a reliable service to the public.

MAJOR INITIATIVES

Projects undertaken in this fiscal year include:

- Purchase and replace equipment needed for efficient operation of Fire and Police department
- Purchase and replace equipment needed for efficient operation of various departments
- Bank stabilization project in the Independence Park with the USDA
- Street improvements
- Wastewater line repairs
- Water line repairs
- Drainage improvements and repairs
- Hydro plant improvements and repairs
- New electric poles and street lights

Projects planned for the future include:

- Purchase and replace equipment needed for efficient operation of various departments
- Paving and seal coating of selected streets
- Water line improvements and repairs
- Wastewater line improvements and repairs
- Electrical line improvements and repairs
- New electric poles and street lights.
- Hydro plant improvements and repairs
- Water plant improvements and repairs
- Demolition of the old library
- Updating the inside of the Golf Club House
- Installation of new roof on the Memorial Museum

FINANCIAL PROCEDURES AND INTERNAL CONTROLS

The City's accounting records for all governmental funds are maintained on the modified accrual basis of accounting. This method recognizes revenue when it is measurable and available and expenditures when goods or services are received. All proprietary funds are accounted for using the accrual basis of accounting; revenue is recognized when it is earned, and expenses are recognized when they are incurred. Management of the City is responsible for establishing and maintaining an internal control structure. This structure is designed to provide reasonable, but not absolute, assurance that: (1) City assets are protected from loss, theft or misuse; and (2) City financial records and data are accurate and reliable. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived from it, and that the evaluation of cost and benefits requires estimates and judgments by management.

BUDGETARY CONTROLS

Each year, on or before September 30th, the City Council adopts an annual operating budget for the ensuing fiscal year. The operating budget includes anticipated revenues and expenditures for the General Fund, Special Revenue Funds, Debt Service Fund, and Proprietary Funds. The budget is a planning device that defines the type, quality, and quantity of City goods and services that will be provided to our citizens. The budget is also a control device that serves as a system of "checks and balances" between levels of City government. The budgetary system is designed to ensure that individual departments contain their expenditures within limitations set by City management, and that City management contains expenditures for the entire City within limitations set by the City Council. After adoption, changes to a departmental budget may be made through the use of line item transfers, initiated by a department head, and approved by the City Manager and Finance Director. Any changes to the budget outside of an individual department can only be made by a City Council ordinance. Any revisions that alter the total expenditures of any fund must be adopted by the City Council.

OTHER INFORMATION

Acknowledgments:

The preparation of this report could not have been accomplished without the efficient and dedicated services of the entire staff. I would like to express my appreciation to all members of the departments who assisted and contributed to the preparation of this report. Due credit is also given to the Mayor and City Council for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,

Timothy W. Patek
City Manager

Laura Zella
Director of Finance

City of Gonzales, Texas

LIST OF PRINCIPAL OFFICIALS

September 30, 2019

Title	Name
Elected:	
Mayor	Connie L. Kacir
Council Member District 1	Gary A. Schroeder
Council Member District 2	Tommy Schurig
Council Member District 3	Bobby O'Neal
Mayor Pro-Tem District 4	Dan Blakemore
Administrative:	
City Manager	Timothy W. Patek
Finance Director	Laura Zella
City Secretary	Kristina Vega
Building Official	Derrick Smith
Electric Department Director	Nicolas DeLeon
Street Department Director	Todd Remschel
Water & Wastewater Superintendent	Marland Mercer
Water & Wastewater Plant Operator	Ryan Wilkerson
Police Chief	Tim Crow
Parks & Recreation Director / Arena Operations Manager	Anne Dollery
Fire Chief	Keith Schmidt
Economic Development Director	Genora Young
Main Street Administrator	Barbara Friedrich
City Attorney	Daniel Santee
Municipal Judge	Deidra Voigt

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Gonzales

Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2018

Christopher P. Morrill

Executive Director/CEO

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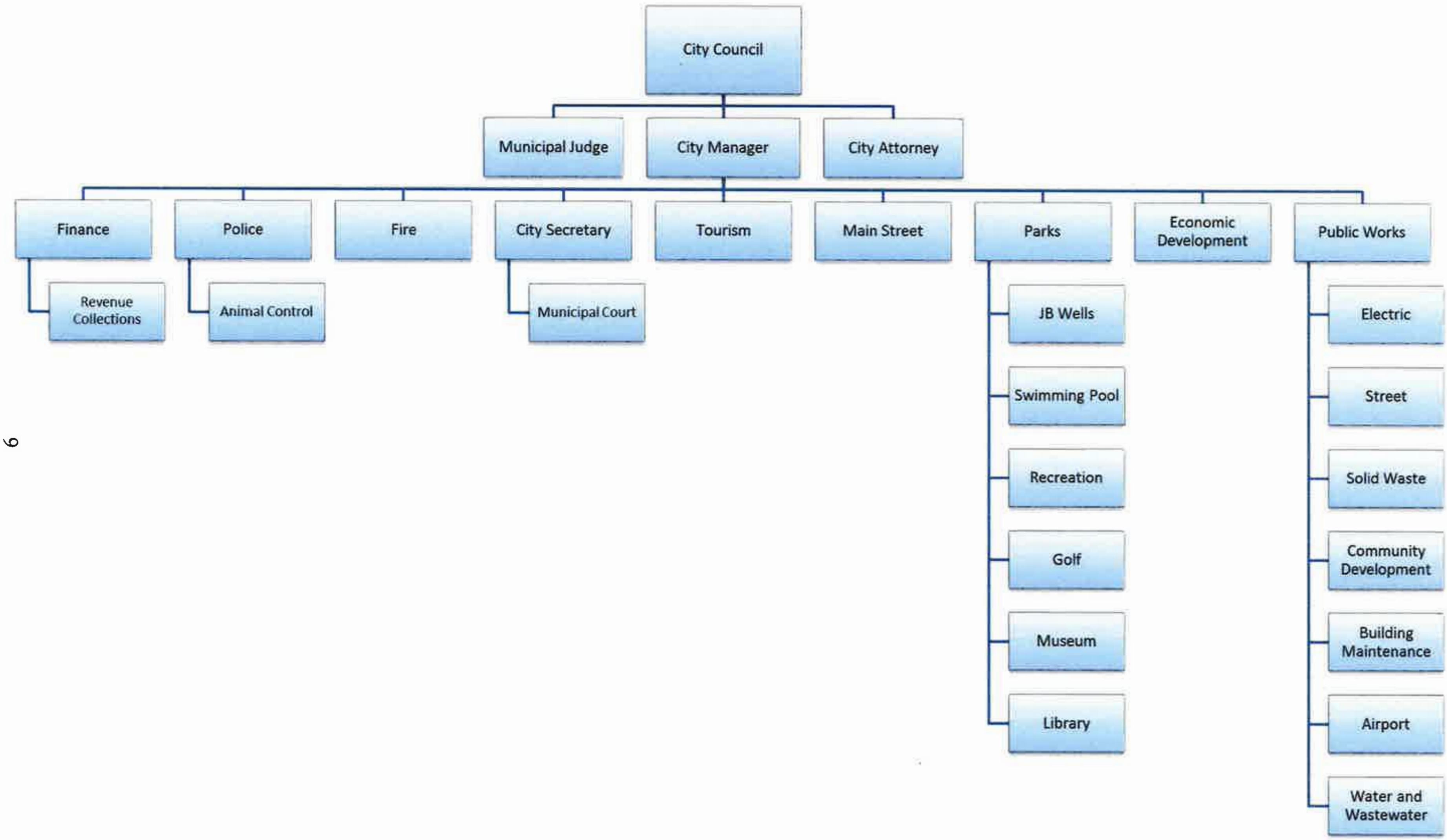
CITY OF GONZALES

ORGANIZATIONAL CHART



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BROOKSWATSON & CO.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Gonzales, Texas:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, and each major fund of the City of Gonzales, Texas (the "City"), 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

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

Auditor's Responsibility

Our responsibility is to express an opinion 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 from 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.

14950 Heathrow Forest Pkwy | Suite 530 | Houston, TX 77032 | Tel: 281.907.8788 | Fax: 888.875.0587 | www.BrooksWatsonCo.com

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

Opinion

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, and each major fund of City of Gonzales, 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.

Emphasis of Matter

As disclosed in Note V.I., due to accounting errors, the City restated its beginning net position within governmental activities and business-type activities and the wastewater fund to properly reflect correction of these errors. Our opinion is not modified with respect to these matters.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the general fund budgetary comparison information, the schedule of changes in net pension liabilities and related ratios, the schedule of employer contributions to pension plan, and schedule of changes in the other postemployment benefits liability and related ratios, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise City of Gonzales, Texas's basic financial statements. The introductory section and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

This accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole

The introductory section and statistical section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion or provide any assurance on them.

BrooksWatson & Co.

BrooksWatson & Co., PLLC
Certified Public Accountants
Houston, Texas
March 30, 2019

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MANAGEMENT'S DISCUSSION AND ANALYSIS

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As management of the City of Gonzales, Texas (the "City"), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources (net position) at September 30, 2019 by $34,027,927.

- The City's total net position increased by $2,195,903 during the year. The majority of the City's net position is invested in capital assets.

- The City's governmental funds reported combined ending fund balances of $5,320,697 at September 30, 2019, an increase of $3,073,286 from the prior fiscal year; this includes an increase of $794,725 in the general fund, a decrease of $155,542 in the debt service fund, an increase of $50,919 in the JB Wells fund, an increase of $2,224,674 in the capital projects fund, and an increase of $158,510 in the special revenue fund.

- At the end of the fiscal period, unassigned fund balance for the general fund was $1,823,427 or 23% of total annualized general fund expenditures.

- The total bonds payable at the close of the fiscal year were $14,400,000.

- Net pension liabilities totaled $3,710,701 as of year end.

Overview of the Financial Statements

The discussion and analysis provided here are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) the notes to financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, liabilities, and deferred inflows/outflows with the difference reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety (police & fire); municipal court; and elected officials. The business-type activities of the City include electric, water, wastewater, and solid waste operations.

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

The government-wide financial statements can be found on pages 30 through 35 of this report.

FUND FINANCIAL STATEMENTS

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental and proprietary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources,* as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental* activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, JB Wells, capital projects, debt service, and special revenue funds. All these funds are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for all government and enterprise funds. The City did not adopt a budget for the capital projects fund in the current year. A budgetary comparison statement/schedule has been provided for the governmental funds with adopted budgets to demonstrate compliance with their budget.

The basic governmental fund financial statements can be found on pages 36 through 43 of this report.

Proprietary Funds

The City maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses an enterprise fund to account for its electric, water, wastewater and solid waste operations. All activities associated with providing such services are accounted for in this fund, including administration, operation, maintenance, debt service, capital improvements, meter maintenance, billing and collection. The City's intent is that costs of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private enterprise.

Proprietary financial statements provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the electric, water, wastewater and solid waste funds since they are considered to be major funds of the City.

The basic proprietary fund financial statements can be found on pages 46 through 53 of this report.

Component Unit

The City maintains the accounting and financial statements for one component unit. The Gonzales Economic Development Corporation is reported as a discretely presented component unit on the government-wide financial statements.

Notes to Financial Statements

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 55 through 95 of this report.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits to its employees and budgetary comparison for the general fund and special revenue funds. Required supplementary information can be found on page 99 through 110 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted previously, net position may serve over time as a useful indicator of the City's financial position. For the City of Gonzales, assets exceed liabilities by $34,027,927 as of September 30, 2019, in the primary government.

The largest portion of the City's net position, $28,003,273, reflects its investments in capital assets (e.g., land, city hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (3.5%) represents resources that are subject to external restrictions on how they may be used.

Statement of Net Position:

The following table reflects the condensed Statement of Net Position as of September 30, 2019 and 2017:

	2019			2018		
	Governmental Activities	**Business-Type Activities**	**Total**	**Governmental Activities**	**Business-Type Activities**	**Total**
Current and other assets	$ 4,253,079	$ 13,455,668	$ 17,708,747	$ 2,874,493	$ 7,925,068	$ 10,799,561
Capital assets, net	18,626,194	19,296,109	37,922,303	18,378,771	17,562,069	35,940,840
Internal balances	2,122,313	(2,122,313)	-	(51,676)	51,676	-
Total Assets	25,001,586	30,629,464	55,631,050	21,201,588	25,538,813	46,740,401
Deferred outflows of resources	899,170	251,486	1,150,656	300,178	84,652	384,830
Other liabilities	1,038,312	1,422,060	2,460,372	459,961	924,830	1,384,791
Long-term liabilities	15,560,654	4,332,938	19,893,592	11,129,178	2,384,706	13,513,884
Total Liabilities	16,598,966	5,754,998	22,353,964	11,589,139	3,309,536	14,898,675
Deferred inflows of resources	316,142	83,673	399,815	312,183	82,349	394,532
Net Position:						
Net investment in capital assets	8,439,810	19,563,463	28,003,273	9,756,018	15,868,532	25,624,550
Restricted	1,183,583	-	1,183,583	1,162,218	-	1,162,218
Unrestricted	(637,745)	5,478,816	4,841,071	(1,317,792)	6,363,048	5,045,256
Total Net Position	$ 8,985,648	$ 25,042,279	$ 34,027,927	$ 9,600,444	$ 22,231,580	$ 31,832,024

Current and other assets of governmental activities were $4,253,079 and $2,874,493 as of September 30, 2019 and September 30, 2018, respectively. The increase of $1,378,586 or 48% was due primarily to an increase in current assets as a result of the certificate of obligation issue in the current year. Current and other assets of business-type activities were $13,455,668 and $7,925,068 as of September 30, 2019 and September 30, 2018, respectively. The increase of $5,530,600 or 70% was due primarily to an increase in cash on hand as a result of the certificate of obligation issue in the current year.

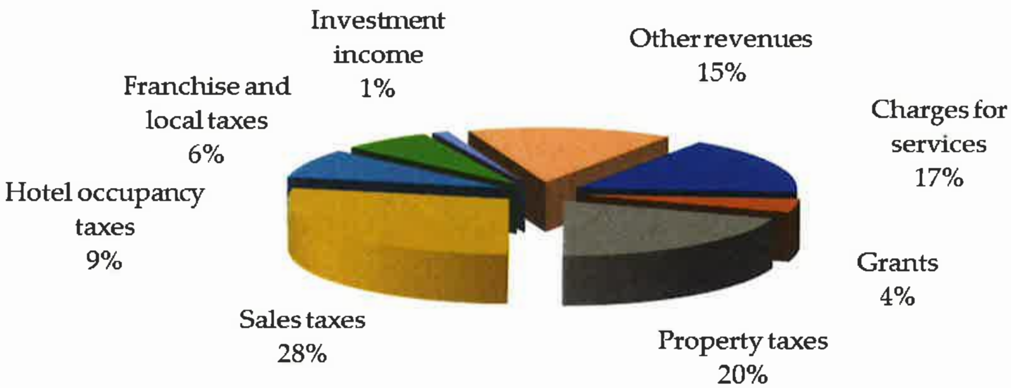
Long-term liabilities were $19,893,592 and $13,513,884 as of September 30, 2019 and September 30, 2018, respectively. The increase of $6,379,708 or 47% was due primarily to the certificate of obligation issued in the current year.

Statement of Activities:

	September 30, 2019			September 30, 2018		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	$ 1,083,514	$ 13,939,920	$ 15,023,434	$ 992,000	$ 14,969,058	$ 15,961,058
Grants	261,773	-	261,773	1,312,218	-	1,312,218
General revenues:						
Property taxes	1,293,584	-	1,293,584	1,171,717	-	1,171,717
Sales taxes	1,816,922	-	1,816,922	1,780,877	-	1,780,877
Hotel occupancy taxes	553,814	-	553,814	394,578	-	394,578
Franchise and local taxes	423,478	-	423,478	422,333	-	422,333
Investment income	79,361	80,809	160,170	35,979	52,122	88,101
Other revenues	979,305	72,158	1,051,463	1,164,297	-	1,164,297
Total Revenues	6,491,751	14,092,887	20,584,638	7,273,999	15,021,180	22,295,179
Expenses						
General government	2,660,628	-	2,660,628	2,771,522	-	2,771,522
Public safety and courts	3,530,282	-	3,530,282	3,483,984	-	3,483,984
Parks and recreation	1,831,801	-	1,831,801	1,565,511	-	1,565,511
Streets	755,325	-	755,325	777,485	-	777,485
Interest and fiscal charges	278,011	100,254	378,265	283,208	45,511	328,719
Electric	-	6,365,966	6,365,966	-	6,720,405	6,720,405
Water	-	928,128	928,128	-	1,024,926	1,024,926
Wastewater	-	1,127,892	1,127,892	-	964,924	964,924
Solid waste	-	810,448	810,448	-	783,679	783,679
Total Expenses	9,056,047	9,332,688	18,388,735	8,881,710	9,539,445	18,421,155
Change in Net Position Before Transfers	(2,564,296)	4,760,199	2,195,903	(1,607,711)	5,481,735	3,874,024
Transfers	1,949,500	(1,949,500)	-	(825,859)	825,859	-
Total	1,949,500	(1,949,500)	-	(825,859)	825,859	-
Change in Net Position	(614,796)	2,810,699	2,195,903	(2,433,570)	6,307,594	3,874,024
Beginning Net Position	9,600,444	22,231,580	31,832,024	12,034,014	15,923,986	27,958,000
Ending Net Position	$ 8,985,648	$ 25,042,279	$ 34,027,927	$ 9,600,444	$ 22,231,580	$ 31,832,024

Graphic presentations of selected data from the summary tables are displayed below to assist in the analysis of the City's activities.

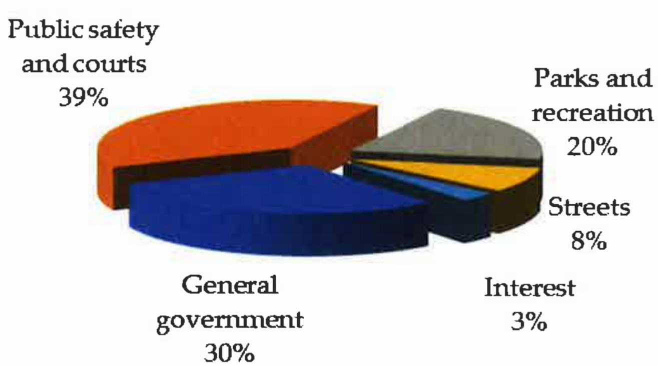
Governmental Activities - Revenues



For the year ended September 30, 2019, revenues from governmental activities totaled $6,491,751. Sales taxes and property taxes are the City's largest general revenue sources. Grant revenues decreased by $1,050,445 due to nonrecurring capital grants received in the prior year. Property taxes increased by $121,867 due to an increase in the property tax rate. Sales taxes, hotel occupancy taxes, and franchise taxes increased by $36,045, $159,236, and $1,145, respectively. These increases were a direct result of continued economic growth within the City. Investment income increased by $43,382 due primarily to increased interest-bearing cash accounts. Other revenues decreased by $184,992or 16% primarily due to proceeds received from the sale of land in the prior year.

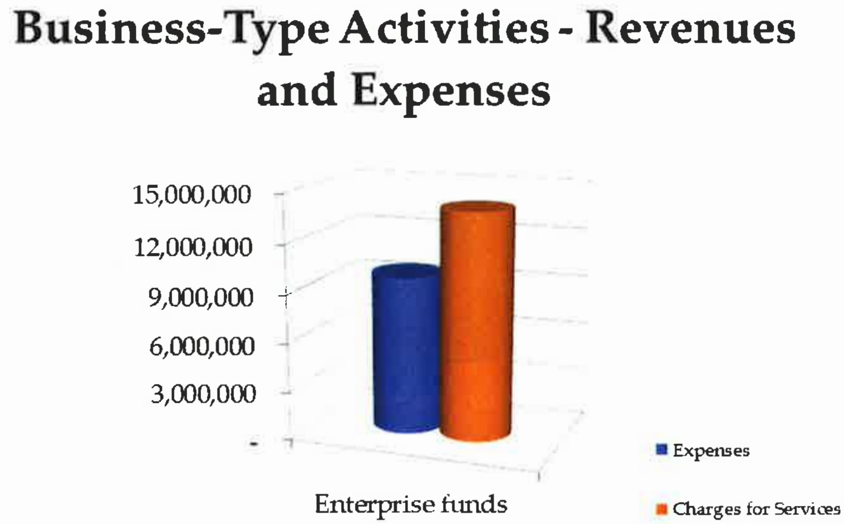
This graph shows the governmental function expenses of the City:

Governmental Activities - Expenses



For the year ended September 30, 2019, expenses for governmental activities totaled $9,056,047. This represents a decrease of $174,337 or 2% from the year ended September 30, 2018. Parks and recreation expenses increased by $266,290 primarily due to increases in personnel expenses in the current year.

Business-type activities are shown comparing operating costs to revenues generated by related services.



For the year ended September 30, 2019, charges for services by business-type activities totaled $13,939,920. This was a decrease of $1,029,138, or 7% from the year ended September 30, 2018. The decrease was primarily due to a decrease in consumption compared to prior year and a decrease in electric rates.

Total expenses decreased $206,757 when compared to prior year. Water expenses decreased by $96,798 or 9%. The decrease primarily results from declining personnel, maintenance, and depreciation expenses. Electric expenses decreased by $354,439 or 5%. The decrease was due to decreases in fuel costs and personnel costs due to contracting with a third-party service provider during the year. Wastewater expenses increased by $162,968 or 17%. The increase was primarily due to increases in personnel and engineering expenses in the current year. Interest and fiscal charges increased by $54,743 or 120% due to an increase in debt outstanding during the year. All other expenses remained relatively consistent.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

Governmental Funds - The focus of the City's governmental funds is to provide information of near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the period.

As of the end of the year the general fund reflected a fund balance of $2,115,747. Of this, $62,185 is assigned for airport improvement and $53,306 is restricted for PEG fees and $11,827 is restricted for library activities. Unassigned fund balance in the general fund totaled $1,823,427. The fund balance for the general fund increased by $794,725 during the year. The increase is primarily due to current year revenues and other financing sources exceeding expenditures. The fund is reliant on transfers from other funds to stay solvent currently, and these transfers in led to the current year surplus.

The debt service fund reflected a fund balance of $59,174. The decrease in the fund balance of $155,542 is a result of current year debt service expenditures exceeding revenues. During the prior year the City changed the debts being serviced by this fund, which impacted the net change this year with an increase in the negative net change.

The capital projects fund reflected a fund balance of $2,224,674. The increase of $2,224,674 in the fund balance is a result of the current year bond issued and proceeds not yet expended for capital improvements.

The JB Wells Park fund had an increase in fund balance of $50,919. The City placed effort into increasing revenues and reducing expenses for this fund, and through additional revenue and a reduction in expenses produced its first surplus since the fund was established.

The special revenue fund balance reflected a fund balance of $1,059,276, an increase of $158,510 from the prior year. This fund is heavily reliant upon hotel occupancy taxes, which can be very volatile year over year. The current year collections improved compared to prior year, which led to the current year surplus.

There was an increase in governmental fund balance of $3,073,286 from the prior period primarily due to transfers from proprietary funds and the current year bond issuance.

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

GENERAL FUND BUDGETARY HIGHLIGHTS

The City increased budgeted revenues compared to the original budget by $693,597 during the year. These increases were made based on revised information available indicating increases in property tax revenue and intergovernmental revenue. The City increased budgeted expenditures compared to the original budget by $607,572 during the year. These increases were made based on increases in the capital outlay expenditures anticipated as more funds were anticipated to be available for necessary capital improvements.

Total general fund budgeted revenues exceeded actual revenues by $370,814 during the 2019 fiscal year. The City experienced a shortfall in fines, forfeitures, and intergovernmental revenue.

Total expenditures were less than budgeted amounts by $1,245,569 for the year. The City's public safety and general government functions came in well under budget due to conservative expense management during the year.

Total budgeted other financing uses were less than actual other financing uses by $221,362 during the 2019 fiscal year. The primary reason for the budgetary difference was sale of capital assets generating less than expected, and transfers in being less than expected.

These variances combined for a net positive overall variance of $653,393 for the year ended September 30, 2019.

CAPITAL ASSETS

As of the end of the year, the City's governmental activities funds had invested $18,626,194 in a variety of capital assets and infrastructure, net of accumulated depreciation. Depreciation is included with the governmental capital assets as required by GASB Statement No. 34. The City's business-type activities funds had invested $19,296,109 in a variety of capital assets and infrastructure, net of accumulated depreciation.

Major capital asset events during the current period include the following:

- Street and drainage construction in progress totaling $101,558.
- Gonzales Hydro Station renovation and re-licensing totaling $1,528,000.
- Wastewater utility improvement construction in progress totaling $114,025.
- Repairs and improvements to the library roof for $122,100.
- Independence Park streambank protection improvements for $342,065.
- Street improvements and drain replacement for $416,540.
- New Chevrolet Tahoe for fire department for $46,248.
- Sludge hauler truck for the wastewater department for $191,513.
- SCBA equipment purchased for $87,213.
- Police equipment purchased for $92,543.

More detailed information about the City's capital assets is presented in note IV. C to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total bonds and capital leases outstanding of $14,794,670. The combination tax and revenue bonds had a balance of $14,400,000. The remaining amount was comprised of total capital leases owed for $782,609. During the year, the City paid $490,000 on the bonds and $231,747 on the capital leases. During the year, the City issued the Series 2019 tax and revenue certificate of obligation. This resulted in new debt of $5,660,000, and net proceeds received by the City of $6,200,000.

More detailed information about the City's long-term liabilities is presented in note IV. D to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Mayor and City Council are committed to maintaining and improving the overall wellbeing of the City of Gonzales and improving services provided to their public citizens. Prior to the COVID 19 national disaster declaration, the City had budgeted for growth in the upcoming year. The City is in the midst of dealing with this issue and may adjust the plan after more clarity to the situation is available.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City of Gonzales' finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City Finance Director, 820 Saint Joseph Street, Gonzales, Texas 78629.

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FINANCIAL STATEMENTS

City of Gonzales, Texas

STATEMENT OF NET POSITION (Page 1 of 2)

September 30, 2019

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Total**
Assets			
Current assets:			
Cash and cash equivalents	$ 3,325,697	$ 4,295,599	$ 7,621,296
Investments	275,301	541,288	816,589
Current portion of notes receivable, net	-	-	-
Receivables, net	611,062	2,290,460	2,901,522
Inventories	-	186,768	186,768
Other assets	41,019	11,130	52,149
Restricted cash and cash equivalents	-	6,130,423	6,130,423
Internal balances	2,122,313	(2,122,313)	-
Total Current Assets	6,375,392	11,333,355	17,708,747
Notes receivable, net	-	-	-
Capital assets - non-depreciable	2,478,947	2,505,244	4,984,191
Capital assets - net depreciable	16,147,247	16,790,865	32,938,112
Total Noncurrent Assets	18,626,194	19,296,109	37,922,303
Total Assets	25,001,586	30,629,464	55,631,050
Deferred Outflows of Resources			
Pension contributions	282,000	79,539	361,539
OPEB contributions	2,253	454	2,707
Pension (gains) losses	614,917	171,493	786,410
Total Deferred Outflows of Resources	899,170	251,486	1,150,656

See Notes to Financial Statements.

GEDC Component Unit
$ 2,809,411
-
146,027
152,801
-
-
-
-
3,108,239
951,109
39,375
245,855
1,236,339
4,344,578
-
-
-
-

City of Gonzales, Texas

STATEMENT OF NET POSITION (Page 2 of 2)

September 30, 2019

	Primary Government		
	Governmental Activities	**Business-Type Activities**	**Total**
Liabilities			
Current liabilities:			
Accounts payable and accrued liabilities	866,117	1,204,898	2,071,015
Customer deposits	24,494	177,185	201,679
Accrued interest payable	46,762	16,834	63,596
Compensated absences, current	100,939	23,143	124,082
Debt - due within one year	596,387	85,000	681,387
Total Current Liabilities	1,634,699	1,507,060	3,141,759
Noncurrent liabilities:			
Net pension liability	2,906,129	804,572	3,710,701
OPEB liability	232,251	46,858	279,109
Compensated absences, noncurrent	11,215	2,570	13,785
Debt - due in more than a year	11,814,672	3,393,938	15,208,610
Total Noncurrent Liabilities	14,964,267	4,247,938	19,212,205
Total Liabilities	16,598,966	5,754,998	22,353,964
Deferred Inflows of Resources			
Pension deferred inflows	311,513	82,738	394,251
OPEB deferred inflows	4,629	935	5,564
Total Deferred Inflows of Resources	316,142	83,673	399,815
Net Position			
Net investment in capital assets	8,439,810	19,563,463	28,003,273
Restricted for:			
Tourism	841,891	-	841,891
Debt service	59,174	-	59,174
Economic development	-	-	-
Other purposes	282,518	-	282,518
Unrestricted	(637,745)	5,478,816	4,841,071
Total Net Position	$ 8,985,648	$ 25,042,279	$ 34,027,927

See Notes to Financial Statements.

GEDC Component Unit
68,149
2,500
-
-
-
70,649
-
-
-
-
-
70,649
-
-
-
285,230
-
-
3,988,699
-
-
$ 4,273,929

City of Gonzales, Texas

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

		Program Revenues		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary Government				
Governmental Activities				
General government	$ 2,660,628	$ 65,586	$ 261,773	$ -
Public safety and courts	3,530,282	101,594	-	-
Parks and recreation	1,831,801	916,334	-	-
Streets	755,325	-	-	-
Interest and fiscal charges	278,011	-	-	-
Total Governmental Activities	9,056,047	1,083,514	261,773	-
Business-Type Activities				
Electric	6,457,248	9,839,594	-	-
Water	932,614	1,971,227	-	-
Wastewater	1,132,378	1,198,337	-	-
Solid Waste	810,448	930,762	-	-
Total Business-Type Activities	9,332,688	13,939,920	-	-
Total Primary Government	$ 18,388,735	$ 15,023,434	$ 261,773	$ -
Component Unit				
Gonzales EDC	$ 711,547	$ 15,500	$ -	$ -

General Revenues:

Taxes

Property taxes

Sales taxes

Hotel occupancy taxes

Franchise and local taxes

Investment income

Other revenues

Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning Net Position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			GEDC
Governmental Activities	Business-Type Activities	Total	Component Unit
$ (2,333,269)	$ -	$ (2,333,269)	$ -
(3,428,688)	-	(3,428,688)	-
(915,467)	-	(915,467)	-
(755,325)	-	(755,325)	-
(278,011)	-	(278,011)	-
(7,710,760)	-	(7,710,760)	-
-	3,382,346	3,382,346	-
-	1,038,613	1,038,613	-
-	65,959	65,959	-
-	120,314	120,314	-
-	4,607,232	4,607,232	-
(7,710,760)	4,607,232	(3,103,528)	-
			$ (696,047)
1,293,584	-	1,293,584	-
1,816,922	-	1,816,922	908,509
553,814	-	553,814	-
423,478	-	423,478	-
79,361	80,809	160,170	99,711
979,305	72,158	1,051,463	2,809
1,949,500	(1,949,500)	-	-
7,095,964	(1,796,533)	5,299,431	1,011,029
(614,796)	2,810,699	2,195,903	314,982
9,600,444	22,231,580	31,832,024	3,958,947
$ 8,985,648	$ 25,042,279	$ 34,027,927	$ 4,273,929

City of Gonzales, Texas

BALANCE SHEET (Page 1 of 2)

GOVERNMENTAL FUNDS

September 30, 2019

	General	Debt Service Fund
Assets		
Cash and cash equivalents	$ 2,248,518	$ 59,174
Investments	275,301	-
Receivables, net	527,306	29,386
Advances to other funds	124,483	-
Due from other funds	-	-
Prepaid assets	40,519	-
Other Assets	500	-
Total Assets	$ 3,216,627	$ 88,560
Liabilities		
Accounts payable and accrued liabilities	$ 830,655	$ -
Customer deposits	24,494	-
Advances from other funds	-	-
Due to other funds	111,033	-
Total Liabilities	966,182	-
Deferred Inflows of Resources		
Unavailable revenue - property taxes	134,698	29,386

See Notes to Financial Statements.

Capital Projects Fund	Special Revenue Fund	JB Wells Fund	Total Governmental Funds
$ -	$ 1,018,005	$ -	$ 3,325,697
-	-	-	275,301
-	54,370	-	611,062
-	-	-	124,483
2,224,674	8,672	-	2,233,346
-	-	-	40,519
-	-	-	500
$ 2,224,674	$ 1,081,047	$ -	$ 6,610,908
$ -	$ 21,771	$ 13,691	$ 866,117
-	-	-	24,494
-	-	124,483	124,483
-	-	-	111,033
-	21,771	138,174	1,126,127
-	-	-	164,084

City of Gonzales, Texas

BALANCE SHEET (Page 2 of 2)
GOVERNMENTAL FUNDS
September 30, 2019

	General	Debt Service Fund
Fund Balances		
Assigned for:		
Airport improvement	$ 62,185	$ -
Independence park	-	
Nonspendable:		
Prepaids	40,519	-
Advances	124,483	-
Restricted for:		
Debt service	-	59,174
Capital projects	-	-
PEG	53,306	-
Public safety	-	-
Municipal court	-	-
Museum	-	-
Tourism	-	-
Library	11,827	-
Unassigned reported in:		
General fund	1,823,427	-
JB Wells	-	-
Total Fund Balances	2,115,747	59,174
Total Liabilities, Deferred Inflows, and Fund Balances	$ 3,216,627	$ 88,560

See Notes to Financial Statements.

Capital Projects Fund	Special Revenue Fund	JB Wells Fund	Total Governmental Funds
$ -	$ -	$ -	$ 62,185
	-	-	-
-	-	-	40,519
-	-	-	124,483
-	-	-	59,174
2,224,674	-	-	2,224,674
-	-	-	53,306
-	26,850	-	26,850
-	54,368	-	54,368
-	17,970		17,970
-	841,891	-	841,891
-	118,197	-	130,024
-	-	-	1,823,427
-	-	(138,174)	(138,174)
2,224,674	1,059,276	(138,174)	5,320,697
$ 2,224,674	$ 1,081,047	$ -	$ 6,610,908

City of Gonzales, Texas

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

September 30, 2019

Fund Balances - Total Governmental Funds	$	5,320,697
Adjustments for the Statement of Net Position:		
Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.		
Capital assets - non-depreciable		2,478,947
Capital assets - net depreciable		16,147,247
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the governmental funds.		164,084
Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and is not recognized as an outflow of resources (expense/expenditure) until then.		
Pension contributions		282,000
Pension experience		(293,407)
Pension gains (losses)		614,917
Pension proportion changes		(18,106)
OPEB contributions		2,253
OPEB gains (losses)		(4,629)
Some liabilities, including bonds payable and deferred charges, are not reported as liabilities in the governmental funds.		
Accrued interest		(46,762)
Non-current liabilities due in one year		(596,387)
Non-current liabilities due in more than one year		(11,814,672)
Net pension liability		(2,906,129)
Compensated absences		(112,154)
OPEB liability		(232,251)
Net Position of Governmental Activities	$	8,985,648

See Notes to Financial Statements.

City of Gonzales, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (Page 1 of 2)
For the Year Ended September 30, 2019

	General	Debt Service Fund	Capital Projects Fund	Special Revenue Fund
Revenues				
Property tax	$ 839,895	$ 435,641	$ -	$ -
Sales tax	1,816,922	-	-	-
Hotel occupancy taxes	-	-	-	553,814
Franchise and local taxes	423,478	-	-	-
License and permits	65,586	-	-	-
Intergovernmental	131,804	113,550	-	-
Parks	213,929	-	-	-
Grants and contributions	-	-	-	16,419
Fines and forfeitures	88,955	-	-	12,639
Investment income	47,328	6,904	-	25,129
Other revenue	783,926	-	-	90,945
Total Revenues	4,411,823	556,095	-	698,946
Expenditures				
Current:				
General government	1,872,441	8,012	-	13,029
Public safety	3,260,972	-	-	12,602
Municipal court	150,169	-	-	25,226
Parks and recreation	802,676	-	-	-
Street	464,935	-	-	-
Library	243,846	-	-	-
Airport	61,673	-	-	-
Museum	72,829	-	-	-
Tourism	-	-	-	264,048
Debt service:				
Principal	231,747	400,000	-	-
Interest	17,504	270,425	-	-
Issuance cost	-	-	91,758	-
Capital outlay	759,708	-	-	117,000
Total Expenditures	7,938,500	678,437	91,758	431,905
Excess of Revenues Over (Under) Expenditures	(3,526,677)	(122,342)	(91,758)	267,041

See Notes to Financial Statements.

JB Wells	Total Governmental Funds
$ -	$ 1,275,536
-	1,816,922
-	553,814
-	423,478
-	65,586
-	245,354
702,405	916,334
-	16,419
-	101,594
-	79,361
-	874,871
702,405	6,369,269
-	1,893,482
-	3,273,574
-	175,395
605,686	1,408,362
-	464,935
-	243,846
-	61,673
-	72,829
-	264,048
-	631,747
-	287,929
-	91,758
48,293	925,001
653,979	9,794,579
48,426	(3,425,310)

City of Gonzales, Texas

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS (Page 2 of 2)
For the Year Ended September 30, 2019

	General	Debt Service Fund	Capital Projects Fund	Special Revenue Fund
Other Financing Sources (Uses)				
Bond issued - principal	-	-	3,973,780	-
Bond issued - premium	-	-	470,882	-
Sale of capital assets	66,143	-	-	-
Insurance recoveries	35,798	-	-	-
Transfers in	4,224,480	113,550	-	5,019
Transfers (out)	(5,019)	(146,750)	(2,128,230)	(113,550)
Other Financing Sources (Uses)	4,321,402	(33,200)	2,316,432	(108,531)
Net Change in Fund Balances	794,725	(155,542)	2,224,674	158,510
Beginning fund balances	1,321,022	214,716	-	900,766
Ending Fund Balances	$ 2,115,747	$ 59,174	$ 2,224,674	$ 1,059,276

See Notes to Financial Statements.

JB Wells	Total Governmental Funds
-	3,973,780
-	470,882
1,913	68,056
580	36,378
-	4,343,049
-	(2,393,549)
2,493	6,498,596
50,919	3,073,286
(189,093)	2,247,411
$ (138,174)	$ 5,320,697

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City of Gonzales, Texas

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

For the Year Ended September 30, 2019

Amounts reported for governmental activities in the statement of activities are different because:		
Net changes in fund balances - total governmental funds	$	3,073,286
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital outlay		1,371,841
Depreciation expense		(1,124,418)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		18,048
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Accrued interest		(16,171)
Pension expense		(114,079)
OPEB expense		(27,729)
Compensated absences		(8,748)
The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal payments		631,747
Bond issuance		(4,444,662)
Amortization of premium		26,089
Change in Net Position of Governmental Activities	$	(614,796)

See Notes to Financial Statements.

City of Gonzales, Texas

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2019

	Electric	Water	Wastewater
Assets			
Current Assets			
Cash and cash equivalents	$ 2,796,017	$ 503,050	$ 941,253
Investments	270,177	-	271,111
Receivables, net	1,605,493	356,049	180,431
Due from other funds	102,361	2,825,890	-
Inventories	116,780	63,719	6,269
Prepaids	11,130	-	-
Restricted cash and cash equivalents	102,853	15,254	6,012,316
Total Current Assets	5,004,811	3,763,962	7,411,380
Noncurrent Assets			
Capital assets:			
Non-depreciable	1,966,376	67,450	185,231
Net depreciable capital assets	731,878	2,881,362	13,093,627
Total Noncurrent Assets	2,698,254	2,948,812	13,278,858
Total Assets	7,703,065	6,712,774	20,690,238
Deferred Outflows of Resources			
Pension contributions	31,242	23,482	21,010
OPEB contributions	146	107	171
Pension (gains) losses	67,360	50,630	45,299
Total Deferred Outflows of Resources	98,748	74,219	66,480
Liabilities			
Current Liabilities			
Accounts payable and accrued liabilities	692,483	54,148	379,074
Customer deposits	161,930	15,255	-
Due to other funds	-	-	5,050,564
Accrued interest	4,414	5,394	5,394
Compensated absences, current	5,196	5,702	10,901
Long-term liabilities - due in one year	85,000	-	-
Total Current Liabilities	949,023	80,499	5,445,933
Noncurrent Liabilities			
Net pension liability	316,024	237,534	212,525
OPEB liability	15,098	11,008	17,657
Compensated absences, noncurrent	577	634	1,211
Long-term debt due in more than one year	1,509,722	942,094	942,122
Total Liabilities	2,790,444	1,271,769	6,619,448
Deferred Inflows of Resources			
Pension experience	32,498	24,427	21,855
OPEB experience	213	156	250
OPEB change in assumptions	88	64	102
Total Deferred Inflows of Resources	32,799	24,647	22,207
Net Position			
Net investment in capital assets	1,073,586	4,832,607	13,287,085
Unrestricted	3,904,984	657,970	827,978
Total Net Position	$ 4,978,570	$ 5,490,577	$ 14,115,063

See Notes to Financial Statements.

Solid Waste	Total
$ 55,279	$ 4,295,599
-	541,288
148,487	2,290,460
-	2,928,251
-	186,768
-	11,130
-	6,130,423
203,766	16,383,919
286,187	2,505,244
83,998	16,790,865
370,185	19,296,109
573,951	35,680,028
3,805	79,539
30	454
8,204	171,493
12,039	251,486
79,193	1,204,898
-	177,185
-	5,050,564
1,632	16,834
1,344	23,143
-	85,000
82,169	6,557,624
38,489	804,572
3,095	46,858
148	2,570
-	3,393,938
123,901	10,805,562
3,958	82,738
44	663
18	272
4,020	83,673
370,185	19,563,463
87,884	5,478,816
$ 458,069	$ 25,042,279

City of Gonzales, Texas

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

For the Year Ended September 30, 2019

	Electric	Water	Wastewater
Operating Revenues			
Charges for services	$ 9,817,806	$ 1,945,590	$ 1,185,337
Other services	-	25,637	-
Other revenue	21,788	-	13,000
Total Operating Revenues	9,839,594	1,971,227	1,198,337
Operating Expenses			
Cost of sales	6,237,082	666,130	732,806
Depreciation	128,884	261,998	394,216
Other	-	-	870
Total Operating Expenses	6,365,966	928,128	1,127,892
Operating Income (Loss)	3,473,628	1,043,099	70,445
Nonoperating Revenues (Expenses)			
Investment income	22,739	11,905	43,566
Bond issuance costs	-	(19,468)	(19,468)
Gain on sale of capital assets	66,645	2,160	3,353
Interest expense	(52,346)	(4,486)	(4,486)
Total Nonoperating Revenues (Expenses)	37,038	(9,889)	22,965
Income (Loss) Before Transfers	3,510,666	1,033,210	93,410
Transfers in	222,943	1,902,355	225,874
Transfers (out)	(3,134,110)	(937,181)	(194,174)
	(2,911,167)	965,174	31,700
Change in Net Position	599,499	1,998,384	125,110
Beginning net position	4,379,071	3,492,193	13,989,953
Ending Net Position	$ 4,978,570	$ 5,490,577	$ 14,115,063

See Notes to Financial Statements.

Solid Waste	Total
$ 895,589	$ 13,844,322
35,173	60,810
-	34,788
930,762	13,939,920
799,783	8,435,801
10,500	795,598
165	1,035
810,448	9,232,434
120,314	4,707,486
2,599	80,809
-	(38,936)
-	72,158
-	(61,318)
2,599	52,713
122,913	4,760,199
-	2,351,172
(35,207)	(4,300,672)
(35,207)	(1,949,500)
87,706	2,810,699
370,363	22,231,580
$ 458,069	$ 25,042,279

City of Gonzales, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2019

	Electric	Water	Wastewater
Cash Flows from Operating Activities			
Receipts from customers	$ 9,993,635	$ 1,916,807	$ 1,197,962
Payments to employees	(325,249)	(247,276)	(379,287)
Payments to suppliers	(5,780,370)	(400,221)	(25,765)
Net Cash Provided (Used) by Operating Activities	3,888,016	1,269,310	792,910
Cash Flows from Noncapital Financing Activities			
Transfer in	222,943	1,902,355	225,874
(Lending) repayments from other funds	-	(2,825,890)	-
Borrowing (repayments) to other funds	-	-	5,050,564
Transfers (out)	(3,134,110)	(937,181)	(194,174)
Net Cash Provided (Used) by Noncapital Financing Activities	(2,911,167)	(1,860,716)	5,082,264
Cash Flows from Capital and Related Financing Activities			
Capital purchases	(1,594,121)	(169,466)	(766,050)
Proceeds from debt issuance	-	943,003	943,029
Principal paid on debt	(90,000)	-	-
Proceeds from sale of capital assets	66,645	2,160	3,353
Bond issuance costs paid	-	(19,468)	(19,468)
Interest paid on debt	(56,749)	-	-
Net Cash (Used) by Capital and Related Financing Activities	(1,674,225)	756,229	160,864
Cash Flows from Investing Activities			
Purchase of investments	-	-	-
Interest on investments	18,963	11,905	37,709
Net Cash Provided by Investing Activities	18,963	11,905	37,709
Net Increase (Decrease) in Cash and Cash Equivalents	(678,413)	176,728	6,073,747
Beginning cash and cash equivalents	3,577,283	341,576	879,822
Ending Cash and Cash Equivalents	$ 2,898,870	$ 518,304	$ 6,953,569

See Notes to Financial Statements.

Solid Waste	Total
$ 929,093	$ 14,037,497
(85,616)	(1,037,428)
(704,905)	(6,911,261)
138,572	6,088,808
-	2,351,172
-	(2,825,890)
(50,685)	4,999,879
(35,207)	(4,300,672)
(85,892)	224,489
-	(2,529,637)
-	1,886,032
-	(90,000)
-	72,158
-	(38,936)
-	(56,749)
-	(757,132)
-	-
2,599	71,176
2,599	71,176
55,279	5,627,341
-	4,798,681
$ 55,279	$ 10,426,022

City of Gonzales, Texas

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2019

	Electric	Water	Wastewater
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities			
Operating Income (Loss)	$ 3,473,628	$ 1,043,099	$ 70,445
Adjustments to reconcile operating income to net cash provided:			
Depreciation	128,884	261,998	394,216
Changes in Operating Assets and Liabilities:			
(Increase) Decrease in:			
Accounts receivable	161,907	(55,921)	(75)
Inventory	2,002	(3,073)	3,758
Prepaid expenses	(554)	-	-
Deferred pension inflows/outflows	(65,490)	(50,295)	(44,999)
Deferred OPEB inflows/outflows	445	1,403	1,334
Increase (Decrease) in:			
Accounts payable and accrued liabilities	125,315	18,532	314,123
Customer deposits	(7,866)	1,501	(300)
Net pension liability	79,280	59,590	53,316
OPEB liability	(9,535)	(7,524)	1,092
Net Cash Provided by Operating Activities	$ 3,888,016	$ 1,269,310	$ 792,910

See Notes to Financial Statements.

Solid Waste	Total
$ 120,314	$ 4,707,486
10,500	795,598
(1,669)	104,242
-	2,687
-	(554)
(7,908)	(168,692)
-	3,182
7,578	465,548
-	(6,665)
9,656	201,842
101	(15,866)
$ 138,572	$ 6,088,808

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I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Gonzales, Texas (the "City") was incorporated in August 1825 and operates under a Council-Manager form of government. The City provides: police; fire; code enforcement; public works; street repair and maintenance; general administrative services; electricity; water; wastewater; and solid waste. Additional services include parks, museum, library, cemetery, airport, swimming pool, and animal control.

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

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

Discretely Presented Component Unit

<u>Gonzales Economic Development Corporation</u>

The Gonzales Economic Development Corporation ("GEDC") was incorporated by the City on March 17, 1997, under the Development Corporation Act of 1979, as amended, Article 5190.6 Vernon's Annoted Civil Statutes, Section 4B, as amended (the Act). The GEDC serves all citizens of the City and is governed by a seven member board of directors appointed by the Gonzales City Council. An Executive Director is appointed by the GEDC seven member board to carry out the Board's administrative and policy initiatives. The purpose of the GEDC is to promote economic development within the City and the State of Texas in order to enhance the employment and the public welfare for, and on behalf of, the City in a manner and purpose authorized by Section 4B of the Act.

The GEDC is considered a component unit of the City based on the determination that it is financially accountable to the City. This determination was based on the ability of the City to impose its will on the GEDC through the appointment of members of the board of directors and its authority over the budget and management of the GEDC.

The GEDC uses the same fiscal year as the City. Copies of the GEDC's financial statements may be obtained from the City's Director of Finance. The GEDC's financial statements are presented discretely as a part of the financial statements of the City. Although the City is financially accountable for the GEDC, none of the criteria for blending the activities with the City apply. Therefore, the GEDC is discretely presented.

B. Government-Wide and Fund Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds while business-type activities incorporate data from the government's enterprise funds. Separate financial statements are provided for governmental funds and the proprietary funds.

As discussed earlier, the government has one discretely presented component unit and is shown in separate columns in the government-wide financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and transit functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Governmental Funds

Governmental funds are those funds through which most governmental functions are typically financed.

General Fund

The general fund is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, municipal court, parks and recreation, street, library, airport, museum, and capital outlay.

Debt Service Fund

The City accounts for the accumulation of resources for the payments of principal, interest and related costs on general long-term debt paid from taxes levied by the City. The debt service fund is considered to be a major fund for reporting purposes.

Capital Projects Fund

The City accounts for the accumulation of resources for the payments for significant capital asset additions of governmental activities through the capital projects fund. The capital projects fund is considered to be a major fund for reporting purposes.

Special Revenue Fund

The special revenue fund is used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes such as hotel/motel tax, restricted fines and forfeitures, museum & library donations, forfeitures, and grant expenditures. The special revenue fund is considered to be a major fund for reporting purposes.

JB Wells Fund

The JB Wells fund is used to account for proceeds generated by the services and sales provided by the JB Wells Park. The JB Wells fund is considered to be a major fund for reporting purposes.

Proprietary Fund Types

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

The government reports the following major enterprise funds:

Electric Fund

This fund is used to account for the provision of electric services to the residents of the City. Activities of the fund include administration, operations and maintenance of the electrical system and billing and collection activities for all utility functions. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

Water Fund

This fund is used to account for the provision of water services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water production and distribution system. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

Wastewater Fund

This fund is used to account for the provision of sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water collection and treatment systems. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

Solid Waste Fund

This fund is used to account for the provision of garbage and brush removal services to the residents of the City. Activities of the fund include administration, operations and maintenance and contract garbage services. The fund also accounts for the accumulation of resources for and the payment of long-term debt. All costs are financed through charges to utility customers.

During the course of operations the government has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers in the business-type activities column.

C. Measurement Focus and Basis of Accounting

The government-wide statements of net position and statements of activities and all proprietary funds are accounted for on a flow of economic resources measurement focus, accrual basis of accounting. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the balance sheet. Proprietary fund equity consists of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.
The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and component units are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing resources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The City utilizes the modified accrual basis of accounting in the governmental fund type and component units. Under the modified accrual basis of accounting, revenues are recognized in the accounting period when they are susceptible to accrual (i.e., when they are measurable and available). Measurable means the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues available if they are collected within 60 days of the end of the current period. Revenues susceptible to accrual include charges for services and interest on temporary investments.

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

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

The accrual basis of accounting is used for the proprietary fund types. This basis of accounting recognizes revenues in the accounting period in which they are earned and become measurable, and expenses in the accounting period in which they are incurred and become measurable.

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

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements.

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

1. Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Reporting for Certain Investments and External Investment Pools*, the City reports all investments at fair value, except for "money market investments" and "2a7-like pools." Money market investments, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations, are reported at amortized costs. Investment positions in external investment pools that are operated in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940, such as TexPool, are reported using the pools' share price.

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

Direct obligations of the U.S. Government
Fully collateralized certificates of deposit and money market accounts
Statewide investment pools

2. Fair Value

The City has applied Governmental Accounting Standards Board ("GASB") Statement No. 72, Fair Value Measurement and Application. GASB Statement No. 72 provides guidance for determining a fair value measurement for reporting purposes and applying fair value to certain investments and disclosures related to all fair value measurements.

3. Receivables and Interfund Transactions

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

Advances between funds are offset by a fund balance reserve account in the applicable governmental fund to indicate they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of any allowance for uncollectible amounts.

4. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. All taxing entities in Gonzales County allow taxpayers to pay one-half of their taxes on or before November 30 and the other half on or before June 30, without incurring any late fees. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed Property tax revenues are considered available when they become due or past due and receivable within the current period.

5. Inventories and Prepaid Items

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). The inventories held by the City are used primarily as supplies for repairs and maintenance. This inventory is carried at historical cost using the first-in/first-out method. Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

6. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government, as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art, historical treasures and similar assets, and capital assets that a government receives in a service concession arrangement are recorded at the acquisition value on the acquisition date. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Description	Estimated Useful Life
Vehicles	2 to 15 years
Furniture and equipment	3 to 15 years
Infrastructure	30 years
Water and sewer system	30 to 40 years
Buildings and improvements	20 to 50 years

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net 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. An example is a deferred charge on refunding reported in the government-wide statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

In addition to liabilities, the statement of net 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 government has only one type of item, which arises only under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from one source: property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amounts become available.

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumption

Sometimes the government will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Unassigned fund balance is the residual classification for the general fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund. The general fund should be the only fund that reports a positive unassigned fund balance amount. In other governmental funds, if expenditures incurred for specific purposes exceeded the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

10. Fund Balance Policies

Fund balance of governmental funds is reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The government itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing council is the highest level of decision-making authority for the government 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 is taken (the adoption of another ordinance) to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as committed. The governing body (Council) has by resolution authorized the finance director to assign fund balance. The council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

The general fund balance should be at least 15% of the general fund annual expenditures. This percentage is the equivalent of 55 days expenditures. As of September 30, 2019, the general fund balance was less than 18% of the general fund annual expenditures. Debt service fund reserves are maintained at a level to support interest and principal payments in the event of a delay in property tax collections. The City should set aside resources to fund a reserve for years of decline and/or to fund capital out of current funds for projects that would have otherwise been funded by debt financing.

The utility fund working capital should be maintained at a minimum of 20-25% of the total operating expenditures or the equivalent of 75 days.

11. Compensated Absences

The liability for compensated absences reported in the government-wide and proprietary fund statements consist of unpaid, accumulated vacation balances. The liability has been calculated using the vesting method, in which leave amounts for both employees who currently are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. Vested or accumulated vacation leave and compensated leave of government-wide and proprietary funds are recognized as an expense and liability of those funds as the benefits accrue to employees.

It is the City's policy to liquidate compensated absences with future revenues rather than with currently available expendable resources. Accordingly, the City's governmental funds recognize accrued compensated absences when it is paid.

12. Long-Term Obligations

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

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

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

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

13. Estimates

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

14. 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) & Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS and TESRS Fiduciary Net Positions have been determined on the same basis as they are reported by TMRS & TESRS. 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.

15. Other Postemployment Benefits ("OPEB")

The City has implemented GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This statement applies to the individual employers (TMRS cities) in the TMRS Supplemental Death Benefits (SDB) plan, with retiree coverage. The TMRS SDBF covers both active and retiree benefits with no segregation of assets, and therefore doesn't meet the definition of a trust under GASB No. 75 (i.e., no assets are accumulated for OPEB) and as such the SDBF is considered to be an unfunded OPEB plan. For purposes of reporting under GASB 75, the retiree portion of the SDBF is not considered a cost sharing plan and is instead considered a single employer, defined benefit OPEB plan. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary, calculated based on the employee's actual earnings on which TMRS deposits are made, for the 12-month period preceding the month of death. The death benefit amount for retirees is $7,500. GASB No. 75 requires the liability of employers and nonemployer contributing entities to employees for defined benefit OPEB (net OPEB liability) to be measured as the portion of the present value of projected benefit payments to be provided to current active and inactive employees that is attributed to those employees' past periods of service (total OPEB liability), less the amount of the OPEB plan's fiduciary net position.

II. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

A. Explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position.

The governmental fund balance sheet includes reconciliation between *fund balance-total governmental funds* and *net position-governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that long-term liabilities, including notes payable, are not due and payable in the current period and, therefore, are not reported in the funds.

B. Explanation of certain differences between the governmental fund statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities.

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net position of governmental states that, "the issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities."

III. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for the general fund, debt service fund, JB Wells fund, and special revenue fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the City Charter is the function level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year.

A. Expenditures in Excess of Appropriations

For the year ended, expenditures exceeded appropriations at the legal level of control as follows:

General Fund:		
Transfers (out)	$	5,019
Debt service – principal	$	58,197
Debt service – interest	$	4,145
Debt Service Fund:		
General government	$	8,012
Transfers out	$	146,750

B. Deficit Fund Equity

The JB Wells fund had a deficit fund balance of $138,174 as of September 30, 2019 due to cumulative park expenditures exceeding cumulative revenues and transfers in received.

IV. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2019, the primary government had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity (Years)
Certificates of deposit	$ 816,589	0.53
External investment pools	9,746,676	0.09
Total value	$ 10,563,265	
Portfolio weighted average maturity		0.13

Interest rate risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the weighted average of maturity not to exceed five years; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations; monitoring credit ratings of portfolio position to assure compliance with rating requirements imposed by the Public Funds Investment Act; and invest operating funds primarily in short-term securities or similar government investment pools.

Credit risk. The City's investment policy limits investments in money market mutual funds rated as to investment quality not less than AAA by Standard & Poor's. As of September 30, 2019, the City's investments consisted solely of bank certificates of deposit.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. State statutes require that all deposits in financial institutions be insured or fully collateralized by U.S. government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. As of September 30, 2019, a portion of the City's certificate of deposit balances exceeded the market values of pledged securities and FDIC by $25,301. As of September 30, 2019, the component unit deposit balances exceeded the market values of pledged securities and FDIC by $27,759.

Custodial credit risk – investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safekeeping securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor's rate TexPool AAAm. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor's, as well as to the office of the Comptroller of Public Accounts for review. There were no limitations or restrictions on withdrawals.

B. Receivables

The following comprise receivable balances of the primary government at year end:

	General	Special Revenue	Electric	Water
Property taxes	$ 134,698	$ -	$ -	$ -
Sales taxes	305,601	-	-	-
Franchise taxes	63,476	-	-	-
Hotel taxes	-	54,370	-	-
Accounts	-	-	1,611,967	390,617
Other	319,068	-	-	-
Allowance	(295,537)	-	(6,474)	(34,568)
Total	$ 527,306	$ 54,370	$ 1,605,493	$ 356,049

	Debt Service	Wastewater	Solid Waste	Total
Property taxes	$ 29,386	$ -	$ -	$ 164,084
Sales taxes	-	-	-	305,601
Franchise taxes	-	-	-	63,476
Hotel taxes	-	-	-	54,370
Accounts	-	168,354	148,487	2,319,425
Other	-	12,077	-	331,145
Allowance	-	-	-	(336,579)
Total	$ 29,386	$ 180,431	$ 148,487	$ 2,901,522

The following comprise receivable balances of the component unit at year end:

	Component Unit
Sales tax	$ 152,801
Notes receivable	1,094,224
Interest receivable	2,912
	$ 1,249,937

A summary of the notes receivable held by the Component Unit is as follows:

	9/30/2018	Additions	Payments	Forgiven	9/30/2019	Current
Sleep Inn	$ 38,424	$ -	$ (9,454)	$ -	$ 28,970	$ -
Holiday Inn	216,822	-	(26,541)	-	190,281	-
Tropical Fusion	259,727	-	(6,220)	-	253,507	6,144
Winbin Ventures	73,023	-	(13,620)	-	59,403	15,449
Hotel Alcade	310,793	-	(49,186)	-	261,607	46,599
Come & Take It Properties	307,285	-	(31,477)	-	275,808	31,536
Come & Take It-forgivable	45,772	-	(3,769)	-	42,003	3,769
Come & Take It Properties - 2	16,673		(4,958)		11,715	5,109
Baker Boys BBQ	69,130	-	(9,757)	-	59,373	9,942
Storey Jewelers	90,215	-	(11,401)	-	78,814	11,719
Come & Take It Bar & Grill	123,503	-	(15,760)	-	107,743	15,760
Total	1,551,367	-	(182,143)	-	1,369,224	$ 146,027
Allowance	(275,000)	-	-	-	(275,000)	
Net	$ 1,276,367	$ -	$ (182,143)	$ -	$ 1,094,224	

On July 2008, the Corporation issued a $200,000 note receivable to Sleep Inn & Suites. Payments of $1,774 are due each month and bear an interest rate of 2%.

On January 29th, 2013, the Corporation issued a note receivable of $200,000 to Holiday Inn. In March of 2015, the Corporation issued another $160,000 to Holiday Inn. The total amount issued under this note was $360,000. Payments of $3,353 are due monthly. The note is due on demand and bears an interest rate of 2% and a default interest rate of prime plus 4%.

On August 17th, 2012, the Corporation issued a note receivable of $300,000 to Tropical Fusions, Inc. Payments of $1,000 are due monthly for the first 120 installments and $2,246 thereafter. The note is due on demand and bears an interest rate of 2.25% and a default interest rate of prime plus 4%.

On May 1, 2013, the Corporation issued a note receivable to Winbin Ventures, LLC for the construction of a Microtel Inn and Suites hotel. Payments of $1,397 are due each month and bear an interest rate of 2.25%. The term of note is five years with a final balloon payment of $79,062.

On January 1, 2014, the Corporation issued a $455,670 note receivable to Hotel Alcade, Inc. Payments of $4,296 are due each month and bear an interest rate of 2.5%. The term of the note is ten years.

On February 5, 2014, the Corporation issued a $450,000 note receivable to Come And Take It Properties, LLC. Payments of $3,172 are due each month and bear an interest rate of 2.25%. The term of the note is twelve years. A portion of the note up to $50,000 is forgivable upon performance of certain measures within the note agreement. If not forgiven, this balance will bear interest at an interest rate of 4%.

On December 6, 2016, the Corporation issued at $25,000 note receivable to Come & Take It Properties, LLC. Payments of $449 are due each month and bear an interest rate of 3.00%. The term of the note is 5 years.

On June 3, 2014, the Corporation issued a $400,000 note receivable to JMOS Realty Company, LLC. Payments of $7,099 are due each month and bear an interest rate of 2.5%. The term of the note is five years. The final year of payments is forgivable upon performance of certain measures within the note agreement. During the year, $104,633 of payments were forgiven.

On March 2, 2015, the Corporation issued a $100,000 note receivable to Baker Boys BBQ. Payments of $931 are due each month and bear an interest rate of 2.25%. The term of the note is 10 years.

On December 4, 2015, the Corporation issued a $120,000 note receivable to Storey Jewelers. Payments of $1,145 are due each month and bear an interest rate of 2.75%. The term of the note is 10 years.

On February 29, 2016, the Corporation issued a $160,000 note receivable to Come & Take It Bar & Grill. Payments of $1,527 are due each month and bear an interest rate of 2.75%. The term of the note is 10 years.

C. Capital Assets

A summary of changes in governmental activities capital assets for the year end was as follows:

Governmental Activities:	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	$ 2,377,389	$ -	$ -	$ 2,377,389
Construction in progress	-	101,558	-	101,558
Total capital assets not being depreciated	2,377,389	101,558	-	2,478,947
Capital assets, being depreciated:				
Infrastructure	12,039,330	777,528	-	12,816,858
Buildings and improvements	9,429,391	144,446	-	9,573,837
Equipment	6,247,848	348,309	(273,529)	6,322,628
Total capital assets being depreciated	27,716,569	1,270,283	(273,529)	28,713,323
Less accumulated depreciation				
Infrastructure	(4,331,838)	(442,803)	-	(4,774,641)
Buildings and improvements	(3,150,443)	(256,196)	-	(3,406,639)
Equipment	(4,232,906)	(425,419)	273,529	(4,384,796)
Total accumulated depreciation	(11,715,187)	(1,124,418)	273,529	(12,566,076)
Net capital assets being depreciated	16,001,382	145,865	-	16,147,247
Total Capital Assets	$ 18,378,771	$ 247,423	$ -	$ 18,626,194

Depreciation was charged to governmental functions as follows:

General government	$ 26,926
Public safety	246,939
Streets	317,797
Parks and recreation	422,620
Library	51,690
Airport	50,170
Museum	7,706
Tourism	570
Total Governmental Activities Depreciation Expense	$ 1,124,418

A summary of changes in business-type activities capital assets for the year end was as follows:

Business-Type Activities:	**Beginning Balances**	**Increases**	**Decreases/ Reclassifications**	**Ending Balances**
Capital assets, not being depreciated:				
Land	$ 766,674	$ 1,738,570	$ -	$ 2,505,244
Total capital assets not being depreciated	766,674	1,738,570	-	2,505,244
Capital assets, being depreciated:				
Distribution systems	35,621,272	491,458	-	36,112,730
Equipment	2,916,447	299,609	(80,322)	3,135,734
Furniture and fixtures	281,676	-	-	281,676
Buildings	294,453	-	-	294,453
Total capital assets being depreciated	39,113,848	791,067	(80,322)	39,824,593
Less accumulated depreciation				
Distribution systems	(19,279,960)	(672,329)	-	(19,952,289)
Equipment	(2,470,996)	(120,768)	80,322	(2,511,442)
Furniture and fixtures	(277,968)	(2,119)	-	(280,087)
Buildings	(289,528)	(382)	-	(289,910)
Total accumulated depreciation	(22,318,452)	(795,598)	80,322	(23,033,728)
Net capital assets being depreciated	16,795,396	(4,531)	-	16,790,865
Total Capital Assets	$ 17,562,070	$ 1,734,039	$ -	$ 19,296,109

Depreciation was charged to business-type activities as follows:

Electric	$ 128,884
Water	261,998
Wastewater	394,216
Solid waste	10,500
Total Business-Type Activities Depreciation Expense	$ 795,598

A summary of changes in component unit activities capital assets for the year end was as follows:

	Beginning Balances	Increases	Decreases/ Reclassifications	Ending Balances
Capital assets, not being depreciated:				
Land	$ -	$ 39,375	$ -	$ 39,375
Total capital assets not being depreciated	-	39,375	-	39,375
Capital assets, being depreciated:				
Buildings - Lynn Theater	246,000	-	-	246,000
Flags and Flagpole Project	44,950	-	-	44,950
Equipment	-	35,050	-	35,050
Software	-	25,000	-	25,000
Total capital assets being depreciated	290,950	60,050	-	351,000
Less accumulated depreciation				
Buildings - Lynn Theater	(80,770)	(9,840)	-	(90,610)
Flags and Flagpole Project	(7,492)	(2,997)	-	(10,489)
Equipment	-	(3,213)	-	(3,213)
Software	-	(833)	-	(833)
Total accumulated depreciation	(88,262)	(16,883)	-	(105,145)
Net capital assets being depreciated	202,688	43,167	-	245,855
Total Capital Assets	$ 202,688	$ 82,542	$ -	$ 285,230

Current year depreciation expense was $16,883.

D. Long-term Debt

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2019. In general, the City uses the debt service fund to liquidate governmental long-term liabilities.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Governmental Activities:					
Bonds, notes and other payables:					
Tax and revenue bonds	$ 7,660,000	$ 3,973,780	$ (400,000)	$ 11,233,780	$ 415,000
Issuance premium	337,816	470,882	(26,089)	782,609	-
Capital leases	626,417	-	(231,747)	394,670	181,387
Total Governmental Activities	$ 8,624,233	$ 4,444,662	$ (657,836)	$ 12,411,059	$ 596,387
Long-term liabilities due in more than one year				$ 11,814,672	
Business-Type Activities:					
Tax and revenue bonds	$ 1,570,000	$ 1,686,220	$ (90,000)	$ 3,166,220	$ 85,000
Issuance premium	123,539	199,812	(10,633)	312,718	-
Total Business-Type Activities	$ 1,693,539	$ 1,886,032	$ (100,633)	$ 3,478,938	$ 85,000
Long-term liabilities due in more than one year				$ 3,393,938	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. The general fund normally liquidates compensated absences for all governmental funds. The electric, water, wastewater, and solid waste each liquidate their own portion of compensated absences.

During the year, the City issued a $5,660,000 combination tax and revenue certificate of obligation, Series 2019. The issuance resulted in proceeds received of $6,200,000 based on a bond premium of $670,694 and net of bond issuance costs of $130,694. The debt is required to be repaid through 2039, and bears interest at 4% per annum.

Long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Original Balance	Current Balance
Governmental Activities:			
Combination tax and revenue bonds			
Series 2011	2-4%	$ 6,255,000	$ 4,525,000
Series 2015	2-4%	3,175,000	2,735,000
Series 2019	4.00%	3,973,780	3,973,780
Total		13,403,780	11,233,780
Capital leases			
Wheel loader	3.5%	148,010	7,940
Motor grader	3.5%	199,510	10,826
Pumper/Tanker	2.7%	700,000	315,676
Radio equipment	3.5%	118,424	60,228
Total		1,165,944	394,670
Business-type Activities:			
Combination tax and revenue bonds			
Series 2017	3-4%	1,635,000	1,480,000
Series 2019	4%	1,686,220	1,686,220
Total		3,321,220	3,166,220
Total Long-Term Debt		$ 17,890,944	$ 14,794,670

The annual requirements to amortize debt issues outstanding at year ending were as follows:

Combination tax and revenue bonds

	Governmental Activities			Business-type Activities		
Year Ending	Combination Tax and Revenue Bonds			Combination Tax and Revenue Bonds		
September 30	Principal	Interest	Total	Principal	Interest	Total
2020	$ 415,000	$ 327,979	$ 742,979	$ 85,000	$ 123,279	$ 208,279
2021	512,750	403,403	916,153	132,250	118,147	250,397
2022	531,260	386,848	918,108	138,740	113,702	252,442
2023	549,770	369,521	919,291	140,230	109,123	249,353
2024	568,280	350,616	918,896	146,720	103,884	250,604
2025	581,790	330,365	912,155	153,210	97,885	251,095
2026	600,300	309,542	909,842	159,700	91,627	251,327
2027	628,810	286,391	915,201	161,190	85,209	246,399
2028	655,830	260,698	916,528	169,170	78,602	247,772
2029	674,340	234,094	908,434	175,660	71,706	247,366
2030	707,850	206,451	914,301	182,150	64,549	246,699
2031	734,870	177,596	912,466	190,130	57,104	247,234
2032	763,380	147,631	911,011	201,620	52,169	253,789
2033	541,960	121,524	663,484	143,040	42,376	185,416
2034	566,000	99,365	665,365	149,000	36,535	185,535
2035	590,040	76,244	666,284	154,960	30,456	185,416
2036	379,080	56,862	435,942	160,920	24,138	185,058
2037	396,630	41,348	437,978	168,370	17,552	185,922
2038	410,670	25,202	435,872	174,330	10,698	185,028
2039	425,170	8,494	433,664	179,830	3,606	183,436
Total	$ 11,233,780	$ 4,220,174	$ 15,453,954	$ 3,166,220	$ 1,332,347	$ 4,498,567

Capital leases

	Governmental Activities		
Year Ending	Capital Leases		
September 30	Principal	Interest	Total
2020	$ 181,387	$ 10,877	$ 192,264
2021	105,200	5,846	111,046
2022	108,083	2,963	111,046
Total	$ 394,670	$ 19,686	$ 414,356

The carrying value of the equipment being paid for with the above payments was $767,372 as of September 30, 2019.

Tax and revenue bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of tax and revenue bonds are from taxes levied on all taxable property located within the City and revenues earned from the enterprise funds. Capital leases are collateralized by the underlying assets acquired with the respective leases. If the lease were to default the lender would have a right to seize the related assets as a remedy.

E. Other Long-term Liabilities

The following is a summary of changes in the City's other long-term liabilities for the year ended. In general, the City uses the general and enterprise funds to liquidate compensated absences.

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
Compensated Absences	$ 103,406	$ 8,748	$ -	$ 112,154	$ 100,939
Total Governmental Activities	$ 103,406	$ 8,748	$ -	$ 112,154	$ 100,939
Business-Type Activities:					
Compensated Absences	$ 25,713	$	$ -	$ 25,713	$ 23,143
Total Business-Type Activities	$ 25,713	$ -	$ -	$ 25,713	$ 23,143

F. Interfund Transactions

Transfers between the primary government funds during the 2019 period were as follows:

	Transfer In:						
Transfer Out:	**General**	**Electric**	**Water**	**Debt Service**	**Special Revenue**	**Sewer**	**Total**
General	$ -	$ -	$ -	$ -	$ 5,019	$ -	$ 5,019
Electric	3,134,110	-	-	-	-	-	3,134,110
Water	890,516	46,665	-	-	-	-	937,181
Wastewater	164,646	29,528	-	-	-	-	194,174
Solid Waste	35,207	-	-	-	-	-	35,207
Debt service	-	146,750	-	-	-	-	146,750
Special Revenue	-	-	-	113,550	-	-	113,550
Capital Projects	1	-	1,902,355	-	-	225,874	2,128,230
Total	$ 4,224,480	$ 222,943	$ 1,902,355	$ 113,550	$ 5,019	$ 225,874	$ 6,694,221

Amounts transferred between funds relate to amounts collected by general and enterprise funds for various governmental expenditures, capital expenditures and debt payments.

The compositions of interfund balances as of year-end were as follows:

Receivable fund	Payable fund	Amounts
Capital projects	Wastewater	$ 2,224,674
Water	Wastewater	2,825,890
Electric	General	102,361
Special Revenue	General	8,672
		$ 5,161,597

Amounts recorded as "due to/from" are considered to be temporary loans and will be repaid during the following year.

The composition of interfund advances to/from balances as of the year ended September 30, 2019 were as follows:

	Advances from:	
Advances to:	General	Total
JB Wells	$ 124,483	$ 124,483
Total	$ 124,483	$ 124,483

The amounts payable relate to working capital loans from the general fund to the JB Wells fund. None of the balance of the working capital loans is scheduled to be collected in the subsequent year.

V. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; and natural disasters for which the City participates along with over 2,800 other entities in the Texas Municipal League's Intergovernmental Risk Pools. The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors.

The City is involved in a lawsuit relating to the property donated and used for the JB Wells park. The plaintiff, Estate of J.B. Wells, Jr., claims that the City's use of the funds for the park are inconsistent with the directive within the will of the deceased donor. The City is defending their position and a likely outcome is not estimable at this time. The City's attorney anticipates a potential trial wouldn't start until after September 30, 2020.

C. Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed correctly, a substantial liability to the City could result. The City does anticipate that it will have an arbitrage liability and performs monthly calculations to estimate this potential liability. The City will also engage an arbitrage consultant to perform the calculations in accordance with Internal Revenue Service's rules and regulations if indicated.

D. Defined Benefit Pension Plans

1. Plan Description

The City of Gonzales, Texas participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmrs.com.

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

2. 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 payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.
The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	Plan Year 2017	Plan Year 2018
Employee deposit rate	5.0%	5.0%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility (expressed as age / years of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Repeating Transfers	100% Repeating Transfers
Annuity increase (to retirees)	70% of CPI Repeating	70% of CPI Repeating

Employees covered by benefit terms

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

Inactive employees or beneficiaries currently receiving benefits	57
Inactive employees entitled to but not yet receiving benefits	115
Active employees	99
Total	271

3. Contributions

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

Employees for the City of Gonzales were required to contribute 5% of their annual gross earnings during the fiscal year. The contribution rates for the City of Gonzales were 10.69% and 10.68% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019, were $472,117, equal to the required contributions.

4. 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 Tables 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 males 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 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.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2018 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.90%
Real Return	10.0%	3.80%
Real Estate	10.0%	4.50%
Absolute Return	10.0%	3.75%
Private Equity	5.0%	7.50%
Total	**100.0%**	

Discount Rate:

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

Changes in the Net Pension Liability:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/17	$ 17,756,681	$ 15,017,011	$ 2,739,670
Changes for the year:			
Service Cost	500,645	-	500,645
Interest (on the Total Pension Liab.)	1,181,323	-	1,181,323
Difference between expected and actual experience	(526,858)	-	(526,858)
Changes of assumptions	-	-	-
Contributions – employer	-	474,458	(474,458)
Contributions – employee	-	221,917	(221,917)
Net investment income (loss)	-	(449,575)	449,575
Benefit payments, including refunds of emp. contributions	(1,011,838)	(1,011,838)	-
Administrative expense	-	(8,694)	8,694
Other changes	-	(454)	454
Net changes	143,272	(774,186)	917,458
Balance at 12/31/18	$ 17,899,953	$ 14,242,825	$ 3,657,128

Sensitivity of the net pension liability to changes in the discount rate:

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

1% Decrease 5.75%	Current Single Rate Assumption 6.75%	1% Increase 7.75%
$ 6,207,427	$ 3,657,128	$ 1,589,472

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.tmrs.com.

5. <u>Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions</u>

For the year ended September 30, 2019, the City recognized pension expense of $615,222.

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

	Deferred Outflows (Inflows) of Resources	Deferred Outflows (Inflows) of Resources
Difference between projected and investment earnings	$ 779,512	$ -
Differences between expected and actual economic experience	-	376,079
Contributions subsequent to the measurement date	361,539	-
Total	$ 1,141,051	$ 376,079

The City reported $361,539 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31:	
2019	$ 157,548
2020	(74,353)
2021	27,593
2022	292,645
2023	-
Thereafter	-
	$ 403,433

Other Postemployment Benefits

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

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

The City offers supplemental death to:	Plan Year 2017	Plan Year 2018
Active employees (yes or no)	Yes	Yes
Retirees (yes or no)	Yes	Yes

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

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	43
Inactive employees entitled to but not yet receiving benefits	16
Active employees	99
Total	158

The City's contributions to the TMRS SDBF for the years ended 2019, 2018, and 2017 were $3,536, $3,521, and $3,298, respectively, which equaled the required contributions each year.

The City's retiree contribution rates to the TMRS SDBF for the years ended 2019, 2018, and 2017 are as follows:

Plan/ Calendar Year	Annual Required Contribution (Rate)	Actual Contribution Made (Rate)	Percentage of ARC Contributed
2017	0.07%	0.07%	100.0%
2018	0.08%	0.08%	100.0%
2019	0.08%	0.08%	100.0%

Total OPEB Liability

The City's Postemployment Benefits Other Than Pensions Liability (OPEB) was measured as of December 31, 2018, and the Total OPEB Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5%, including inflation per year
Discount rate	3.71%
Retirees' share of benefit-related costs	$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68

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 Tables 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 males 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.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 3.71%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, as well as what the City's total OPEB liability (asset) 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% Decrease (2.71%)	Current Single Rate Assumption 3.71%	1% Increase (4.71%)
$ 328,755	$ 279,109	$ 240,425

Changes in the Total OPEB Liability:

		Total OPEB Liability
Balance at 12/31/17	$	285,105
Changes for the year:		
Service Cost		11,096
Interest		9,562
Difference between expected and actual experience		(4,774)
Changes of assumptions		(18,329)
Benefit payments		(3,551)
Net changes		(5,996)
Balance at 12/31/18	$	279,109

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

For the year ended September 30, 2019, the City recognized OPEB expense of $20,245.

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

		Deferred Outflows of Resources		Deferred Inflows of Resources
Differences between expected and actual economic experience	$	-	$	3,945
Contributions subsequent to measurement date		2,707		-
Changes in assumptions		-		1,619
Total	$	2,707	$	5,564

The City reported $2,707 as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability for the year ending September 30, 2020.

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in pension expense as follows:

Year ended December 31:		
2019	$	(413)
2020		(413)
2021		(413)
2022		(1,276)
2023		(3,049)
Thereafter		-
	$	(5,564)

Texas Emergency Services Retirement System

1. Plan Description

The Fire Fighter's Pension Commissioner is the administrator of the Texas Emergency Services Retirement System (TESRS), a cost-sharing multiple employer pension system established and administered by the State of Texas to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2019, there were 237 member fire or emergency services departments actively participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a participating department.

At August 31, 2019, TESRS membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	3,649
Terminated Participants Entitled to Benefits but Not Yet Receiving Them	1,842
Active Participants (Vested and Nonvested)	3,702
Total	9,193

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), recodified the provisions and gave the TESRS Board of Trustees authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by board rule. The benefit provisions include retirement benefits as well as death and disability benefits. Members are 50% vested after the tenth year of service, with the vesting percent increasing 10% for each of the next five years of service so that a member becomes 100% vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percent multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2% compounded annually.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount and continuing monthly payments to a member's surviving spouse and dependent children.

2. Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of the System, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is $36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the System contribution that directly impacts future retiree annuities.

The state is required to contribute an amount necessary to make the System "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the state are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percent of the Part One portion (not to exceed 15%), is to be actuarially adjusted every two years based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the board to be 2% of the Part One contributions beginning September 1, 2017.

Additional contributions may be made by governing bodies within two years of joining the System, to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in the System.

A small subset of participating departments have a different contribution arrangement which is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members, are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into the System. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by the System.

3. Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by board rule. For the fiscal year ending August 31, 2019, total contributions (dues and prior service) of $3,480,509 were paid into TESRS by the political subdivisions served by the member volunteer emergency services personnel. The state appropriated $1,329,224 for the fiscal year ending August 31, 2019.

The purpose of the biennial actuarial valuation is to test the adequacy of the contribution arrangement to determine if it is adequate to pay the benefits that are promised. The actuarial valuation as of August 31, 2019 concluded that the system has an adequate contribution arrangement.

To the best of our knowledge, the actuarial information supplied in this section is complete, accurate and in compliance with GASB Statement No. 25. In our opinion, the assumptions used are reasonably related to the experience of the System and to reasonable expectations. The assumptions represent a reasonable estimate of anticipated experience of the System over the long-term future, and their selection complies with the appropriate actuarial standards of practice.

Valuation Date	August 31, 2014	August 31, 2016	August 31, 2018
Actuarial Cost Method	Entry Age	Entry Age	Entry Age
Amortization Method	Level dollar, open	Level dollar, open	Level dollar, open
Amortization	Infinity	30 years	24 years
Asset Valuation Method	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value	Market value smoothed by a 5-year deferred recognition method with a 80%/120% corridor on market value
Actuarial Assumptions:			
Investment Rate of Return *	7.75% per year, net of investment expenses	7.75% per year, net of investment expenses	7.75% per year, net of investment expenses
Projected Salary Increases *	N/A	N/A	N/A
* Includes Inflation at	3.50%	3.50%	3.00%
Cost-of-Living Adjustments	None	None	None

The target allocation for each major asset class is summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Net Real Rate of Return
Equities:		
Large cap domestic	32%	5.81%
Small cap domestic	15%	5.92%
Developed international	15%	6.21%
Emerging markets	5%	7.18%
Master limited partnership	5%	7.61%
Real Estate	5%	4.46%
Fixed income	23%	1.61%
Cash	0%	0%
Total	100.0%	5.01%

Discount Rate:

The discount rate used to measure the Total Pension Liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

4. Changes in the Net Pension Liability:

		Total Pension Liability (a)		Plan Fiduciary Net Position (b)		Net Pension Liability (a) – (b)
Balance at 8/31/18	$	259,902	$	218,983	$	40,919
Changes for the year:						
Service Cost		3,527		-		3,527
Interest (on the Total Pension Liab.)		19,945		-		19,945
Contributions – members		-		6,578		(6,578)
Contributions – state		-		2,512		(2,512)
Net investment income		-		2,156		(2,156)
Benefit payments, including refunds of emp. contributions		(12,156)		(12,156)		-
Administrative expense		-		(428)		428
Net changes		11,316		(1,338)		12,654
Balance at 8/31/19	$	271,218	$	217,645	$	53,573

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 7.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75%) or 1-percentage-point higher (8.75%) than the current rate:

1% Decrease 6.75%	Current Single Rate Assumption 7.75%	1% Increase 8.75%
$ 95,218	$ 53,573	$ 25,697

Pension Plan Fiduciary Net Position:

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

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

For the year ended September 30, 2019, the City recognized pension expense of $12,695.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between projected and investment earnings	$ 6,898	$ -
Proportion changes	-	18,106
Differences between expected and actual economic experience	-	66
Total	$ 6,898	$ 18,172

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended August 31:	
2020	$ 305
2021	(387)
2022	546
2023	1,772
2024	(1,150)
Thereafter	(12,360)
	$ (11,274)

G. Tax Abatement Disclosures

The City of Gonzales negotiates sales and property tax abatement agreements on an individual basis. The City had the following tax abatement agreement as of September 30, 2019:

Purpose	Percentage of Taxes Abated during the Fiscal Year	Amount of Taxes Abated during the Fiscal Year Sales Tax
Action Properties; owners of: Dollar Tree, Hibbett Sports, and Factory Connection, includes GEDC reimbursement	90%	$ 21,037
Avalon Park	80%	7,431
Total		**$ 28,468**

These agreement were negotiated under Article III, Section 52-a, Texas Constitution, and Chapter 380, Texas Local Gov't Code, stating that the City may establish and provide for the administration of a program for making loans and grants of public money to promote state or local economic development and to stimulate business and commercial activity in the municipality. The agreement is in accordance with Section 501.103, Texas Local Gov't Code. Taxes were abated through a rebate of taxes received. Recipients of the sales tax abatements agree to operate within the City limits through the term of their agreement.

The City has not made any commitments as part of the agreements other than to reduce taxes. The City is not subject to any tax abatement agreements entered into by other governmental entities. The City has chosen to disclose information about its tax abatement agreements individually.

H. Restatement

The City restated its beginning net position within governmental activities and business-type activities to adjust for accounting errors related to unbilled utility receivables and an unrecorded capital lease.

The below tables summarize the changes to net position as a result of these changes.

	Business-Type Activities	Governmental Activities	Wastewater
Prior year ending net position as reported	$ 22,241,978	$ 9,601,924	$ 14,000,351
Record net impact of capital lease	-	(1,480)	-
Adjust unbilled recievable	(10,398)	-	(10,398)
Restated beginning net position	$ 22,231,580	$ 9,600,444	$ 13,989,953

I. Subsequent Events

There were no material subsequent events through March 30, 2020, the date the financial statements were available to be issued.

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APPENDIX D

FORM OF BOND COUNSEL'S OPINION

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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.

July __, 2020

CITY OF GONZALES, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020
DATED AS OF JUNE 1, 2020
IN THE AGGREGATE PRINCIPAL AMOUNT OF $___________

AS BOND COUNSEL FOR THE CITY OF GONZALES, TEXAS (the "***City***") we have examined into the legality and validity of the Bonds described above (the "***Bonds***"), which bear interest from the dates specified in the text of the Bonds until stated maturity or prior redemption, at the rates and payable on the dates as stated in the text of the Bonds, and which mature on the dates and are subject to redemption, all in accordance with the terms and conditions stated in the text of the Bonds. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the City authorizing the issuance and sale of the Bonds (the "***Ordinance***").

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Bonds including (i) the Ordinance, (ii) the Escrow Agreement, dated as of June 1, 2020, between the City and U.S. Bank National Association, Houston, Texas, as Escrow Agent (the "***Escrow Agreement***"), (iii) the report and mathematical verifications of Robert Thomas, CPA, with respect to the adequacy of certain escrowed funds to accomplish the refunding purposes of the Bonds (the "***Verification Report***"), (iv) one of the executed Bonds (Bond No. T-1), and (v) the City's Federal Tax Certificate of even date herewith.

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered in accordance with law; that except as the enforceability thereof may be limited by governmental immunity and bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to 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 City; 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.

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IT IS FURTHER OUR OPINION that the Escrow Agreement has been duly authorized, executed and delivered by the City and constitutes a binding and enforceable agreement in accordance with its terms and that the "***Refunded Obligations***" (as defined in the Ordinance) being refunded by the Bonds are outstanding under the respective ordinances authorizing their issuance only for the purpose of receiving the funds provided by, and are secured solely by and payable solely from, the Escrow Agreement and the cash and investments, if any, including the income therefrom, held by the Escrow Agent pursuant to the Escrow Agreement. In rendering this opinion, we have relied upon the certifications contained in the Verification Report as to the sufficiency of the cash and securities, if any, deposited pursuant to the Escrow Agreement for the purpose of paying the principal of, redemption premium, if any, and interest on the Refunded Obligations.

IT IS FURTHER OUR OPINION, except as discussed below, that 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 individual 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 Bonds and the use of the property refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City 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 insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, if any, nor as to any such insurance policies issued in the future.

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 City as the taxpayer. We observe that the City 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.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City 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 City, 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 City as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

Respectfully,

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