

**OFFICIAL NOTICE OF SALE, OFFICIAL BID FORM
and
PRELIMINARY OFFICIAL STATEMENT**

CITY OF WATAUGA, TEXAS

(A Political Subdivision of the State of Texas Located in Tarrant County, Texas)

\$3,000,000*

**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF
OBLIGATION, SERIES 2020
(THE "CERTIFICATES")**

**To be Designated by the City as
"QUALIFIED TAX-EXEMPT OBLIGATIONS"**

**Bids due
Monday, August 24, 2020
at
11:00 A.M., Central Time**

*Preliminary, subject to change based on bid structures. See "THE CERTIFICATES - MATURITY SCHEDULE" and "THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES" in the Official Notice of Sale relating to the Certificates.

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This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Certificates defined and described herein. The invitation for bids on the Certificates is being made by means of this Official Notice of Sale, the Official Bid Form and the Preliminary Official Statement.

The Issuer will designate the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions.

OFFICIAL NOTICE OF SALE

\$3,000,000*

CITY OF WATAUGA, TEXAS

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

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BID: The City Council (the “City Council”) of the City of Watauga, Texas (the “City” or the “Issuer”) is offering for sale at competitive bid its \$3,000,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020 (the “Certificates”).

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 11:00 A.M., Central Time, on Monday, August 24, 2020. Bidders submitting a bid by internet shall not be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System (“PARITY”) and should, as a courtesy, register with PARITY by 9:00 A.M., Central Time, on Monday, August 24, 2020 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by email to mmcliney@samcocapital.com. If there is a malfunction of the electronic bidding process and a bidder submits a bid via email please call 210-832-9760 to notify the Financial Advisor (defined below) of the incoming bid. Any bid received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, Official Bid Form and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact PARITY, c/o Ipreo Holdings LLC, 1359 Broadway, New York, New York 10018, 212-849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Certificates on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed sealed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being at the sole risk of the prospective bidder.

OPENING OF BIDS: Bids will be opened and publicly read at 11:00 A.M., Central Time, on Monday, August 24, 2020, following which the bids will be evaluated by SAMCO Capital Markets, Inc. (the “Financial Advisor”) and the City Council shall provide final approval of the award at a City Council meeting later that evening. The Mayor of the City or his representative shall award the Certificates as described in the section entitled “AWARD AND SALE OF THE CERTIFICATES” below.

AWARD AND SALE OF THE CERTIFICATES: By 1:00 P.M. Central Time, on the date set for receipt of bids, the Mayor of the City or his representative shall award the Certificates to the **low qualified bidder (the “Winning Bidder”), as described in the section entitled “CONDITIONS OF SALE – Basis of Award” herein subject to final approval of the City Council which will take action to adopt an ordinance (the “Ordinance”)** authorizing the issuance and awarding sale of the Certificates or will reject all bids promptly at a scheduled meeting to commence at 6:00 P.M. Central Time on Monday, August 24, 2020. The City reserves the right to reject any or all bids and to waive any irregularities, except time of filing.

*Preliminary, subject to change based on bid structures. See “THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES” herein.

THE CERTIFICATES

DESCRIPTION OF CERTAIN TERMS OF THE CERTIFICATES: The Certificates will be dated August 1, 2020 (the “Dated Date”) with interest to accrue from the Dated Date and be payable initially on February 1, 2021, and semiannually on each August 1 and February 1 thereafter until the earlier of stated maturity or prior redemption. The Certificates will be issued as fully registered Certificates 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 (the “Securities Depository”). Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof within a stated maturity. Purchasers of the Certificates (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to the Securities Depository, 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 Certificates. (See “BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.) The Certificates will be stated to mature on February 1 in each of the following years in the following amounts:

MATURITY SCHEDULE (Due February 1)

Stated Maturity	Principal Amount*	Stated Maturity	Principal Amount*
2021	\$ 115,000	2031	\$ 120,000
2022	115,000	2032	120,000
2023	210,000	2033	125,000
2024	215,000	2034	130,000
2025	165,000	2035	130,000
2026	165,000	2036	130,000
2027	170,000	2037	130,000
2028	175,000	2038	135,000
2029	185,000	2039	140,000
2030	185,000	2040	140,000

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$3,000,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES: Bidders may provide that all of the Certificates be issued as serial maturities or may provide that any two or more consecutive annual principal amounts be combined into one or more term certificates, not to exceed five term certificates (the “Term Certificates”).

MANDATORY SINKING FUND REDEMPTION: If the Winning Bidder designates principal amounts to be combined into one or more Term Certificates, each such Term Certificate will be subject to mandatory sinking fund redemption commencing on February 1 of the first year which has been combined to form such Term Certificate and continuing on February 1 in each year thereafter until the stated maturity date of that Term Certificate. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table above under the caption “MATURITY SCHEDULE”. Certificates to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Certificates then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Certificates of the maturity then subject to redemption which have been purchased and canceled by the City or have been optionally redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

OPTIONAL REDEMPTION: The City reserves the right, at its option, to redeem the Certificates maturing on or after February 1, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2029, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described in the Preliminary Official Statement.

*Preliminary, subject to change. See “THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES”.

SECURITY FOR PAYMENT: The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council on August 24, 2020, and the City's Home Rule Charter and are payable primarily from an annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law, and are further secured by a lien on and pledge of the Pledged Revenues being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the "System") not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues that may be pledged to the payment of any Prior Lien Obligations, Junior Lien Obligations or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereafter issued by the Issuer. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations which are payable in part from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance the City retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations, while the Certificates are Outstanding, without limitations as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

OTHER TERMS AND COVENANTS: Other terms of the Ordinance and the various covenants of the City contained in the Ordinance are described in the Official Statement, to which reference is made for all purposes.

SUCCESSOR PAYING AGENT/REGISTRAR: The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Ordinance, the City covenants to provide a Paying Agent/Registrar at all times while the Certificates are outstanding, and any Paying Agent/Registrar selected by the City shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Certificates. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Certificates.

In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, shall be qualified as described in the Preliminary Official Statement. Upon a change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid.

CONDITIONS OF SALE

TYPES OF BIDS AND INTEREST RATES: The Certificates will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Certificates from the Dated Date of the Certificates to the date of Initial Delivery (defined herein) of the Certificates. **No bid producing a cash premium on the Certificates that results in a dollar price of less than 103% will be considered; provided, however, that any bid is subject to adjustment as described under the caption "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS".** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest for the Certificates (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Certificates of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS OF AWARD: The sale of the Certificates will be awarded to the bidder making a bid that conforms to the specifications herein (the "Winning Bidder" or "Purchaser") and which produces the lowest True Interest Cost (defined herein) rate to the City. The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the Dated Date of all debt service payments on the Certificates on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Certificates plus the premium bid, (but not interest accrued from the Dated Date to the date of their initial delivery to the Purchaser). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code") to the date of initial delivery of the Certificates, relating to the excludability of interest on the Certificates from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (on or before the date of initial delivery of the Certificates) a certification as to their initial offering prices of the Certificates (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Official Notice of Sale (see "ESTABLISHMENT OF ISSUE PRICE" herein).

ESTABLISHMENT OF ISSUE PRICE:

- (a) The Winning Bidder shall assist the City in establishing the issue price of the Certificates and shall execute and deliver to the City by the Delivery Date an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Winning Bidder, the City, and Norton Rose Fulbright US LLP, the City's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Certificates under applicable federal regulations). All actions to be taken by the City under this Official Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the City by the City's Financial Advisor and any notice or report to be provided to the City may be provided to the City's Financial Advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the Certificates) will apply to the initial sale of the Certificates (the “competitive sale requirements”) because:

- (1) the City shall disseminate this Official Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Certificates to the bidder who submits a firm offer to purchase the Certificates at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Certificates, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied, the City shall so advise the Winning Bidder. In such event, the City intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Certificates as the issue price of that maturity (the “hold-the-offering-price rule”). The City shall promptly advise the Winning Bidder, at or before the time of award of the Certificates, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Certificates. **Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies.** In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the City.

(d) By submitting a bid, the Winning Bidder shall (i) confirm that the underwriters have offered or will offer the Certificates to the public on or before the date of award at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in the bid submitted by the Winning Bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Certificates, that the underwriters will neither offer nor sell unsold Certificates of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

The Winning Bidder will advise the City promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

(e) The City acknowledges that, in making the representations set forth above, the Winning Bidder will rely on (i) the agreement of each underwriter to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Certificates to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a retail or other third-party distribution agreement that was employed in connection with the initial sale of the Certificates to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering price rule, if applicable to the Certificates, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail or other third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Certificates.

(f) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling

group, and each broker-dealer that is a party to such retail or other third-party distribution agreement, as applicable, to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder and as set forth in the related pricing wires, (ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter or dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Certificates to the public to require each broker-dealer that is a party to such third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder or the underwriter and as set forth in the related pricing wires.

(g) Sales of any Certificates to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this section of the Official Notice of Sale entitled "ESTABLISHMENT OF ISSUE PRICE":

- (1) "public" means any person other than an underwriter or a related party,
- (2) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Certificates to the public),
- (3) a purchaser of any of the Certificates is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (4) "sale date" means the date that the Certificates are awarded by the City to the Winning Bidder.

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: See "THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES" for a description of the City's reservation of the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities.

GOOD FAITH DEPOSIT: A bank cashier's check payable to the order of "City of Watauga, Texas" in the amount of \$60,000, which is 2% of the par value of the Certificates (the "Good Faith Deposit"), is required. The Good Faith Deposit will be retained uncashed by the City until the Certificates are delivered, and at that time it will be returned to the Purchaser uncashed on the date of delivery of the Certificates; however, should the Purchaser fail or refuse to take up and pay for the Certificates, said Good Faith Deposit is to be cashed by the City and the proceeds accepted as full and complete liquidated damages. The above mentioned Good Faith Deposit may accompany the bid, or it may be submitted separately; however, if submitted separately, it shall be made available to the City prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Certificates has been made.

ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:

It is the obligation of the City to receive information from Winning Bidder if bidder is not a publicly traded business entity (a "Privately Held Bidder"). Pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the City may not award the Certificates to a Winning Bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the City as prescribed by the Texas Ethics Commission ("TEC"). In the event that a Privately Held Bidder's bid for the Certificates is the best bid received, the City, acting through its financial advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the City's conditional verbal acceptance of the bid, and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the City to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (City of Watauga, Texas) and (b) item 3 - the identification number assigned to this contract by the City (Watauga CO2020 – Bid Form) and description of the goods or services (Purchase of the City of Watauga, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a non-publicly traded business entity contracting with the City to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the City. The executed Disclosure Form must be sent by email to the City's financial advisor at mmcliney@samcocapital.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form

with original signatures must be submitted by mail to Jeff Kuhn, c/o Norton Rose Fulbright US LLP, 111 W. Houston Street, Suite 1800 San Antonio, Texas 78205, along with a PDF executed version sent to w.jeffrey.kuhn@nortonrosefulbright.com.

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made “under penalty of perjury.” Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed Disclosure Form is received. If applicable, the City reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder’s obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC’s website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE: Each bidder, through submittal of an executed Official Bid Form, represents that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, to the extent the Official Notice of Sale and Official Bid Form is a contract for goods or services, will not boycott Israel during the term of this agreement. The foregoing verification is made solely to comply with Section 2271.002, Texas Government Code, and to the extent such Section does not contravene applicable Texas or Federal law. As used in the foregoing verification, ‘boycott Israel’ means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes. Each bidder, through submittal of an executed Official Bid Form, understands ‘affiliate’ to mean an entity that controls, is controlled by, or is under common control with our company and exists to make a profit.

Each bidder, through submittal of an executed Official Bid Form, represents that neither it nor any parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Texas Government Code, and posted on any of the following pages of such officer’s internet website: <https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>; <https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or <https://comptroller.texas.gov/purchasing/docs/fto-list.pdf>. The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, and to the extent such Section does not contravene applicable Texas or Federal law and excludes our company and each parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. Each bidder, through submittal of an executed Official Bid Form, understands “affiliate” to mean any entity that controls, is controlled by, or is under common control with our company and exists to make a profit.

IMPACT OF BIDDING SYNDICATE ON AWARD: For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

OFFICIAL STATEMENT

To assist the Purchaser in complying with Rule 15c2-12, as amended (the “Rule”), of the United States Securities and Exchange Commission (“SEC”), the City and the Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

COMPLIANCE WITH RULE: The City has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Certificates, but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the City deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Purchaser shall be responsible for promptly informing the City of the initial offering yields of the Certificates.

The City agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a “designated electronic format” (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board (“MSRB”). The City consents to the distribution of such documents in a “designated electronic format.” Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the applicable MSRB rules.

The City will complete and authorize distribution of the Official Statement identifying the Purchaser and containing information omitted from the Preliminary Official Statement. The City does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Purchaser on or after the sale date, the City intends the same to be final as of such date, within the

meaning of Section 15c2-12(b)(3) of the Rule. Notwithstanding the foregoing, the City makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates.

FINAL OFFICIAL STATEMENT: In addition to delivering the Official Statement in a "designated electronic format", the City will furnish to the Purchaser, within seven (7) days after the sale date, an aggregate maximum of fifty (50) copies of the Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Certificates, in accordance with Section 15c2-12(b)(3) of the Rule. The Purchaser may arrange, at its own expense, to have the Official Statement reproduced and printed if it requires more than 50 copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Certificates. The Purchaser will be responsible for providing information concerning the City and the Certificates to subsequent purchasers of the Certificates, and the City will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The City agrees to provide, or cause to be provided, to the Purchaser the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the MSRB. The City consents to the distribution of such documents in a "designated electronic format". Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the MSRB Rule G-32. The City's obligation to supplement the Official Statement to correct key representations determined to be materially misleading, after the date of the Official Statement, shall terminate upon initial delivery of the Certificates to the Purchaser, unless the Purchaser notifies, in writing, the City that less than all of the Certificates have been sold to ultimate customers on or before such date, in which case the obligation will extend for an additional period of time (but not more than 90 days after the sale date) until all of the Certificates have been sold to ultimate customers.

MUNICIPAL BOND INSURANCE: In the event the Certificates are qualified for municipal bond insurance, and the Purchaser desires to purchase such insurance, the cost therefor will be paid by the Purchaser. The City shall pay the rating agency fee for S&P (hereinafter defined). Any other fees to be paid to rating agencies as a result of said insurance will be paid by the Purchaser. It will be the responsibility of the Purchaser to disclose the existence of insurance, its terms and the effect thereof with respect to the reoffering of the Certificates. Any downgrade by rating agencies of the bond insurance provider shall not relieve the Purchaser of its obligation under this heading. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" in the Preliminary Official Statement.

CHANGES TO OFFICIAL STATEMENT: If, subsequent to the date of the Official Statement, the City learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Purchaser of any adverse event which causes the Official Statement to be materially misleading, and unless the Purchaser elects to terminate its obligation to purchase the Certificates, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS - CONDITIONS TO DELIVERY", the City will promptly prepare and supply to the Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Purchaser and in a "designated electronic format"; provided, however, that the obligation of the City to do so will terminate when the City delivers the Certificates to the Purchaser, unless the Purchaser notifies the City on or before such date that less than all of the Certificates have been sold to ultimate customers, in which case the City's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the City delivers the Certificates) until all of the Certificates have been sold to ultimate customers.

CERTIFICATION OF THE OFFICIAL STATEMENT: At the time of payment for and delivery of the hereinafter defined Initial Certificate (the "Delivery Date"), the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the initial delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last financial statements of the City appearing in the Official Statement. The Official Statement and Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Certificates will be authorized, ratified and approved by the City Council of the City on the date of sale, and the Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Certificates, a certified copy of such approval, duly executed by the proper officials of the City.

CONTINUING DISCLOSURE AGREEMENT: The City will agree in the Ordinance to provide certain periodic information and notices of certain events in accordance with the Rule, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS: During the past five years, the Issuer has complied in all material respects with its continuing disclosure agreements in accordance with the Rule.

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL CERTIFICATES: The initial delivery of the Certificates to the Purchaser on the "Delivery Date", will be accomplished by the issuance of either (i) a single fully registered Certificate in the total principal amount of \$3,000,000 (preliminary, subject to change) payable in stated installments to the Purchaser and numbered T-1, or (ii) as one (1) fully registered Certificate for each year of stated maturity in the applicable principal amount and denomination, to be numbered consecutively from R-1 and upward (in either case, the "Initial Certificate"), signed by manual or facsimile signature of the Mayor and the City Secretary approved by the Attorney General of Texas, and registered and manually signed by an authorized representative of the Comptroller of Public Accounts of the State of Texas. Initial Delivery (defined below) of the Certificates will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Certificate, they shall be immediately canceled and one Certificate for each stated maturity will be registered in the name of Cede & Co. and deposited with DTC in connection with DTC's Book-Entry-Only System. Payment for the Initial Certificate must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six (6) business days' notice of the time fixed for delivery of the Certificates. It is anticipated that Initial Delivery of the Initial Certificate can be made on or about September 16, 2020, but if for any reason the City is unable to make delivery by September 16, 2020, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional thirty (30) days its obligation to take up and pay for the Certificates. If the Purchaser does not so elect within six (6) business days thereafter, then the Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided such failure is due to circumstances beyond the City's reasonable control.

EXCHANGE OF INITIAL CERTIFICATES FOR DEFINITIVE CERTIFICATES: Upon payment for the Initial Certificate at the time of such delivery, the Initial Certificate is to be canceled by the Paying Agent/Registrar and registered definitive Certificates delivered in lieu thereof, in multiples of \$5,000 for each stated maturity, in accordance with written instructions received from the Purchaser and/or members of the Purchaser's syndicate. Such Certificates shall be registered by the Paying Agent/Registrar. It shall be the duty of the Purchaser and/or members of the Purchaser's syndicate to furnish to the Paying Agent/Registrar, at least five days prior to the delivery of the Initial Certificate, final written instructions identifying the names and addresses of the registered owners, the stated maturities, interest rates, and denominations. The Paying Agent/Registrar will not be required to accept changes in such written instructions after the five day period, and if such written instructions are not received by the Paying Agent/Registrar five days prior to the delivery, the cancellation of the Initial Certificate and delivery of registered definitive Certificates may be delayed until the fifth day next following the receipt of such written instructions by the Paying Agent/Registrar.

CUSIP NUMBERS: It is anticipated that CUSIP identification numbers will be printed on the Certificates, but neither the failure to print such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Certificates shall be paid by the City; however, the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Purchaser.

CONDITIONS TO DELIVERY: The obligation to take up and pay for the Certificates is subject to the following conditions: the issuance of an approving opinion of the Attorney General of Texas, the Purchaser's acknowledgment of the receipt of the Initial Certificate, the Purchaser's receipt of the legal opinions of Bond Counsel and the no-litigation certificate, and the non-occurrence of the events described below under the caption "NO MATERIAL ADVERSE CHANGE", all as described below. In addition, if the City fails to comply with its obligations described under "OFFICIAL STATEMENT- FINAL OFFICIAL STATEMENT" above, the Purchaser may terminate its contract to purchase the Certificates by delivering written notice to the City within five (5) days thereafter.

NO MATERIAL ADVERSE CHANGE: The obligation of the Purchaser to take up and pay for the Certificates, and of the City to deliver the Initial Certificate, are subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Certificate, there shall have been no material adverse change in the affairs of the City subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of delivery.

LEGAL OPINIONS: The Certificates are offered when, as and if issued, subject to the approval of certain legal matters by the Attorney General of the State of Texas and Bond Counsel (see discussion "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" in the Preliminary Official Statement).

CHANGE IN TAX-EXEMPT STATUS: At any time before the Certificates are tendered for initial delivery to the Purchaser, the Purchaser may withdraw its bid if the interest on obligations such as the Certificates shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by U.S. Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

QUALIFIED TAX-EXEMPT OBLIGATIONS: The City will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see discussion under "TAX MATTERS – Qualified Tax-Exempt Obligations" in the Preliminary Official Statement).

GENERAL CONSIDERATIONS

FUTURE REGISTRATION: The Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof 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. A Certificate may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or its duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and interest rate as the Certificates surrendered for exchange or transfer.

RECORD DATE: The record date ("Record Date") for determining the party to whom the semiannual interest on the Certificates is payable on any interest payment date is the fifteenth day of the month next preceding such interest payment date.

RATINGS: A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Ratings" in the Preliminary Official Statement). An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. If the Purchaser chooses to submit a bid utilizing bond insurance, the enhanced long-term rating on the Certificates will be dependent upon the rating of the provider of such insurance policy. See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" in the Preliminary Official Statement. 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 such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

SALE OF ADDITIONAL OBLIGATIONS: The City currently has no plans to issue additional ad valorem tax supported debt in 2020, except potentially issuing refunding bonds for debt service savings.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE: No registration statement relating to the Certificates has been filed with the SEC under the Securities Act of 1933, as amended (the "Act"), in reliance upon exemptions provided in such Act. The Certificates have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon exemptions contained therein, nor have the Certificates been registered or qualified under the securities acts of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

It is the obligation of the Purchaser to register or qualify the sale of the Certificates under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Purchaser's written request and expense and within reasonable limits, in registering or qualifying the Certificates, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but will in no instance execute a general consent to service of process in any state that the Certificates are offered for sale.

ADDITIONAL COPIES: Subject to the limitations described herein, an electronic copy of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from www.samccapital.com.

On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Certificates, reconfirm its approval of the form and content of the Official Statement, and any addenda, supplement, or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Purchaser.

/s/Arthur Miner
Mayor,
City of Watauga, Texas

ATTEST:

/s/ Andrea Gardner
City Secretary,
City of Watauga, Texas

August 24, 2020

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CERTIFICATE OF INTERESTED PARTIES

FORM 1295

1 of 1

Complete Nos. 1 - 4 and 6 if there are interested parties.
 Complete Nos. 1, 2, 3, 5, and 6 if there are no interested parties.

**OFFICE USE ONLY
 CERTIFICATION OF FILING**

1 Name of business entity filing form, and the city, state and country of the business entity's place of business.

2 Name of governmental entity or state agency that is a party to the contract for which the form is being filed.

Watauga, Texas

3 Provide the identification number used by the governmental entity or state agency to track or identify the contract, and provide a description of the services, goods, or other property to be provided under the contract.

Contract Number: Watauga CO- 2020 Bid Form

Purchase of the Watauga, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020

4	Name of Interested Party	City, State, Country (place of business)	Nature of interest (check applicable)	
			Controlling	Intermediary

SAMPLE

5 Check only if there is NO Interested Party.

6 UNSWORN DECLARATION

My name is _____, and my date of birth is _____.

My address is _____, _____, _____, _____, _____.
(street) (city) (state) (zip code) (country)

I declare under penalty of perjury that the foregoing is true and correct.

Executed in _____ County, State of _____, on the _____ day of _____, 20____.
(month) (year)

 Signature of authorized agent of contracting business entity
 (Declarant)

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OFFICIAL BID FORM

Honorable Mayor and City Council
 City of Watauga
 7105 Whitley Road
 Watauga, Texas 76148

August 24, 2020

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement dated August 17, 2020, which terms are incorporated by reference to this proposal (and which are agreed to as evidenced by our submission of this bid), we hereby submit the following bid for \$3,000,000 (preliminary, subject to change) CITY OF WATAUGA, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020, dated August 1, 2020 (the "Certificates").

For said legally issued Certificates, we will pay you \$_____ (being a price of no less than 103% of the par value) plus accrued interest from their date to the date of delivery to us for Certificates maturing February 1 and bearing interest per annum as follows:

Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %	Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %
2021	\$ 115,000		2031*	\$ 120,000	
2022	115,000		2032*	120,000	
2023	210,000		2033*	125,000	
2024	215,000		2034*	130,000	
2025	165,000		2035*	130,000	
2026	165,000		2036*	130,000	
2027	170,000		2037*	130,000	
2028	175,000		2038*	135,000	
2029	185,000		2039*	140,000	
2030*	185,000		2040*	140,000	

**Maturities available for Term Certificates.*

Our calculation (which is not part of this bid) of the True Interest Cost from the above is: _____%

We are (are not) having the Certificates of the following maturities _____ insured by _____ at a premium of \$_____. The premium will be paid by the Winning Bidder. Any fees due to rating agencies, other than S&P Global Ratings ("S&P"), as a result of the purchase of this insurance will be paid by the Winning Bidder. The City will pay the fee due to S&P.

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: As a condition to our submittal of this bid for the Certificates, we acknowledge the following: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$3,000,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Official Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

Of the principal maturities set forth in the table above, we have created term certificates (the "Term Certificates") as indicated in the following table (which may include no more than five Term Certificates. For those years which have been combined into a Term Certificate, the principal amount shown in the table shown on page ii of the Official Notice of Sale will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Certificate maturity date will mature in such year. The Term Certificates created are as follows:

Term Certificate Maturity Date February 1	Year of First Mandatory Redemption	Principal Amount of Term Certificate	Interest Rate
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

The Initial Certificate shall be registered in the name of _____, which will, upon payment for the Certificates, be cancelled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the Book-Entry-Only System.

Cashier's Check of the _____ Bank, _____, Texas, in the amount of \$60,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this Bid), and is submitted in accordance with the terms as set forth in the Official Notice of Sale, said check is to be returned to the Purchaser.

We agree to accept delivery of the Certificates utilizing the Book-Entry-Only System through DTC and make payment for the Initial Certificate in immediately available funds at the Corporate Trust Division, BOKF, NA, Dallas, Texas, not later than 10:00 A.M., Central Time, on Wednesday, September 16, 2020, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale. It will be the obligation of the purchaser of the Certificates to complete and file the DTC Eligibility Questionnaire. The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" and, as evidenced thereof, agrees to complete, execute, and deliver to the City, by the Delivery Date, a certificate relating to the "issue price" of the Certificates in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the City. (See "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale.)

Through submittal of this executed Official Bid Form, the undersigned verifies that, except to the extent otherwise required by applicable Texas or Federal law, it does not and will not "boycott Israel" and is not a company on the Texas Comptroller's list concerning "foreign terrorist organizations" prepared and maintained thereby under applicable Texas law, all as more fully provided in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE".

For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

Upon notification of conditional verbal acceptance, the undersigned will, if required by applicable Texas law as described in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTERESTED PARTY FORM", complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed, and sent by email to the City's financial advisor at mmcliney@samccapital.com and Bond Counsel at w.jeffrey.kuhn@nortonrosefulbright.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the City from providing final written award of the enclosed bid.

By: _____
 Authorized Representative

 Telephone Number

 E-mail Address

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Watauga, Texas, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 24th day of August 2020.

/s/ _____
 Mayor,
 City of Watauga, Texas

ATTEST:

/s/ _____
 City Secretary,
 City of Watauga, Texas

\$3,000,000*
CITY OF WATAUGA, TEXAS
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2020

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of _____, _____, _____ (the "Purchaser"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "Obligations") of the City of Watauga, Texas (the "Issuer").

1. Reasonably Expected Initial Offering Price.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Obligations to the Public by _____ are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Obligations used by the "Purchaser" in formulating its bid to purchase the Obligations. Attached as Schedule B is a true and correct copy of the bid provided by the "Purchaser" to purchase the Obligations.

(b) _____ was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by _____ constituted a firm offer to purchase the Obligations.

2. Defined Terms.

(a) *Maturity* means Obligations with the same credit and payment terms. Obligations with different maturity dates, or Obligations with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is August 24, 2020.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Obligations to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Obligations to the Public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Obligations to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the tax certificate with respect to the Obligations and with respect to compliance with the federal income tax rules affecting the Obligations, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Obligations is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Obligations.

By: _____
Name: _____
Title: _____

Dated: September 16, 2020

*Preliminary, subject to change.

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SCHEDULE A
EXPECTED OFFERING PRICES

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SCHEDULE B

COPY OF UNDERWRITER'S BID

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This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

NEW ISSUE - BOOK-ENTRY-ONLY

Rating: S&P: "Applied For" (Insured)

S&P: "___" (Underlying)

(See: "OTHER PERTINENT INFORMATION-Ratings", "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein)

PRELIMINARY OFFICIAL STATEMENT

August 17, 2020

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Certificates (defined below) with certain covenants contained in the Ordinance (defined below) and subject to the matters described under "TAX MATTERS" herein, interest on the Certificates under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code, as amended to the date of initial delivery of the Certificates and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. (See "TAX MATTERS" herein.)

The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

\$3,000,000*

CITY OF WATAUGA, TEXAS

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

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020

Dated Date: August 1, 2020

Due: February 1, as shown on inside cover

The \$3,000,000* City of Watauga, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City of Watauga, Texas (the "City" or the "Issuer") on August 24, 2020, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)

Interest on the Certificates will accrue from August 1, 2020 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2021, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates 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 Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent Registrar to the securities depository, 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 Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (2) constructing storm water, culvert, ditch, and related drainage improvements; (3) constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; (4) designing, constructing, renovating, improving, and equipping the City's parks and recreational facilities; (5) constructing, acquiring, purchasing, renovating, enlarging, and improving the City's public works facilities, including fire station improvements and library roof improvements; (6) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (7) purchase of fleet vehicles and a motorcycle; and (8) payment for professional and employee services relating to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

The City has made application to municipal bond insurance companies to have the payment of the principal and interest on the Certificates insured by a municipal bond insurance policy and will consider the purchase of such insurance after an analysis of the bids from such companies has been made. The Purchaser (hereinafter defined) will be responsible for paying the bond insurer's bond insurance premium.. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)

SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE CERTIFICATES

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" as "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about September 16, 2020.

BIDS DUE MONDAY, AUGUST 24, 2020 BY 11:00 A.M., CENTRAL TIME

* Preliminary, subject to change

\$3,000,000*
CITY OF WATAUGA, TEXAS
(A political subdivision of the State of Texas located in Tarrant County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020

MATURITY SCHEDULE*
(Due February 1)

CUSIP Prefix No. 941097⁽¹⁾

<u>Stated</u> <u>Maturity</u> <u>2/1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No. Suffix</u> ⁽¹⁾	<u>Stated</u> <u>Maturity</u> <u>2/1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No. Suffix</u> ⁽¹⁾
2021	\$ 115,000				2031	\$ 120,000			
2022	115,000				2032	120,000			
2023	210,000				2033	125,000			
2024	215,000				2034	130,000			
2025	165,000				2035	130,000			
2026	165,000				2036	130,000			
2027	170,000				2037	130,000			
2028	175,000				2038	135,000			
2029	185,000				2039	140,000			
2030	185,000				2040	140,000			

(Interest to accrue from Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2029, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. Additionally, the Purchaser may select certain consecutive maturities of the Certificates to be grouped together as a "Term Certificate" and such "Term Certificates" would also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

* Preliminary, subject to change.

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

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**CITY OF WATAUGA, TEXAS
7105 Whitley Road
Watauga, Texas 76148**

ELECTED OFFICIALS

Name	Years Served	Term Expires (November)	Occupation
Arthur Miner Mayor	>2	2021	Retired
Tom Snyder Mayor Pro Tem, Place 2	3	2020	Supervisor
Danielle Tucker Councilmember, Place 1	>1	2020	CEO, President, Sales
Lovie Downey Councilmember, Place 3	>2	2021	Homemaker
Andrew Neal Councilmember, Place 4	>2	2021	Superintendent
Juanita King Councilmember, Place 5	>2	2021	Sales Associate
Mark Taylor Councilmember, Place 6	3	2020	Retired
Vacant Councilmember, Place 7			

ADMINISTRATION

Name	Position	Length of Service (Years)
Andrea Gardner	City Manager/City Secretary	2
Sandra Gibson	Director of Finance	16

CONSULTANTS AND ADVISORS

Bond CounselNorton Rose Fulbright US LLP
San Antonio, Texas

Certified Public AccountantsWhitley Penn LLP
Houston, Texas

Financial AdvisorSAMCO Capital Markets, Inc.
San Antonio, Texas

For Additional Information Please Contact:

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City Manager/City Secretary
Ms. Sandra Gibson
Director of Finance
City of Watauga
7105 Whitley Road
Watauga, Texas 76148
Phone: (817) 514-5800
agardner@wataugatx.org
sgibson@wataugatx.org

Mr. Mark M. McLiney
Mr. Andrew T. Friedman
SAMCO Capital Markets, Inc.
1020 NE Loop 410, Suite 640
San Antonio, Texas 78209
Phone: (210) 832-9760
mmcliney@samcocapital.com
afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

No dealer, broker, salesman, or other person has been authorized to give any 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 as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the 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 or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE PURCHASER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING EITHER THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION IS PROVIDED BY DTC, OR THE BOND INSURER, IF ANY, AND ITS MUNICIPAL BOND INSURANCE POLICY.

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

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

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

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The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Official Statement.

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 Certificates 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 Issuer	The City of Watauga, Texas (the "City" or "Issuer") is located in Tarrant County, Texas, approximately 10 miles northeast of downtown Fort Worth, Texas and 25 miles northwest of downtown Dallas, Texas. The City's Home Rule Charter was adopted on January 19, 1980 and last amended on May 9, 2015. The City operates under a Mayor-Council-City Manager form of government, with the City Council comprised of eight members including the Mayor. The City's 2020 population estimate is 23,770 (See "APPENDIX B – General Information Regarding the City of Watauga and Tarrant County, Texas" herein.)
The Certificates	The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City, on August 24, 2020 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
Security	The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)
Redemption Provisions of the Certificates	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2029, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. Additionally, the Purchaser may select certain consecutive maturities of the Certificates to be grouped together as a "Term Certificate" and such "Term Certificates" would also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS". (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" herein.)
Qualified Tax-Exempt Obligations	The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (2) constructing storm water, culvert, ditch, and related drainage improvements; (3) constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; (4) designing, constructing, renovating, improving, and equipping the City's parks and recreational facilities; (5) constructing, acquiring, purchasing, renovating, enlarging, and improving the City's public works facilities, including fire station improvements and library roof improvements; (6) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (7) purchase of fleet vehicles and a motorcycle; and (8) payment for professional and employee services relating to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects.. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

Bond Insurance

The City is considering qualifying the Certificates for municipal bond insurance and has made application to municipal bond insurance companies in connection with such consideration. If a municipal bond insurance policy is acquired, the Purchaser will pay the bond insurance premium for this bond insurance. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)

Ratings

A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Ratings" herein.)

Payment Record

The City has never defaulted on the payment of its general obligation or revenue indebtedness.

Future Debt Issues

The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2020 except potentially refunding bonds for debt service savings..

Delivery

When issued, anticipated on or about September 16, 2020.

Legality

Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel.

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PRELIMINARY OFFICIAL STATEMENT

relating to

\$3,000,000*

CITY OF WATAUGA, TEXAS

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

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Watauga, Texas (the "City" or the "Issuer") of its \$3,000,000* Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020 (the "Certificates") identified on the cover page.

The Issuer is a political subdivision of the State of Texas (the "State") and a municipal corporation organized and existing under the Constitution and laws of the State of Texas and its Home Rule Charter. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the Issuer and its finances. ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.*** Copies of such documents may be obtained upon request from the Issuer or its Financial Advisor, SAMCO Capital Markets, Inc., 1020 NE Loop 410, Suite 640, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

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

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

Infectious Disease Outbreak – COVID -19

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. The Governor subsequently extended this disaster declaration on August 8, 2020. 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 executive orders which have, among other things, imposed limitations on social gatherings and closed school districts throughout the State through the end of the 2019-20 school year. In addition to the actions by the state and federal officials, certain local officials, including the City and Coryell County, Texas, have declared a local state of disaster and have issued "shelter-in-place" orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy. The Governor's Report to Open Texas, issued on April 27, 2020, and subsequent executive orders, have instituted a gradual reopening of businesses on a staggered basis with adherence to specified health protocols.

On June 26, 2020, due to substantial increases in COVID-19 positive cases, positivity rates and hospitalizations, the Governor issued adjustments to the re-opening plan, limited and slowing the gradual reopening plan, limiting and slowing the gradual reopening to reduce the growing spread of COVID-19. Further, on July 2, 2020, the Governor issued a new executive order requiring face coverings in certain counties and issued a proclamation related to limiting gathering sizes and requiring social distancing.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the City. These negative impacts may reduce or otherwise negatively affect ad valorem tax revenues which are pledged as security for the Obligations. The City, however, cannot predict the effect of the continued spread of COVID-19 will have on the finances or operations and maintenance of the City.

*Preliminary, subject to change.

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

The 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 current financial condition or future prospects of the City.

The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition, and the effect could be material.

THE CERTIFICATES

General Description of the Certificates

The Certificates will be dated August 1, 2020 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2021, until stated maturity or prior redemption. Principal of and interest on the Certificates 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 Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Dallas, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), 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 Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council") on August 24, 2020, and the City's Home Rule Charter.

Security for Payment

Limited Pledge of Ad Valorem Taxes. The Certificates are general obligations of the City, payable from its collection of an ad valorem tax levied annually, within the legal limitations imposed by law, upon all taxable property located in the City. (See "AD VALOREM TAX PROCEDURES" and "TAX RATE LIMITATIONS" herein.)

Limited Revenue Pledge Benefiting the Certificates. Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are further secured by a lien on and pledge of the Pledged Revenues (being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the "System") not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereinafter issued by the Issuer. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise.

Redemption Provisions of the Certificates

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after February 1, 2030, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Two or more consecutive maturities of the Certificates may be grouped together as a "Term Certificate" by the Purchaser, and such "Term Certificates" would also be subject to mandatory sinking fund redemption. If less than all of

the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

Notice of Redemption

At least 30 days prior to the date fixed for any redemption of any Certificates or portions thereof prior to stated maturity, the Issuer shall cause notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Certificate or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Certificates or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE CERTIFICATEHOLDER, AND, PROVIDED THAT PROVISION FOR PAYMENT OF THE REDEMPTION PRICE IS MADE AND ANY OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST ON THE REDEEMED CERTIFICATES SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A CERTIFICATE HAS NOT BEEN PRESENTED FOR PAYMENT.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Selection of Certificates to be Redeemed

The Certificates of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Certificates to be partially redeemed must be surrendered in exchange for one or more new Certificates for the unredeemed portion of the principal. If less than all of the Certificates are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to select, at random and by lot, the particular Certificates, or portion thereof, to be redeemed. If a Certificate (or any portion of the principal sum thereof) will have been called for redemption and notice of such redemption will have been given, such Certificate (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (2) constructing storm water, culvert, ditch, and related drainage improvements; (3) constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system; (4) designing, constructing, renovating, improving, and equipping the City's parks and recreational facilities; (5) constructing, acquiring, purchasing, renovating, enlarging, and improving the City's public works facilities, including fire station improvements and library roof improvements; (6) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (7) purchase of fleet vehicles and a motorcycle; and (8) payment for professional and employee services relating to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects.

Sources and Uses

Sources	
Par Amount of the Certificates	\$ _____
Accrued Interest on the Certificates	_____
[Net] Reoffering Premium	_____
Total Sources of Funds	=====
Uses	
Project Fund Deposit	\$ _____
Purchaser's Discount (Including bond insurance premium, if any)	_____
Certificate Fund Deposit	_____
Costs of Issuance	_____
Total Uses	=====

Payment Record

The Issuer has never defaulted on the payment of its ad valorem tax-backed indebtedness.

Amendments

The Issuer may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Certificates affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the redemption price or amounts, change the place or places at or the coin or currency in which any Certificate or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, (3) extend any waiver of default to subsequent defaults, or (4) reduce the aggregate principal amount of Certificates required for consent to any amendment, change, modification, or waiver.

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), to mature as to principal and interest in such amounts and at such times to insure 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 the Certificates. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government 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. The Ordinance provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, 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 on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. City officials are authorized to restrict such eligible securities as deemed appropriate. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, the City has the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Default and Remedies

If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the 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.3d 325

(Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language.

Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the “Proprietary-Governmental Dichotomy”). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State’s sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson*”) the Texas Supreme Court (the “Court”) addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’” and protecting such municipalities “via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources”. While the Court recognized that the distinction between government and proprietary functions is not clear, the *Wasson* opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders 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). 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. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar’s records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission. Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates affected by the change by United States mail, first-class, postage prepaid.

The Certificates will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar’s books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or prior redemption upon presentation to the Paying Agent/Registrar; provided however, that so long as DTC’s Book-Entry-Only System is used, all payments will be made as described under “BOOK-ENTRY-ONLY SYSTEM” herein. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

Record Date

The record date ("Record Date") for determining the party to whom interest is payable on a Certificate on any interest payment date means the fifteenth (15th) day of the month next preceding each interest payment date. 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 will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment" herein.)

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 Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Future Registration

In the event the Certificates are not in the Book-Entry-Only System, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof 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. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Certificate or Certificates surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Certificates.)

Limitation on Transfer of Certificates

Neither the Issuer nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (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 Certificate or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Certificate redeemed in part.

Replacement Certificates

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement. The person requesting the authentication of and delivery of a replacement Certificate must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

BOND INSURANCE

The Issuer is considering qualifying the Certificates for municipal bond insurance and has made application to several bond insurance companies in connection with such consideration. No representation is hereby made that the Issuer will use municipal bond insurance in connection with the issuance of the Certificates. If the City accepts a bid for the Certificates that incorporates the acquisition of a municipal bond guaranty policy (the "Policy") from a qualified bond insurance company (the "Insurer"), the premium for the Policy will be paid by the Purchaser. The final Official Statement shall disclose, to the extent necessary, any relevant information relating to the Policy.

BOND INSURANCE GENERAL RISKS

General

The City has applied for a Policy to guarantee the Certificates. The City has yet to determine whether any insurance will be purchased with the Certificates, but the payment of the bond insurance premium will be the Purchaser's obligation. If a Policy is purchased as a result of the City accepting a bid for the Certificates that incorporate the acquisition of such a policy, the following are risk factors relating to the bond insurance.

In the event of default of the scheduled payment of principal or interest on the Certificates when all or a portion thereof becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the Beneficial Owners as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and

in such amounts as would have been due absent such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date). Payment of principal of and interest on the Certificates is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see “THE CERTIFICATES - Default and Remedies”). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Beneficial Owners.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable from the ad valorem tax levied, within the limitations prescribed by law, on all taxable property located within the City as further described under “THE CERTIFICATES – Security for Payment”. In the event the Insurer becomes obligated to make payments with respect to the Certificates, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Certificates.

If a Policy is acquired, the enhanced long-term rating on the Certificates will be dependent on the financial strength of the Insurer and its claims paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the rating on the Certificates, whether or not subject to the Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Certificates. See the disclosure described in “OTHER PERTINENT INFORMATION – Ratings” herein.

The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the City, the Purchaser, or the City’s Financial Advisor have made an independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody’s Investor Services, Inc., S&P Global Ratings and Fitch Ratings, Inc. (the “Rating Agencies”) have, in recent years, downgraded and/or placed on negative watch the claims-paying and financial strength of many providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers are possible. In addition, recent events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Certificates. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the investment.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by The Depository Trust Company (“DTC”), New York, New York, while the Certificates are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor, and the Purchaser 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 Certificates, 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 Certificates), 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 Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Certificates, in the aggregate principal amount of such issue, 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, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). 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 Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC’s records. The ownership interest of each actual purchaser of each Certificate (“Beneficial Owner”) is in turn to be recorded on the Direct 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 Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in Beneficial Ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC's records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The 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 Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 Certificates within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to the holder of such Certificates and will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" hereinabove.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City, the Financial Advisor, and the Purchaser believe to be reliable, but none of the City, the Financial Advisor, or the Purchaser take responsibility for the accuracy thereof.

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

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates representing the Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE – Future Registration."

INVESTMENT POLICIES

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

Legal Investments

Under State law and subject to certain limitations, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) “A” or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an “A” or better rated state or national bank; (10) 270-day or shorter bankers’ acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least “A-1” or “P-1”; (11) commercial paper rated at least “A-1” or “P-1”; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) “AAA” or “AAAm”-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The City may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the City may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund’s total assets.

Except as stated above or inconsistent with its investment policy, the City may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the City is not required to liquidate the investment unless it no longer carries a required rating, in which case the City is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

Current Investments ⁽¹⁾

TABLE 1

As of March 31, 2020 the City held investments as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Cash, Money Markets, and Certificates of Deposit	\$32,916,206	82.28%
Investment Pools	<u>7,090,157</u>	<u>17.72%</u>
Total	<u>\$40,006,363</u>	<u>100.00%</u>

As of such date, the market value of such investments (as determined by the Issuer by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the Issuer are invested in derivative securities, *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

⁽¹⁾ Unaudited.

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 the Tarrant Appraisal District (“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 "AD VALOREM PROPERTY TAXATION – 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 appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

Local Option Freeze for the Elderly and Disabled

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

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

Other Exempt Property

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

Tax Increment 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.

City and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

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

City’s Rights in the Event of Tax Delinquencies

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

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

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

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

obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

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

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

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

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

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

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

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

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

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

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.

The Property Tax Code as Applied to the City

The City has not elected to grant an exemption of up to 20% of the appraised value of residence homesteads (but not less than \$5,000).

The City has elected to grant a Local Option Homestead Exemption of at least \$3,000 of the appraised value of the residence homestead of persons 65 year of age or older and the disabled, up to a maximum of \$40,000.

On December 1, 2003, the City approved an election granting the Local Option Freeze for the elderly or disabled.

On December 17, 2011, the City Council took official action to again tax Goods-in-Transit.

The City does not allow split payments but does allow discounts for early payment of ad valorem property taxes.

TAX MATTERS

Tax Exemption

The delivery of the Certificates is subject to the opinion of Norton Rose Fulbright US LLP, Bond Counsel, to the effect that interest on the Certificates for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), of the owners thereof pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion is reproduced as APPENDIX C.

In rendering the foregoing opinions, Bond Counsel will rely upon the certifications of the Issuer made in a certificate of even date with the initial delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance with the provisions of the Ordinance by the Issuer subsequent to the issuance of the Certificates. The Ordinance contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the Issuer described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the Issuer as the "taxpayer," and the owners of the Certificates would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Certificates, the Issuer may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

Existing law may change to reduce or eliminate the benefit to Certificate holders of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Ancillary Tax Consequences

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations” herein), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (“FASIT”), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount Certificates

The initial public offering price to be paid for certain Certificates may be less than the amount payable on such Certificates at maturity (the “Discount Certificates”). An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificates. A portion of such original issue discount, allocable to the holding period of a Discount Certificate by the initial purchaser, will be treated as interest for federal income tax purposes, excludable from gross income on the same terms and conditions as those for other interest on the Certificates. Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations” herein), life insurance companies, property and casualty insurance companies, S corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

Owners of Discount Certificates should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Certificates and with respect to the state and local tax consequences of owning Discount Certificates. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on the Discount Certificates may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

Tax Accounting Treatment of Premium Certificates

The initial public offering price to be paid for certain Certificates may be greater than the stated redemption price on such Certificates at maturity (the “Premium Certificates”). An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable Certificate premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable Certificate premium with respect to the Premium Certificates. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

Purchasers of the Premium Certificates should consult with their own tax advisors with respect to the determination of amortizable Certificate premium on Premium Certificates for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Certificates.

Qualified Tax-Exempt Obligations

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by “financial institutions” described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest

expense allocable to tax-exempt obligations (other than private activity Certificates that are not qualified 501(c)(3) bonds) which are designated by an issuer as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the Issuer must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file each audit report within 180 days after the close of the Issuer's fiscal year. The Issuer's fiscal records and audit reports are available for public inspection during the regular business hours, and the Issuer is required to provide a copy of the Issuer's audit reports to any bondholder or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Services Commission.

The City shall provide annually to the MSRB (1) within six months after the end of each fiscal year of the City beginning in the year 2020, financial information and operating data with respect to the City of the general type included in the body of this Official Statement under “Investment Authority and Investment Practices of the Issuer - Current Investments” and in Tables 1 through 14 of “Appendix A - Financial Information of the Issuer” to this Official Statement (the “Annual Financial Information”), and (2) within six months after the end of each fiscal year of the City beginning in the year 2020, the audited financial statements of the City (the “Audited Financial Statements”). If the audit of such financial statements is not complete within six (6) months after any such fiscal year end, then the City shall file unaudited financial statements by the required time and audited financial statements for the applicable fiscal year, when and if the audit report becomes available. Any financial statements to be provided shall be prepared in accordance with the accounting principles described in APPENDIX D to this Official Statement, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and shall be in substantially the form included in this Official Statement as APPENDIX D.

The Issuer may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”). The updated information will include audited financial statements for the Issuer, if the Issuer commissions an audit and it is completed by the required time. If audited financial statements are not available by that time, the Issuer will provide by the required time unaudited financial statements for the applicable fiscal year to the MSRB with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Issuer's annual financial statements or such other accounting principles as the Issuer may be required to employ from time to time pursuant to state law or regulation.

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

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or

additional paying agent/registrars or the change of name of a paying agent/registrars, if material (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City, any of which reflect financial difficulties. In the Ordinance, the City will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement (although the City is soliciting bids for bond insurance), liquidity enhancement, or debt service reserves.

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, 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.

Availability of Information

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

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

Limitations and Amendments

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

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

Compliance with Prior Agreements

During the past five years, the City has complied in all material respects in accordance with SEC Rule 15c2-12.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, San Antonio, Texas has reviewed (except for numerical, statistical or technical data) the information under the captions "THE CERTIFICATES" (except under the subcaptions "Use of Certificate Proceeds", "Sources and Uses" "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The 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 Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

The various legal opinions to be delivered concurrently with the delivery of the Certificates 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.

Litigation

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

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

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) and Section 271.051, as amended, Texas Local Government Code, each, provide that the Certificates are negotiable instruments governed by Chapter 8, as amended, 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. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code, the Certificates must have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See "OTHER PERTINENT INFORMATION – Ratings" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

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 Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. The City has made no review of laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

FORWARD LOOKING STATEMENTS

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

The sale of the Certificates has not been registered under the Securities Act of 1933, as amended, in reliance upon exemptions provided in such Act; the Certificates have not been qualified under the Securities Act of Texas in reliance upon exemptions contained therein; nor have the Certificates been qualified under the securities acts of any other jurisdiction. The Issuer assumes no responsibility for qualification of the Certificates 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 Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

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

Ratings

A municipal bond rating application for the Certificates has been made to S&P Global Ratings ("S&P"). The outcome of the result will be made available as soon as possible. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the Issuer 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 Certificates.

Authenticity of Financial Information

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

Financial Advisor

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Certificates. In this capacity, the Financial Advisor has compiled certain data relating to the Certificates and has drafted 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 Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and initial delivery of the Certificates.

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

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of _____ (previously defined as the "Purchaser" or the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a [net] reoffering premium of \$_____, less a Purchaser's discount of \$_____, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2019, the date of the last financial statements of the City appearing in the Official Statement.

Information from External Sources

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

Concluding 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.

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

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

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

CITY OF WATAUGA, TEXAS

/s/ _____
Mayor
City of Watauga, Texas

ATTEST:

/s/ _____
City Secretary
City of Watauga, Texas

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APPENDIX A
FINANCIAL INFORMATION RELATING TO
THE CITY OF WATAUGA, TEXAS

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2020 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 1,786,747,311
Less Exemptions:	
Optional Over-65 or Disabled.....	\$ 62,342,835
Veterans' Exemptions.....	10,568,653
Pollution Control.....	105,702
Other/Misc Exemptions.....	42,391,628
Absolute Exempt.....	66,331,955
Misc. Personal Property.....	7,616,478
Nominal Value.....	<u>135,796</u>
TOTAL EXEMPTIONS	<u>189,493,047</u>
2020 Assessed Value of Taxable Property.....	<u>\$ 1,597,254,264</u>

Source: Tarrant Appraisal District.

GENERAL OBLIGATION BONDED DEBT

(as of August 1, 2020)

General Obligation Debt Principal Outstanding

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007	\$ 1,590,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011	2,345,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2012	5,170,000
General Obligation Refunding Bonds, Series 2013	585,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014	2,740,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016	4,860,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017	6,510,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	6,025,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019	8,295,000
Tax Notes, Series 2020	<u>450,000</u>
	38,570,000
The Certificates	<u>3,000,000</u> *
Total Gross General Obligation Debt	<u>\$ 41,570,000</u> *

Less: Self Supporting Debt

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2011 (63.28% Utility)	\$ 1,484,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2012 (100% Utility)	5,170,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017 (100% Utility)	6,510,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (28.92 EDC)	1,742,583
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (95.90% Utility)	8,000,000
The Certificates (16.67% EDC)	<u>500,000</u> *
Total Self-Supporting Debt	<u>\$ 23,406,583</u> *
Total Net General Obligation Debt Outstanding	<u>\$ 18,163,417</u> *

2020 Net Assessed Valuation	\$ 1,597,254,264
Ratio of Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	2.60% *
Ratio of Net General Obligation Debt to Certified Net Taxable Assessed Valuation	1.14% *

Population: 2000 -21,908; 2010 - 23,497; est. 2019 - 23,770
Per Capita Certified Net Taxable Assessed Valuation - \$67,196.22
Per Capita Gross General Obligation Debt Principal - \$1,748.84
Per Capita Net General Obligation Debt Principal - \$764.13

* Preliminary, subject to change.

CITY DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE

TABLE 2

(As of September 30, 2019)

Note payable to the City of North Richland Hills annual installments of \$19,785, including interest at 4.50%, maturing February 2021.	\$ 37,054.00
Note payable to City of North Richland Hills annual installments of \$63,068, including interest at 4.50%, maturing October 2024.	<u>276,866.00</u>
Total Notes Payable	<u>\$ 313,920.00</u>

Source: The Issuer's Annual Financial Report for the fiscal year ended September 30, 2019.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

TABLE 3

Fiscal Year Ending (9/30)	Current Total Outstanding Debt ⁽¹⁾	The Certificates*			Total Combined Debt Service*	Less: Self Supporting Debt Service*	Total Net Debt Service *
		Principal	Interest	Total			
2021	\$ 4,365,764	\$ 115,000	\$ 73,563	\$ 188,563	\$ 4,554,327	\$ 1,753,439	\$ 2,800,888
2022	4,325,139	115,000	70,688	185,688	4,510,826	1,889,189	2,621,638
2023	3,504,983	210,000	66,625	276,625	3,781,608	1,889,401	1,892,207
2024	3,200,339	215,000	61,313	276,313	3,476,651	1,887,464	1,589,188
2025	3,196,279	165,000	56,563	221,563	3,417,842	1,887,220	1,530,622
2026	3,089,509	165,000	52,438	217,438	3,306,947	1,884,164	1,422,783
2027	2,802,193	170,000	48,250	218,250	3,020,443	1,776,220	1,244,224
2028	2,489,575	175,000	43,938	218,938	2,708,513	1,728,901	979,612
2029	2,490,688	185,000	39,438	224,438	2,715,125	1,728,357	986,768
2030	2,489,653	185,000	34,813	219,813	2,709,466	1,728,801	980,665
2031	2,482,138	120,000	31,000	151,000	2,633,138	1,673,795	959,343
2032	2,483,088	120,000	28,000	148,000	2,631,088	1,673,339	957,749
2033	1,965,872	125,000	24,938	149,938	2,115,809	1,150,351	965,458
2034	1,970,077	130,000	21,750	151,750	2,121,827	1,154,624	967,203
2035	1,834,260	130,000	18,500	148,500	1,982,760	1,152,429	830,331
2036	1,829,119	130,000	15,250	145,250	1,974,369	1,149,204	825,165
2037	1,470,874	130,000	12,000	142,000	1,612,874	1,154,774	458,100
2038	981,828	135,000	8,688	143,688	1,125,516	666,403	459,113
2039	561,591	140,000	5,250	145,250	706,841	561,591	145,250
2040	-	140,000	1,750	141,750	141,750	-	141,750
Total	\$ 47,532,967	\$ 3,000,000	\$ 714,750	\$ 3,714,750	\$ 51,247,717	\$ 28,489,663	\$ 22,758,054

⁽¹⁾ Includes self-supporting debt.

* Preliminary, subject to change. Interest calculations based on an assumed rate.

TAX ADEQUACY (Includes Self-Supporting Debt)

2020 Preliminary Net Taxable Assessed Valuation	\$ 1,597,254,264
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2021)	4,554,327 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.29095 *

* Preliminary, subject to change. Includes the Certificates.

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest.

TAX ADEQUACY (Excludes Self-Supporting Debt)

2020 Preliminary Net Taxable Assessed Valuation	\$ 1,597,254,264
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2021)	2,800,888 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.17894 *

* Preliminary, subject to change. Includes the Certificates.

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest.

INTEREST AND SINKING FUND MANAGEMENT INDEX

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2019	\$ 659,604
2020 Anticipated Interest and Sinking Fund Tax Levy at 98% Collections Produce ⁽¹⁾	<u>2,909,101</u>
Total Available for General Obligation Debt	<u>\$ 3,568,705</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/20	\$ 2,536,606
Estimated Surplus at Fiscal Year Ending 9/30/2020 ⁽¹⁾	<u>\$ 1,032,099</u>

⁽¹⁾ Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(As of August 1, 2020)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year*	Percent of Principal Retired (%)*
	Currently Outstanding ^(a)	The Certificates [*]	Total*		
2021	\$ 3,195,000	\$ 115,000	\$ 3,310,000	\$ 38,260,000	7.96%
2022	3,270,000	115,000	3,385,000	34,875,000	16.11%
2023	2,550,000	210,000	2,760,000	32,115,000	22.74%
2024	2,335,000	215,000	2,550,000	29,565,000	28.88%
2025	2,415,000	165,000	2,580,000	26,985,000	35.09%
2026	2,395,000	165,000	2,560,000	24,425,000	41.24%
2027	2,195,000	170,000	2,365,000	22,060,000	46.93%
2028	1,960,000	175,000	2,135,000	19,925,000	52.07%
2029	2,025,000	185,000	2,210,000	17,715,000	57.39%
2030	2,080,000	185,000	2,265,000	15,450,000	62.83%
2031	2,130,000	120,000	2,250,000	13,200,000	68.25%
2032	2,190,000	120,000	2,310,000	10,890,000	73.80%
2033	1,725,000	125,000	1,850,000	9,040,000	78.25%
2034	1,775,000	130,000	1,905,000	7,135,000	82.84%
2035	1,685,000	130,000	1,815,000	5,320,000	87.20%
2036	1,725,000	130,000	1,855,000	3,465,000	91.66%
2037	1,410,000	130,000	1,540,000	1,925,000	95.37%
2038	955,000	135,000	1,090,000	835,000	97.99%
2039	555,000	140,000	695,000	140,000	99.66%
2040	-	140,000	140,000	-	100.00%
Total	<u>\$ 38,570,000</u>	<u>\$ 3,000,000</u>	<u>\$ 41,570,000</u>		

^(a) Includes self-supporting debt.

* Preliminary, subject to change.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2010-2019

TABLE 4

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2010-11	\$ 971,784,583		
2011-12	964,424,671	(7,359,912)	-0.76%
2012-13	958,898,123	(5,526,548)	-0.57%
2013-14	956,468,332	(2,429,791)	-0.25%
2014-15	1,016,667,348	60,199,016	6.29%
2015-16	1,031,936,059	15,268,711	1.50%
2016-17	1,099,930,546	67,994,487	6.59%
2017-18	1,349,511,853	249,581,307	22.69%
2018-19	1,573,355,021	223,843,168	16.59%
2019-20	1,597,254,264	23,899,243	1.52%

Source: Tarrant Appraisal District.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 5

	2020	% of Total	2019	% of Total	2018	% of Total
Real, Residential, Single-Family	\$ 1,375,128,134	76.96%	\$ 1,306,082,017	75.96%	\$ 1,246,483,663	81.56%
Real, Residential, Multi-Family	17,970,945	1.01%	16,510,000	0.96%	2,300,000	0.15%
Real, Vacant Lots/Tracts	9,887,982	0.55%	24,072,157	1.40%	6,858,338	0.45%
Real, Acreage (Land Only)	2,114	0.00%	2,210	0.00%	672,672	0.04%
Real, Commercial and Industrial	306,234,320	17.14%	293,518,759	17.07%	224,405,787	14.68%
Oil and Gas	430,621	0.02%	699,800	0.04%	137,420	0.01%
Real & Tangible, Personal Utilities	21,687,345	1.21%	19,362,362	1.13%	19,859,453	1.30%
Tangible Personal, Commercial & Personal, Mobile Home	53,615,919	3.00%	56,244,031	3.27%	24,579,307	1.61%
Residential Inventory	22,069	0.00%	2,211	0.00%	13,884	0.00%
Real Property, Inventory	140,000	0.01%	2,018,132	0.12%	1,424,500	0.09%
	<u>1,627,862</u>	<u>0.09%</u>	<u>836,925</u>	<u>0.05%</u>	<u>1,506,619</u>	<u>0.10%</u>
Total Appraised Taxable Value	\$ 1,786,747,311	100.00%	\$ 1,719,348,604	100.00%	\$ 1,528,241,643	100.00%
Less:						
Optional Over-65 or Disabled	\$ 62,342,835		\$ 59,226,488		\$ 56,528,417	
Veterans' Exemptions	10,568,653		9,394,545		7,548,139	
Pollution Control	105,702		86,730		6,471	
Other/Misc Exemptions	42,391,628		25,505,740		670,462	
Absolute Exempt	66,331,955		45,168,445		103,386,337	
Misc. Personal Property	7,616,478		6,407,206		10,542,242	
Nominal Value	<u>135,796</u>		<u>204,429</u>		<u>47,722</u>	
Total Exemptions	189,493,047		145,993,583		178,729,790	
Net Taxable Assessed Valuation	\$ 1,597,254,264		\$ 1,573,355,021		\$ 1,349,511,853	

Source: Tarrant Appraisal District

PRINCIPAL TAXPAYERS *

TABLE 6

Name	Type of Business/Property	2019 Net Taxable Assessed Valuation	% of 2019 Assessed Valuation
Inland Western Watauga LP	Shopping Mall	\$ 37,280,054	2.37%
Watauga Town Crossing LLC	Apartments	24,798,111	1.58%
Lifestyle Christianity	Church	17,575,125	1.12%
Park Vista Townhomes	Apartments	14,460,000	0.92%
Brookwillow Watauga LLC	Apartments	12,907,257	0.82%
Dayton Hudson Corp	Retail Center	9,633,051	0.61%
Oncor Electric Delivery Co LLC	Electric Utility	6,908,234	0.44%
Watauga All Storage LTD	Storage Units	6,558,016	0.42%
Target Stores	Retail	5,811,438	0.37%
Woodcrest Marketplace LP	Shopping Center	<u>5,700,000</u>	<u>0.36%</u>
		\$ 141,631,286	9.00%

Source: Tarrant Appraisal District

* As shown in the table above, the top ten taxpayers in the City account for 9% of the City's tax base for 2019, as of current date the 2020 Principal Taxpayers information is unavailable at this time. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the city, resulting in less local tax revenue. See "INTRODUCTORY STATEMENT – Infectious Disease Outbreak – COVID-19". If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "THE CERTIFICATES – Default and Remedies" and "AD VALOREM PROPERTY TAXATION – City's Rights in the Event of Tax Delinquencies" in this Official Statement.

TAX RATE DISTRIBUTION**TABLE 7**

	2019-20	2018-19	2017-18	2016-17	2015-16
General Fund	\$ 0.405884	\$ 0.420600	\$ 0.419650	\$ 0.423017	\$ 0.440171
I&S Fund	0.174616	0.181200	0.182138	0.195394	0.178547
Total Tax Rate	\$ 0.580500	\$ 0.601800	\$ 0.601788	\$ 0.618411	\$ 0.618718

Source: Tarrant Appraisal District

TAX DATA**TABLE 8**

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development tax. The City's total sales tax rate is 2%. The Watauga Parks Development Corporation Sales Tax Fund was established to account for a 1/2¢ sales tax increase approved by voters in May 1994. The 1/2¢ sales tax for Crime Control became effective on April 1, 1996. In November 2010, the voters approved a ten-year extension for Crime Control, which now expires in 2021. On May 12, 2012, the voters approved an Ordinance decreasing the sales and use tax benefiting the Parks Development Corporation to 1/4¢. Additionally, the voters adopted a local sales and use tax of 1/4¢ to provide revenues for the maintenance and repair of municipal streets. Net collections on calendar year basis are as follows:

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2010	\$ 971,784,583	\$ 0.580763	\$ 5,677,298	99.07	99.79	9/30/2011
2011	964,424,671	0.589001	5,680,471	99.12	99.77	9/30/2012
2012	958,898,123	0.580763	5,568,926	99.27	99.81	9/30/2013
2013	956,468,332	0.591200	5,654,641	99.01	99.81	9/30/2014
2014	1,016,667,348	0.591216	6,010,700	99.37	99.81	9/30/2015
2015	1,031,936,059	0.618718	6,384,774	99.24	99.75	9/30/2016
2016	1,099,930,546	0.618411	6,802,091	99.67	99.78	9/30/2017
2017	1,349,511,853	0.601788	8,121,200	99.32	99.75	9/30/2018
2018	1,573,355,021	0.601800	9,468,451	99.20	99.20	9/30/2019
2019	1,597,254,264	0.580500	8,780,923	96.38	96.92	9/30/2020*

Source: Tarrant Appraisal District and the Issuer.

* As of June 30, 2020.

MUNICIPAL SALES TAX COLLECTIONS

TABLE 9

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development tax. The City's total sales tax rate is 2%. 1% of the tax is for the General Fund, ½ percent for economic development, ¼% for street maintenance, and ¼% for the crime control district. Net collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy ⁽¹⁾	Equivalent of Ad Valorem Tax Rate	Crime Control District
2010	\$ 3,923,807	69.11%	\$ 0.4038	\$ 1,153,505
2011	4,332,013	76.26%	0.4492	1,380,940
2012	4,349,875	78.11%	0.4536	1,451,347
2013	4,203,680	74.34%	0.4395	1,397,990
2014	4,452,920	74.08%	0.4380	1,477,698
2015	4,650,930	72.84%	0.4507	1,544,160
2016	4,320,708	63.52%	0.3928	1,432,773
2017	4,298,869	52.93%	0.3185	1,429,767
2018	4,383,453	46.30%	0.2786	1,443,556
2019	4,437,153	47.85%	0.2780	1,463,214
2020*	2,473,252	28.17%	0.0015	815,340

*As of July 2020

Source: State Comptroller's Office of the State of Texas.

OVERLAPPING DEBT INFORMATION

(As of June 30, 2020)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt (As of 06/30/2020)	% Overlapping	Amount Overlapping
Birdville ISD	\$ 440,974,599	7.67%	\$ 33,822,752
Keller ISD	927,371,727	2.82%	26,151,883
Tarrant County	266,375,000	0.75%	1,997,813
Tarrant County Hospital District	16,135,000	0.75%	121,013
Total Gross Overlapping Debt			<u>\$ 62,093,459</u>
Watauga, City of			\$ 41,570,000 *
Total Gross Direct and Overlapping Debt			<u>\$ 103,663,459 *</u>
Ratio of Gross Direct Debt and Overlapping Debt			6.59% *
Per Capita Gross Direct Debt and Overlapping Debt			\$4,361.10 *

Note: The above figures show Gross General Obligation Debt for the City of Watauga, Texas. The Issuer's Net General Obligation Debt is \$18,163,417*. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt	\$ 80,256,876 *
Ratio of Net Direct and Overlapping Debt to 2020 Net Assessed Valuation	5.02% *
Per Capita Net Direct and Overlapping Debt	\$3,399.27 *

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas

* Includes the Certificates. Preliminary, subject to change.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 10

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Fund Balance - Beginning of Year	\$ 4,571,559	\$ 4,531,955	\$ 5,476,752	\$ 5,842,997	\$ 6,036,710
Revenues	\$ 12,260,736	\$ 11,881,382	\$ 11,310,439	\$ 11,197,358	\$ 11,019,096
Expenditures	12,910,940	12,106,108	12,126,031	11,482,081	11,162,668
Excess (Deficit) of Revenues Over Expenditures	\$ (650,204)	\$ (224,726)	\$ (815,592)	\$ (284,723)	\$ (143,572)
Other Financing Sources (Uses):					
Proceeds from sale of Assets			\$ 8,880	\$ 40,975	\$ 17,589
Operating Transfers In	544,486	563,100	522,792	436,381	434,270
Operating Transfers Out	(47,500)	(298,770)	(661,000)	(558,878)	(502,000)
Total Other Financing Sources (Uses):	\$ 496,986	\$ 264,330	\$ (129,328)	\$ (81,522)	\$ (50,141)
Fund Balance - End of Year	\$ 4,418,341 ⁽²⁾	\$ 4,571,559	\$ 4,531,832 ⁽¹⁾	\$ 5,476,752	\$ 5,842,997

Source: The Issuer's Comprehensive Annual Financial Reports and information provided by the issuer.

⁽¹⁾ General fund balance was drawn down due to budgeted one-time expenditures for equipment replacement and capital projects including security enhancements at City owned facilities.

⁽²⁾ City administration expects to end the fiscal year ending September 30, 2020 with an unaudited General Fund balance of approximately \$4,647,402. The City intends to maintain its General Fund balance above its formal policy requirement of 25% operating expenditures.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2019 Assessed Valuation	% of Actual	2019 Tax Rate
Birdville ISD	11,769,003,318	100%	\$ 1.384000
Keller ISD	20,477,206,838	100%	1.408000
Tarrant County	211,499,174,386	100%	0.234000
Tarrant County College District	213,412,565,613	100%	0.130000
Tarrant County Hospital District	211,985,667,192	100%	0.224000

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS

Issuer	Date of Authorization	Purpose	Amount Authorized	Amount Issued to Date	Amount Unissued
Birdville ISD	11/6/2018	School Building	\$ 252,802,490	\$ 224,753,355	\$ 28,049,135
Keller ISD	None				
Tarrant County	8/8/1998	Justice Center	\$ 70,600,000	\$ 63,100,000	\$ 7,500,000
	8/8/1998	Healthcare Facility	\$ 9,100,000	\$ 1,000,000	\$ 8,100,000
	5/13/2006	County Buildings	\$ 62,300,000	\$ 47,300,000	\$ 15,000,000
Tarrant County College District	None				
Tarrant County Hospital District	None				

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

The City of Watauga, 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.tmr.com.

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

Benefits Provided

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

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

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

Employee Deposit Rate	7.00%
Matching ration (city to employee)	2 to 1
Years required for vesting	5
Updated Service Credit	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

Employees Covered by Benefit Terms

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age

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

Number of	
Inactive employees or beneficiaries currently receiving benefits	101
Inactive employees entitled to but not yet receiving benefits	166
Active employees	162
Total	<u>429</u>

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 were required to contribute 7.00 percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.59 percent and 13.50 percent in calendar years 2018 and 2019, respectively. The city's contributions to TMRS for the year ended September 30, 2019 were \$1,349,674, and were equal to the required contributions.

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expenses, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with 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 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional charges were made for the 2018 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	100.00%	

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D

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 Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2017	\$ 48,230,601	\$ 44,492,648	\$ 3,737,953
Changes for the year:			
Service cost	1,577,540	-	1,577,540
Interest (on the Total Pension Liability)	3,256,548	-	3,256,548
Difference between expected and actual experience	22,136	-	22,136
Changes of assumptions	-	-	-
Contributions - employer	-	1,289,939	(1,289,939)
Contributions - employee	-	664,427	(664,427)
Net investment income	-	(1,332,865)	1,332,865
Benefit payments, including refunds of employee contributions	(1,548,423)	(1,548,423)	-
Administrative expense	-	(25,758)	25,758
Other	-	1,155	(1,155)
Balance at 12/31/2018	\$ 51,538,402	\$ 43,541,123	\$ 7,997,279

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%
	\$ 16,036,441	\$ 7,997,279	\$ 1,508,836

Pension Plan Fiduciary Net Position

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

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources

For the year ended September 30, 2019 the city recognized pension expense of \$1,857,545.

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 in expected and actual experience	\$ 15,606	\$ 176,404
Difference in projected and actual earnings on pension plan investments	3,949,890	1,669,006
Employer contributions made after the measurement date	956,008	-
Totals	\$ 4,921,504	\$ 1,845,410

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D

\$956,008 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows(Inflows) of Resources
2020	\$ 638,958
2021	300,089
2022	313,817
2023	867,222
Total	<u>\$ 2,120,086</u>

OTHER POST EMPLOYMENT BENEFITS

TMRS Supplemental Death Benefits Plan

Benefit Plan Description

The City contributes to a single-employer defined benefit group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member 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.

Membership in the plan as of the measurement date of December 31, 2019 was as follows:

Inactive employees or beneficiaries currently receiving benefits	63
Inactive employees entitled to but not yet receiving benefits	26
Active employees	162
Total	<u>251</u>

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.18% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan 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. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.71% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2018.

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D

Actuarial Assumptions and other inputs.

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date:	December 31, 2018
Actuarial Cost Method	Individual Entry-Age
Discount Rate	3.71% as of December 31, 2018
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Health Care Trend Rates	7.20% declining to an ultimate rate of 4.25% after 14 years Participation Rates 35% of retirees between the ages of 50 and 64 at retirement; 0% for retirees under age 50 at retirement

Discount Rate

Because the RHCP is unfunded or pay-as-you go, the discount rate is based on 20-year tax-exempt AA or higher Municipal Bonds or 3.71% as of the measurement date of December 31, 2018 based on the 20 Year Bond GO Index published by bondbuyer.com

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2017	\$ 1,029,545
Changes for the year:	
Service Cost	\$ 41,530
Interest (on Total OPEB Liability)	34,038
Difference between expected and actual experience	(10,983)
Changes of assumptions	(40,515)
Benefit payments	(43,918)
Balance at 12/31/2018	<u>\$ 1,009,697</u>

Changes of assumptions reflect a change in the discount rate from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the plan's total OPEB liability, calculated using a discount rate of 3.71%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

	Current Single Rate Assumption	
1% Decrease		1% Increase
<u>2.71%</u>	<u>3.71%</u>	<u>4.71%</u>
<u>\$ 1,114,656</u>	<u>\$ 1,009,697</u>	<u>\$ 916,435</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

	Current Healthcare Cost Trend Rate Assumption	
1% Decrease		1% Increase
<u>\$ 894,474</u>	<u>\$ 1,009,697</u>	<u>\$ 1,147,466</u>

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

For the year ended September 30, 2108, the City recognized OPEB expense of \$77,996. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ -	\$ 9,692
Changes in assumptions	37,743	35,753
Employer contributions made after the measurement date	41,954	-
Totals	<u>\$ 79,697</u>	<u>\$ 45,445</u>

City contributions made subsequent to the measurement date of the total OPEB liability (December 31, 2018) and prior to year-end (September 30, 2019) will be recognized in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2020	\$ (254)
2021	(254)
2022	(254)
2023	(254)
2024	(254)
Thereafter	<u>(6,432)</u>
Total	<u>\$ (7,702)</u>

UTILITY PLANT IN SERVICE

TABLE 11

(As of September 30, 2019)

Land	\$ 91,000
Construction in Progress	2,277,861
Buildings	3,353,778
Equipment	1,582,375
Street and Drainage Improvements	18,434,260
Waterworks and Sanitary Sewer System	<u>23,832,787</u>
Total	\$ 49,572,061
Less: Accumulated Depreciation	<u>(17,128,871)</u>
Net Property, Plant and Equipment	<u>\$ 32,443,190</u>

Source: The Issuer's Comprehensive Annual Financial Report.

TABLE 12

The following condensed statements have been compiled using accounting principles customarily employed in the determination of net revenues available for debt service, and in all instances exclude depreciation, transfers, garbage, bad debt, debt service payments and expenditures identified as capital.

	Fiscal Year Ended				
	9/30/2019	9/30/2018	9/30/2017	9/30/2016	9/30/2015
Revenues	\$ 8,441,266	\$ 8,381,344	\$ 8,285,528	\$ 8,685,674	\$ 7,895,845
Expenses	<u>7,204,282</u>	<u>5,830,065</u>	<u>6,193,060</u>	<u>6,681,027</u>	<u>6,525,584</u>
for Debt Service	<u>\$ 1,236,984</u>	<u>\$ 2,551,279</u>	<u>\$ 2,092,468</u>	<u>\$ 2,004,647</u>	<u>\$ 1,370,261</u>

Source: The Issuer's Annual Financial Reports.

WATER RATES

TABLE 13

Rates Effective September 1, 2019

1. Billing policy where only one user or building is tied to the same meter:

(A) The monthly bill will be computed as follows: The minimum bill taken from Schedule A plus a volume charge of \$5.01 per 100 cubic feet on monthly volume greater than the minimum volume from Schedule A for all customers.

(B) Residential customers who have attained the age of 65 and reside in owner occupied property within the City will be eligible for a \$5.00 discount for water service on their monthly bill when proof of eligibility is provided to the City.

Schedule A

Meter Size (Inches)	¾"	1"	1-1/4"	1-1/2"	2"	3"	4"	6"/8"
Minimum Bill*	\$17.70	\$23.96	\$31.93	\$65.10	\$84.56	\$154.58	\$256.49	\$653.65
Volume	267	345	460	937	1,300	2,400	4,000	10,000

*Volume included in minimum bill (base charge)

2. Billing policy where more than one user or building is tied onto the same water meter:

It shall be the policy of Watauga to bill each home, homes, duplex, triplex, offices, or any other buildings where more than one user is tied onto the same water meter at \$17.70 per month for each customer unit for water, plus a monthly volume charge of \$5.01 per 100 cubic feet of water used by the building.

3. Billing for apartment complexes and mobile home parks:

a. \$17.70 per month per apartment or mobile home plus a monthly volume charge of \$5.01 per 100 cubic feet of water used by the apartment complex or park.

file occupancy statement will result in billing for 100% occupancy.

Rates Effective September 1, 2019:

Sewer rates are based on winter average water use for existing residential customers. New residential customers will have a base rate of 900 cubic feet until a winter average can be established. Rates are \$19.36 base plus volume at \$2.99 per 100 cubic feet.

Senior citizens (over-65) and reside in owner occupied property within the City are eligible for a \$5.00 discount for sewer service on their monthly bill once proof of eligibility is provided to the City.

Commercial rates are based on actual usage (no winter average) at the regular residential rates of \$19.36 base plus volume at \$2.99 per 100 cubic feet.

Drainage rates are \$11.00 per household with a corresponding increase for commercial customers

Residential/Senior/ and Commercial 3/4 Inch Rates

Amount of Water	Base Rate
0 to 267 cubic feet of water	\$17.70
Per 100 cubic feet	\$5.01

Other Commercial Meters Utilize These Same Rates but with the following Base Amounts

Amount of Water	Base Rate	
1 inch meter 0-345 cubic feet of water	\$	23.96
1.25 inch meter 0-460 cubic feet of water	\$	31.93
1.5 inch meter 0-937 cubic feet of water	\$	65.10
2 inch meter 0-1,300 cubic feet of water	\$	84.56
3 inch meter 0-2,400 cubic feet of water	\$	154.58
4 inch meter 0-4,000 cubic feet of water	\$	256.49
6 and 8 inch meters 0-10,000 cubic feet of water	\$	653.65

Old Rates

1. The monthly bill will be computed as follows: The minimum monthly service charge will be \$15.86 for all customers except those customers who have attained the age of 65 and reside in owner occupied property within the City of Watauga. The minimum monthly service charge for customers meeting these requirements will be \$11.34.

2. A monthly volume charge shall also be charged to all customers in the amount of \$2.70 per 100 cubic feet of water used, or wastewater produced, as more specifically set forth herein, except for customers who have attained the age of 65 and reside in owner occupied property within the City of Watauga.

A monthly volume charge for customers meeting the above requirements shall be charged in the amount of \$1.97 per 100 cubic feet of water used, or wastewater produced, as more specifically set forth herein.

The monthly volume charge for residential customers will be based on the lesser of the calculated average monthly water usage during the winter quarter months of December, January, and February, or actual water usage during the month, but in no event shall the volume used to compute this monthly charge exceed 2,500 cubic feet. The volumes used to compute these charges are based on the amount of water used by the residential customer as measured by a meter. Where no previous winter quarter average is available from the records, the volume to be used for the monthly volume charge shall be 900 cubic feet.

3. The commercial rates are based on actual usage (no winter average) at the regular residential rates of \$15.86 base plus volume at \$2.70 per 100 cubic feet as measured by appropriate meters, with the provision that if a customer can show, to the satisfaction of the Director of Public Works, that a significant portion of the metered water usage does not enter the sanitary sewer system the customer will be charged only that volume entering the wastewater system, as determined by a method approved by the Director of Public Works.

4. All Industrial Users: To be served on system only by specific contract approved by City Council for the particular Industrial Sewage or Water involved.

5. In the event a commercial customer is introducing sewage into the wastewater system that creates unusual conditions or problems such as excessive oils, greases, or chemicals, the Director of Public Works shall advise the customer of his option which are available to the commercial customer to remedy the existing condition. These options include the following:

- a. To correct at his own expense the conditions causing the excess.
- b. To pay a monthly rate, to be determined by the Director of Public Works, to the City equal to the expense of maintaining and/or treating the excessive waste.

6. Billing policy where more than one user or building is tied onto the same water meter:

It shall be the policy of Watauga to bill each home, homes, duplex, triplex, offices, or any other buildings where more than one user is tied onto the same water meter at \$15.86 per month for each customer unit for sewer, plus a monthly volume charge of \$2.70 per 100 cubic feet of water used by the building. The monthly volume charge to be calculated as noted in paragraph B(2) above with the exception that there shall be no volume limited as is the case for residential customers.

7. Billing for apartment complexes and mobile home parks:

a. \$15.86 per month per apartment or mobile home plus a monthly volume charge of \$2.70 per 100 cubic feet of water used by the apartment complex or park.

b. Apartment or mobile home park owner shall furnish a certified statement of occupancy prior to the 10th of each month. Failure to file occupancy statement will result in billing for 100% occupancy.

Effective January 26, 1998, the City of Watauga established an Environmental Protection Agency (EPA) sewer surcharge of \$1.61 per month for each wastewater connection in the City.

A cubic foot is equal to 7.48 gallons.

APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF WATAUGA
AND TARRANT COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING THE CITY OF WATAUGA, TEXAS
AND TARRANT COUNTY, TEXAS**

The City of Watauga, Texas (the “City” or “Issuer”) is located in North Central Texas in Northeast Tarrant County, and is surrounded by the cities of Keller, Fort Worth, Haltom City, and North Richland Hills. The City’s corporate boundary comprises a total of approximately 4 square miles. Officially founded in 1877 when the Texas and Pacific Railroad came to town, “Watauga” in Cherokee means either “Beautiful Stream,” “Valley of the Happy Spring,” or “Village of Land of Many Springs.”

The City’s Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and last amended May 11, 2013. The City operates under a Mayor-Council-Manager form of government, with the City Council comprised of eight members including the Mayor. The City Council is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and appointing the City Manager, City Attorney, as well as members of boards and commissions. The City Manager is responsible to the Council for appointing and supervising employees of the City (except for those appointed by the Council), and for preparing and administering the annual budget and capital improvement program.

The primary government provides a full range of services including general government administration, police and fire protection, emergency ambulance service, street maintenance, building inspection services, community development, library services, park and recreational activities, and the maintenance and operations of City-owned buildings.

Economy

The economy of the area is based upon diversified manufacturing and service industries, and agriculture. With its highly diversified economy, Dallas Ft. Worth has a population of over 7.6 million, a Gross Metropolitan Product of \$620 billion, a labor force of over 3.6 million, a 2.6% job growth rate, twenty-five Fortune 500 Firms, and college enrollment of almost 333,000. Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrated its 45th anniversary in 2019, covers approximately twenty-seven square miles and represents one of the largest facilities of its kind in the world. The airport provides in excess of 228,000 jobs and contributes over \$37 billion to the local economy, and \$12.5 billion in payroll. (SOURCE: DFW website www.dfairport.com Fast Facts.) See also “INTRODUCTORY STATEMENT – Infectious Disease Outbreak – COVID 19” in the Official Statement for a discussion of the COVID-19 pandemic and its potential impact on the City.

Economic and Demographic Information

Year	Population	Per Capita Personal Income	Unemployment Rate
2010	23,250	24,407	8.1
2011	23,497	22,593	8.5
2012	23,497	22,530	7.9
2013	23,331	23,307	7.0
2014	23,510	22,809	5.8
2015	23,500	23,846	5.0
2016	23,600	25,147	4.1
2017	24,228	24,417	4.1
2018	23,610	25,280	3.7
2019	23,770	35,050	3.3

Source: The Issuer’s audited financial statements for fiscal year ended September 30, 2019.

TARRANT COUNTY, TEXAS

Tarrant County, Texas (the “County”) is an urban county located in the north central part of Texas with approximately 2,092,419 citizens. The City of Fort Worth, Texas which began as an army post in 1849 serves as the county seat. The County is one of the fastest growing urban counties in the United States today. Twenty-five other incorporated cities are located wholly within the County, and seven other incorporated county-line cities are located largely within the County’s boundaries. The thirteen county Dallas-Fort Worth Metroplex has a total population of almost 7.6 million people, making it the largest metropolitan area in the South and the fourth-largest in the United States.

The County’s roots lie in the ‘Old West’ and much of its heritage can be traced to the era of the cowboy and cattle drives that passed through the County. The County is one of 254 counties in Texas which were originally set up by the State of Texas to serve as decentralized administrative divisions providing state services and collecting state taxes.

The County has changed dramatically over the past few years. Once dependent on defense plants and its military base, the County’s economy has been transformed into one of the most vibrant and diverse in the nation and is leading the regional resurgence in business relocations and expansions, retail development and new housing construction. Once tied to the oil rigs and cattle ranches of west Texas, the County’s businesses today reach around the globe and the County’s commercial and industrial airports are among the country’s foremost international gateways.

The advantages that the County offers – a low cost of living, a central location, a mild climate, an outstanding transportation network, an educated, dynamic and adaptable work force, a vigorous “can do” business attitude and a long and effective tradition of cooperation between government and business – have made the County one of the fastest growing economies in the nation.

Principal Employers

Employer	Entity	2019 Employees	2019 Percentage of Total Tarrant County Employment
AMR Corp./American Airlines	Commercial Airline	31,000	2.96%
Texas Health Resources	Health Care	24,000	2.29%
Lockheed Martin Aeronautics Company	Aircraft Manufacturer	15,200	1.45%
Fort Worth Independent School District	School District	12,000	1.15%
NAS Fort Worth JRB	Naval Station	10,000	0.95%
Arlington Independent School District	School District	8,500	0.81%
University of Texas at Arlington	Higher Education	7,558	0.72%
Cook Children’s Health Care System	Health Care	6,694	0.64%
JPS Health Network	Health Care	6,500	0.62%
City of Fort Worth	Municipal Government	6,161	0.59%

Source: Tarrant County audited financial statements for fiscal year ended September 30, 2019.

Principal Taxpayers

Taxpayer	Fiscal Year 2019	
	Taxable Assessed Value	Percentage of Taxable Assessed Value
American Airlines Inc	\$ 1,276,443,458	0.60%
Oncor Electric Delivery	1,155,058,854	0.55%
Winner LLC	639,838,520	0.30%
Wal-Mart Real Estate Bus. Trust	594,334,169	0.28%
Atmos Energy/Mid Tex Division	468,623,200	0.22%
Opryland Hotel	407,132,619	0.19%
Bell Helicopter Textron Inc	398,925,658	0.19%
Alcon Laboratories Inc	345,442,052	0.16%
General Motors LLC	344,886,500	0.16%
DDR/DTC City Investments LP	288,872,491	0.14%

Source: Tarrant County Appraisal District.

Museums

The Amon Carter Museum was established by Amon G. Carter, Sr. (1879-1955), and opened in 1961 to house his collection of four hundred paintings, drawings, and sculptures by Frederic Remington and Charles M. Russell, the single most important collection of works by these artists. The Amon Carter Museum collects, preserves and exhibits a wide range of nineteenth and early twentieth-century American paintings, prints, and sculptures as well as one of the finest collections of American photography from the early days to the present.

The Kimbell Art Museum has long been considered the finest small museum in the United States. Its holding range in period from antiquity to the 20th century including masterpieces by Fra Angelico, El Greco, Caravaggio, La Tour, Velasquez, Rembrandt, Houdon, Goya, David, Delacroix, Cezanne, Mondrian, Picasso, Matisse, Holbein and Vigeo Le Brun. The museum is one of the only institutions in the Southwest with a substantial collection of Asian arts and has also assembled small but select groups of Mesoamerican, African and Mediterranean antiquities. The Kimbell is the site of choice for many traveling shows and exhibits.

Parks and Lakes

The region's many parks and lakes offer everything from public trails for horseback riding, hiking and rollerblading to lectures and guided tours of the area's natural sanctuaries. There are over 20 public and private golf courses. There are ten lakes, all or partly located in the County, covering over 100,000 acres. County residents have access to numerous other lakes throughout the region and camping is available at several state parks within the North Texas region.

Labor Force Statistics – Tarrant County, Texas ⁽¹⁾				
	<u>2020 ⁽²⁾</u>	<u>2019 ⁽³⁾</u>	<u>2018 ⁽³⁾</u>	<u>2017 ⁽³⁾</u>
Civilian Labor Force	1,078,015	1,082,571	1,062,733	1,037,441
Total Employed	983,594	1,046,916	1,025,619	998,810
Total Unemployed	94,421	35,655	37,114	38,631
% Unemployment	8.8%	3.5%	3.5%	3.7%
Texas Unemployment	8.9%	3.5%	4.3%	4.6%

(1) Source: Texas Workforce Commission.

(2) As of June 2020.

(3) Average Annual Statistics.

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APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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nortonrosefulbright.com

DRAFT 8/12/2020

IN REGARD to the authorization and issuance of the “City of Watauga, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020” (the *Certificates*), dated August 1, 2020 in the aggregate principal amount of \$_____ we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Watauga, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 2021 through 2040, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Certificates under the laws of the State of Texas and with respect to the exclusion of the interest on the Certificates from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer or the Issuer's combined utility system and have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Certificates. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

WE HAVE EXAMINED, the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the Certificates, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Certificates and certain other funds of the Issuer and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Certificate executed and delivered initially by the Issuer and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion

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Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF WATAUGA, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020”

concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Certificates are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Certificates are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the Issuer and are additionally payable from and secured by a lien on and pledge of the Pledged Revenues, being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the *System*), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge thereof providing for the payment and security of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer. The Issuer has previously authorized the issuance of the Limited Pledge Obligations that are payable in part from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in accordance with the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the Issuer reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Ordinance and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Certificates, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Certificates will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Certificates will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF WATAUGA, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020”

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

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APPENDIX D

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements – not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.)

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CITY OF WATAUGA, TEXAS

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT**

**For the Fiscal Year Ended
September 30, 2019**

PREPARED BY

THE CITY OF WATAUGA

FINANCE DEPARTMENT

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**CITY OF WATAUGA, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Year Ended September 30, 2019**

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**CITY OF WATAUGA, TEXAS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 Year Ended September 30, 2019**

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INTRODUCTORY SECTION

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March 2, 2020

**TO: Honorable Mayor Arthur L. Miner and
Members of the City Council
Citizens of the City of Watauga, Texas**

It is with pleasure that we submit to you the Comprehensive Annual Financial Report (CAFR) of the City of Watauga for the fiscal year ended September 30, 2019. We encourage you to thoroughly read this report and take the opportunity to discuss some of the important items it addresses.

As required by City of Watauga Charter Section 9.06 (C) and various other obligations including, but not limited to, bond covenants, "At the close of each fiscal year, and at such time as it may be deemed necessary, the Council shall cause an independent audit to be made of all accounts of the City by a certified public accountant. Upon completion of the audit, the results thereof in a summary form shall be placed on file in the City Secretary's office as a public record." Financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants.

This report provides the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To provide a reasonable basis for making these representations, management of the City of Watauga has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefit, the City of Watauga's comprehensive framework of internal controls has been designed to provide reasonable assurance, rather than absolute assurance, that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Whitley Penn, LLP, a firm of licensed certified public accountants headquartered in Ft. Worth, Texas, audited the City of Watauga financial statements. The goal of the independent auditors was to provide reasonable assurance that the financial statements of the City of Watauga for the fiscal year ended September 30, 2019 are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditors concluded that there was a reasonable basis for rendering an unmodified ("clean") opinion that the City of Watauga's financial statements for the fiscal year ended September 30, 2019 are fairly presented in conformity with GAAP. The independent auditor's report is located at the front of the financial section of this report.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A, and the two should be read in conjunction with each other. This report includes all of the funds and account groups of the City. It also includes all activities over which the City is considered to be financially accountable.

The Birdville and the Keller Independent School Districts (ISDs) provide elementary and secondary education services within the City. The City is not financially accountable for the districts and, accordingly, financial data for the school districts are not included in this report.

Profile of the City of Watauga, Texas

The City of Watauga is located in Tarrant County, one of the fastest growing counties in Texas, approximately 10 miles northeast of downtown Fort Worth and 25 miles northwest of downtown Dallas. The City's corporate boundary comprises a total of approximately 4 square miles and is approximately 96% developed. Watauga's population as established by the 2010 U.S. Census was 23,497 and was estimated by the North Central Texas Council of Governments at 23,770 as of January, 2019.

The City of Watauga Home Rule charter was adopted on January 19, 1980, and was last amended in November, 2019. The City operates under a Council-Manager form of government, with the Governing Body comprised of eight members including the Mayor. The Governing Body is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and appointing the City Manager, City Attorney, Municipal Court Judge, City Secretary, as well as members of boards and commissions. The City Manager appoints the Department Heads and the Council approves or disapproves the Department Head position appointments of the City Manager. The City Manager is responsible to the Governing Body Council and is responsible for the daily management of the City.

Services Provided

The primary government provides a full range of services including general government administration, police and fire protection, emergency ambulance service, street maintenance, building inspection services, community development, library services, park and recreational activities, and the maintenance and operations of City-owned buildings. The City also has two enterprise funds for operations and management of its Drainage and Water/Sewer Systems. Private contractors, through franchise agreements, provide solid waste and recycling collections and disposal services for the City.

Accounting System and Budgetary Control

The City's accounting records for general government operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or good are received and the liabilities are incurred. Accounting records for the City's proprietary activities are maintained on an accrual basis.

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures/expenses. The various funds are grouped by type in the financial statements. As of September 30, 2019, there were twenty-seven (27) funds, of which some are combined for reporting purposes bringing the number to fifteen (15) funds. A description of the major funds and their purpose can be found in Note 1 of the Notes to General Purpose Financial Statements.

The City Charter requires the City Manager to submit a proposed budget for the fiscal year beginning October 1 to the City Council by August 1 each year, and provides for Council adoption of the budget by September 15. Prior to August 1, the City Manager and City department heads prepare expenditure/expense estimates for the remainder of the current fiscal year and for the ensuing fiscal year, and these are compared to estimates of revenue for the same periods. Included in the assessment is the Capital Improvements Projects or CIP program. This program is a five-year plan of major capital programs which may include infrastructure, equipment, buildings, land, or other major expenditures. Adjustments are made to the departmental expenditure/expense estimates as necessary to ensure that the proposed budget is balanced within total estimated income as required by the City Charter.

Following adoption of the budget by the City Council, the City Manager and department heads monitor expenditures/expenses and revenues throughout the year to ensure that the integrity of the budget is maintained. The Charter allows the City Manager to transfer appropriation balances among programs within a department, and provides for transfers of appropriation balances from one department to another upon approval of an ordinance by the City Council. The City Council may make amendments to the budget for unforeseen needs or emergencies. The City Manager is required to make monthly reports to the Council concerning the financial condition of the City.

Economic Outlook and 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 Watauga operates.

Watauga is located in North Central Texas in Northeast Tarrant County, and is surrounded by the cities of Keller, Fort Worth, Haltom City, and North Richland Hills. The economy of the area is based upon diversified manufacturing and service industries, and agriculture. With its highly diversified economy, Dallas Ft. Worth has a population of over 7.6 million, a Gross Metropolitan Product of \$620 billion, a labor force of over 3.6 million, a 2.6% job growth rate, twenty-five Fortune 500 Firms, and college enrollment of almost 333,000. Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrated its 45th anniversary in 2019, covers approximately twenty-seven square miles and represents one of the largest facilities of its kind in the world. The airport provides in excess of 228,000 jobs and contributes over \$37 billion to the local economy, and \$12.5 billion in payroll. (SOURCE: DFW website www.dfwairport.com Fast Facts).

The Alliance Texas development in North Fort Worth is a 26,000-acre master-planned, mixed-use community which is home to more than 500 companies, 61,000 plus employees, and is anchored by the inland port known as the Alliance Global Logistics Hub. This area offers a variety of commercial real estate options, industrial space, office space, and retail facilities and had a \$77 billion impact in North Texas since its inception. (www.allianceairport.com Alliance Texas Facts).

The City's financial position is strong, and the immediate future looks bright with the Dallas Ft. Worth economy continuing to expand. Total certified taxable value, not including estimated value for property under protest, for all residential and commercial property in the City was approximately \$1.4 billion for fiscal year 2019, a 9.2% increase from the previous year. During FY2019, a 55-home development was completed and \$17 million in new construction was added to the City's property values. A 70-home single family residential development is currently under development and additional commercial developments are in the planning states. Sales tax collections totaled \$6.0 million in fiscal year 2019, a 2.8% increase from the previous fiscal year.

The Dallas-Fort Worth Metroplex (DFW) economy continued to grow at a moderate pace in 2019 and unemployment was held steady near record lows. The Federal Reserve Bank of Dallas reported in their December 2019 Dallas-Fort Worth Economic Indicators update:

“Dallas–Fort Worth economic growth remained solid in December. Payroll employment grew at a rapid clip, and unemployment stayed low. The Dallas and Fort Worth business-cycle indexes expanded further. Apartment leasing and construction continued to be active. Demand for office and industrial space remained strong, with net absorption accelerating in fourth quarter 2019”.

Future Economic Outlook

For fiscal year 2020, property valuations increased 13.8%, with a 14% increase in residential property and a 15% increase in commercial properties. Continued growth in valuations is expected to continue, but we are forecasting more moderate increases in future years. According to the Emerging Trends in Real Estate for 2020 report from PricewaterhouseCoopers and the Urban Land Institute, the Dallas-Fort Worth Metroplex ranked as the sixth highest market for overall real estate prospects in 2020 out of 80 other cities nationwide.

Sales tax is the City's second largest General Fund revenue and also one of its most volatile. In FY2018-19, the City experienced increases in sales tax receipts due to various factors, including construction activity in the City. However, sales tax fluctuations and volatility are hard to predict and through December, fiscal year 2020 sales taxes have increased by 1% compared to the same period in fiscal year 2019. In the FY2019-2020 Budget Year, Economic Development funding (Type B Sales Tax) has been dedicated to efforts to maintain and grow the City's sales tax base. According to various retail reports, more and more consumers are buying goods on-line and consumers are spending more on services and less on material goods. The transition in the retail market and emergence of on-line retailer and marketplaces is well under way. With the 2019 U.S. Supreme Court ruling for online sales and the Texas Comptroller's anticipated Rule on how Texas will handle the sales tax from online sales, the impact of such changes is expected to

yield increases in sales tax revenues. Although the Texas Comptroller change to Rule 3.334 is expected to be favorable to the City of Watauga, City Administration continues to seek opportunities to grow the City's sales tax base, thus an update to the City's Comprehensive Land Use Plan is currently being considered by the governing body. If approved, such an update would place emphasis on redevelopment. Planning initiatives for re-development and improvement of certain aging corridors in the City are of primary focus and funding is continued for budget year 2019-20.

Watauga's economic future is not without challenges. New development in Watauga is expected to be minimal as the City is approximately 96% developed. The City is has entered a phase where revenue growth appears to be slowing down, while requests for services and infrastructure replacement for streets and utility needs will increase. However, the shift in focus from new development to redevelopment is anticipated to bring a needed boost to sales tax revenue. The near build-out status of the City requires a strategic approach to attracting new development and revitalization. The City Council has adopted Strategic Initiatives that will enable the City to move in a positive direction. These strategic initiatives include maintaining the financial strength of the City, developing a sustainable economic development effort, and strengthening future planning.

Although the economy is strong, the harmful actions of the Texas State Legislature in passing City-related bills during the 2019 session will have a significant impact on the City's revenues. These include Property Tax legislation, the banning of Photographic Enforcement cameras, Cable and Telecom Franchise Fee reductions, and various unfunded mandates. The City will need to look at other sources of revenues to replace those lost due to the passing of these bills.

Long-Term Financial Planning

The City has maintained its fund balances to insure that the needed resources are available to provide for current operations and unexpected situations. The City has enhanced its long-term financial planning as well in FY2020 to include various long-term planning tools. These tools include:

- 1) A 5-year Capital Improvement Plan that details current and future infrastructure projects;
- 2) A Multi-year Capital Outlay Plan that provides a 5-year plan to identify timing of replacement and sources of funding for major equipment, vehicles, and technology City-wide;
- 3) A Personnel Improvement Plan to identify personnel staffing needs and year of possible funding; and a
- 4) A Multi-year Financial Forecast which forecasts revenue trends and expenditure estimates in a 5-year Plan.

Such strategic planning has allowed the City Council to fund several major infrastructure upgrades, park enhancements, capital purchases, and personnel needs in a systematic manner while considering the full impact to the operating budget and tax requirements. The City of Watauga intends to continue with an orderly and well-planned program of community service in FY2019-20 and subsequent years. Working within the framework of current financial constraints, the City will focus on infrastructure needs such as upgrades/maintenance of the water/sewer system, street projects, drainage projects and revitalization/redevelopment projects in the upcoming fiscal year and beyond.

Fiscal policies provide for the General Fund reserve to not go below 25% of the General Fund expenditure budget. At the end of the current year, the City was in compliance with this policy with the reserve at 32% of next year's budgeted expenditures. .

Major Initiatives

The City has completed several projects in the past year and has many others underway. The City believes it is critical that the street, water, wastewater, and drainage systems are properly maintained and systematically upgraded. The City's 5-year Capital Improvement Plan (CIP) addresses the infrastructure needs throughout the City. Over the past several years, water and wastewater improvement projects have been completed and more projects are underway. These projects are funded through the 2017 and 2019 Certificates of Obligation proceeds and will include replacement of wastewater lines throughout the City that have a high amount of inflow and infiltration. This replaces the aging clay piping with Polyvinylchloride (PVC) piping in the older parts of the City. Major drainage projects are underway and are funded by Storm Drain Fund Revenues and will continue over the next several years.

The City's Parks Master Plan focuses on improving the quality of life for the community, including park amenities and upgrades, trails, and facilities such as the expansion of the Senior Center that was completed in FY2016-2017. Projects currently in progress include additions of shade structures, replacement of park lighting at Capp Smith Park, and bridge and trail improvements at Foster Village Park. The 2018 Certificates of Obligation proceeds will provide funding for a splash pad, enhancement to the City's trail system, and various street projects such as Whitley Road and Bowie Street. These projects will continue over the next several years.

The Green Ribbon Beautification Project for Highway 377 continues and will help to improve the image of Watauga as well as properties along the highway. The City has been awarded its second Texas Department of Transportation (TXDOT) Green Ribbon Landscape grant to beautify the western portion of the Denton Highway right-of-way. The \$400,000 grant is to be used for landscaping and irrigation.

The continued use of the Equipment Replacement Fund will fund purchases and replacements of some of the City's equipment, vehicles, technology, and facility needs. The City enhanced the use of an Equipment Replacement Fund to level and plan the purchases of equipment and capital items that meet certain cost thresholds and a minimum useful life.

Awards and Acknowledgements.

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga for its comprehensive annual financial report for the fiscal year ended September 30, 2018. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standard for preparation of state and local government financial reports.

In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Watauga has received a Certificate of Achievement for the last thirty-four consecutive years. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The City of Watauga also received the GFOA's Distinguished Budget Presentation Award for our annual budget document for the fiscal year beginning October 1, 2018. This is the thirtieth consecutive year that the City has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

The City of Watauga also received its eighth consecutive Government Treasurer's Organization of Texas' Investment Policy Certificate of Distinction award. The Government Treasurer's Organization of Texas conducts an Investment Policy Certification program, which is designed to provide professional guidance in developing an investment policy and to recognize outstanding examples of written investment policies. This is awarded to those entities that have developed an Investment policy, which meets established criteria. The Certificate is awarded for two years and then may be renewed upon review. The City plans to apply for this award again in FY2020.

In conclusion, we wish to thank the City Council for their continued leadership and support in planning and conducting the financial operations of our City in a responsible and efficient manner. We also want to thank each person who has contributed to the preparation of this comprehensive annual financial report and the financial achievements reflected herein. And finally, we wish to express our appreciation to each City employee for his or her loyalty and dedication, as demonstrated during the past fiscal year.

Respectfully submitted,

Handwritten signature of Andrea Gardner in blue ink.

Andrea Gardner
City Manager

Handwritten signature of Sandra Gibson in blue ink.

Sandra Gibson, CGFO, CGFM
Director of Finance

**CITY OF WATAUGA, TEXAS
PRINCIPAL OFFICIALS AS OF
SEPTEMBER 30, 2019**

Elected Officials	Position	Term Expires
Arthur L. Miner	Mayor	2021
Mark Taylor	Mayor Pro Tem, Council Member - Place 6	2020
Scott Prescher	Council Member - Place 1	2020
Tom Snyder	Council Member - Place 2	2020
Lovie Downey	Council Member - Place 3	2021
Andrew Neal	Council Member - Place 4	2021
Juanita King	Council Member - Place 5	2021
Kim Irving	Council Member - Place 7	2020

Appointed Officials	Position
Andrea Gardner	City Manager/City Secretary
Russell, Rodriguez, Hyde, & Bullock, LLP	City Attorney
Paul Hackleman	Public Works Director
Lana Ewell	Library Director
Sal Torres	Parks and Community Services Director
Robert Parker	Police Chief
Shawn Fannan	Fire Chief
Sandra Gibson	Director of Finance



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City of Watauga
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2018

Christopher P. Morill

Executive Director/CEO

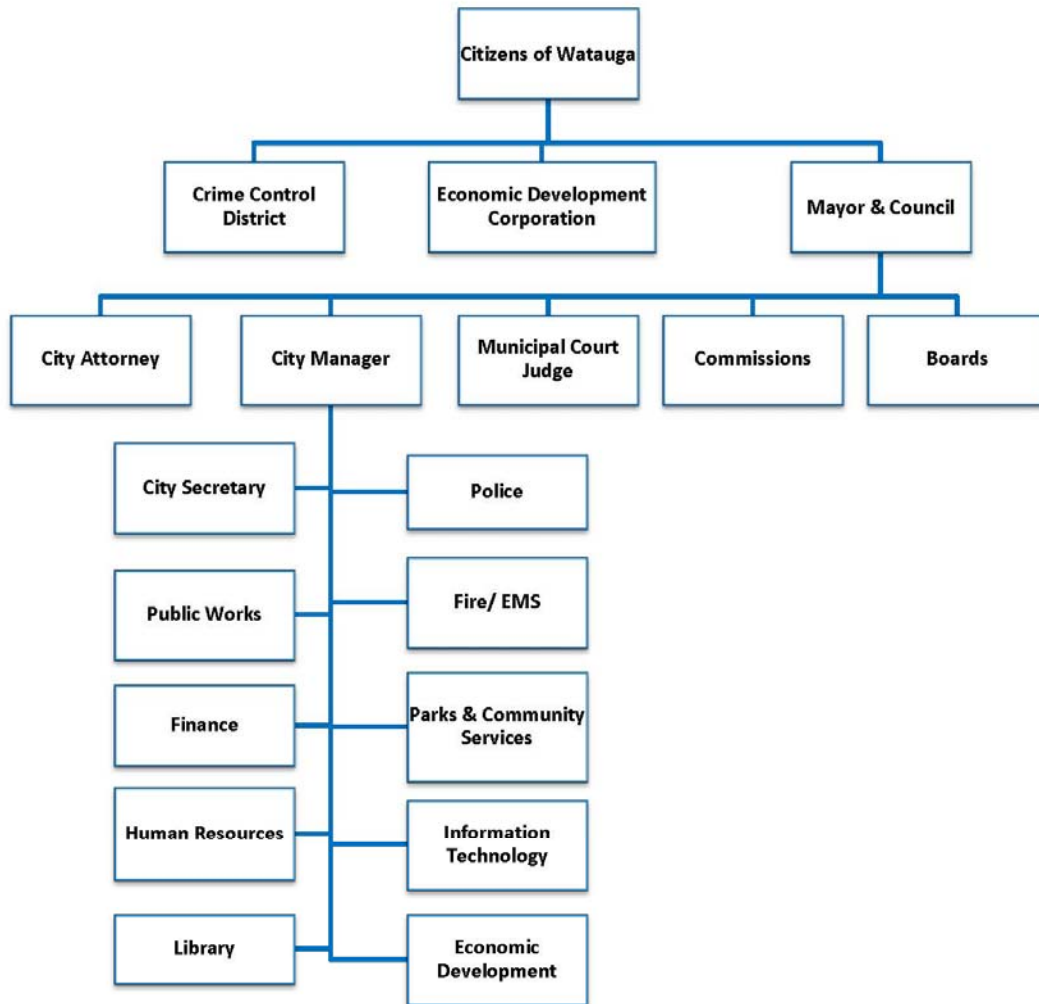
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In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

ORGANIZATIONAL CHART

City of Watauga



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FINANCIAL SECTION

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REPORT OF INDEPENDENT AUDITORS

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Watauga, 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Watauga, 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.

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

Other Matters

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 to 12, budgetary comparison information on pages 58 to 59, and pension and OPEB information on pages 60 to 62, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual non-major fund financial statements and schedules, and statistical section are presented for purposes of additional analysis and are not a required part of the financial statements.

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

The information in the introductory section and statistical section listed in the foregoing table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Whitley Penn LLP

Fort Worth, Texas
March 2, 2020

CITY OF WATAUGA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2019

On behalf of City Council, we, as management of the City of Watauga, offer readers of the City's financial statements this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended September 30, 2019. In the broadest context, the financial well-being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets, and the City's desirability will be maintained not just for the current year but well into the future.

Financial reporting is limited in its ability to provide the "big picture" but rather focus on financial position and changes in financial position. In other words, are revenues and/or expenditures higher or lower than the previous year? Have net position or fund balances of the government been maintained? Readers are encouraged to consider the information presented here in conjunction with our Letter of Transmittal and the Statistical Section which can be found on pages i-v and pages 83-103 of this report respectively. Also, you may review additional information on the annual budget and other community facts and figures on the City's website at www.cowtx.org.

Please note that the Report of Independent Auditors describes the auditor's association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited.

Financial Highlights

- At September 30, 2019, Government-Wide Total Assets and Deferred Outflows of Resources exceeded Total Liabilities and Deferred Inflows of Resources by \$72,999,451 (Net position). The vast majority of the City's net position of \$63,058,514 (86.4%) is net investment in capital assets and most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totaled \$4,779,207 (6.5%). The remaining \$5,161,730 (7.1%) net position is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased \$677,474 from the prior year.
- The City's total capital assets (net of accumulated depreciation) decreased by \$552,117 which is primarily attributed to current year depreciation expense and asset retirements exceeding completion of capital improvement projects and other asset additions.
- The City's total long-term debt increased by \$6,158,355, or 16.7%, due to an issuance of Combination Tax and Limited Pledge Revenue Certificates of Obligations in the amount of \$8,490,000 for capital improvements less scheduled principal payments.
- The City's long-term liabilities increased \$10,643,755, or 19.2%, during the fiscal year due to the issuance of debt listed above and an increase in the net pension liability. The accounting standards for pensions will reflect more volatility in the amount of the liability recorded in the financial statements from year to year.
- Governmental activities realized a decrease in total net position of \$87,492 and business-type activities realized an increase in total net position of \$185,168 bringing the total increase in net position for the City to \$97,676.
- Total Governmental Funds ending fund balance was \$19,608,452, a decrease of \$18,749 in comparison to the prior year. This was due primarily to increased spending in the Capital Projects fund; fund balance decreased by \$201,978 during the fiscal year. The Unassigned General Fund balance was \$4,317,018 or 33% of total General Fund expenditures.

CITY OF WATAUGA, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

OVERVIEW OF THE FINANCIAL STATEMENTS

We intend this discussion and analysis to serve as an introduction to the City of Watauga's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City of Watauga'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, deferred outflows of resources, liabilities and deferred inflows of resources, 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. 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 in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish functions of the City of Watauga that are 1) principally supported by taxes and intergovernmental revenues (governmental activities), and 2) functions that are intended to recover all or a significant portion of their costs through their user fees and charges (proprietary or business-type activities). The governmental activities of the City include General Government, Police, Fire/EMS, Culture and Recreation, and Public Works. The proprietary or business-type activities of the City include Water/Sewer and Drainage system activities.

The government-wide financial statements include not only the City of Watauga, itself (known as the primary government), but also include the Watauga Economic Development Corporation (WEDC) and the Watauga Crime Control and Prevention District (WCCPD), which are legally separate but financially accountable to the City. A blended presentation is used to report the financial information of these component units. The financial information for the individual component units is available from the City.

The government-wide financial statements can be found on pages 14-15 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 three categories: (1) governmental, (2) proprietary, and an (3) internal service.

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 evaluating 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.

CITY OF WATAUGA, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The City maintains thirteen individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental funds Statement of Revenues, Expenditures and Changes in Fund Balances for the General, Debt Service, and Capital Project funds, which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget. Budgetary comparison schedules have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16-19 of this report.

Proprietary Funds. The City maintains two major proprietary or enterprise funds. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer and Drainage activities. Internal Service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for some of its equipment replacement. Because these services predominately benefit governmental rather than business type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds 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 Water/Sewer and Drainage, both of which are considered to be major funds of the City. The Internal Service Fund is a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 20-23 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-56 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required Supplementary Information (RSI) can be found on pages 58-62 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and supporting schedules can be found on pages 66-79 of this report.

Government-Wide Financial Analysis

Total Assets of the City are \$128,543,239. Capital assets, net of depreciation, represent the largest portion of the City's assets (\$81,033,052 or 63.0%) and include land, buildings, improvements, equipment, infrastructure, and construction-in-progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

As noted earlier, Net Position may serve as a useful indicator of a government's financial position. As of September 30, 2019, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$72,999,451 (Net Position).

At year end, the City's Net Investment in Capital Assets is \$63,058,514. 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 resources, since the capital assets themselves cannot be used to liquidate these liabilities.

**CITY OF WATAUGA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

Restricted net position is \$4,779,207 or 6.5% of total net position, and represents resources that are subject to external restrictions on how they may be used. The remaining balance of total net position is unrestricted (\$5,161,730 or 7.1%) and may be used to meet the government's ongoing obligations to citizens and creditors.

Overall, there was an increase of \$97,676 in total net position during the fiscal year as a result of the City's operations. Governmental activities showed a decrease of \$87,492, while Business-type activities showed an increase of \$185,168 as a result of the City's operations.

Condensed Statement of Net Position

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 23,723,792	\$ 23,242,022	\$ 23,786,395	\$ 16,647,235	\$ 47,510,187	\$ 39,889,257
Capital assets	48,359,549	49,744,551	32,673,503	31,840,618	81,033,052	81,585,169
Total Assets	72,083,341	72,986,573	56,459,898	48,487,853	128,543,239	121,474,426
Deferred outflows of resources	4,201,465	1,754,642	801,860	329,505	5,003,325	2,084,147
Long-term liabilities outstanding	30,519,259	28,337,403	24,855,398	16,393,499	55,374,657	44,730,902
Other liabilities	1,452,858	1,449,243	1,802,442	1,846,074	3,255,300	3,295,317
Total Liabilities	31,972,117	29,786,646	26,657,840	18,239,573	58,629,957	48,026,219
Deferred inflows of resources	1,653,037	2,207,425	264,119	423,154	1,917,156	2,630,579
Net position:						
Net investment in capital assets	38,606,089	38,660,904	24,452,425	23,944,294	63,058,514	62,605,198
Restricted	4,779,207	4,457,373	-	-	4,779,207	4,457,373
Unrestricted	(725,644)	(371,133)	5,887,374	6,210,337	5,161,730	5,839,204
Total Net Position	\$ 42,659,652	\$ 42,747,144	\$ 30,339,799	\$ 30,154,631	\$ 72,999,451	\$ 72,901,775

As of September 30, 2019, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities, except for unrestricted net position in governmental activities. This is due to the net pension and net OPEB liabilities.

CITY OF WATAUGA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Condensed Statement of Change in Net Position

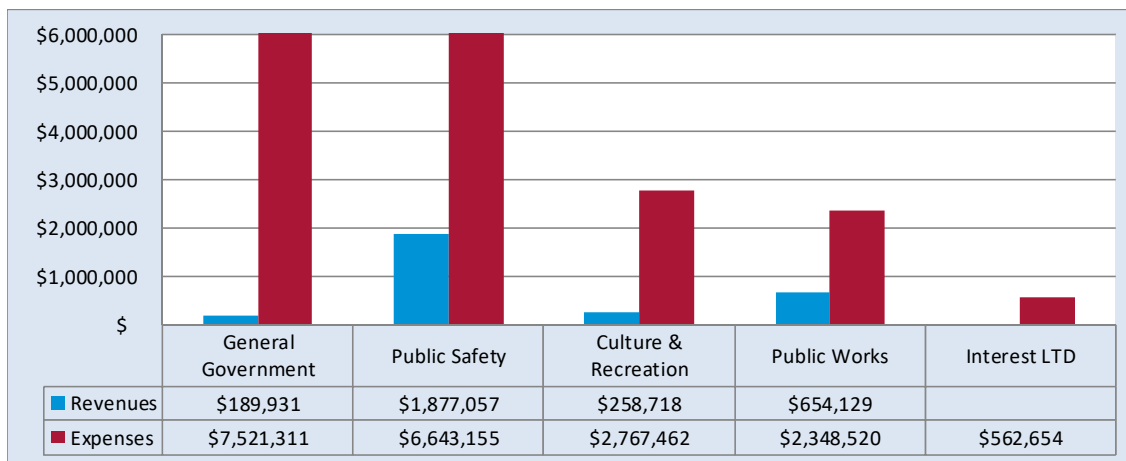
	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Revenues						
Program Revenues						
Fees, fines and charges for services	\$ 2,957,595	\$ 3,159,066	9,693,113	9,674,907	\$ 12,650,708	\$ 12,833,973
Operating grants and contributions	22,240	38,350	-	-	22,240	38,350
General revenue						
Property taxes	8,033,015	7,430,079	-	-	8,033,015	7,430,079
Sales taxes	6,013,849	5,850,480	-	-	6,013,849	5,850,480
Franchise taxes	989,642	925,895	-	-	989,642	925,895
Payment in lieu of taxes	479,086	497,961	-	-	479,086	497,961
Penalties and interest	39,218	35,044	-	-	39,218	35,044
Interest on investments	589,104	280,383	353,387	222,974	942,491	503,357
Miscellaneous revenue	55,275	8,946	2,525	-	57,800	8,946
Total Revenues	19,179,024	18,226,204	10,049,025	9,897,881	29,228,049	28,124,085
Expenses						
General government	7,521,311	5,584,813	-	-	7,521,311	5,584,813
Public safety	6,643,155	5,808,608	-	-	6,643,155	5,808,608
Culture and recreation	2,767,462	2,610,257	-	-	2,767,462	2,610,257
Public works	2,348,520	2,879,680	-	-	2,348,520	2,879,680
Interest on long-term debt	562,654	381,932	-	-	562,654	381,932
Water and sewer	-	-	8,220,965	6,707,331	8,220,965	6,707,331
Drainage Utility	-	-	1,066,306	1,015,534	1,066,306	1,015,534
Total Expenses	19,843,102	17,265,290	9,287,271	7,722,865	29,130,373	24,988,155
Increase (decrease) in net position before transfers	(664,078)	960,914	761,754	2,175,016	97,676	3,135,930
Transfers	576,586	543,961	(576,586)	(543,961)	-	-
Increase (decrease) in net position after transfers	(87,492)	1,504,875	185,168	1,631,055	97,676	3,135,930
Net position - beginning	42,747,144	42,306,218	30,154,631	28,747,776	72,901,775	71,053,994
Prior period adjustment	-	(1,063,949)	-	(224,200)	-	(1,288,149)
Net position - ending	\$ 42,659,652	\$ 42,747,144	\$ 30,339,799	\$ 30,154,631	\$ 72,999,451	\$ 72,901,775

**CITY OF WATAUGA, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)**

Governmental activities. Governmental activities total decrease in net position was \$87,492 or 0.2% decrease from the prior year. Key elements of activity changes from the prior year are as follows:

- Total revenues increased by \$952,820 or 5.2% from the prior year, In general revenues, property taxes increased \$602,936 due to an increase in assessed property valuations. Additionally, sales tax revenues increased by \$163,369, or 2.8%, and interest income increased \$308,721. Fees, fines and services revenues decreased by \$201,471 over prior year, primarily due to a decrease in fines resulting from fewer citations issued in comparison with prior year.
- Expenses increased by \$2,577,812 or 14.9%. Public safety expenditures increased by \$834,547, or 14.4%, primarily due to personnel increases and the addition of an additional line of supervision (Corporals) during the year, increases to the City’s pension plan, and other general cost increases.

Revenues and Program Expenses – Governmental Activities



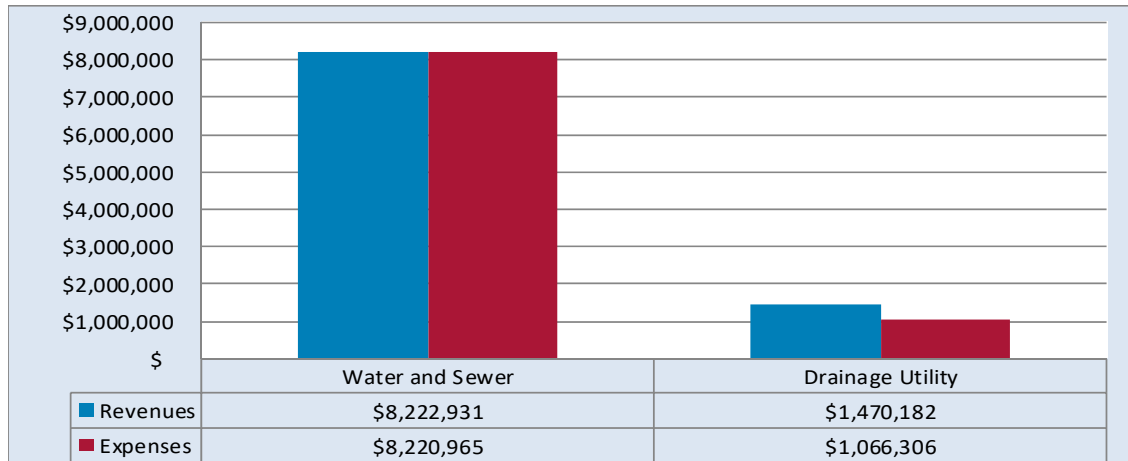
Business-type activities. Business-type activities increased the City’s net position by \$185,168, or 0.6% increase from the prior year.

Significant changes from the prior year include:

- Increase in long term liabilities outstanding by \$7,690,520, or 50.6% due to the issuance of Combination Tax and Limited Pledge Revenue Certificates of Obligations in the amount of \$8,065,000 for capital improvements less scheduled principal payments.
- Total revenues increased by \$151,144 due to an increase in water and sewer rates during the fiscal year and an increase in investment earnings.
- Total expenses increased by \$1,564,406. This was due increase in water purchases and sewage disposal fees.

CITY OF WATAUGA, TEXAS
MANAGEMENT’S DISCUSSION AND ANALYSIS (continued)

Revenues and Program Expenses – Business-Type Activities



Financial Analysis of the Government’s Funds

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

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

At the end of the current fiscal year, the City of Watauga’s governmental funds reported a combined ending fund balance of \$19,608,452, which is a decrease of \$18,749 from the prior year. Unassigned fund balance is \$4,317,018 or 22% of the total governmental fund balance and is available for spending at the government’s discretion. The remainder of fund balance is in the form of 1) non-spendable for inventories (\$20,776) and prepaid items (\$96,058), 2) restricted for capital acquisitions and contractual obligations (\$10,576,461), retirement of fund indebtedness (\$659,604), culture and recreation (\$922,784), public works (\$1,483,538) and public safety (\$1,532,213).

The general fund is the primary operating fund of the City. The fund balance has decreased by a net \$153,218 over the prior year, to \$4,418,341. This was due to an increase in personnel expenditures and one-time capital equipment purchases.

The G.O. Debt Service fund balance decreased by \$51,299 over the prior year, to \$659,604 as a result of increased principal and interest payments.

The Capital Projects fund saw a decrease of \$201,978 in ending fund balance primarily due to expenditures for capital equipment, street improvements, park projects and various other capital projects throughout the City.

The non-major governmental funds showed a combined \$387,746 increase in fund balance from the prior year. This was primarily due to increase in revenue and decrease in expenditures in the Street Maintenance Sales Tax Fund.

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

Unrestricted net position of the respective proprietary funds are Water/Sewer at \$1,527,343 and Drainage Utility at \$4,360,031. The proprietary funds had a combined net position increase of \$146,127 as a result

CITY OF WATAUGA, TEXAS MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

of operations. The Water/Sewer fund had a decrease in the net position of \$289,201, while the Drainage Utility fund had a net position increase of \$435,328 as a result of operations.

Budgetary Highlights

Actual total general fund expenditures were under budget for FY 2019. There was an overall positive variance with final budget for the General Fund of \$138,012. A major component in this positive variance was lower than forecasted expenditures of \$437,290. This was primarily due to salary savings in the Police department as a result of various positions not being filled throughout the year.

Capital Asset and Debt Administration

Capital assets. The City's investment in capital assets for its governmental and business type activities as of September 30, 2019, amount to \$81,033,052 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, infrastructure and construction in progress. The total decrease in the City's capital asset investment for the current fiscal year was 0.7%.

Major capital asset events during the fiscal year included the following:

- Projects that were included in Construction in Progress in FY2018 which were completed this fiscal year include the following:
 - Water Tower Resurfacing Project in an amount of \$260,731
 - Overlay Project which includes improvements of six streets in an amount of \$489,420
- New Projects that began in FY2018-19 and were added to Construction in Progress included:
 - Bowie Street added \$22,310 to Construction in Progress
 - Sanitary Sewer Evaluation Study - Phase Two added \$65,131 to Construction in Progress
- Prior Year Projects that increased the Construction in Progress included:
 - The Splashpad project increased by \$1,339 bringing the total CIP for the project to \$26,002
 - Capp Smith Park Retaining Wall continued with an increase of \$2,588 in Construction in Progress, bringing the total CIP for the project to \$48,168
 - Whitley Road – Phase Two increased by \$516,300 in Construction in Progress, bringing the total CIP for the project to \$801,100
 - The Starnes Road Waterline Replacement Project increased by \$853,851 in Construction in Progress, bringing the total CIP for the project to \$957,851
 - CDBG 44th Year increased by \$25,950, bringing the total CIP for the project to \$28,450
 - The Meadowlark Lane East water and sewer line improvements increased by \$34,485, bringing the total CIP for the project to \$120,395
 - Whitley Road – Phase Three continued with an increase of \$54,738, bringing the total CIP for the project to \$301,059
- Other projects that were completed in FY2019 for a total of \$827,527 include:
 - Parks projects to include sidewalk repairs at various parks in the amount of \$10,000, Foster Village Park paving improvements for a total of \$49,800, and shade structures at BISD and Indian Springs Parks for a total of \$47,105
 - Infrastructure improvements (street overlays, sidewalks) in the amount of \$281,190
 - City Hall and Police Station HVAC unit replacements in the amount of \$28,425
 - Installation of a new school zone flasher in the amount of \$8,455
 - Continuation of Storm Drain Channel Improvement program in the amount of \$16,343
 - Building improvements to include the Water Tower fire alarm system replacement in the amount of \$34,850 and the Fleet Bay Doors replacement in the amount of \$32,250
 - Police vehicle replacements in the amount of \$319,108

Additional information on the City's capital assets can be found in Note 4 of this report.

CITY OF WATAUGA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Schedule of Capital Assets (Net of Accumulated Depreciation)

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Land	\$ 19,019,600	\$ 19,019,600	\$ 91,000	\$ 91,000	\$ 19,110,600	\$ 19,110,600
Construction in progress	369,320	747,492	2,277,861	785,223	2,647,181	1,532,715
Buildings and improvements	16,094,687	16,493,455	2,100,141	2,163,816	18,194,828	18,657,271
Improvements other than buildings	350,154	358,430	-	-	350,154	358,430
Equipment	3,228,808	3,522,728	632,369	678,407	3,861,177	4,201,135
Drainage improvements	-	-	8,565,950	8,917,869	8,565,950	8,917,869
Infrastructure	9,296,980	9,602,846	-	-	9,296,980	9,602,846
Waterworks and sanitary sewer system	-	-	19,006,182	19,204,303	19,006,182	19,204,303
Total Capital Assets	<u>\$ 48,359,549</u>	<u>\$ 49,744,551</u>	<u>\$ 32,673,503</u>	<u>\$ 31,840,618</u>	<u>\$ 81,033,052</u>	<u>\$ 81,585,169</u>

Additional information on the City's capital assets can be found in Note 4 of this report.

Long-term debt. At the end of the current fiscal year, the City had total debt outstanding of \$41,100,000. This entire amount comprises debt backed by the full faith and credit of the government.

Other debt includes \$313,920 owed to the City of North Richland Hills for the City's portion of a joint agreement on street repair, and \$2,962,561 in Compensated Absences for employee earned, but unpaid, vacation and sick leave.

During the current fiscal year, the City's total debt increased by \$6,158,355, which was mainly due to an issuance of Combination Tax and Limited Pledge Revenue Certificates of Obligations, Series 2019.

Schedule of Outstanding Debt

	Governmental Activities		Business-Type Activities		Totals	
	2019	2018	2019	2018	2019	2018
General obligation bonds	\$ 1,105,000	\$ 1,605,000	\$ 6,800,000	\$ 7,080,000	\$ 7,905,000	\$ 8,685,000
Certificates of obligation	18,085,000	19,040,000	15,110,000	7,575,000	33,195,000	26,615,000
Notes payable	313,920	379,687	-	-	313,920	379,687
Unamortized bond premium	581,822	593,220	982,265	546,745	1,564,087	1,139,965
	<u>\$ 20,085,742</u>	<u>\$ 21,617,907</u>	<u>\$ 22,892,265</u>	<u>\$ 15,201,745</u>	<u>\$ 42,978,007</u>	<u>\$ 36,819,652</u>

Additional information on the City's long-term debt can be found in Note 5.

CITY OF WATAUGA, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Economic Factors and Next Year's Budgets and Rates

In the Fiscal Year 2020 Budget, General Fund revenues are budgeted to increase by 5.3% from the Fiscal Year 2019 final budget, with ad valorem taxes making up 45% of General Fund budgeted revenues. Certified assessed valuations, including estimated values on properties under protest, increased 13.8% for the fiscal year 2019 budget compared to a 9.2% increase in the previous year's budget. In response to the growth, the City Council reduced the tax rate for FY2019-20 to \$0.58050, a decrease of \$0.02166 from last year's tax rate.

A significant portion of the city's general operating revenue is derived from sales tax and the City experienced increases of 2.5% in FY2018-19 from prior year. In FY2019-20, sales tax revenues are budgeted to increase 2.0% over prior year. Efforts to maintain and grow our sales tax base continue to be a high priority and is evidenced by the shift in sales tax (Type B) funding from Parks to Economic Development initiatives in the FY2019-20 budget year.

Many capital improvement projects are underway in the City at this time. Several major water/wastewater system infrastructure projects continue for next year and beyond. Funding for other street and park projects is in place for projects that are scheduled to begin in the next budget year.

The Water and Sewer Operating Fund is budgeted in fiscal year 2020 to operate at a net surplus of \$252,000 in order to move towards restoring the fund balance reserves to the financial standards. Rate increases were put in place in FY2018-19 (March, 2019 and September, 2019) that will help meet the escalating costs of wastewater treatment and water distribution. Another rate review is scheduled for the Spring 2020.

Request for Information

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, Attn: Sandra Gibson, CGFO, CGFM, Director of Finance and Administration by phone at 817-514-5822, or by email at sgibson@cowtx.org.

BASIC FINANCIAL STATEMENTS

CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE - STATEMENT OF NET POSITION
September 30, 2019

	Primary Government		
	Governmental Activities	Business- Type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 6,752,748	\$ 4,099,377	\$ 10,852,125
Investments	15,161,905	17,820,752	32,982,657
Receivables, net of allowance for uncollectibles	1,692,305	1,789,166	3,481,471
Inventories	20,776	59,255	80,031
Prepaid items	96,058	17,845	113,903
Capital assets:			
Not subject to depreciation	19,388,920	2,368,861	21,757,781
Subject to depreciation	28,970,629	30,304,642	59,275,271
Total Capital Assets	<u>48,359,549</u>	<u>32,673,503</u>	<u>81,033,052</u>
Total Assets	<u>72,083,341</u>	<u>56,459,898</u>	<u>128,543,239</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflows - OPEB	63,221	18,600	81,821
Deferred outflows - pension	4,138,244	783,260	4,921,504
Total deferred outflows of resources	<u>4,201,465</u>	<u>801,860</u>	<u>5,003,325</u>
LIABILITIES			
Accounts payable	677,692	629,010	1,306,702
Accrued liabilities	630,213	148,357	778,570
Accrued interest	123,390	99,088	222,478
Customer deposits	21,563	925,987	947,550
Long-term liabilities:			
Due within one year	2,198,880	984,147	3,183,027
Due in more than one year	20,455,059	22,302,482	42,757,541
Due in more than one year - net pension liability	6,680,010	1,317,269	7,997,279
Due in more than one year - net OPEB liability	1,185,310	251,500	1,436,810
Total Liabilities	<u>31,972,117</u>	<u>26,657,840</u>	<u>58,629,957</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred inflows - OPEB	58,446	13,300	71,746
Deferred inflows - pension	1,594,591	250,819	1,845,410
Total deferred outflows of resources	<u>1,653,037</u>	<u>264,119</u>	<u>1,917,156</u>
NET POSITION			
Net investment in capital assets	38,606,089	24,452,425	63,058,514
Restricted for:			
Capital improvements	244,179	-	244,179
Debt service	596,493	-	596,493
Culture and recreation	922,784	-	922,784
Public works	1,483,538	-	1,483,538
Public safety	1,532,213	-	1,532,213
Unrestricted	(725,644)	5,887,374	5,161,730
Total Net Position	<u>\$ 42,659,652</u>	<u>\$ 30,339,799</u>	<u>\$ 72,999,451</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF WATAUGA, TEXAS
GOVERNMENT WIDE - STATEMENT OF ACTIVITIES
Year Ended September 30, 2019

Functions/Programs	Program Revenue			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government	Business-Type Activities	Total
Primary government						
Governmental activities						
General government	\$ 7,521,311	\$ 189,931	\$ -	\$ (7,331,380)	\$ -	\$ (7,331,380)
Public safety	6,643,155	1,877,057	-	(4,766,098)	-	(4,766,098)
Culture and recreation	2,767,462	236,478	22,240	(2,508,744)	-	(2,508,744)
Public works	2,348,520	654,129	-	(1,694,391)	-	(1,694,391)
Interest on long-term debt	562,654	-	-	(562,654)	-	(562,654)
Total governmental activities	19,843,102	2,957,595	22,240	(16,863,267)	-	(16,863,267)
Business-type activities:						
Water and Sewer	8,220,965	8,222,931	-	-	1,966	1,966
Drainage Utility	1,066,306	1,470,182	-	-	403,876	403,876
Total business-type activities	9,287,271	9,693,113	-	-	405,842	405,842
Total primary government	\$ 29,130,373	\$ 12,650,708	\$ 22,240	(16,863,267)	405,842	(16,457,425)
General revenues:						
Taxes:						
Property taxes, levied for general purposes				8,033,015	-	8,033,015
Sales taxes				6,013,849	-	6,013,849
Franchise taxes				989,642	-	989,642
Payment in lieu of taxes				479,086	-	479,086
Penalties and interest				39,218	-	39,218
Interest on investments				589,104	353,387	942,491
Miscellaneous revenue				55,275	2,525	57,800
Transfers				576,586	(576,586)	-
Total general revenues and transfers				16,775,775	(220,674)	16,555,101
Change in net position				(87,492)	185,168	97,676
Net position - beginning				42,747,144	30,154,631	72,901,775
Net position - ending				\$ 42,659,652	\$ 30,339,799	\$ 72,999,451

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF WATAUGA, TEXAS
BALANCE SHEET - GOVERNMENTAL FUNDS
September 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and cash equivalents	\$ 1,412,176	\$ 552,949	\$ 917,224	\$ 2,058,110	\$ 4,940,459
Investments	2,268,788	120,437	9,490,791	2,764,638	14,644,654
Receivables, net of allowance for uncollectibles					
Property taxes	108,153	46,497	-	-	154,650
Accounts receivable	1,043,387	-	3,589	490,002	1,536,978
Due from other funds	690,597	-	-	-	690,597
Prepaid items	80,547	-	-	15,511	96,058
Inventory of supplies	20,776	-	-	-	20,776
Total Assets	<u>\$ 5,624,424</u>	<u>\$ 719,883</u>	<u>\$ 10,411,604</u>	<u>\$ 5,328,261</u>	<u>\$ 22,084,172</u>
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 212,870	\$ -	\$ 79,322	\$ 385,500	\$ 677,692
Accrued liabilities	576,274	-	-	53,939	630,213
Accrued interest payable	-	13,782	-	-	13,782
Deposits	21,563	-	-	-	21,563
Due to other funds	-	-	-	690,597	690,597
Total Liabilities	<u>810,707</u>	<u>13,782</u>	<u>79,322</u>	<u>1,130,036</u>	<u>2,033,847</u>
Deferred Inflows of Resources					
Unavailable revenue - Property Taxes	108,153	46,497	-	-	154,650
Unavailable revenue - EMS	287,223	-	-	-	287,223
Total Deferred Inflows of Resources	<u>395,376</u>	<u>46,497</u>	<u>-</u>	<u>-</u>	<u>441,873</u>
Fund balances:					
Non-Spendable					
Inventories	20,776	-	-	-	20,776
Prepaid items	80,547	-	-	15,511	96,058
Restricted					
Capital acquisitions and contractual obligations	-	-	10,332,282	244,179	10,576,461
Debt service	-	659,604	-	-	659,604
Culture and recreation	-	-	-	922,784	922,784
Public works	-	-	-	1,483,538	1,483,538
Public safety	-	-	-	1,532,213	1,532,213
Unassigned	4,317,018	-	-	-	4,317,018
Total Fund balances	<u>4,418,341</u>	<u>659,604</u>	<u>10,332,282</u>	<u>4,198,225</u>	<u>19,608,452</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 5,624,424</u>	<u>\$ 719,883</u>	<u>\$ 10,411,604</u>	<u>\$ 5,328,261</u>	<u>\$ 22,084,172</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
September 30, 2019**

Total fund balance - governmental funds \$ 19,608,452

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

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. 47,057,928

Deferred outflows related to OPEB 63,221

Deferred outflows related to Texas Municipal Retirement System 4,138,244

Interest payable on long-term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet. (109,608)

Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements. 441,873

Deferred inflows related to OPEB (58,446)

Deferred inflows related to Texas Municipal Retirement System (1,594,591)

Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:

 General obligation bonds (1,105,000)

 Certificate of obligations (18,085,000)

 Premiums on issuance (581,822)

 Notes payable (313,920)

 Compensated absences (2,568,197)

 Net pension liability (6,680,010)

 Net OPEB liability (1,185,310)

Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. The net position of the internal service fund is net of the amount allocated to business-type activities, deferred charges, capital assets and long-term liabilities. 3,631,838

Net position of governmental activities \$ 42,659,652

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
Year Ended September 30, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes and franchise fees	\$ 9,670,695	\$ 2,424,577	\$ -	\$ 2,970,112	\$ 15,065,384
Licenses and permits	467,737	-	-	-	467,737
Charges for services	741,687	-	-	-	741,687
Fines and forfeitures	476,291	-	-	847,307	1,323,598
Interest income	106,381	20,244	295,114	101,327	523,066
Intergovernmental	479,086	-	-	-	479,086
Miscellaneous	318,859	-	-	134,580	453,439
Total Revenues	<u>12,260,736</u>	<u>2,444,821</u>	<u>295,114</u>	<u>4,053,326</u>	<u>19,053,997</u>
Expenditures					
Current:					
General government	6,573,346	-	-	2,556	6,575,902
Public safety	3,893,890	-	-	2,277,574	6,171,464
Culture and recreation	1,669,807	-	-	669,548	2,339,355
Public works	773,897	-	-	79,558	853,455
Capital outlay	-	-	857,224	541,444	1,398,668
Debt Service:					
Principal	-	1,880,000	65,767	-	1,945,767
Interest and other charges	-	616,120	23,978	-	640,098
Total Expenditures	<u>12,910,940</u>	<u>2,496,120</u>	<u>946,969</u>	<u>3,570,680</u>	<u>19,924,709</u>
Excess (deficiency) of revenues over expenditures	<u>(650,204)</u>	<u>(51,299)</u>	<u>(651,855)</u>	<u>482,646</u>	<u>(870,712)</u>
Other Financing Sources (Uses)					
General obligation debt issued	-	-	425,000	-	425,000
Premium on general obligation debt	-	-	24,877	-	24,877
Transfers in	544,486	-	-	-	544,486
Transfers out	<u>(47,500)</u>	<u>-</u>	<u>-</u>	<u>(94,900)</u>	<u>(142,400)</u>
Total other financing sources and uses	<u>496,986</u>	<u>-</u>	<u>449,877</u>	<u>(94,900)</u>	<u>851,963</u>
Net change in fund balances	(153,218)	(51,299)	(201,978)	387,746	(18,749)
Fund balances - beginning	<u>4,571,559</u>	<u>710,903</u>	<u>10,534,260</u>	<u>3,810,479</u>	<u>19,627,201</u>
Fund balances - ending	<u>\$ 4,418,341</u>	<u>\$ 659,604</u>	<u>\$ 10,332,282</u>	<u>\$ 4,198,225</u>	<u>\$ 19,608,452</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

**CITY OF WATAUGA, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended September 30, 2019**

Net change in fund balances - total governmental funds \$ (18,749)

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

Governmental funds report outlays for capital assets 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. This is the amount of capital assets recorded in the current period. 1,162,141

Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds. (2,322,043)

Governmental funds only report the disposal of capital assets to the extent proceeds are received from the sale. In the Statement of Activities a gain or (loss) is reported for each disposal. Thus, the change in net position differs from the change in fund balance by the book value of the assets sold and disposed. (114,408)

The issuance of long-term debt (e.g. bonds) (\$425,000) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt of \$1,945,767 consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items of \$11,398, when debt is first issued, whereas the 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. 1,532,165

Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds. (225,333)

Contributions made after the measurement date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position

Pension	1,137,224
OPEB	42,877

Accrued interest is not reported in the fund financial statements and the change is reported in the statement of activities (12,301)

Certain unavailable revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. 58,990

Pension expense for the pension plan measurement year (1,572,842)

OPEB expense for the pension plan measurement year (94,739)

Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with business-type activities. 339,526

Change in net position of governmental activities \$ (87,492)

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2019

(1 of 2)

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>	<u>Activities - Internal Service Fund</u>
ASSETS				
Current assets				
Cash and cash equivalents	\$ 187,041	\$ 3,912,336	\$ 4,099,377	\$ 1,812,289
Investments	17,003,999	816,753	17,820,752	517,251
Accounts receivable and unbilled revenue less allowance for uncollectibles	1,712,292	76,874	1,789,166	677
Inventories	59,255	-	59,255	-
Prepaid items	13,812	4,033	17,845	-
Total current assets	<u>18,976,399</u>	<u>4,809,996</u>	<u>23,786,395</u>	<u>2,330,217</u>
Non-current assets:				
Capital Assets:				
Land	91,000	-	91,000	-
Construction in Progress	2,098,090	179,771	2,277,861	-
Buildings	3,246,847	106,931	3,353,778	154,068
Equipment	1,494,361	88,014	1,582,375	3,573,712
Drainage improvements	-	18,434,260	18,434,260	-
Waterworks and sanitary sewer system	23,832,787	-	23,832,787	-
	30,763,085	18,808,976	49,572,061	3,727,780
Less Accumulated depreciation	<u>(7,158,926)</u>	<u>(9,969,945)</u>	<u>(17,128,871)</u>	<u>(2,195,846)</u>
Capital assets net of depreciation	<u>23,604,159</u>	<u>8,839,031</u>	<u>32,443,190</u>	<u>1,531,934</u>
Total assets	<u>42,580,558</u>	<u>13,649,027</u>	<u>56,229,585</u>	<u>3,862,151</u>
DEFERRED OUTFLOWS OF				
Deferred outflows - OPEB	14,400	4,200	18,600	-
Deferred outflows - pension	589,670	193,590	783,260	-
Total deferred outflows	<u>604,070</u>	<u>197,790</u>	<u>801,860</u>	<u>-</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF NET POSITION - PROPRIETARY FUNDS
September 30, 2019

(2 of 2)

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental Activities - Internal Service Fund</u>
	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>	
LIABILITIES				
Current liabilities				
Payable from current assets				
Accounts payable	\$ 546,309	\$ 82,701	\$ 629,010	\$ -
Accrued liabilities	124,456	23,901	148,357	-
Current portion of compensated absences	32,459	6,688	39,147	-
Current portion of bonds payable	945,000	-	945,000	-
Deposits	925,987	-	925,987	-
Payable from restricted assets			-	
Accrued interest	99,088	-	99,088	-
Total current liabilities	<u>2,673,299</u>	<u>113,290</u>	<u>2,786,589</u>	<u>-</u>
Noncurrent liabilities:				
Bonds payable	21,947,265	-	21,947,265	-
Compensated absences	255,968	99,249	355,217	-
Net pension liability	936,753	380,516	1,317,269	-
Net OPEB liability	196,800	54,700	251,500	-
Total non-current liabilities	<u>23,336,786</u>	<u>534,465</u>	<u>23,871,251</u>	<u>-</u>
Total liabilities	<u>26,010,085</u>	<u>647,755</u>	<u>26,657,840</u>	<u>-</u>
DEFERRED INFLOWS OF				
Deferred inflows - OPEB	13,300	-	13,300	-
Deferred inflows - pension	250,819	-	250,819	-
Total deferred outflows	<u>264,119</u>	<u>-</u>	<u>264,119</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	15,383,081	8,839,031	24,222,112	1,531,934
Unrestricted	1,527,343	4,360,031	5,887,374	2,330,217
Total Net Position	<u>\$ 16,910,424</u>	<u>\$ 13,199,062</u>	30,109,486	<u>\$ 3,862,151</u>
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>230,313</u>	
Net position of business-type activities			<u>\$ 30,339,799</u>	

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year Ended September 30, 2019

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
Operating revenues				
Water service	\$ 4,321,524	\$ -	\$ 4,321,524	\$ -
Sewer service	3,520,605	-	3,520,605	-
Drainage fees	-	1,470,182	1,470,182	-
Service fees and miscellaneous	380,802	-	380,802	402,553
Total operating revenues	<u>8,222,931</u>	<u>1,470,182</u>	<u>9,693,113</u>	<u>402,553</u>
Operating expenses				
Personnel services	1,573,761	468,432	2,042,193	-
Supplies	100,447	16,744	117,191	-
Maintenance	29,608	14,899	44,507	-
Contractual services	5,421,829	171,247	5,593,076	3,971
Capital outlay	44,502	11,130	55,632	38,989
Bad debt expense	34,135	3,158	37,293	-
Depreciation and amortization	502,171	380,696	882,867	221,563
Total operating expenses	<u>7,706,453</u>	<u>1,066,306</u>	<u>8,772,759</u>	<u>264,523</u>
Operating income (loss)	<u>516,478</u>	<u>403,876</u>	<u>920,354</u>	<u>138,030</u>
Non-operating revenues (expenses)				
Investment income	218,335	135,052	353,387	66,037
Gain (loss) on disposal of capital assets	2,525	-	2,525	-
Interest expense	(553,553)	-	(553,553)	-
Total Non-operating revenue (expenses), net	<u>(332,693)</u>	<u>135,052</u>	<u>(197,641)</u>	<u>66,037</u>
Income (loss) before transfers	183,785	538,928	722,713	204,067
Transfers in	-	-	-	174,500
Transfers out	<u>(472,986)</u>	<u>(103,600)</u>	<u>(576,586)</u>	<u>-</u>
Change in net position	(289,201)	435,328	146,127	378,567
Total net position - beginning of the year	<u>17,199,625</u>	<u>12,763,734</u>		<u>3,483,584</u>
Total net position - ending of the year	<u>\$ 16,910,424</u>	<u>\$ 13,199,062</u>		<u>\$ 3,862,151</u>

Reconciliation to government-wide statement of net position

Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds	<u>39,041</u>
Change in net position of business-type activities	<u>\$ 185,168</u>

The Notes to the Basic Financial Statements are an integral part of this statement.

CITY OF WATAUGA, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year Ended September 30, 2019

	Business-Type Activities			Governmental Activities - Internal Service Fund
	Water and Sewer	Drainage Utility	Total Enterprise Funds	
OPERATING ACTIVITIES				
Cash received from customers	\$ 8,130,438	1,484,777	\$ 9,615,215	\$ 407,926
Cash payments to suppliers for goods and services	(5,924,877)	(143,994)	(6,068,871)	(45,176)
Cash payments to employees for services	(1,399,890)	(429,037)	(1,828,927)	-
Net cash provided by operating activities	805,671	911,746	1,717,417	362,750
NONCAPITAL FINANCING ACTIVITIES				
Transfers from other funds	-	-	-	174,500
Transfers to other funds	(472,986)	(103,600)	(576,586)	-
Net cash provided by (used by) noncapital financing activities	(472,986)	(103,600)	(576,586)	174,500
CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from the sale of equipment	2,525	-	2,525	-
Purchase of capital assets	(1,514,246)	(162,465)	(1,676,711)	(149,912)
Repayment of debt	(810,000)	-	(810,000)	-
Bond issuance costs	(130,100)	-	(130,100)	-
Net Proceeds from issuance of debt	8,630,620	-	8,630,620	-
Interest paid on debt	(517,938)	-	(517,938)	-
Net cash provided by (used by) capital and related financing activities	5,660,861	(162,465)	5,498,396	(149,912)
INVESTING ACTIVITIES				
Sale of investments	-	1,329,868	1,329,868	399,493
Investment income	218,335	135,052	353,387	66,037
Purchase of investments	(7,649,994)	-	(7,649,994)	-
Net cash provided by (used by) investing activities	(7,431,659)	1,464,920	(5,966,739)	465,530
Net change in cash and cash equivalents	(1,438,113)	2,110,601	672,488	852,868
Cash and equivalents, beginning of year	1,625,154	1,801,735	3,426,889	959,421
Cash and equivalents, at end of year	\$ 187,041	\$ 3,912,336	\$ 4,099,377	\$ 1,812,289
Reconciliation of operating income to net cash provided by operating activities				
Operating income	\$ 516,478	\$ 403,876	\$ 920,354	\$ 138,030
Adjustments to reconcile operating income to net cash provided by operating activities				
Depreciation and amortization	502,171	380,696	882,867	221,563
(Increase) decrease in accounts receivable and unbilled revenue	(106,424)	14,595	(91,829)	5,370
(Increase) decrease in prepaids items	(13,812)	(4,033)	(17,845)	-
(Increase) decrease in deferred outflows - pensions	(347,800)	(125,655)	(473,455)	-
(Increase) decrease in deferred outflows - OPEB	1,100	-	1,100	-
(increase) decrease in inventory	(36,872)	-	(36,872)	-
Increase (decrease) in deferred inflows - pension	(84,463)	(87,872)	(172,335)	-
Increase (decrease) in deferred inflows - OPEB	13,300	-	13,300	-
Increase (decrease) in accounts payable	(243,672)	77,217	(166,455)	(2,213)
Increase (decrease) in accrued liabilities	66,027	7,250	73,277	-
Increase (decrease) in net pension liability	493,229	239,781	733,010	-
Increase (decrease) in net OPEB liability	(5,900)	-	(5,900)	-
Increase (decrease) in compensated absences	38,378	5,891	44,269	-
Increase (decrease) in deposits	13,931	-	13,931	-
Net cash provided by operating activities	\$ 805,671	\$ 911,746	\$ 1,717,417	\$ 362,750

The Notes to the Basic Financial Statements are an integral part of this statement.

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CITY OF WATAUGA, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Watauga (the City) Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and amended January 19, 1985, August 8, 1987, August 11, 1990, January 15, 1994, August 10, 1996, August 8, 1998, September 14, 2002, May 7, 2005, November 6, 2007, and May 11, 2013. The City operates under a Mayor-Council-Manager form of government. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments.

The City prepares its basic financial statements in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

Financial Reporting Entity

The basic financial statements of the City include the primary government and its component units, entities for which the primary government is financially accountable and other entities 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.

The definition of the reporting entity is based primarily on the notion of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The following entities were found to be component units of the City and are included in the basic financial statements:

The Watauga Economic Development Corporation's (WEDC) was created to encourage the development and advance of City businesses, development and parks within the City. The Corporation is funded through a ¼ cent sales tax and is a Type B corporation. The WEDC's governing board is appointed by the City Council. The WEDC is composed of two funds: a special revenue fund and a capital projects fund.

The Watauga Crime Control and Prevention District Fund's (WCCPD) sole purpose is to act on behalf of the City in the accumulation and use of resources to add law enforcement officers and purchase additional equipment and supplies for law enforcement purposes. The WCCPD is reported as a special revenue fund.

A blended presentation has been used to report the financial information of these component units. The financial information for the individual component units is available from the City.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its blended component units. For the most part the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Fund Financial Statements

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

General Fund

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

General Obligation Debt Service Fund

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted exclusively for debt service expenditures.

General Obligation Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment. Financing is provided primarily by the sale of tax notes, general obligation and contractual obligation bonds.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position. The City has presented the following major proprietary funds:

Water and Sewer Fund

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly, at least annually, and adjusted if necessary to ensure integrity of the funds.

Drainage Utility Fund

The Drainage Utility Fund is used to account for the user fees charged per residential and commercial unit to enhance drainage of properties within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations and maintenance.

Additionally, the City reports the Internal Service Fund, which was established in 1997 for the purpose of replacing equipment. Departments are charged user fees to accumulate funds to be used in replacing existing equipment as needed.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, which are accrued. Expenses are recognized at the time the liability is incurred.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both 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 be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

Deposits and Investments

Substantially all operating cash, deposits, and short-term investments are maintained in consolidated cash accounts or individual fund investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly-liquid investments with original maturities of three months or less.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash equivalents.

Certificates of Deposit are reported at cost plus accrued interest. All other investments are reported at fair value.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds, and certificates of deposits within established criterion. During the year ended September 30, 2019, the City did not own any types of securities other than those permitted by statute.

Receivables

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for cities, including those applicable to debt service, are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The City's current tax rate is \$0.601788 per \$100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year. Prepaid balances are reported in the governmental funds using the purchase method instead of the consumption method. Payments for prepaid items are fully recognized as expenditures in the year of payment.

Inventories

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies. Inventories are offset by a fund balance reserve account in applicable governmental funds to indicate the inventory values are not available for appropriation and are not expendable financial resources.

Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Interfund transfers in the fund statements are reported as other financing sources (uses) in governmental funds and after non-operating revenues (expenses) in the proprietary funds.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, equipment, and infrastructure assets.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over one year of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Improvements other than buildings	50 years
Equipment	3-10 years
Drainage Improvements	50 years
Infrastructure	9-50 years
Waterworks and sanitary sewer system	60 years

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Compensated Absences

City employees are granted vacation, sick and other compensated time pay in varying amounts. In the event of termination, an employee hired before 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 60 days, or an employee hired after 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 30 days if the employee has completed their probationary period of six months for a non-civil service employee or at least one year for civil service employees. Employees hired before 10/1/2013 are reimbursed up to 100% of 90 days for accumulated sick leave. Non-civil service employees hired after 10/1/2013 are no longer reimbursed for unpaid sick leave. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. The total liability for compensated absences at September 30, 2019 was \$ 2,962,561 , including \$ 394,364 of proprietary fund balances which are included with accrued liabilities on the proprietary fund statement of net position.

The estimated vacation liability expected to be satisfied with available financial resources is included in accrued salaries and wages in the governmental funds.

Deferred Outflows/Inflows of Resources

Deferred outflows and inflows of resources are reported in the statement of net position as described below:

A *deferred outflow of resources* is a consumption of a government's net assets (a decrease in assets excess of any related decrease in liabilities or an increase in liabilities in excess of any related increase in assets) by the government that is applicable to a future reporting period. The City has two items that qualify for reporting in this category reported in the government-wide statement of net position:

- Deferred outflows of resources for other post-employment benefits "OPEB" – these deferred outflows result from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of changes in assumptions and other inputs. The deferred outflows of resources resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the next fiscal year. The other OPEB related outflow will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with OPEB benefits, which is currently between 5.75 and 8.5 years, depending on the plan.
- Deferred outflows of resources for pension – this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of differences between projected and actual earnings on pension plan investments. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The other pension related outflow will be amortized over a closed five year period.

A *deferred inflow of resources* is an acquisition of a government's net assets (an increase in assets in excess of any related increase in liabilities or a decrease in liabilities in excess of any related decrease in assets) by the government that is applicable to a future reporting period. The City has three items that qualify for this category:

- Deferred inflows of resources for unavailable revenues – reported in the governmental funds balance sheet, unavailable revenues from EMS and property taxes arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Outflows/Inflows of Resources (continued)

- Deferred inflows of resources for other post-employment benefits (“OPEB”) – reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These OPEB related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with OPEB which is currently between 5.75 and 8.5 years, depending on the plan.
- Deferred inflows of resources for pension – Reported in the government-wide statement of net position, these deferred inflows result primarily from differences between expected and actual experience. These amounts will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with pension through the pension plan, which is currently 3.39 years.

Fund Balance

The City reports fund balances in accordance with GASB Statement No. 54 “Fund Balance Reporting and Governmental Fund Type Definitions.” This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government’s fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been properly classified in the Governmental Funds Balance Sheet.

Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, retirement of fund indebtedness and other state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. Per the City’s fund balance policy, assigned fund balance amounts are established by the City Manager.

Unassigned fund balance – amounts that are available for any purpose. The general fund is the only fund that reports a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fund Balance (continued)

The City establishes (and modifies and rescinds) fund balance commitments by passage of a resolution by City Council. Once the resolutions or ordinances are adopted, the limitation imposed remains in place until a similar action is taken (the adoption of another resolution or ordinance) to remove or revise the limitation.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

Net Position

Net position represent the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City's net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

Encumbrances

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Since under Texas law, appropriations lapse at fiscal year-end, outstanding encumbrances are appropriately provided for in the subsequent years' budget to provide for the liquidation of the prior commitments. As of September 30, 2019, the City had no encumbrances in the General Fund that rolled over into the new fiscal year.

Pension

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, GRS Retirement Consulting, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

Other Post-Employment Benefits

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's self-insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees. Information regarding the City's total liability for this plan is obtained through a report prepared by GRS Retirement Consulting, the City's third-party actuary, in compliance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Other Post-Employment Benefits (continued)

Additionally, the City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, GRS Retirement Consulting, in compliance with GASB Statement No. 75.

Implementation of Future Accounting Standards

The Governmental Accounting Standards Board ("GASB") has issued the following new statements to be implemented in future years.

GASB Statement No. 84, Fiduciary Activities. This statement establishes criteria for identifying fiduciary activities. It presents separate criteria for evaluating component units, pension and other postemployment benefit arrangements, and other fiduciary activities. The focus is on a government controlling the assets of the fiduciary activity and identification of the beneficiaries of those assets. Fiduciary activities are reported in one of four types of funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, or custodial funds. Custodial funds are used to report fiduciary activities that are not held in a trust. The agency fund designation will no longer be used. GASB 84 also provides guidance on fiduciary fund statements and timing of recognition of a liability to beneficiaries. This standard becomes effective for the City in fiscal year 2020.

GASB Statement No. 87, Leases. This statement provides a new framework for accounting for leases under the principle that leases are financings. No longer will leases be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and non-lease components will need to be separated so each component is accounted for accordingly. This standard becomes effective for the City in fiscal year 2021.

GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. This standard becomes effective for the City in fiscal year 2021.

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS

The Public Funds Investment Act (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity, allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

Statutes and the City's investment policy authorized the City to invest in the following investments as summarized in the following table:

Authorized Investment Type	Final Stated Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Public funds investment pool	N/A	100%	None
Certificates of deposit	5 years	100%	None
U.S. Treasury obligations	5 years	100%	None
No-load money market mutual funds	5 years	50%	None
Repurchase agreements	5 years	50%	None
State of Texas securities	5 years	50%	None
U.S. agency obligations	5 years	50%	None
Commercial paper	5 years	10%	None

The act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Deposits and investments as of September 30, 2019, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 21,914,653
Business Type Activities	21,920,129
	<u>\$ 43,834,782</u>

Deposits and investments as of September 30, 2019, consist of the following:

Deposits with financial institutions	\$ 858,942
Investments	42,975,840
	<u>\$ 43,834,782</u>

\$10,000 of the deposits with financial institutions listed above is in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

For the purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 365 days thus reducing the interest rate risk. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

As of September 30, 2019, the City had the following investments:

Investment Type	Carrying Value	Weighted Average Maturity
TexPool	\$ 5,971,693	36 days
TexPool Prime	1,031,303	33 days
TexasTerm	466,897	38 days
LOGIC	305,175	49 days
Money Market	24,903,653	Daily
CDs	10,297,119	22 Days
	\$ 42,975,840	

\$1,186,038 of the investments listed above is in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

As of September 30, 2019, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy or debt agreements and the actual rating as of year-end for each investment type.

Investment Type	Carrying Value	Minimum Rating Required	Actual Investment Rating
TexPool	\$ 5,971,693	AAA	AAAm
TexPool Prime	1,031,303	AAA	AAAm
Texas Term	466,897	AAA	AAAm
LOGIC	305,175	AAA	AAAm
Money Market	24,903,653	N/A	N/A
CDs	10,297,119	N/A	N/A
	\$ 42,975,840		

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2019, other than external investment pools and securities guaranteed by the United States Government, the City did not have 5% or more of its investments with one issuer.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The Public Funds Investment Act requires that a financial institution secure deposits made by

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 2 - DEPOSITS (CASH) AND INVESTMENTS (continued)

Custodial Credit Risk (continued)

state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance of \$250,000 at all times.

At September 30, 2019, the carrying amount of the City's cash on hand and deposits was \$858,942 and the bank balance was \$1,630,075. Of the bank balance, \$250,000 was covered by federal depository insurance while the remaining \$1,380,075 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

The City is a voluntary participant in the TexPool, LOGIC and Texas Term external investment pools.

The State Comptroller of Public Accounts exercises 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. TexPool operates in a manner consistent with the SEC's Rule2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

LOGIC is governed by a six member board and is an AAA-rated investment program tailored to the investment needs of local governments within the state of Texas and is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC assists governments across Texas making the most of taxpayer dollars by allowing local officials to improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund. LOGIC is a 'Constant Dollar' net asset value pool and is in full compliance with the Texas Public Funds Investment Act.

Texas Term is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. A seven-member advisory board governs the Pool. As required by the Public Funds Investment Act, the Advisory Board is composed of participants in the Pool and other persons who do not have a business relationship with the Pool. Under agreement with the Texas Term Advisory Board, PFM Asset Management LLC provides administrative and investment services to the pool. The Pool purchases only investments of the type in which Texas local governments are permitted to invest their own funds. The fair value of the position in Texas Term is the same as the value of Texas Term shares.

The City's external pooled funds are reported at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Amortized cost for the investment pools approximates fair value. In addition, The City's investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

Market values of money market accounts and certificates of deposit are based on quoted market values using Level 2 inputs.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 3 - RECEIVABLES

Accounts receivable balances for the year ended September 30, 2019, was as follows:

Governmental Funds:

	General	Debt Service	Capital Projects	Nonmajor Governmental	Total
Receivables:					
Property taxes	\$ 174,412	\$ 78,187	\$ -	\$ -	\$ 252,599
Sales tax	492,203	-	-	489,653	981,856
Garbage	96,145	-	-	-	96,145
Ambulance	622,023	-	-	-	622,023
Franchise fees	138,612	-	-	-	138,612
Other	147,996	-	3,589	349	151,934
Gross receivables	1,671,391	78,187	3,589	490,002	2,243,169
Less: allowance for uncollectibles	(519,851)	(31,690)	-	-	(551,541)
Net total receivables	\$ 1,151,540	\$ 46,497	\$ 3,589	\$ 490,002	\$ 1,691,628

Proprietary Funds:

	Water and Sewer	Drainage Utility	Total	Internal Service
Customer accounts	\$ 2,509,660	\$ 116,071	\$2,625,731	\$ -
Other	206	1,461	1,667	677
Gross receivables	2,509,866	117,532	2,627,398	677
Less allowance for uncollectibles	(797,574)	(40,658)	(838,232)	-
Total	\$ 1,712,292	\$ 76,874	\$1,789,166	\$ 677

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2019, was as follows:

	Balance September 30, 2018	Additions	Retirements/ Transfers	Balance September 30, 2019
Governmental activities				
Capital assets not being depreciated				
Land	\$ 19,019,600	\$ -	\$ -	\$ 19,019,600
Construction in progress	747,492	139,871	(518,043)	369,320
Total capital assets not being depreciated	<u>19,767,092</u>	<u>139,871</u>	<u>(518,043)</u>	<u>19,388,920</u>
Capital assets being depreciated				
Buildings and improvements	21,725,208	77,800	15,201	21,818,209
Improvements other than buildings	413,778	-	-	413,778
Equipment	13,050,685	608,638	(778,422)	12,880,901
Infrastructure	33,549,351	552,363	435,863	34,537,577
Total capital assets being depreciated	<u>68,739,022</u>	<u>1,669,006</u>	<u>(327,358)</u>	<u>69,650,465</u>
Less accumulated depreciation				
Buildings and improvements	5,231,753	491,769	-	5,723,522
Improvements other than buildings	55,348	8,276	-	63,624
Equipment	9,527,957	725,399	(601,263)	9,652,093
Infrastructure	23,946,505	1,294,092	-	25,240,597
Total accumulated depreciation	<u>38,761,563</u>	<u>2,519,536</u>	<u>(601,263)</u>	<u>40,679,836</u>
Total capital assets being depreciated, net	<u>29,977,459</u>	<u>(850,530)</u>	<u>273,905</u>	<u>28,970,629</u>
Governmental activities capital assets, net	<u>\$ 49,744,551</u>	<u>\$ (710,659)</u>	<u>\$ (244,138)</u>	<u>\$ 48,359,549</u>
	Balance September 30, 2018	Additions	Retirements/ Transfers	Balance September 30, 2019
Business-Type Activities				
Capital assets not being depreciated				
Land	\$ 91,000	\$ -	\$ -	\$ 91,000
Construction in progress	785,223	1,515,629	(22,991)	2,277,861
Total capital assets not being depreciated	<u>876,223</u>	<u>1,515,629</u>	<u>(22,991)</u>	<u>2,368,861</u>
Capital assets being depreciated				
Buildings and improvements	3,353,778	-	-	3,353,778
Equipment	1,961,789	63,111	(47,149)	1,977,751
Street and drainage improvements	18,417,917	16,343	-	18,434,260
Waterworks and sewer system	23,665,057	144,739	22,991	23,832,787
Total capital assets being depreciated	<u>47,398,541</u>	<u>224,193</u>	<u>(24,158)</u>	<u>47,598,576</u>
Less accumulated depreciation for				
Buildings and improvements	1,189,962	63,675	-	1,253,637
Equipment	1,283,382	109,149	(47,149)	1,345,382
Street and drainage improvements	9,500,048	368,262	-	9,868,310
Waterworks and sewer system	4,460,754	365,851	-	4,826,605
Total accumulated depreciation	<u>16,434,146</u>	<u>906,937</u>	<u>(47,149)</u>	<u>17,293,934</u>
Total capital assets being depreciated, net	<u>30,964,395</u>	<u>(682,744)</u>	<u>22,991</u>	<u>30,304,642</u>
Business-type activities capital assets, net	<u>\$ 31,840,618</u>	<u>\$ 832,885</u>	<u>\$ -</u>	<u>\$ 32,673,503</u>

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 4 - CAPITAL ASSETS (continued)

Depreciation expense was charged as direct expense to programs of the primary government as follows:

Governmental activities	
General government	\$ 277,895
Public safety	406,393
Culture and recreation	248,780
Public works	1,388,975
Internal Service Fund	197,493
Total depreciation expense - Governmental Activities	<u>\$ 2,519,536</u>
Business-Type activities	
Water and sewer	\$ 502,171
Drainage	380,696
Internal Service Fund	24,070
Total depreciation expense - Business-Type Activities	<u>\$ 906,937</u>

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2019 are as follows:

<u>Project Name</u>	<u>Remaining Commitment</u>	<u>Total In Progress</u>
Governmental Activities:		
Bowie Street	\$ 7,690	\$ 22,310
Splashpad	14,341	26,002
Capp Smith retaining wall project	4,832	48,168
CDBG 44th Year	-	2,500
Whitley Road - phase three	45,829	191,530
Fire Engine	671,190	78,810
Total Governmental Activities	<u>\$ 743,882</u>	<u>\$ 369,320</u>
Business-Type Activities:		
Water and Sewer Projects	\$ 4,078,494	\$ 2,277,861
Total Business-Type Activities	<u>\$ 4,078,494</u>	<u>\$ 2,277,861</u>

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 - LONG-TERM DEBT

Compensated absences, OPEB and pension liabilities are generally liquidated by the General Fund, Water and Sewer Fund, and the Drainage Utility Fund.

During the fiscal year ended September 30, 2019, the City issued a Combination Tax and Limited Pledge Revenue Certificates of Obligation Series 2019 in amount of \$8,490,000 with an interest rate of 2.00-5.00% and premiums in the amount of \$496,956. The proceeds will be used for street, utility, and park improvement projects as well as capital equipment replacements.

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2019:

	Balance Beginning of Year	Increase	Decrease	Balance End of Year	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 1,605,000	\$ -	\$ (500,000)	\$ 1,105,000	\$ 520,000
Certificates of obligation	19,040,000	425,000	(1,380,000)	18,085,000	1,515,000
Unamortized bond premium	593,220	24,877	(36,275)	581,822	-
Note payable	379,687	-	(65,767)	313,920	68,737
Compensated absences	2,342,864	447,254	(221,921)	2,568,197	95,143
Total governmental activities	<u>23,960,771</u>	<u>897,131</u>	<u>(2,203,963)</u>	<u>22,653,939</u>	<u>2,198,880</u>
Business-Type Activities					
Certificates of obligation	14,655,000	8,065,000	(810,000)	21,910,000	945,000
Unamortized bond premium	546,745	472,079	(36,559)	982,265	-
Compensated absences	350,095	48,203	(3,934)	394,364	39,147
Total Business-type Activities	<u>15,551,840</u>	<u>8,585,282</u>	<u>(850,493)</u>	<u>23,286,629</u>	<u>984,147</u>
Total government-wide activities	<u>\$ 39,512,611</u>	<u>\$ 9,482,413</u>	<u>\$ (3,054,456)</u>	<u>\$ 45,940,568</u>	<u>\$ 3,183,027</u>

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 - LONG-TERM DEBT (continued)

General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

General obligations bonds and certificates of obligation payable at September 30, 2019, are comprised of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
\$2,855,000 Series 2006 General Obligation Refunding Bonds due in annual installments of \$20,000 to \$330,000 through April 1, 2020; interest at 3.730%.	\$ 330,000	\$ -
\$3,400,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$65,000 to \$255,000 through February 1, 2027; interest at 4.110%.	1,780,000	-
\$7,365,000 Series 2011 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$315,000 to \$660,000 through February 1, 2026; interest at 2.00% to 4.00%	1,450,000	1,525,000
\$7,730,000 Series 2012 Certificates of Obligation due in annual installments of \$290,000 to \$510,000 through February 1, 2032; interest at 2.00% to 3.25%.	-	5,520,000
\$2,145,000 Series 2013 General Obligation Refunding Bonds due in annual installments of \$125,000 to \$270,000 through February 1, 2023; interest at 2.25%.	775,000	-
\$3,500,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$85,000 to \$900,000 through February 2034; interest at 1.00% to 3.500%.	2,920,000	-
\$5,885,000 Series 2016 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$285,000 to \$355,000 through February 2036; interest at 2.00% to 4.00%	5,095,000	-
\$7,325,000 Series 2017 Certificates of Obligation due in annual installments of \$245,000 to \$480,000 through February 1, 2037; interest at 3.00% to 5.00%.	-	6,800,000
\$6,780,000 Series 2018 Certificates of Obligation due in annual installments of \$245,000 to \$480,000 through February 1, 2038; interest at 2.00% to 5.00%.	6,415,000	-
\$8,490,000 Series 2019 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$195,000 to \$555,000 through February 1, 2039; interest at 2.00% to 5.00%	425,000	8,065,000
Total Bonds Payable	<u>\$ 19,190,000</u>	<u>\$ 21,910,000</u>

Notes payable at September 30, 2019, are comprised of the following individual issues:

	<u>Governmental</u>	<u>Business-Type</u>
Note payable to City of North Richland Hills annual installments of \$19,785, including interest at 4.5%, maturing February 2021.	\$ 37,054	\$ -
Note payable to City of North Richland Hills annual installments of \$63,068, including interest at 4.5%, maturing October 2024.	276,866	-
Total Notes Payable	<u>313,920</u>	<u>-</u>
Total Bonds and Notes Payable	<u>\$ 19,503,920</u>	<u>\$ 21,910,000</u>

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 5 - LONG-TERM DEBT (continued)

Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each type of debt obligation for the years subsequent to September 30, 2019, are as follows:

General Obligation Bonds

	Governmental Activities		Total
	Principal	Interest	
2020	\$ 520,000	\$ 21,454	\$ 541,454
2021	200,000	10,913	210,913
2022	195,000	6,469	201,469
2023	190,000	2,138	192,138
	<u>\$ 1,105,000</u>	<u>\$ 40,974</u>	<u>\$ 1,145,974</u>

Certificates of Obligation

	Governmental Activities		Business-Type Activities		Total
	Principal	Interest	Principal	Interest	
2020	\$ 1,515,000	\$ 574,175	\$ 945,000	\$ 654,323	\$ 3,688,498
2021	1,945,000	514,391	975,000	623,323	4,057,714
2022	1,835,000	449,422	1,150,000	587,698	4,022,120
2023	1,080,000	397,786	1,190,000	546,661	3,214,447
2024	1,010,000	356,516	1,230,000	503,660	3,100,176
2025 - 2029	4,500,000	1,221,725	6,390,000	1,854,771	13,966,496
2030 - 2034	3,940,000	613,308	5,960,000	877,521	11,390,829
2035 - 2039	2,260,000	124,359	4,070,000	223,315	6,677,674
	<u>\$ 18,085,000</u>	<u>\$ 4,251,682</u>	<u>\$ 21,910,000</u>	<u>\$ 5,871,272</u>	<u>\$ 50,117,954</u>

Notes Payable

	Governmental Activities		Total
	Principal	Interest	
2020	\$ 68,727	\$ 14,126	\$ 82,853
2021	71,819	10,764	82,583
2022	55,266	7,802	63,068
2023	57,753	5,315	63,068
2024	60,355	2,716	63,071
	<u>\$ 313,920</u>	<u>\$ 40,723</u>	<u>\$ 354,643</u>

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 6 - INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund Receivables and Payables

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made. All interfund balances are expected to be repaid during the year ending September 30, 2019.

At September 30, 2019, current interfund balances consisted of the following:

Interfund Transfers

All interfund transfers between the various funds are approved supplements to the operations of those funds.

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>
General Fund	WCCPD Fund	\$ 690,597
		<u>\$ 690,597</u>

At September 30, 2019, transfers in/out for governmental and proprietary funds are as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amounts</u>
General Fund	WEDC Sales Tax Fund	\$ 36,400
General Fund	Storm Drain Utility	72,600
General Fund	WCCPD Fund	29,000
General Fund	Water and Sewer Operating Fund	406,486
Equipment Replacement Fund	WCCPD Fund	15,000
Equipment Replacement Fund	Storm Drain Utility	31,000
Equipment Replacement Fund	Water and Sewer Operating Fund	66,500
Equipment Replacement Fund	WEDC Sales Tax Fund	14,500
Equipment Replacement Fund	General Fund	<u>47,500</u>
		<u>\$ 718,986</u>

Transfers are primarily used to move funds to:

- General Fund from Watauga Economic Development Corporation (“WEDC”) Sales Tax Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.
- General Fund from Storm Drain Utility Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.
- General Fund from Watauga Crime Control and Prevention District (“WPCCPD”) Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.
- General Fund from Water and Sewer Operating Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services are also used by other funds.
- The transfer to Equipment Replacement Fund were for the acquisition of various replacement capital needs in the City.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - PENSION PLAN

The City of Watauga, 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.

Benefits Provided

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

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

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

Employee deposit rate	7.00%
Matching ration (city to employee)	2 to 1
Years required for vesting	5
Updated Service Credit	100% Repeating Transfers
Annuity Increase (to retirees)	70% of CPI Repeating

Employees covered by benefit terms.

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

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

Number of	
Inactive employees or beneficiaries currently receiving benefits	101
Inactive employees entitled to but not yet receiving benefits	166
Active employees	162
Total	429

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 7 - PENSION PLAN (continued)

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 were required to contribute 7.00% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.59% and 13.50% in calendar years 2018 and 2019, respectively. The city's contributions to TMRS for the year ended September 30, 2019 were \$1,349,674, and were equal to the required contributions.

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	2.50% per year
Overall payroll growth	3.00% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with 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 Disabled Retiree Mortality Table is used, with slight adjustments.

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 7 - PENSION PLAN (continued)

Net Pension Liability (continued)

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2018 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.65%
Real Return	10.00%	4.03%
Real Estate	10.00%	5.00%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	8.00%
Total	<u>100.00%</u>	

Discount Rate

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

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 7 - PENSION PLAN (continued)

Net Pension Liability (continued)

Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at 12/31/2017	\$ 48,230,601	\$ 44,492,648	\$ 3,737,953
Changes for the year:			
Service cost	1,577,540	-	1,577,540
Interest (on the Total Pension Liability)	3,256,548	-	3,256,548
Difference between expected and actual experience	22,136	-	22,136
Changes of assumptions	-	-	-
Contributions - employer	-	1,289,939	(1,289,939)
Contributions - employee	-	664,427	(664,427)
Net investment income	-	(1,332,865)	1,332,865
Benefit payments, including refunds of employee contributions	(1,548,423)	(1,548,423)	-
Administrative expense	-	(25,758)	25,758
Other	-	1,155	(1,155)
Balance at 12/31/2018	\$ 51,538,402	\$ 43,541,123	\$ 7,997,279

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%
\$16,036,441	\$7,997,279	\$1,508,836

Pension Plan Fiduciary Net Position

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

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 7 - PENSION PLAN (continued)

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 \$1,857,545.

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 in expected and actual experience	\$ 15,606	\$ 176,404
Difference in projected and actual earnings on pension plan investments.	3,949,890	1,669,006
Employer contributions made after the measurement date	956,008	-
Totals	\$ 4,921,504	\$ 1,845,410

\$956,008 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2020	\$ 638,958
2021	300,089
2022	313,817
2023	867,222
Total	\$ 2,120,086

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

TMRS Supplemental Death Benefits Plan

Benefit Plan Description

The City contributes to a single-employer defined benefit group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member 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.

Membership in the plan as of the measurement date of December 31, 2018 was as follows:

Inactive employees or beneficiaries currently receiving benefits	63
Inactive employees entitled to but not yet receiving benefits	26
Active employees	<u>162</u>
Total	251

Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.18% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees’ entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.71% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2018.

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Assumptions

The City's Total OPEB Liability ("TOL") was measured at December 31, 2018 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	28 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of the measurement date.
Retirement Age	benefits. Last updated for the 2015 valuation to an experience study for the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information: Notes	There were no benefit changes during the year.

Changes in Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2017	\$ 450,793
Changes for the year:	
Service cost	24,679
Interest (on the Total OPEB Liability)	15,283
Difference between expected and actual experience	(28,476)
Changes of assumptions	(32,318)
Benefit payments, including refunds of employee contributions	(2,848)
Balance at 12/31/2018	\$ 427,113

Sensitivity Analysis

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.71%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.71%) or 1 percentage point higher (4.71%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

1% Decrease	Current Single Rate Assumption	1% Increase
2.71%	3.71%	4.71%
\$514,575	\$427,113	\$359,111

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (continued)

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$35,768 relating to the SBFD plan.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ -	\$ 23,524
Difference in assumption changes	-	2,777
Employer contributions made after the measurement date	2,124	-
Totals	\$ 2,124	\$ 26,301

The \$2,124 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2019.

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2020	\$ (4,194)
2021	(4,194)
2022	(4,194)
2023	(7,929)
Total	\$ 26,301

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (continued)

City of Watauga Retiree Health Care Plan

Plan description

The City's defined benefit OPEB plan, City of Watauga Retiree Health Care Plan (WHCP), provides OPEB through an implicit healthcare premium for retirees for all permanent full-time employees of the City. WHCP is a single-employer defined benefit OPEB plan administered by the City. At this time, no assets are accumulated in a trust to fund the future requirements of the WHCP.

Benefits provided

WHCP provides access to post retirement employees by offering a "blended premium" structure, that is, the overall health care premiums for active employees and non-Medicare retirees, are stated in terms of a single "blended premium". The difference between the underlying retiree claims and the blended overall health care premium is referred to as an "implicit" subsidy. Because the underlying claims costs for a non-Medicare retiree are on average higher than the blended premium, there is a positive implicit subsidy for the non-Medicare retirees.

Employees covered by benefit terms. At September 30, 2019, the following employees were covered by the benefit terms:

Number of	
Retirees and beneficiaries	6
Inactive, nonretired members	0
Active members	140
Total	146

Total OPEB Liability

The City's total OPEB liability of \$1,009,697 was measured as of December 31, 2018, and was determined by an actuarial valuation as of December 31, 2018.

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial assumptions and other inputs.

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date: December 31, 2018

Methods and Assumptions:

Actuarial Cost Method	Individual Entry-Age
Discount Rate	3.71% as of December 31, 2018
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Health Care Trend Rates	7.20% declining to an ultimate rate of 4.25% after 14 years Participation Rates 35% of retirees between the ages of 50 and 64 at retirement; 0% for retirees under age 50 at retirement

Discount Rate

Because the RHCP is unfunded or pay-as-you go, the discount rate is based on 20 year tax-exempt AA or higher Municipal Bonds or 3.71% as of the measurement date of December 31, 2018 based on the 20 Year Bond GO Index published by bondbuyer.com.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/2017	\$ 1,029,545
Changes for the year:	
Service cost	41,530
Interest (on the Total OPEB Liability)	34,038
Difference between expected and actual experience	(10,983)
Changes of assumptions	(40,515)
Benefit payments	(43,918)
Balance at 12/31/2018	\$ 1,009,697

Changes of assumptions reflect a change in the discount rate from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

**CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)**

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (continued)

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the plan's total OPEB liability, calculated using a discount rate of 3.71%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

1% Decrease 2.71%	Current Single Rate Assumption 3.71%	1% Increase 4.71%
\$1,114,656	\$1,009,697	\$916,435

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$894,474	\$1,009,697	\$1,147,466

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$75,314. At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ -	\$ 9,692
Changes in assumptions	37,743	35,753
Employer contributions made after the measurement date	41,954	-
Totals	\$ 79,697	\$ 45,445

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

City contributions made subsequent to the measurement date of the total OPEB liability (December 31, 2018) and prior to year-end (September 30, 2019) will be recognized in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2020	\$ (254)
2021	(254)
2022	(254)
2023	(254)
2024	(254)
Thereafter	(6,432)
Total	\$ (7,702)

NOTE 9 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts such as: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Risk Pool) to provide general liability and property insurance and workers' compensation.

The City, along with other participating entities, contributes annual amounts determined by the Risk Pool. Contributions to the Risk Pool for workers' compensation are based on the City's payroll. As claims arise they are submitted to and paid by the Risk Pool.

The liability of the Texas Municipal League Intergovernmental Risk Pool is limited to a \$2,000,000 annual aggregate for general liability, errors and omissions, and law enforcement. The automobile liability limit for the risk pool is \$1,000,000 for each occurrence.

There have been no significant changes in insurance coverage as compared to last year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

NOTE 10 - LITIGATION

Various claims and lawsuits are pending against the City of Watauga. In the opinion of the City's Legal Counsel and Management, the potential losses will not have a material effect on the City's financial statements.

CITY OF WATAUGA, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

NOTE 11 - OPERATING LEASE

The City is committed under various noncancelable operating leases, primarily for equipment (principally in the General Fund). Future minimum operating lease commitments are as follows:

2020	<u>\$ 37,663</u>
	<u>\$ 37,663</u>

Lease and rental expenditures were \$46,245 for the year ended September 30, 2019.

NOTE 12 - FUND BALANCE RESTRICTIONS

Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors are classified as restricted fund balance. A summary of restricted fund balance in the governmental funds at September 30, 2019, follows:

	G.O. Debt Service Funds	G.O. Capital Projects Fund	Non Major Governmental Funds
Capital acquisitions and contractual obligations	\$ -	\$ 10,332,282	\$ 244,179
Debt service	659,604	-	-
Culture and recreation:			
Park improvements	-	-	878,509
Library purposes	-	-	44,275
	-	-	922,784
Public works:			
PEG Fees	-	-	45,246
Street maintenance	-	-	1,438,292
	-	-	1,483,538
Public safety:			
Law enforcement	-	-	1,307,297
Municipal court operations	-	-	224,916
	-	-	1,532,213
Total	\$ 659,604	\$ 10,332,282	\$ 4,182,714

NOTE 13 - SUBSEQUENT EVENT

In December 2019, the City approved to refund water customers their water deposits if their accounts were in good standing for the prior two years. The City credited 3,002 customer's bills in the amount of \$202,510. The City will begin refunding all customer deposits as credits to their water bill after two years if the customer's account remains in good standing.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF WATAUGA, TEXAS
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
Year Ended September 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and franchise fees	\$ 9,640,000	\$ 9,640,000	\$ 9,670,695	\$ 30,695
Licenses and permits	529,000	529,000	467,737	(61,263)
Charges for services	760,000	760,000	741,687	(18,313)
Fines and forfeitures	745,700	745,700	476,291	(269,409)
Interest income	101,100	101,100	106,381	5,281
Intergovernmental	502,600	502,600	479,086	(23,514)
Miscellaneous	258,100	258,100	318,859	60,759
Total Revenues	12,536,500	12,536,500	12,260,736	(275,764)
Expenditures				
Current:				
Administration	317,800	317,800	300,357	17,443
Non-departmental	1,366,700	1,478,700	1,376,608	102,092
Human resources	168,250	168,250	158,851	9,399
Finance	459,850	459,850	451,096	8,754
MIS	395,050	395,050	377,466	17,584
Municipal Court	410,450	418,450	417,288	1,162
Library	985,700	985,700	980,084	5,616
Recreation and community services	751,250	706,082	698,482	7,600
Police	4,074,650	3,979,650	3,894,882	84,768
Fire/EMS	2,576,350	2,576,350	2,535,777	40,573
Public works	819,380	839,548	740,393	99,155
Fleet maintenance	203,800	203,800	195,657	8,143
Buildings	819,000	819,000	783,999	35,001
Total Expenditures	13,348,230	13,348,230	12,910,940	437,290
Excess (deficiency) of revenues over expenditures	(811,730)	(811,730)	(650,204)	161,526
Other Financing Sources (Uses)				
Transfers in	568,000	568,000	544,486	(23,514)
Transfers out	(47,500)	(47,500)	(47,500)	-
Total other financing sources and uses	520,500	520,500	496,986	(23,514)
Net change in fund balances	(291,230)	(291,230)	(153,218)	138,012
Fund balance, beginning of year	4,571,559	4,571,559	4,571,559	-
Fund balance, end of year	\$ 4,280,329	\$ 4,280,329	\$ 4,418,341	\$ 138,012

CITY OF WATAUGA, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION
Year Ended September 30, 2019

BUDGETARY CONTROLS AND PROCEDURES

The City Charter follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
- The proposed budget and all supporting schedules are filed with the City Secretary when submitted to City Council.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to September 15, the budget is adopted by affirmative vote of at least two thirds of the members of the City Council.
- The City Manager is authorized to transfer budgeted amounts between programs within a department; however, any revisions that alter the total expenditures of any department must be approved by the City Council.
- If at any time during a fiscal year, it is estimated by the City Manager that current year's expenditures in any fund will exceed available revenues (including fund balance at the start of the year), the City Manager shall recommend measures to the City Council to ensure that a positive fund balance is maintained.
- Budgets for the General, Special Revenue, Debt Service and Enterprise Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as amended by the City Council. Such appropriations lapse at year-end.
- Budgetary data for the Capital Projects Fund has not been presented in the accompanying financial statements as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration of the Capital Projects Fund is employed and comparison of actual results of operations to budgetary data for such funds is not presented.
- Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Enterprise Funds. Budgetary control is maintained at the departmental level.
- Budgetary data for the Enterprise Funds has not been presented since the reporting on such budgets is not legally required. Budgetary control is maintained at the departmental level.

**CITY OF WATAUGA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Five Measurement Years**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability:					
Service cost	\$ 1,577,540	\$ 1,531,337	\$ 1,513,714	\$ 1,484,819	\$ 1,278,209
Interest	3,256,548	3,067,400	2,907,277	2,804,072	2,632,122
Difference between expected and actual experience	22,136	(100,072)	(570,355)	(273,667)	(422,782)
Change in assumptions	-	-	-	60,403	-
Benefit payments, including refunds of employee contributions	(1,548,423)	(1,890,714)	(1,083,810)	(1,071,136)	(1,197,706)
Net change in total pension liability	3,307,801	2,607,951	2,766,826	3,004,491	2,289,843
Total pension liability - beginning	48,230,601	45,622,650	42,855,824	39,851,333	37,561,490
Total pension liability - ending (a)	<u>\$ 51,538,402</u>	<u>\$ 48,230,601</u>	<u>\$ 45,622,650</u>	<u>\$ 42,855,824</u>	<u>\$ 39,851,333</u>
Plan fiduciary net position:					
Contributions - employer	\$ 1,289,939	\$ 1,259,752	\$ 1,197,145	\$ 1,245,119	\$ 1,115,845
Contributions - employee	664,427	642,263	636,779	652,873	609,276
Net investment income	(1,332,865)	5,418,502	2,428,960	51,790	1,871,755
Benefit payments, including refunds of employee contributions	(1,548,423)	(1,890,714)	(1,083,810)	(1,071,136)	(1,197,706)
Administrative expense	(25,758)	(28,079)	(27,433)	(31,544)	(19,541)
Other	(1,345)	(1,423)	(1,478)	(1,558)	(1,607)
Net change in plan fiduciary net position	(954,025)	5,400,301	3,150,163	845,544	2,378,022
Plan fiduciary net position - beginning	44,492,648	39,092,347	35,942,184	35,096,640	32,718,618
Plan fiduciary net position - ending (b)	<u>\$ 43,538,623</u>	<u>\$ 44,492,648</u>	<u>\$ 39,092,347</u>	<u>\$ 35,942,184</u>	<u>\$ 35,096,640</u>
Net pension liability - ending (a) - (b)	\$ 7,999,779	\$ 3,737,953	\$ 6,530,303	\$ 6,913,640	\$ 4,754,693
Plan fiduciary net position as a percentage of total pension liability	84.48%	92.25%	85.69%	83.87%	88.07%
Covered payroll	\$9,491,816	\$9,175,179	\$9,096,836	\$9,326,755	\$8,703,943
Net pension liability as a percentage of covered payroll	84.28%	40.74%	71.79%	74.13%	54.63%

The amounts presented are for each measurement year, which end the preceding December 31st of the City's fiscal year end. Net pension liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 68. Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

**CITY OF WATAUGA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
Last Eight Fiscal Years**

	Fiscal Year							
	2019	2018	2017	2016	2015	2014	2013	2012
Actuarially Determined Contributions	\$1,332,221	\$1,274,565	\$1,259,325	\$1,194,583	\$1,190,315	\$1,108,798	\$1,082,831	\$1,129,470
Contributions in relation to the actuarially determined contribution	1,332,221	1,274,565	1,259,325	1,194,583	1,190,315	1,108,798	1,082,831	1,129,470
Contribution deficiency(excess)	-	-	-	-	-	-	-	-
Covered payroll	9,849,847	9,351,625	9,169,310	9,040,337	9,005,317	8,638,774	8,473,213	8,852,583
Contributions as a percentage of Covered payroll	13.53%	13.63%	13.73%	13.21%	13.22%	12.84%	12.78%	12.76%

Notes: Actuarially determined contribution rates are calculated as of December 31st and become effective in January 13 months later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation to an experience study for the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information: Notes	There were no benefit changes during the year.

**CITY OF WATAUGA, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
Last Measurement Year**

TEXAS MUNICIPAL RETIREMENT SYSTEM - SUPPLEMENTAL DEATH BENEFIT PLAN

	<u>2018</u>	<u>2017</u>
Total OPEB liability:		
Service cost	\$ 24,679	\$ 20,185
Interest	15,283	14,766
Change in assumptions	(32,318)	36,678
Benefit payments, including refunds of employee contributions	(2,848)	(2,753)
Net change in total OPEB liability	<u>(23,680)</u>	<u>68,876</u>
Total OPEB liability - beginning	450,793	381,917
Total OPEB liability - ending	<u>\$ 427,113</u>	<u>\$ 450,793</u>
Covered payroll	\$9,491,816	\$9,175,179
Total OPEB liability as a percentage of covered payroll	4.50%	4.91%

CITY OF WATAUGA, TEXAS RETIREE HEALTH PLAN

	<u>2018</u>	<u>2017</u>
Total OPEB liability:		
Service cost	\$ 41,530	\$ 36,285
Interest	34,038	35,912
Change in assumptions	(40,515)	49,341
Benefit payments, including refunds of employee contributions	(43,918)	(32,844)
Net change in total OPEB liability	<u>(19,848)</u>	<u>88,694</u>
Total OPEB liability - beginning	1,029,545	940,851
Total OPEB liability - ending	<u>\$ 1,009,697</u>	<u>\$ 1,029,545</u>
Covered payroll	\$9,791,192	\$9,013,440
Total OPEB liability as a percentage of covered payroll	10.31%	11.42%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end. Net OPEB liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 75. Ten years of data should be presented in this schedule but data was unavailable prior to 2017.

Financial Advisory Services
Provided By:

