

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

**\$8,285,000\***

**CITY OF CASTLE HILLS, TEXAS**  
**(A Political Subdivision of the State of Texas located in  
Bexar County, Texas)**

**COMBINATION TAX AND REVENUE CERTIFICATES OF  
OBLIGATION, SERIES 2020**

<p><b>To be Designated by the City as “QUALIFIED TAX-EXEMPT OBLIGATIONS”</b></p>
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**Bids due  
Tuesday, September 15, 2020  
at  
12:00 P.M. (noon) Central Time**

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

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**

**\$8,285,000\***

**CITY OF CASTLE HILLS, TEXAS**

**(A political subdivision of the State of Texas located in Bexar County, Texas)  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020**

**CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BID:** The City Council (the “City Council”) of the City of Castle Hills, Texas (the “City” or the “Issuer”) is offering for sale at competitive bid its \$8,285,000\* Combination Tax and 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 12:00 P.M. (noon) Central Time, on Tuesday, September 15, 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 Tuesday, September 15, 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](mailto: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 12:00 P.M. (noon) Central Time, on Tuesday, September 15, 2020, following which the bids will be evaluated by SAMCO Capital Markets, Inc. (the “Financial Advisor”).

**AWARD AND SALE OF THE CERTIFICATES:** By 1:00 P.M. Central Time, on the date set for receipt of bids, the Financial Advisor shall notify the low qualified bidder (the “Winning Bidder”), that its bid has produced the lowest True Interest Cost rate as described in the section entitled “CONDITIONS OF SALE – Basis of Award”. Formal award is 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 Tuesday, September 15, 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 September 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 February 1 and August 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. 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 UMB Bank, N.A., Austin, 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	\$370,000	2031	\$415,000
2022	345,000	2032	425,000
2023	355,000	2033	430,000
2024	360,000	2034	440,000
2025	365,000	2035	450,000
2026	375,000	2036	460,000
2027	380,000	2037	465,000
2028	390,000	2038	475,000
2029	400,000	2039	485,000
2030	405,000	2040	495,000

**ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES:** The City reserves the right to increase or decrease the principal amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal amount of the Certificates shall not exceed \$8,285,000. 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 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 as further described in the Official Statement.

**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), Chapters 1201 and 1502, as amended, Texas Government Code, and an ordinance (the “Ordinance”) to be adopted by the City Council on September 15, 2020, and are payable primarily from an annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law. 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 “Surplus Revenues” of the City’s Municipal Drainage Utility System. The term “Surplus Revenues” is defined in the Ordinance to mean the surplus revenues derived by the City from the City’s Municipal Drainage Utility System remaining after (a) payment of all amounts constituting operation and maintenance expenses of said Waterworks and Sewer System, and (b) payment of all debt service, reserve, and other requirements and amounts required to be paid under all ordinances heretofore or hereafter adopted authorizing (i) all bonds, and (ii) all other obligations not on a parity with the Certificates, which are payable from and secured by any Municipal Drainage Utility System revenues, and (c) payment of all amounts payable from any Municipal Drainage Utility System revenues pursuant to contracts heretofore or hereafter entered into by the City in accordance with law. Even though the City has pledged the Surplus Revenues of its Municipal Drainage Utility System to further secure the Certificates, the City does not expect that any of such Surplus Revenues will actually be utilized to pay debt service requirements on the Certificates.

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

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

**SUCCESSOR PAYING AGENT/REGISTRAR:** The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, 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.

**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 for Financial Institutions" in the Preliminary Official Statement).

#### 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 101.5% 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 to the date of initial delivery of the Certificates (the "Code"), 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:**

The City intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal bonds), which require, among other things, that the City receives bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds (the "Competitive Sale Requirement").

In the event that the bidding process does not satisfy the Competitive Sale Requirement (as communicated by the Financial Advisor [herein referred to as the Issuer's "Issuer's Municipal Advisor"] to the winning bidder by 1:00 p.m. Central time on the date set for receipt of bids), Bids will not be subject to cancellation and the winning bidder agrees to promptly report to the City the first prices at which at least 10% of each maturity of the Certificates have been sold to the Public (the "10% Test") (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test).

In order to provide the Issuer with information that enables it to comply with the establishment of the issue price of the Certificates under the Internal Revenue Code of 1986, as amended, the winning bidder agrees to complete, execute, and timely deliver to the Issuer or to the Issuer's Municipal Advisor a certification as to the Certificates' "issue price" (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Notice of Sale, within five business days prior to the closing date if the Competitive Sale Requirement is satisfied or within five business days of the date on which the 10% Test is satisfied with respect to all of the maturities. In the event the winning bidder will not reoffer any maturity of the Certificates for sale to the Public (as defined herein) by the closing date, the Issue Price Certificate may be modified in a manner approved by the Issuer. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale:

- (i) “Public” means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party to the Underwriter,
- (ii) “Underwriter” means (A) 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 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 distribution agreement participating in the initial sale of the Certificates to the Public),
- (iii) “Related Party” means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that 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

All actions to be taken by the Issuer under this Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the Issuer by the Issuer’s Municipal Advisor, and any notice or report to be provided to the Issuer may be provided to the Issuer’s Municipal Advisor.

The Issuer will consider any bid submitted pursuant to this Notice of Sale to be a firm offer for the purchase of the Certificates, as specified in the bid and, if so stated, in the Official Bid Form.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail 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 distribution agreement, as applicable, to report the prices at which it sells to the Public the unsold Certificates of each maturity allotted to it until it is notified by the winning bidder that either the 10% Test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the Public, if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters 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 that is a party to a retail 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 retail distribution agreement to report the prices at which it sells to the Public the unsold Certificates of each maturity allotted to it until it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Certificates of that maturity or all Certificates of that maturity have been sold to the Public, if and for so long as directed by the winning bidder or such Underwriter and as set forth in the related pricing wire.

**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 Castle Hills, Texas” in the amount of \$200,000, 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 Castle Hills,

Texas) and (b) item 3 - the identification number assigned to this contract by the City (Castle Hills CO2020 – Bid Form) and description of the goods or services (Purchase of the City of Castle Hills, Texas Combination Tax and 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](mailto:mmcliney@samcocapital.com), and the City’s Bond Counsel at [kcooper@mphlegal.com](mailto:kcooper@mphlegal.com), as soon as possible following the notification of conditional verbal acceptance and prior to the final written award.

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](https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm).

**ADDITIONAL CONDITION OF AWARD – REQUIRED REPRESENTATIONS:** 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 its 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.

**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.

**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 to purchase the Certificates. See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" in the Preliminary Official Statement.

**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 Certificate and the acceptance of the best bid therefore, 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:** The Issuer has not undertaken any continuing disclosure requirements under the Rule prior to this issuance.

## **DELIVERY AND ACCOMPANYING DOCUMENTS**

**DELIVERY OF INITIAL CERTIFICATE:** The initial delivery of the Certificates to the Purchaser on the "Delivery Date" will be accomplished by the issuance of a single fully registered Certificate in the total principal amount of \$8,285,000 (preliminary, subject to change) payable in stated installments to the Purchaser and numbered T-1 (the "Initial Certificate"), signed by manual or facsimile signature of the Mayor and the Interim 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, it 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 October 14, 2020, but if for any reason the City is unable to make delivery by October 14, 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.

**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 City's delivery of the Initial Certificate, the Purchaser's receipt of the legal opinions of Bond Counsel and a no-litigation certificate executed by the City, 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**

**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.

**RATING:** 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 - Rating" 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 policy. See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" 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.

**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.samco.postos.com](http://www.samco.postos.com).

The City Council has approved the form and content of the Official Notice of Sale, the Official Bid Form, and the Official Statement and authorized the use thereof in its initial offering of the Certificates. On the date of the sale, the Certificates 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/ JR Treviño

Mayor,  
City of Castle Hills, Texas

ATTEST:

/s/ Brenda Craig

Interim City Secretary,  
City of Castle Hills, Texas

September 3, 2020

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**CERTIFICATE OF INTERESTED PARTIES****FORM 1295**

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**

**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.**

City of Castle Hills, 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 goods or services to be provided under the contract.**  
Contract Number: Castle Hills CO2020 - Bid Form  
Purchase of the City of Castle Hills, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020

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

**5 Check only if there is NO Interested Party.**

☐**6 AFFIDAVIT**

I swear, or affirm, under penalty of perjury, that the above disclosure is true and correct.

\_\_\_\_\_  
Signature of authorized agent of contracting business entity

AFFIX NOTARY STAMP / SEAL ABOVE

Sworn to and subscribed before me, by the said \_\_\_\_\_, this the \_\_\_\_\_ day  
of \_\_\_\_\_, 20 \_\_\_\_\_, to certify which, witness my hand and seal of office.

\_\_\_\_\_  
Signature of officer administering oath

\_\_\_\_\_  
Printed name of officer administering oath

\_\_\_\_\_  
Title of officer administering oath

**ADD ADDITIONAL PAGES AS NECESSARY**

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**OFFICIAL BID FORM**

Honorable Mayor and City Council  
City of Castle Hills  
209 Lemonwood Drive  
Castle Hills, Texas 78213

September 15, 2020

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement, dated September 3, 2020, which terms are incorporated by reference to this proposal (and which are hereto agreed as evidenced by our submission of this bid), we hereby submit the following bid for \$8,285,000 (preliminary, subject to change) City of Castle Hills, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020, dated September 1, 2020 (the "Certificates").

For said legally issued Certificates, we will pay you \$\_\_\_\_\_ (being a price of no less than 101.50% of par value) plus accrued interest from their date to the date of delivery to us for Certificates maturing February 1 in the years 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	\$370,000		2031*	\$415,000	
2022	345,000		2032*	425,000	
2023	355,000		2033*	430,000	
2024	360,000		2034*	440,000	
2025	365,000		2035*	450,000	
2026	375,000		2036*	460,000	
2027	380,000		2037*	465,000	
2028	390,000		2038*	475,000	
2029	400,000		2039*	485,000	
2030*	405,000		2040*	495,000	

*\*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 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 said 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 amount of the Certificates shall not exceed \$8,285,000. 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 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 above (subject to adjustment as described above under "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS") 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 definitive 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 \$200,000, 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 upon delivery of the Certificates.

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 office of UMB Bank, N.A., Austin Texas, not later than 10:00 A.M., Central Time, on Wednesday, October 14, 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 – REQUIRED CERTIFICATIONS."

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@samcocapital.com and Bond Counsel at kcooper@mphlegal.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

\_\_\_\_\_  
Email Address

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Castle Hills, Texas, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 15<sup>th</sup> day of September 2020.

/s/ \_\_\_\_\_  
Mayor,  
City of Castle Hills, Texas

ATTEST:

/s/ \_\_\_\_\_  
Interim City Secretary,  
City of Castle Hills, Texas

## ISSUE PRICE CERTIFICATE

(Sales where at least three bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the combination Tax and Revenue Certificates of Obligation, Series 2020 issued by the City of Castle Hills, Texas ("Issuer") in the principal amount of \$\_\_\_\_\_ ("Certificates"), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Certificates by the Purchaser, the Purchaser's reasonably expected initial offering prices of each maturity of the Certificates with the same credit and payment terms (the "Expected Offering Prices") to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Certificates, as attached to this Certificate as Schedule A. The Expected Offering Prices are the prices for the Certificates used by the Purchaser in formulating its bid to purchase the Certificates.

(b) The Purchaser had an equal opportunity to bid to purchase the Certificates and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Certificates.

(d) The Purchaser has ☐/has not ☐ purchased bond insurance for the Certificates. The bond insurance has been purchased from \_\_\_\_\_ (the "Insurer") for a fee of \$\_\_\_\_\_ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer's commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm's-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Certificates, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a 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 Certificates to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public) to participate in the initial sale of the Certificates to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

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 Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Certificates 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 Certificates. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this \_\_\_\_\_.

\_\_\_\_\_, as Purchaser

By: \_\_\_\_\_

Name: \_\_\_\_\_

## ISSUE PRICE CERTIFICATE

(Sales where less than three bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Tax and Revenue Certificates of Obligation, Series 2020 issued by the City of Castle Hills, Texas ("Issuer") in the principal amount of \$\_\_\_\_\_ ("Certificates"), hereby certifies and represents, based on its records and information, as follows:

(a) The first prices at which at least ten percent ("Substantial Amount") of the principal amount of each maturity of the Certificates having the same credit and payment terms ("Maturity") was sold to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter ("Public") are their respective initial offering prices (the "Initial Offering Prices"), as listed in the pricing wire or equivalent communication for the Certificates that is attached to this Certificate as Schedule A.

(b) The Purchaser has [ ]/has not [ ] purchased bond insurance for the Certificates. The bond insurance has been purchased from \_\_\_\_\_ (the "Insurer") for a fee of \$\_\_\_\_\_ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer's commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm's-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Certificates, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a 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 Certificates to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a retail distribution agreement participating in the initial sale of the Certificates to the Public) to participate in the initial sale of the Certificates to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer [and the Borrower] with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Certificates 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 Certificates. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this \_\_\_\_\_.

\_\_\_\_\_, as Purchaser

By: \_\_\_\_\_

Name: \_\_\_\_\_



**SCHEDULE A**

**PRICING WIRE OR EQUIVALENT COMMUNICATION**

(Attached)

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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"  
(See: "OTHER PERTINENT INFORMATION-Rating", "BOND INSURANCE" and  
"BOND INSURANCE GENERAL RISKS" herein)

**PRELIMINARY OFFICIAL STATEMENT**  
**September 9, 2020**

*In the opinion of McCall, Parkhurst & Horton, L.L.P., Bond Counsel to the City, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date of the initial delivery of the Certificates, subject to the matters described under "TAX MATTERS" herein.*

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

**\$8,285,000\***  
**CITY OF CASTLE HILLS, TEXAS**  
**(A political subdivision of the State of Texas located in Bexar County, Texas)**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020**

**Dated Date: September 1, 2020**

**Due: February 1, as shown on inside cover**

The \$8,285,000\* City of Castle Hills, Texas Combination Tax and 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, and an ordinance (the "Ordinance") to be adopted by the City Council of the City of Castle Hills, Texas (the "City" or the "Issuer") on September 15, 2020. (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 secured by a lien on and pledge of the "Surplus Revenues" derived from the ownership and operation of the City's municipal drainage utility system, all as provided in the Ordinance. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)

Interest on the Certificates will accrue from September 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 the earlier of 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 UMB Bank, N.A., Austin, 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) construct street improvements and drainage improvements, and (2) pay all or a portion of the legal, fiscal and engineering fees in connection with such projects and the costs of issuance related to the Certificates. (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 of and interest on the Certificates insured by a municipal bond insurance policy. The Purchaser will be responsible for any fees related to municipal bond insurance. See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.

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

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*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 McCall, Parkhurst & Horton L.L.P., 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" and "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 October 14, 2020.*

\* Preliminary, subject to change

**BIDS DUE TUESDAY, SEPTEMBER 15, 2020 BY 11:00 A.M., CENTRAL TIME**

**\$8,285,000\***  
**CITY OF CASTLE HILLS, TEXAS**  
**(A political subdivision of the State of Texas located in Bexar County, Texas)**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020**

**MATURITY SCHEDULE\***  
**(Due February 1)**

					CUSIP Prefix No. Applied For <sup>(1)</sup>				
<b>Stated</b>				<b>CUSIP</b>	<b>Stated</b>				<b>CUSIP</b>
<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Initial</b>	<b>No.</b>	<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Initial</b>	<b>No.</b>
<b><u>2/1</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>Suffix</u> <sup>(1)</sup></b>	<b><u>2/1</u></b>	<b><u>Amount</u></b>	<b><u>Rate</u></b>	<b><u>Yield</u></b>	<b><u>Suffix</u> <sup>(1)</sup></b>
2021	\$ 370,000				2031	\$ 415,000			
2022	345,000				2032	425,000			
2023	355,000				2033	430,000			
2024	360,000				2034	440,000			
2025	365,000				2035	450,000			
2026	375,000				2036	460,000			
2027	380,000				2037	465,000			
2028	390,000				2038	475,000			
2029	400,000				2039	485,000			
2030	405,000				2040	495,000			

**(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.

<sup>(1)</sup> 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.

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

**CITY OF CASTLE HILLS, TEXAS**  
**209 Lemonwood Drive**  
**Castle Hills, Texas 78213**  
**Telephone: (210) 342-2341**

**ELECTED OFFICIALS**

Name	Years Served	Term Expires (May)	Occupation
JR Treviño Mayor	3	2021	Owner/Construction Co.
Joe Izbrand Mayor Pro-Tem, Place 1	1	2022	Vice President of Communications at University of Texas at San Antonio
Frank Paul Alderman, Place 2	3	2021	Retired
Kurt May Alderman, Place 3	1	2021	Attorney
Jack Joyce Alderman, Place 4	1	2022	Achitect
Douglas A. Gregory Alderman, Place 5	15	2022	Financial Advisor

**ADMINISTRATION**

Name	Position	Length of Service (Years)
Ryan Rapelye	City Manager	2 years 7 months
Lara S. Feagins	Finance Director	2years 5 months
Brenda Craig	Interim City Secretary	9 months

**CONSULTANTS AND ADVISORS**

**Bond Counsel** ..... McCall, Parkhurst & Horton L.L.P.  
San Antonio, Texas

**Certified Public Accountants** .....Armstrong, Vaughan & Associates, P.C.  
Universal City, Texas

**Financial Advisor** .....SAMCO Capital Markets, Inc.  
San Antonio, Texas

***For Additional Information Please Contact:***

Ryan Rapelye  
City Manager  
Lara S. Feagins  
Finance Director  
**City of Castle Hills**  
209 Lemonwood  
San Antonio, Texas 78213  
Phone: (210) 342-2341  
rrapelye@castlehills-tx.gov  
lfeagins@castlehills-tx.gov

Mr. Mark M. McLiney  
Mr. Andrew T. Friedman  
**SAMCO Capital Markets, Inc.**  
1020 Northeast 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 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.

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.

None of the City, the Financial Advisor or the Purchaser makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its Book-Entry-Only System or any municipal bond insurance provider, if any, or its policy described under “BOND INSURANCE” herein, as such information is provided by DTC and the insurer (if any) respectively.

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.*

<b>The Issuer</b>	The City of Castle Hills, Texas (the "City" or the "Issuer"), a municipal corporation and political subdivision of the State of Texas. The City is surrounded by the City of San Antonio. The City operates under a Council/Manager form of government, as a Type A municipality, with a Mayor and a five member City Council. The 2020 population is 4,200. (See "APPENDIX B – General Information Regarding the City of Castle Hills and Bexar County, Texas" herein.)
<b>The Certificates</b>	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), Chapters 1201 and 1502, as amended, Texas Government Code, and an ordinance (the "Ordinance") to be adopted by the City Council of the City, on September 15, 2020. (See "THE CERTIFICATES - Authority for Issuance" herein.)
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.
<b>Security</b>	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. The Certificates are further secured by a lien on and pledge of the "Surplus Revenues" derived from the ownership and operation of the City's municipal drainage utility system. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)
<b>Redemption Provisions of the Certificates</b>	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.)
<b>Tax Matters</b>	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", and will not be included in computing the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" herein.)
<b>Qualified Tax-Exempt Obligations</b>	The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)
<b>Use of Certificate Proceeds</b>	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) construct street improvements and drainage improvements, and (2) pay all or a portion of the legal, fiscal and engineering fees in connection with such projects and the costs of issuance related to the Certificates. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)
<b>Rating</b>	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 - Rating" herein.)
<b>Bond Insurance</b>	The City has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Certificates insured by a municipal bond insurance policy. The Purchaser will be responsible for any fees related to municipal bond insurance. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)
<b>Future Debt Issues</b>	The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2020.
<b>Delivery</b>	When issued, anticipated on or about October 14, 2020.
<b>Legality</b>	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 McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel.

## PRELIMINARY OFFICIAL STATEMENT

relating to

**\$8,285,000\***

**CITY OF CASTLE HILLS, TEXAS**

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

**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020**

### INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Castle Hills, Texas (the "City" or the "Issuer") of its \$8,285,000\* Combination Tax and 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. 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 Northeast 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 the State in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. In addition to the actions by the State and federal officials, certain local officials, including the City and Bexar 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 Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the City. These negative impacts may reduce or otherwise negatively affect future property values and/or the collection of sales and other excise taxes, charges, and fees within the City as well as the assets of City pension funds. See "AD VALOREM PROPERTY TAXATION". The Certificates are secured, in part, by an ad valorem tax (within the

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\*Preliminary, subject to change.



limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Certificates and the City's operations and maintenance expenses. 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 taxes, utility system revenue and other fees and charges may negatively impact the City's operating budget and overall financial condition.

The financial and operating data contained herein are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the City.

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

## **THE CERTIFICATES**

### **General Description of the Certificates**

The Certificates will be dated September 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 UMB Bank, N.A., Austin, 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), Chapters 1201 and 1502, as amended, Texas Government Code, and an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council") on September 15, 2020.

### **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.)

*Pledge of Surplus Revenues.* 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 "Surplus Revenues" of the City's System. The term "Surplus Revenues" is defined in the Ordinance to mean the surplus revenues derived by the City from the City's Municipal Drainage Utility System remaining after (a) payment of all amounts constituting operation and maintenance expenses of said Municipal Drainage Utility System, and (b) payment of all debt service, reserve, and other requirements and amounts required to be paid under all ordinances heretofore or hereafter adopted authorizing (i) all bonds, and (ii) all other obligations not on a parity with the Certificates, which are payable from and secured by any Municipal Drainage Utility System revenues, and (c) payment of all amounts payable from any Municipal Drainage Utility System revenues pursuant to contracts heretofore or hereafter entered into by the City in accordance with law. Even though the City has pledged the Surplus Revenues of its Municipal Drainage Utility System to further secure the Certificates, the City does not expect that any of such Surplus Revenues will actually be utilized to pay debt service requirements on the Certificates.

### **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. The notice with respect to an optional redemption may state (1) that it is conditioned upon the deposit of moneys, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar no later than the redemption date, or (2) that the Issuer retains the right to rescind such notice at any time prior to the scheduled redemption date if the Issuer delivers a certificate of an authorized representative to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and optional redemption will be of no effect if such moneys are not so deposited or if the notice is so rescinded. 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 or 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) construct street improvements and drainage improvements, and (2) pay all or a portion of the legal, fiscal and engineering fees in connection with such projects and the costs of issuance related to the Certificates.

## 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	_____
Interest and Sinking 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) Defeasance 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 Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance 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 Defeasance 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**

The Ordinance establishes specific events of default with respect to the Certificates. If the City (i) defaults in the payment of the principal, premium, if any, or interest on the Certificates, (ii) defaults in the deposits and credits required to be made to the Interest and Sinking Fund, or (iii) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the failure to perform which materially, adversely affects the rights of the holders including but not limited to their prospect or ability to

be repaid in accordance with the Ordinance, and the continuation thereof for 30 days after the City has received written notice of such defaults, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions.

The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the 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 Certificate holders 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) ("*Tooke*"), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, Certificate holders may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

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

As noted above, the Ordinance provides that 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).

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) ("*Wasson I*") that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) ("*Wasson II*"), and together with *Wasson I*, "*Wasson*"), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in regard to municipal contract cases (as opposed to tort claim cases), it is incumbent on the courts to determine whether a function was governmental or proprietary based upon the statutory and common law guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the state's immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Issues related to the applicability of a governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificate holders 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 Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

## REGISTRATION, TRANSFER AND EXCHANGE

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, 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 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 (15<sup>th</sup>) 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.

## 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](http://www.dtcc.com).

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for 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.

#### **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."

#### **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.

### **BOND INSURANCE**

The City has applied for municipal bond insurance on the Certificates. The City shall notify the Underwriter upon obtaining a commitment from a municipal bond insurance company (the "Bond Insurer") concerning the Certificates. If the City accepts a bid for the Certificates that utilizes municipal bond insurance, the premium for a municipal bond insurance policy (the "Policy") shall be paid by the Purchaser. The final Official Statement shall disclose, to the extent necessary, any relevant information relating to the Bond Insurer and the Policy.

## BOND INSURANCE GENERAL RISKS

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

In the event of default of the payment of principal or interest with respect to the Certificates when all or some becomes due, any owner of the Certificates shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Certificates by the City which is recovered by the City from the Bond owner as a voidable preference under applicable bankruptcy law may be covered by the Policy, however, such payments will be made by the Bond Insurer at such time and in such amounts as would have been due absence such prepayment by the City unless the Bond Insurer chooses to pay such amounts at an earlier date.

Payment of principal and interest is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist. See "THE CERTIFICATES – Default and Remedies". The Bond Insurer may direct and must consent to any remedies that the Paying Agent/Registrar exercises and the Bond Insurer's consent may be required in connection with amendments to any applicable Bond documents.

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Certificates are payable solely from the pledged revenues pursuant to the applicable Bond documents. In the event the Bond 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 of the Certificates or the marketability (liquidity) for the Certificates.

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

The obligations of the Bond Insurer are general obligations of the Bond Insurer and in an event of default by the Bond Insurer, the remedies available to the Paying Agent/Registrar may be limited by applicable bankruptcy law or other similar laws related to insolvency of insurance companies.

Neither the City, the Financial Advisor, nor the Purchaser have made independent investigation into the claims paying ability of any potential Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Certificates and the claims-paying ability of any potential Bond Insurer, particularly over the life of the Certificates.

### Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

Moody's Investor Services, Inc., S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC business, and Fitch Ratings, Inc. have downgraded and/or placed on negative watch the claims-paying ability and financial strength of most providers of municipal bond insurance. Additional downgrades or negative changes in the rating outlook for all bond insurers is possible.

In addition, past 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 any such bond insurer to pay principal and interest on the Certificates and the claims-paying ability of any such bond insurer, particularly over the life of the Certificates.

## INVESTMENT POLICIES

The Issuer invests its investable funds in investments authorized by Texas law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act"), and in accordance with investment policies approved by the City Council of the Issuer. Both State law and the Issuer's investment policies are subject to change.

### Legal Investments

Under State law, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7)



interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for Issuer deposits, or (ii) certificates of deposit where (a) the funds are invested by the Issuer through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Issuer as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the Issuer; (b) the broker or the depository institution selected by the Issuer arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Issuer, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Issuer appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the Issuer with respect to the certificates of deposit issued for the account of the Issuer; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the Issuer or cash held by the Issuer to be pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or a third party designated by the Issuer, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the Issuer with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the Issuer has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the Issuer and deposited with the Issuer or with a third party selected and approved by the Issuer.

The Issuer may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the Issuer retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Issuer must do so by order, ordinance, or resolution. The Issuer is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a final stated maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

### **Investment Policies**

Under State law, the Issuer is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for Issuer funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, requirements for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All Issuer funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its

objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

#### **Additional Provisions**

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

#### **Current Investments <sup>(1)</sup>**

**TABLE 1**

As of June 30, 2020 the City held investments as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
All Funds - Depository	\$ 2,838,478	28.17%
Money Market	5,886,063	58.41%
Pool Account	1,352,266	13.42%
Total	<u>\$ 10,076,807</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.

<sup>(1)</sup> Unaudited.

#### **TAX RATE LIMITATIONS**

The City operates as a Type A municipality under the Constitution and laws of the State of Texas. Article XI, Section 4 of the Constitution of the State provides that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$1.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$1.50 rate for interest and sinking fund purposes; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.00 of the foregoing \$1.50 maximum tax rate calculated at 90% collection.

#### **AD VALOREM TAX PROCEDURES**

*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 Bexar County Appraisal District (the “Appraisal District”). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner’s principal residence (“homestead” or “homesteads”) to be based solely on the property’s value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the “10% Homestead Cap”). See “Table 1 – Assessed Valuation” for the reduction in taxable valuation attributable to the 10% Homestead Cap.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity (“Productivity Value”). The same land may not be qualified as both agricultural and open-space land. See “Table 1 – Assessed Valuation” for the reduction in taxable valuation attributable to valuation by Productivity Value.

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 TAX PROCEDURES – Issuer 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. See “Table 1 – Assessed Valuation” for the reduction, if any, attributable to state mandated homestead exemptions.

### **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 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. See “Table 1 – Assessed Valuation” for the reduction, if any, attributable to local option homestead exemptions.

### **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. See “Table 1 – Assessed Valuation” for the reduction, if any, attributable to the local option freeze for the elderly and disabled.

### **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.

See "Table 1 – Assessed Valuation" for the reduction, if any, attributable to Freeport Property and/or Goods-in-Transit exemptions.

## **Other Exempt Property**

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

## **Tax Increment Financing Zones**

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

## **Tax Abatement Agreements**

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. See "AD VALOREM TAX PROCEDURES – City Application of Property Tax Code" for descriptions of any of the City's tax abatement agreements.

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

## **Public Hearing and Maintenance and Operation Tax Rate Limitations**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## Issuer and Taxpayer Remedies

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

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

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

The foregoing sections represents the City’s current understanding of the recently adopted Senate Bill 2, however the City cannot represent at this time what impact such legislation may have on the City. The City may revise and update this information as more information about Senate Bill 2 and its specific impact on the City becomes available.

## Issuer’s Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser’s deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

## Penalties and Interest

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

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

<sup>(a)</sup> After July, the penalty remains at 12% and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition the taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may not provide for a fee not to exceed 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances, taxes, which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed.

## **CITY APPLICATION OF THE PROPERTY TAX CODE**

The City grants an exemption of \$5,000 to the market value of the residence homestead of persons 65 years of age or older.

The City does grant an additional exemption of up to 10% of the market value of residence homesteads (minimum exemption of \$5,000).

The City does not tax non-business personal property.

Bexar Central Appraisal District does not collect taxes for the City. The Bexar County Tax Assessor/Collector office performs the tax collection for the City.

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

The City does not grant the Article VIII, Section 1-j ("freeport property") exemption.

The City does not grant an exemption for "Goods-in-Transit".

The City does not participate in a Tax Increment Reinvestment Zone.

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

The City has no tax abatement agreements.

## **TAX MATTERS**

### **Opinion**

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

In rendering its opinion, Bond Counsel to the City will rely upon (a) the City's federal tax certificate, and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Certificates and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Certificates to become includable in gross income retroactively to the date of issuance of the Certificates.

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

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Certificates.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the facilities financed or refinanced with the proceeds of the Certificates. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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

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

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

### **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Certificates. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

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

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

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

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



## State, Local and Foreign Taxes

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

## Information Reporting and Backup Withholding

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

## Future and Proposed Legislation

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

## Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$8,285,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The Issuer expects that the Certificates will be designated, or deemed designated, as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Certificates as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$8,285,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$8,285,000 is disregarded; however the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$8,285,000 limitation and the Certificates would not be "qualified tax-exempt obligations."**

## 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](http://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 Issuer will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Issuer of the general type included in Table 1 of the Official Statement and in Tables 1-14 of APPENDIX A to this Official Statement and in APPENDIX D. The Issuer will update and provide this information within six months after the end of each fiscal year in or after 2020. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

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 December 31. 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/registrar or the change of name of a paying agent/registrar, if material; (15) incurrence of a Financial Obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City, any of which reflect financial difficulties. Neither the Certificates nor the Ordinance make any provisions for debt service reserves, liquidity enhancement, or credit enhancement. 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, 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. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

#### **Availability of Information**

The Issuer has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

#### **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**

The Issuer has not previously made a continuing disclosure undertaking pursuant to the Rule.

### **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.

#### **Rating**

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

In accordance with the provisions of the Rule.

**CITY OF CASTLE HILLS, TEXAS**

/s/

\_\_\_\_\_  
Mayor  
City of Castle Hills, Texas

ATTEST:

/s/

\_\_\_\_\_  
Interim City Secretary  
City of Castle Hills, Texas

**APPENDIX A**

**FINANCIAL INFORMATION RELATING TO  
THE CITY OF CASTLE HILLS, 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).....	\$ 879,041,966
Less Exemptions:	
Optional Over-65 or Disabled Homestead.....	\$ 3,040,000
Disabled/Deceased Veterans'.....	16,280,656
10% Per Year Cap on Residential Homesteads.....	49,453,869
<b>TOTAL EXEMPTIONS .....</b>	<b>\$ 68,774,525</b>
2020 Certified Assessed Value of Taxable Property.....	<b>\$ 810,267,441</b>
Less: Freeze Taxable	192,447,947
Freeze Adjusted Taxable Value	<b>\$ 617,819,494</b>

Source: Bexar County Appraisal District.

## GENERAL OBLIGATION BONDED DEBT <sup>(1)</sup>

(as of August 1, 2020)

### General Obligation Debt Principal Outstanding

The Certificates	\$ 8,285,000 *
Total Gross General Obligation Debt	<b>\$ 8,285,000 *</b>
<b>Less: Self Supporting Debt</b>	
The Obligations (59.81% Drainage Utility)	4,955,000
Total Self-Supporting Debt	<b>\$ 4,955,000</b>
Total Net General Obligation Debt Outstanding	<b>\$ 3,330,000 *</b>
2020 Net Assessed Valuation	\$ 810,267,441
Ratio of Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	1.02% *
Ratio of Net General Obligation Debt to Certified Net Taxable Assessed Valuation	0.41% *
Population: 2000 - 4,202; 2010 - 4,116; est. 2020 - 4,200	
Per Capita Certified Net Taxable Assessed Valuation - \$192,920.82	
Per Capita Gross General Obligation Debt Principal - \$1,972.62	
Per Capita Net General Obligation Debt Principal - \$792.86	

\* Preliminary, subject to change.

## DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE

TABLE 2

- None -

Source: The City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2018.

# GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending (9/30)	Current Total Outstanding Debt <sup>(1)</sup>	The Certificates*			Total Debt Service	Less: Self Supporting Debt Service	Total Net Debt Service *
		Principal	Interest <sup>(2)</sup>	Total			
2020	\$ -				\$ -	\$ -	\$ -
2021	-	\$ 370,000	\$ 148,192	\$ 518,192	518,192	\$ 298,794	219,398
2022	-	345,000	154,850	499,850	499,850	286,675	213,175
2023	-	355,000	147,850	502,850	502,850	285,900	216,950
2024	-	360,000	140,700	500,700	500,700	284,975	215,725
2025	-	365,000	133,450	498,450	498,450	288,825	209,625
2026	-	375,000	126,050	501,050	501,050	287,450	213,600
2027	-	380,000	118,500	498,500	498,500	285,925	212,575
2028	-	390,000	110,800	500,800	500,800	289,175	211,625
2029	-	400,000	102,900	502,900	502,900	287,200	215,700
2030	-	405,000	94,850	499,850	499,850	286,875	212,975
2031	-	415,000	86,650	501,650	501,650	288,238	213,413
2032	-	425,000	78,250	503,250	503,250	289,525	213,725
2033	-	430,000	69,700	499,700	499,700	285,775	213,925
2034	-	440,000	61,000	501,000	501,000	286,988	214,013
2035	-	450,000	52,100	502,100	502,100	288,125	213,975
2036	-	460,000	43,000	503,000	503,000	289,188	213,813
2037	-	465,000	33,750	498,750	498,750	289,500	209,250
2038	-	475,000	24,350	499,350	499,350	289,050	210,300
2039	-	485,000	14,750	499,750	499,750	288,500	211,250
2040	-	495,000	4,950	499,950	499,950	287,850	212,100
Total	\$ -	\$ 8,285,000	\$ 1,746,642	\$ 10,031,642	\$ 10,031,642	\$ 5,764,531	\$ 4,267,110

\* Preliminary, subject to change.

<sup>(1)</sup> Includes self-supporting debt.

<sup>(2)</sup> Interest calculated at an assumed rate for illustrative purposes only.

## TAX ADEQUACY (Includes Self-Supporting Debt)

2020 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$ 617,819,494
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2021)	518,191.67 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.08559 *

\* Includes the Certificates. Preliminary, subject to change.

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

## TAX ADEQUACY (Excludes Self-Supporting Debt)

2020 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$ 617,819,494
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2021)	219,397.92 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.03624 *

\* Includes the Certificates. Preliminary, subject to change.

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



# GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(As of August 1, 2015)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year	Percent of Principal Retired (%)
	Currently Outstanding <sup>(a)</sup>	The Certificates*	Total		
2020				\$ 8,285,000	0.00%
2021	\$ -	370,000	\$ 370,000	7,915,000	4.47%
2022	-	345,000	345,000	7,570,000	8.63%
2023	-	355,000	355,000	7,215,000	12.91%
2024	-	360,000	360,000	6,855,000	17.26%
2025	-	365,000	365,000	6,490,000	21.67%
2026	-	375,000	375,000	6,115,000	26.19%
2027	-	380,000	380,000	5,735,000	30.78%
2028	-	390,000	390,000	5,345,000	35.49%
2029	-	400,000	400,000	4,945,000	40.31%
2030	-	405,000	405,000	4,540,000	45.20%
2031	-	415,000	415,000	4,125,000	50.21%
2032	-	425,000	425,000	3,700,000	55.34%
2033	-	430,000	430,000	3,270,000	60.53%
2034	-	440,000	440,000	2,830,000	65.84%
2035	-	450,000	450,000	2,380,000	71.27%
2036	-	460,000	460,000	1,920,000	76.83%
2037	-	465,000	465,000	1,455,000	82.44%
2038	-	475,000	475,000	980,000	88.17%
2039	-	485,000	485,000	495,000	94.03%
2040	-	495,000	495,000	-	100.00%
Total	\$ -	\$ 8,285,000	\$ 8,285,000		

<sup>(a)</sup> Includes self-supporting debt.

\* Preliminary, subject to change.

## TAXABLE ASSESSED VALUATION FOR TAX YEARS 2011-20

TABLE 3

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2011-12	485,218,967	--	--
2012-13	481,370,112	(3,848,855)	-0.79%
2013-14	497,367,827	15,997,715	3.32%
2014-15	532,721,669	35,353,842	7.11%
2015-16	585,209,772	52,488,103	9.85%
2016-17	640,970,485	55,760,713	9.53%
2017-18	682,455,192	41,484,707	6.47%
2018-19	712,320,183	29,864,991	4.38%
2019-20	758,393,315	46,073,132	6.47%
2020-21	810,267,441	51,874,126	6.84%

Source: Bexar County Appraisal District.

**CLASSIFICATION OF ASSESSED VALUATION**
**TABLE 4**

	2020	% of Total	2019	% of Total	2018	% of Total
Real, Residential, Single-Family	\$ 575,051,650	65.42%	\$ 544,548,450	66.09%	\$ 509,952,410	65.75%
Real, Residential, Multi-Family	23,017,730	2.62%	16,204,250	1.97%	11,016,280	1.42%
Real, Vacant Lots/Tracts	9,679,320	1.10%	5,486,740	0.67%	5,366,370	0.69%
Real, Farm and Ranch Improvements	35,990	0.00%	34,810	0.00%	28,180	0.00%
Real, Commercial	230,837,627	26.26%	222,113,402	26.96%	214,817,008	27.70%
Real & Tangible, Personal Utilities	6,115,796	0.70%	6,602,459	0.80%	6,529,216	0.84%
Tangible Personal, Commercial	33,674,757	3.83%	28,221,527	3.42%	27,185,477	3.51%
Tangible Personal, Industrial	629,096	0.07%	782,023	0.09%	685,157	0.09%
Tangible Personal, Special Inventory	-	0.00%	10,650	0.00%	22,970	0.00%
<b>Total Appraised Value</b>	<b>\$ 879,041,966</b>	<b>100.00%</b>	<b>\$ 824,004,311</b>	<b>100.00%</b>	<b>\$ 775,603,068</b>	<b>100.00%</b>
<b>Less:</b>						
Optional Over-65 or Disabled Homestead	\$ 3,040,000		\$ 3,087,500		\$ 3,090,000	
Disabled/Deceased Veterans'	16,280,656		13,367,230		10,282,019	
10% Per Year Cap on Res. Homesteads	49,453,869		49,156,266		49,910,866	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 810,267,441</b>		<b>\$ 758,393,315</b>		<b>\$ 712,320,183</b>	
Less: Freeze Taxable	192,447,947		181,843,441		171,745,565	
<b>Freeze Adjusted Taxable Value</b>	<b>\$ 617,819,494</b>		<b>\$ 576,549,874</b>		<b>\$ 540,574,618</b>	

Source: Bexar County Appraisal District.

**PRINCIPAL TAXPAYERS 2019**
**TABLE 5**

<u>Name</u>	<u>Type of Business/Property</u>	<u>2019 Net Taxable Assessed Valuation</u>	<u>% of 2019 Assessed Valuation</u>
Highland Castle Hills LP	Real Estate	\$ 19,000,000	2.51%
D2410 Partners Lp	Real Estate	14,300,000	1.89%
Hill Country Partners LP	Real Estate	12,559,360	1.66%
Bank of San Antonio	Bank	12,041,920	1.59%
HEB Grocery Company LP	Grocery Store	11,070,620	1.46%
6701 Blanco Road LP	Real Estate	8,042,500	1.06%
6900 Blanco LP	Real Estate	7,800,000	1.03%
American Eagle Castle Hills LLP	Real Estate	6,850,000	0.90%
PM Partners LP	Real Estate	6,735,000	0.89%
Westoak Office and Retail Park LTD	Real Estate	6,175,000	0.81%
		<b>\$ 104,574,400</b>	<b>13.79%</b>

**TAX RATE DISTRIBUTION****TABLE 6**

	2020*	2019	2018	2017	2016
General Fund	\$ 0.476990	\$ 0.480600	\$ 0.501300	\$ 0.501300	\$ 0.501300
Interest and Sinking Fund	0.039048	-	-	-	-
Total Tax Rate	\$ 0.516038	\$ 0.480600	\$ 0.501300	\$ 0.501300	\$ 0.501300

Source: Bexar County Appraisal District.

\* Preliminary, subject to change.

**TAX DATA****TABLE 7**

Taxes are due October 1 and become delinquent after January 31. Discounts are allowed: 3% October, 2% November, and 1% if paid in December. Current collections are those taxes collected through August 31, applicable to the current year's tax levy. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentages of collections set forth below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2011	\$ 485,218,967	0.501300	2,432,403	97.80	99.41	12/31/2012
2012	481,370,112	0.501300	2,413,108	98.00	99.63	12/31/2013
2013	497,367,827	0.501300	2,493,305	98.40	99.99	12/31/2014
2014	532,721,669	0.501300	2,670,534	98.20	98.68	12/31/2015
2015	585,209,772	0.501300	2,933,657	98.60	99.57	12/31/2016
2016	640,970,485	0.501300	3,213,185	98.40	99.04	12/31/2017
2017	682,455,192	0.501300	3,421,148	98.30	98.10	12/31/2018
2018	712,320,183	0.501300	3,570,861	98.40	98.61	12/31/2019
2019	758,393,315	0.480600	3,644,838	94.80	96.59	12/31/2020*
2020**	810,267,441	0.516038	4,181,288	(In process of Collection)		12/31/2021

Source: Bexar County Appraisal District.

\* Collections through June 30, 2020.

\*\* Preliminary, subject to change.

**MUNICIPAL SALES TAX COLLECTIONS**
**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 Issuer has authorized the additional one-quarter cent sales tax for street maintenance and repairs at an election held October 1, 2002 and one -quarter cent sales tax for crime control at an election held October 1, 2004. Net collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Crime Control District
2011	\$ 1,079,858	44.39%	0.223	\$ 203,136
2012	1,128,896	46.78%	0.235	213,860
2013	1,174,348	47.10%	0.236	223,551
2014	1,182,353	44.27%	0.222	229,872
2015	1,260,886	42.98%	0.215	245,476
2016	1,295,417	40.32%	0.202	256,455
2017	1,308,199	38.24%	0.192	256,551
2018	1,339,068	37.50%	0.188	260,139
2019	1,420,443	38.97%	0.187	278,315
2020	897,853	(As of August, 2020)		176,282

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

**OVERLAPPING DEBT INFORMATION**

(As of August 1, 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 8/1/20)	% Overlapping	Amount Overlapping
Bexar County	\$ 1,910,790,000	0.47%	\$ 8,984,081
Bexas County Hospital District	932,030,000	0.46%	4,263,116
Alamo CCD	449,620,000	0.46%	2,069,241
Northeast ISD	1,404,095,000	1.83%	25,723,788
Total Gross Overlapping Debt			<u>\$ 41,040,227</u>
Castle Hills, City of			\$ 8,285,000 *
Total Gross Direct and Overlapping Debt			<u>\$ 49,325,227</u>
Ratio of Gross Direct Debt and Overlapping Debt			6.09%
Per Capita Gross Direct Debt and Overlapping Debt			\$4,516.96

Note: The above figures show Gross General Obligation Debt for the City of Castle Hills, Texas. The Issuer's Net General Obligation Debt is \$3,330,000. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt	\$ 44,370,227
Ratio of Net Direct and Overlapping Debt to 2020 Net Assessed Valuation	5.48%
Per Capita Net Direct and Overlapping Debt	\$9,924.01

\* Includes the Certificates. Preliminary, subject to change.

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES**
**TABLE 9**

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				
	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
Fund Balance - Beginning of Year	\$ 5,219,279	\$ 4,603,483	\$ 5,093,354	\$ 4,936,009	\$ 4,381,508
Revenues	7,029,748	6,927,623	6,665,021	6,490,506	6,000,311
Expenditures	6,816,216	6,311,827	7,707,316	6,345,661	5,445,810
Excess (Deficit) of Revenues Over Expenditures	\$ 213,531	\$ 615,796	\$ (1,042,295)	\$ 144,845	\$ 554,501
Other Financing Sources (Uses):					
Proceeds on the sale of Capital Assets	\$ -	\$ -	\$ 2,500	\$ 12,500	\$ -
Capital Lease Issued	-	-	549,924	-	-
Total Other Financing Sources (Uses):	\$ -	\$ -	\$ 552,424	\$ 12,500	\$ -
Fund Balance - End of Year	\$ 5,432,810	\$ 5,219,279	\$ 4,603,483	\$ 5,093,354	\$ 4,936,009

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

\* The City anticipates an unaudited general fund balance of approximately \$2,855,266 for the fiscal year ending 2020. The drawdown in general fund balance is due to the expenditure of funds to complete certain street and drainage improvement projects that will be reimbursed back to the general fund with Certificate proceeds at closing.

**ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS**

Governmental Subdivision	2019 Assessed Valuation	% of Actual	2019 Tax Rate
Bexar County	\$ 172,332,699,081	100%	\$ 0.290400
Bexas County Hospital District	177,145,899,461	100%	0.276000
Alamo CCD	176,060,877,335	100%	0.149000
Northeast ISD	44,227,251,556	100%	1.290000

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	Amount Authorized	Amount Issued to Date	Amount Unissued
Bexar County	11/2/1993	\$ 79,000,000	\$ 66,999,113	\$ 12,000,887
	11/4/2003	99,246,000	49,981,000	49,265,000
		\$ 178,246,000	\$ 116,980,113	\$ 61,265,887
Bexas County Hosp Dist	None			
Alamo CCD	5/6/2017	\$ 450,000,000	\$ 173,000,000	\$ 277,000,000
Northeast ISD	None			

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

**EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS**
**TABLE 10**

Information regarding the City's pension plan can be found within the City's audit under "NOTE I: Employee Retirement System" in Appendix D herein.

**DRAINAGE FUND**

	Fiscal Year Ended				
	12/31/2019	12/31/2018	12/31/2017	12/31/2016	12/31/2015
Fund Balance - Beginning of Year	\$ 884,957	\$ 598,376	\$ 369,378	\$ 170,530	\$ 85,982
Revenues	\$ 506,665	\$ 293,397	\$ 290,290	\$ 307,284	\$ 323,475
Expenditures	294,537	6,816	61,292	108,436	238,927
Net Change in Fund Balance	\$ 212,127	\$ 286,581	\$ 228,998	\$ 198,848	\$ 84,548
Fund Balance - End of Year	\$ 1,097,084	\$ 884,957	\$ 598,376	\$ 369,378	\$ 170,530

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**APPENDIX B**

**GENERAL INFORMATION REGARDING THE CITY OF CASTLE HILLS  
AND BEXAR COUNTY, TEXAS**

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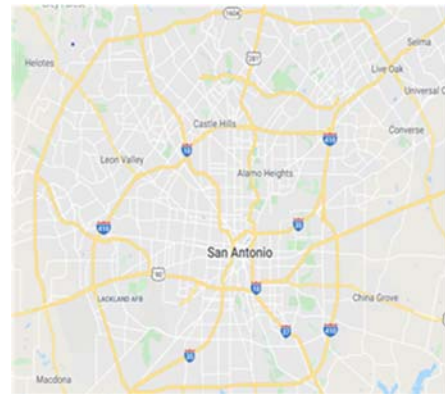


## GENERAL INFORMATION REGARDING THE CITY OF CASTLE HILLS, TEXAS AND BEXAR COUNTY, TEXAS

### The City of Castle Hills

The City of Castle Hills, Texas (the "City") was incorporated in 1951. The City is located inside and lies on the northeast quadrant of the City of San Antonio.

Private residential properties in the City make this community vital and vibrant with large lots and an abundance of trees. Currently the City is diverse in population with over 4,200 residents and over 600 small to medium businesses such as restaurants, churches, public and private schools and retail specialty stores.



### Bexar County

Bexar County (the "County") was created in 1836 from Spanish municipality named for Duke de Bexar, a colonial capital of Texas. The county is located in south central Texas and is component of the Metropolitan Statistical Area ("MSA") of San Antonio. The San Antonio MSA is one of the nation's largest MSAs and the third largest MSA in Texas. The principal city within the County is San Antonio, the county seat. The City was founded in the early eighteenth century and was incorporated by the Republic of Texas in 1837.

The County has a diversified economic base which is composed of financial services, healthcare, agriculture, manufacturing, construction, military, and tourism. Support for these economic activities is demonstrated by the County's ongoing commitment to economic development projects along with ongoing infrastructure improvements to support the County's growing population. As Bexar County has continued to add jobs it has also fared better than the nation with the current unemployment issues.

### Principal Employers

Principal Employers	Category	Total	Percent of County Employment
Joint Base San Antonio	Government	86,497	9.92
H.E.B. Grocery Company	Retail	25,241	2.90
USAA	Finance/Insurance	19,660	2.26
Northside ISD	Services	14,023	1.61
City of San Antonio	Government	11,787	1.35
Methodist Healthcare System	Medical	9,851	1.13
University Health System	Medical	9,213	1.06
Northeast ISD	Services	8,947	1.03
San Antonio ISD	Services	7,358	0.84
Baptist Health System	Medical	6,371	0.73

### Labor Force Statistics <sup>(1)</sup>

	2020 <sup>(2)</sup>	2019 <sup>(2)</sup>	2018 <sup>(3)</sup>	2017 <sup>(3)</sup>	2016 <sup>(3)</sup>
Civilian Labor Force	14,252	14,245	13,964	11,788	11,402
Total Employed	12,931	13,788	13,568	11,419	11,006
Total Unemployed	1,321	457	396	369	396
%Unemployed	9.3%	3.2%	2.8%	3.1%	3.5%
% Unemployed (Texas)	8.9%	3.5%	3.8%	4.3%	4.6%
% Unemployed (United States)	11.2%	3.7%	3.9%	4.4%	4.9%

(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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**Proposed Form of Opinion of Bond Counsel**

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

October \_\_, 2020

**CITY OF CASTLE HILLS, TEXAS  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2020  
DATED AS OF SEPTEMBER 1, 2020  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ \_\_\_\_\_**

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

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Certificates including (i) the Ordinance, (ii) one of the executed Certificates (Certificate No. T-1), and (iii) the City's Federal Tax Certificate of even date herewith.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Certificates have been duly authorized, issued and delivered in accordance with law; that except as the enforceability thereof may be limited by governmental immunity and bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the City; that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Certificates have been levied and pledged for such purpose, within the limit prescribed by law; and that "**Surplus Revenues**" (as such term is defined and described in the Ordinance) received by the City from the ownership and operation of the City's municipal drainage utility system have been pledged to further secure the payment of the Certificates in the manner set forth in the Ordinance.



**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "**Code**"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the property refinanced therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

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

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

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



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

Respectfully,

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## **APPENDIX D**

### **FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2018**

(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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Armstrong, Vaughan & Associates, P. C.

Deborah F. Fraser

Phil S. Vaughan

Nancy L. Vaughan

Certified Public Accountants

Kimberly J. Roach

## INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council  
City of Castle Hills, Texas

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Castle Hills, as of and for the year ended December 31, 2018, and the related notes to the financial statements, which collectively comprise City of Castle Hills' basic financial statements as listed in the table of contents.

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

The City of Castle Hills' 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, each major fund, and the aggregate remaining fund information of City of Castle Hills, as of December 31, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note A19 of the financial statements, in January 2018, the City adopted new accounting guidance from the Governmental Accounting Standards Board Statement No. 75 related to accounting for postemployment benefits other than pensions (OPEB). This resulted in a restatement of prior year balances. Our opinion is not modified with respect to this matter.

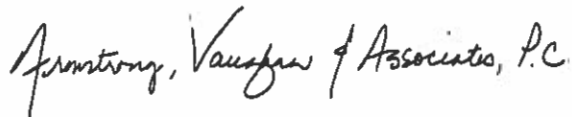
### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of city contributions, and schedule of changes in other post-employment benefit liability and related ratios 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 City of Castle Hills' basic financial statements as a whole. The combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. These statements are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Armstrong, Vaughan & Associates, P.C.

June 6, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of City of Castle Hills's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended December 31, 2018. Please read it in conjunction with the City's financial statements, which follow this section.

### FINANCIAL HIGHLIGHTS

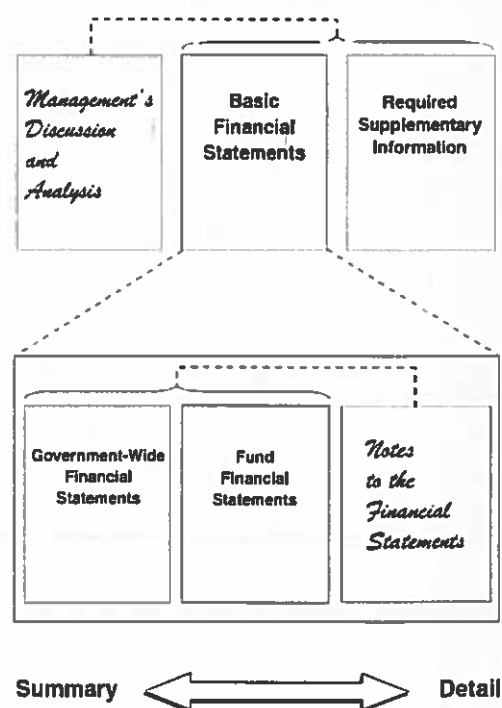
- The City's total net position was \$11.8 million at December 31, 2018.
- During the year, the City's expenses were \$1.3 million less than the \$8.1 million generated in taxes and other revenues for governmental activities.
- The total cost of the City's programs decreased 5.8% from the previous year.
- The general fund reported a fund balance this year of \$5.2 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts—*management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the City's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the government, reporting the City's operations in more detail than the government-wide statements.
- *The governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.

Figure A-1, Required Components of the City's Annual Financial Report



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-2 summarizes the major features of the City's financial statements, including the portion of the City government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

<b>Figure A-2. Major Features of the City's Government-wide and Fund Financial Statements</b>		
<i>Type of Statements</i>	<b>Government-wide</b>	<b>Fund Statements</b>
		<b>Governmental Funds</b>
<i>Scope</i>	Entire City's government (except fiduciary funds) and the City's component unit (Crime Control and Prevention).	The activities of the city that are not proprietary or fiduciary.
<i>Required financial statements</i>	• Statement of Net Position	• Balance Sheet
	• Statement of Activities	• Statement of Revenues, Expenditures & Changes in Fund Balances
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus.	Modified accrual accounting and current financial resources focus.
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included.
<i>Type of inflow/outflow information</i>	All revenues and expenses during the year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter.

## GOVERNMENT-WIDE STATEMENTS

The government-wide statements report information about the City as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the City's net position and how they have changed. Net position—the difference between the City's assets and liabilities—is one way to measure the City's financial health or *position*.

- Over time, increases or decreases in the City's net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City's tax base.

The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as police, fire and general administration. Property taxes, sales taxes, franchise fees and charges for services finance most of these activities.

## FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the City's most significant *funds*—not the City as a whole. Funds are accounting devices that the City uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The City Council establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

The City has Governmental Funds as follows:

- *Governmental funds*—All of the City's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

**Net position.** The City's net position was \$11.8 million at December 31, 2018. (See Table A-1).

**Table A-1**  
City of Castle Hills Net Position

	Governmental Activities		Percentage Change
	2018	2017*	
<i>Assets:</i>			
Cash and Investments	\$ 9,215,464	\$ 8,382,268	9.9%
Receivables	3,158,914	2,380,862	32.7%
Prepaid Expenses	121,491	111,532	8.9%
Capital Assets (Net)	5,697,073	6,015,922	-5.3%
<i>Total Assets</i>	<u>18,192,942</u>	<u>16,890,584</u>	<u>7.7%</u>
<i>Total Deferred Outflows</i>	<u>452,041</u>	<u>1,053,349</u>	<u>-64.5%</u>
<i>Liabilities:</i>			
Accounts Payable and Accruals	353,757	284,148	24.5%
Unearned Revenues	95,000	95,000	0.0%
Long-Term Liabilities	2,442,641	3,211,994	-24.0%
<i>Total Liabilities</i>	<u>2,891,398</u>	<u>3,591,142</u>	<u>-19.5%</u>
<i>Total Deferred Inflows</i>	<u>3,942,794</u>	<u>3,613,070</u>	<u>9.1%</u>
<i>Net Position:</i>			
Net Invested in Capital Assets	5,219,397	5,465,998	-4.5%
Restricted	3,030,351	2,218,543	36.6%
Unrestricted	3,561,043	3,055,180	16.6%
<i>Total Net Position</i>	<u>\$ 11,810,791</u>	<u>\$ 10,739,721</u>	<u>10.0%</u>

\*Note: Comparative information for 2017 has not been restated for the effects of the adoption of GASB Statement No. 75 as the information is not available. See note A19 for more detail.  
The \$3.6 million of unrestricted net position represents resources available to fund the programs of the City next year.

## GOVERNMENTAL ACTIVITIES

**Changes in net position.** The City's total revenues were \$8.1 million, an increase of 6.1%. A significant portion, 74.3%, comes from taxes, 25.6% percent relates to charges for services, and .1% comes from operating contributions and other revenues.

The total cost of all programs and services was \$6.8 million. (See Table A-2).

**Table A-2**  
Changes in City of Castle Hills Net Position

	Governmental Activities		Percentage Change
	2018	2017*	
Program Revenues:			
Charges for Services	\$ 2,067,876	\$ 1,925,112	7.4%
Operating Contributions	10,938	13,578	-19.4%
General Revenues			
Property Taxes	3,337,287	3,180,344	4.9%
Sales Taxes	1,644,208	1,592,502	3.2%
Franchise Fees	555,339	534,125	4.0%
License Agreements	190,000	190,000	0.0%
Investment Income	140,223	69,098	102.9%
Miscellaneous	128,966	107,519	19.9%
Total Revenues	<u>8,074,837</u>	<u>7,612,278</u>	<u>6.1%</u>
Administration	1,184,184	1,023,007	15.8%
Municipal Court	381,894	384,473	-0.7%
Police	2,489,814	2,535,596	-1.8%
Fire	1,759,803	1,781,808	-1.2%
Streets	516,365	992,465	-48.0%
Sanitation	463,976	461,927	0.4%
Drainage	10,251	62,862	-83.7%
Debt Service	15,288	-	100.0%
Total Expenses	<u>6,821,575</u>	<u>7,242,138</u>	<u>-5.8%</u>
Change in Net Position	<u>\$ 1,253,262</u>	<u>\$ 370,140</u>	<u>238.6%</u>

\*Note: Comparative information for 2017 has not been restated for the effects of the adoption of GASB Statement No. 75 as the information is not available. See note A19 for more detail.

Table A-3 presents the cost of each of the City's largest functions as well as each function's net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by local governments as well as local tax dollars.

- The cost of all *governmental* activities this year was \$6.8 million.
- The amount that our taxpayers paid for these activities through property taxes was \$3.3 million.
- Some of the cost, \$2.1 million, was paid by those who directly benefited from the programs.



**Table A-3**  
Net Cost of Selected City Functions

	Total Cost of Services			Net Cost (Revenue) of Services		
	2018	2017	% Change	2018	2017	% Change
Administration	\$ 1,184,184	\$ 1,023,007	15.8%	\$ 813,827	\$ 686,750	18.5%
Municipal Court	381,894	384,473	-0.7%	(515,886)	(580,169)	-11.1%
Police	2,489,814	2,535,596	-1.8%	2,285,228	2,501,861	-8.7%
Fire	1,759,803	1,781,808	-1.2%	1,749,220	1,771,100	-1.2%
Streets	516,365	992,465	-48.0%	516,365	992,465	-48.0%
Sanitation	463,976	461,927	0.4%	9,865	6,869	43.6%
Drainage	10,251	62,862	-83.7%	(131,146)	(75,428)	73.9%
Debt Service	15,288	-	100.0%	15,288	-	100.0%

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types totaled \$8.1 million, an increase of 6.1%. The City experienced an increase in property tax collections due to higher appraised property values and increased investment income.

### General Fund Budgetary Highlights

The City has a legally adopted budget for the General Fund. Revenues were \$53 thousand less than budgeted revenues due to lower than expected ad valorem tax collection and fines and forfeiture revenues. Expenditures were \$1.4 million less than budgeted expenditures due to lower capital outlay expenditures than expected.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

At the end of 2018 the City had invested \$10.4 million in a broad range of capital assets, including land, equipment, buildings, and vehicles. More detailed information about the City's capital assets is presented in the notes to the financial statements.

**Table A-4**  
City's Capital Assets

	2018	2017	Percentage Change
Land	\$ 383,700	\$ 383,700	0.00%
Buildings and Improvements	3,031,911	3,028,036	0.13%
Vehicles and Equipment	4,081,538	2,903,308	40.58%
Infrastructure	2,751,846	2,751,846	0.00%
Construction in Progress	133,742	1,153,891	-88.41%
Totals at Historical Cost	10,382,737	10,220,781	1.58%
Total Accumulated Depreciation	(4,685,664)	(4,204,859)	11.43%
Net Capital Assets	\$ 5,697,073	\$ 6,015,922	-5.30%

## Long Term Debt

At the end of 2018, the City had \$478 thousand in capital leases outstanding as shown in Table A-5. More detailed information about the City's debt is presented in the notes to the financial statements.

**Table A-5**  
**City's Long Term Debt**

	2018	2017	Percentage Change
Capital Leases	\$ 477,676	\$ 549,924	-13.14%
Total Long Term Debt	\$ 477,676	\$ 549,924	-13.1%

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

The City's elected and appointed officials considered many factors when setting the fiscal year 2019 budget, tax rates, and fees that will be charged. The economic outlook for Bexar County remains stable. The City's budget levels remain similar to previous years.

The City's largest single source of revenue in the General Fund continues to be ad valorem taxes. The adopted budget for the fiscal year 2019 remained the same at a tax rate of \$0.501345 per \$100 of taxable value. This rate consists of only a maintenance and operations (M&O) tax rate of \$0.501345 and no interest and sinking (debt service) tax rate. The rate was set based on a net assessed value of \$536,832,192. A proposition for the limitation of the increase of ad valorem taxes for the residence homestead of a person who is disabled or who is sixty-five (65) years of age or older as authorized by Article VIII, Section 1-b (h) of the Texas Constitution and Section 11.261 of the Texas Tax Code was approved by voters in May 2017. Although the tax freeze, as is commonly referred to, will become effective with the 2018 tax year the tax revenue affected will begin with the 2019 budget year. Since this could significantly impact the City's future ad valorem it is important to be aware for future revenue projections.

The City's second largest source of revenue in the General Fund is sales tax. The City anticipates the sales tax to stabilize in anticipation of a moderate increase. The City has seen an increase in the opening of several business over the last year with hopes of seeing an opportunity in growth to the City's sales tax base.

The City also had a large tax payer that maintained a multiple story senior living complex that was significantly damaged in a fire in 2014. Currently, the building is being renovated/remodeled for future residential use and as a result will see an increase in future valuation of the property and collection of ad valorem taxes which will occur in the 2020 Budget Year. Building permits will increase in 2019 related to this project. The remodeled residential building will be open for new residents in late 2019.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City of Castle Hills citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall by phone at 210-342-2341.

## BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the Governmental Accounting Standards Board (GASB). The sets of statements include:

- Government – wide financial statements
- Fund financial statements:
  - Governmental funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF NET POSITION  
DECEMBER 31, 2018

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash	\$ 8,608,164
Investments	607,300
Receivables (Net of Allowances for Uncollectible Accounts):	
Property Taxes	2,764,020
Sales and Franchise Fees	356,534
Garbage, Stormwater and Other Fees	38,360
Prepaid Expenses	121,491
Capital Assets:	
Land	383,700
Buildings and Improvements	3,031,911
Vehicles and Equipment	4,081,538
Infrastructure	2,751,846
Construction In Progress	133,742
Accumulated Depreciation	<u>(4,685,664)</u>
<b>TOTAL ASSETS</b>	<u>18,192,942</u>
<b>DEFERRED OUTFLOWS</b>	
Deferred Pension Related Outflows	436,799
Deferred Other Post-Employment Benefit Related Outflows	<u>15,242</u>
<b>TOTAL DEFERRED OUTFLOWS</b>	<u>\$ 452,041</u>

See accompanying notes to basic financial statements.

CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF NET POSITION (CONTINUED)  
DECEMBER 31, 2018

	<u>Governmental Activities</u>
<b>LIABILITIES</b>	
<i>Current Liabilities:</i>	
Accounts Payable	\$ 266,364
Accrued Expenses	87,393
License Agreements Received in Advance	95,000
Capital Lease - Due within One Year	74,257
Compensated Absences - Due within One Year	79,882
<i>Noncurrent Liabilities:</i>	
Capital Lease - Due in more than One Year	403,419
Compensated Absences - Due in more than One Year	319,527
Net Pension Liability	1,353,688
Other Post-Employment Benefit Liability	211,868
<b>TOTAL LIABILITIES</b>	<u>2,891,398</u>
<b>DEFERRED INFLOWS</b>	
Property Taxes Levied for Future Periods	3,511,010
Deferred Pension Related Inflows	431,784
<b>TOTAL DEFERRED INFLOWS</b>	<u>3,942,794</u>
<b>NET POSITION</b>	
Restricted for:	
Street Repairs	781,033
Drainage Improvements	884,957
Police	1,170,774
Municipal Court	131,310
PEG Funds	56,596
Animal Control	5,681
Net Investment in Capital Assets	5,219,397
Unrestricted	3,561,043
<b>TOTAL NET POSITION</b>	<u>\$ 11,810,791</u>

See accompanying notes to basic financial statements.



**CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

Functions and Programs	Expenses	Program Revenues		Net Revenue (Expense) and Changes in Net Position
		Charges for Services	Operating Grants and Contributions	Primary Government Governmental Activities
Primary Government:				
Governmental Activities:				
Administration	\$ 1,184,184	\$ 370,307	\$ 50	\$ (813,827)
Municipal Court	381,894	897,780	-	515,886
Police	2,489,814	193,698	10,888	(2,285,228)
Fire	1,759,803	10,583	-	(1,749,220)
Streets	516,365	-	-	(516,365)
Sanitation	463,976	454,111	-	(9,865)
Drainage	10,251	141,397	-	131,146
Interest on Long Term Debt	15,288	-	-	(15,288)
Total Governmental Activities	6,821,575	2,067,876	10,938	(4,742,761)
Total Government	\$ 6,821,575	\$ 2,067,876	\$ 10,938	(4,742,761)
General Revenues:				
Taxes:				
Property Taxes				3,337,287
Sales Taxes				1,644,208
Franchise Fees				555,339
License Agreements				190,000
Investment Income				140,223
Miscellaneous				128,966
Total General Revenues				5,996,023
Change in Net Position				1,253,262
Net Position at Beginning of Year				10,739,721
Prior Period Adjustment				(182,192)
Net Position at End of Year				\$ 11,810,791

See accompanying notes to basic financial statements.

**CITY OF CASTLE HILLS, TEXAS  
BALANCE SHEET - GOVERNMENTAL FUNDS  
DECEMBER 31, 2018**

	<u>Major Funds</u>		<u>Total</u>	<u>Total</u>
	<u>General</u>	<u>Street Repair</u>	<u>Nonmajor</u>	<u>Governmental</u>
	<u>Fund</u>	<u>Fund</u>	<u>Funds</u>	<u>Funds</u>
<b>ASSETS</b>				
Cash	\$ 5,583,987	\$ 760,042	\$ 2,264,135	\$ 8,608,164
Investments	607,300	-	-	607,300
Receivables (Net of Allowances for Uncollectible Accounts):				
Property Taxes	2,764,020	-	-	2,764,020
Sales and Franchise Fees	271,008	43,269	42,257	356,534
Garbage and Other Fees	38,360	-	-	38,360
<b>TOTAL ASSETS</b>	<u>\$ 9,264,675</u>	<u>\$ 803,311</u>	<u>\$ 2,306,392</u>	<u>\$ 12,374,378</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
<i>Liabilities:</i>				
Accounts Payable	\$ 225,416	\$ 3,278	\$ 37,670	\$ 266,364
Accrued Expenditures	87,393	-	-	87,393
License Agreements Received in Advance	-	19,000	76,000	95,000
<i>Total Liabilities</i>	<u>312,809</u>	<u>22,278</u>	<u>113,670</u>	<u>448,757</u>
<i>Deferred Inflows of Resources:</i>				
Unavailable Property Tax Revenue	221,577	-	-	221,577
Property Taxes Levied for Future Periods	<u>3,511,010</u>	<u>-</u>	<u>-</u>	<u>3,511,010</u>
<i>Total Deferred Inflows of Resources</i>	<u>3,732,587</u>	<u>-</u>	<u>-</u>	<u>3,732,587</u>
<i>Fund Balances:</i>				
Restricted For:				
Street Repairs	-	781,033	-	781,033
Drainage Improvements	-	-	884,957	884,957
Police	-	-	1,170,774	1,170,774
Municipal Court	-	-	131,310	131,310
PEG Funds	56,596	-	-	56,596
Animal Control	-	-	5,681	5,681
Committed For:				
Street Maintenance	1,035,602	-	-	1,035,602
Workstation Upgrade	16,036	-	-	16,036
Assigned for:				
Major Vehicle Purchases	251,949	-	-	251,949
Improvement Projects from CIED	482,351	-	-	482,351
Unassigned	<u>3,376,745</u>	<u>-</u>	<u>-</u>	<u>3,376,745</u>
<i>Total Fund Balances</i>	<u>5,219,279</u>	<u>781,033</u>	<u>2,192,722</u>	<u>8,193,034</u>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<u>\$ 9,264,675</u>	<u>\$ 803,311</u>	<u>\$ 2,306,392</u>	<u>\$ 12,374,378</u>

See accompanying notes to basic financial statements.



**CITY OF CASTLE HILLS, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
DECEMBER 31, 2018**

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS	\$	8,193,034
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Assets created from expenditures paid in advance are not considered financial resources and, therefore, are not reported in the governmental funds.		121,491
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Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		5,697,073
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Property taxes receivable are not available to pay current period expenditures and, therefore, are deferred in the fund statements.		221,577
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Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds:		
Capital Lease Payable		(477,676)

Net pension liabilities (and related deferred outflows and inflows of resources) do not consume current financial resources and are not reported in the funds.		
Net Pension Liability	(1,353,688)	
Pension Related Deferred Outflows	436,799	
Pension Related Deferred Inflows	(431,784)	(1,348,673)

Other Post-Employment Benefit Liabilities (and related deferred inflows and outflows of resources) do not consume financial resources and are not reported in the governmental funds:		
Other Post-Employment Benefit Liability	(211,868)	
Other Post-Employment Benefit Related Deferred Outflows	15,242	(196,626)

Other noncurrent liabilities, including accrued compensated absences, are not due and payable in the current period and, therefore not reported in the governmental funds.		(399,409)
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TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES	\$	11,810,791
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See accompanying notes to basic financial statements.

**CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Major Funds		Total Nonmajor Funds	Total Governmental Funds
	General Fund	Street Repair Fund		
<b>REVENUES</b>				
Property Taxes	\$ 3,313,412	\$ -	\$ -	\$ 3,313,412
Sales Taxes	1,117,587	267,079	259,542	1,644,208
Franchise Fees	555,339	-	-	555,339
Garbage Fees	454,111	-	-	454,111
Stormwater Fees	-	-	141,397	141,397
Building and Other Permits	377,086	-	-	377,086
Fines and Forfeitures	864,791	-	226,584	1,091,375
License Agreements	-	38,000	152,000	190,000
Investment Income	122,305	-	17,919	140,224
Miscellaneous	122,992	-	20,818	143,810
<b>TOTAL REVENUES</b>	<b>6,927,623</b>	<b>305,079</b>	<b>818,260</b>	<b>8,050,962</b>
<b>EXPENDITURES</b>				
Current:				
Administration	1,115,492	-	-	1,115,492
Municipal Court	344,887	-	38,846	383,733
Police	2,258,238	-	131,206	2,389,444
Fire	1,641,665	-	-	1,641,665
Streets	388,459	11,503	-	399,962
Sanitation	439,256	-	-	439,256
Drainage	3,435	-	6,816	10,251
Capital Outlay	32,859	29,775	99,322	161,956
Debt Service:				
Principal	72,248	-	-	72,248
Interest	15,288	-	-	15,288
<b>TOTAL EXPENDITURES</b>	<b>6,311,827</b>	<b>41,278</b>	<b>276,190</b>	<b>6,629,295</b>
 Net Change in Fund Balance	 615,796	 263,801	 542,070	 1,421,667
<b>FUND BALANCES - JANUARY 1</b>	<b>4,603,483</b>	<b>517,232</b>	<b>1,650,652</b>	<b>6,771,367</b>
<b>FUND BALANCES - DECEMBER 31</b>	<b>\$ 5,219,279</b>	<b>\$ 781,033</b>	<b>\$ 2,192,722</b>	<b>\$ 8,193,034</b>

See accompanying notes to basic financial statements.

**CITY OF CASTLE HILLS, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED DECEMBER 31, 2018**

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 1,421,667

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

Governmental funds report capital outlays as expenditures. However, in the  
Statement of Activities the cost of those assets is allocated over their estimated  
useful lives and reported as depreciation expense. This is the amount by  
which depreciation exceeded capital outlays. (318,849)

Revenues in the Statement of Activities that do not provide current financial  
resources are not reported as revenues in the funds. 23,875

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources  
to governmental funds, which the repayment of the principal of long-term debt consumes  
the current financial resources of governmental funds. Neither transaction, however, has  
any affect on net position. This amount is the net effect of these differences in the  
treatment of long-term debt and related items.

Principal Payments on Capital Leases 72,248

Some expenses reported in the Statement of Activities do not require the use of  
current financial resources and, therefore, are not reported as expenditures in  
governmental funds.

Change in Prepaid Expenses	9,959	
Change in Accrued Compensated Absences	(31,124)	(21,165)

Governmental funds report required contributions to employee pensions as expenditures.  
However, in the Statement of Activities the cost of the expense is recorded based on the  
actuarially determined cost of the plans. This is the amount that contributions exceeded  
actuarially determined pension expense. 89,920

Governmental funds report required contributions to OPEB as expenditures. However, in  
the Statement of Activities the cost of the expense is recorded based on the actuarially  
determined cost of the plans. This is the amount that actuarially determined  
OPEB expense exceeded contributions: (14,434)

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 1,253,262

See accompanying notes to basic financial statements.



CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
DECEMBER 31, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

**1. REPORTING ENTITY**

In evaluating how to define the government for financial purposes, management has considered all potential component units. The definition of the reporting entity is based primarily on the concept 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. The City has the following component unit:

The Castle Hills Crime Control and Prevention District - This entity is legally separate from the City, and was created pursuant to Section 363.051, et Seq. of the Crime Control District Act. The District was created October 1, 2004 to act on behalf of the City of Castle Hills for promotion, development, and enhancement of crime control and prevention within the City. The District is governed by a board appointed by the City Council. For financial reporting purposes, the District is reported as if it were part of the City's operations because its purpose is to benefit the citizens of the City.

**2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers, if any, has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

The statement of activities reflects 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. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

Separate **fund financial statements** are provided for governmental funds. Two of the City's funds meet the criteria of a **major governmental fund**: General Fund and Street Repair Fund. The City's other nonmajor governmental funds are made up of several special revenue funds: Child Safety, Animal Control, Fiesta, Municipal Court Technology, Municipal Court Security, Municipal Court Efficiency, Police Seizure, Crime Control and Prevention District, Drainage and Citizens Improvement. The major funds are reflected in individual columns and the nonmajor funds are reflected in an aggregate column titled "Nonmajor Funds" in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

The **government-wide financial statements** are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Revenue types, which have been accrued, are revenue from the investments, intergovernmental revenue and charges for services. Property taxes are recognized in the year for which they are levied. Grants are recognized as revenue when all applicable eligibility requirements imposed by the provider are met.

**Governmental fund level financial statements** are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as unavailable revenue. Property taxes which were levied and collected within 60 days of the fiscal period are considered revenue for the year ending December 31, 2018. Taxes receivable but not collected within 60 days are used to finance the budget of the fiscal year beginning January 1, 2017 and, accordingly, have been reflected as property taxes levied for future periods (a deferred inflow of resources) in the fund financial statements at December 31, 2018.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as claims and judgments, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental funds:

**The General Fund** is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, sales taxes, franchise fees, garbage fees, and fines and forfeitures. Primary expenditures are for administration, police, fire, street maintenance, and sanitation.

**The Street Repair Fund** is used to account for sales tax to be specifically used on the maintenance of streets within the City.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**4. INVESTMENTS**

State statutes authorize the City to invest in (a) obligations of the United States or its agencies, and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) – (e). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

Investments are stated at fair value (plus accrued interest) except for money market investments and local government investment pools. Those investments are stated at share price, which approximates fair value.

Fair value measurement is measured by the City using the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in the active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the City's investments carried at fair value are valued using quoted market prices (Level 1 inputs).

**5. ACCOUNTS RECEIVABLE**

Property taxes are levied based on taxable value at January 1, become due October 1 and are past due after the following January 31. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables are shown net of an allowance for uncollectible.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as unavailable revenue in the fund statements. Receivables are shown net of an allowance for uncollectible.

**6. ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

Allowances have been established by management based on best available information for a variety of receivables as of December 31, 2018. An allowance for uncollectible accounts has been recorded in the General Fund for property taxes in the amount of \$45,361.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**7. BUDGET**

An operating budget is adopted each fiscal year for all City funds. The budget is adopted on the GAAP basis of accounting. Additional budgetary information is provided in the required supplementary information.

**8. PREPAID ITEMS**

Payments to vendors that reflect costs applicable to future periods are recognized as expenditures when paid in the fund financial statements. However, for the government-wide financial statements, these payments are recorded as prepaid expenses on the statement of net position.

**9. CAPITAL ASSETS**

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the governmental type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$1,000 or more with an estimated useful life in excess of one year. Infrastructure assets include City-owned streets, sidewalks, and curbs. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Time Period</u>
Buildings and Improvements	10 to 35 years
Vehicles and Equipment	3 to 15 years
Infrastructure	25 to 30 years

**10. COMPENSATED ABSENCES**

The liability for compensated absences reported in the government-wide statements consists of unpaid accumulated leave balances. The liability has been calculated using the vesting method, in which leave amounts for employees who are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The City's policy is to allow vacation no more than 160 hours for regular employees and 200 hours for Fire and Police employees to be carried over from year to year. Sick leave not used during the fiscal year in which it accrues accumulates and is available for use in succeeding years, and the City will pay 160 hours on termination for any employee's unused sick leave in excess of 1,200 hours.



**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**11. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

A deferred outflow of resources is a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category: deferred pension and OPEB related outflows reported on the government-wide statements. The deferred pension and OPEB related outflows result from contributions made after the measurement date and changes in actuarial assumptions.

Deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet under a modified accrual basis of reporting. Unavailable revenues from property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues not expected to be available for the current period are reflected as unavailable revenue as an inflow of resource in the period the amounts become available. In addition property taxes levied to fund future periods are recorded on the financial statements as property taxes levied for future periods. The deferred pension related inflows result from differences between expected and actual experiences and differences in between expected and actual investment return.

**12. LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities in the statement of net position. On new bond issues, bond premiums and discounts, are amortized over the life of the bond. Bond issuance costs are expensed as incurred.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the period of issuance. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**13. NET PENSION LIABILITY**

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

**14. OTHER POST-EMPLOYMENT BENEFIT (OPEB) LIABILITY**

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions, and OPEB expense, information about the Total OPEB Liability of the Texas Municipal Retirement System (TMRS) and additions to/deletions from TMRS' Total OPEB Liability 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.

**15. FUND EQUITY**

In the fund financial statements, governmental funds report the following classifications of fund balance:

**Nonspendable** - Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

**Restricted** - Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

**Committed** - Represents amounts that can be used only for the specific purposes determined by a formal action (adoption of an ordinance) of the government's highest level of decision-making authority (City Council). Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

**Assigned** - Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. Assignments may be created by the Council or City Manager.

**Unassigned** - Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second and assigned third.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018**

**NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)**

**16. NET POSITION**

Net position represents the difference between assets and liabilities. 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 legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

**17. USE OF ESTIMATES**

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

**18. RECLASSIFICATIONS**

Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 presentation. These reclassifications had no effect on the change in fund balance.

**19. ADOPTION OF GOVERNMENT ACCOUNTING STANDARDS BOARD STATEMENT**

For the year ending December 31, 2018, the City implemented Government Accounting Standards Board Statement No. 75 related to accounting for postemployment benefits other than pensions (OPEB). This new standard requires that the City's OPEB plan recognize the total OPEB liability (asset) and OPEB related deferred inflows and outflows of resources on the City's government-wide statements. This change required a prior period adjustment to restate prior years in accordance with the change in accounting principle. The prior period adjustment recorded represents the total OPEB liability at December 31, 2018, less associated OPEB related deferred outflows and inflows of resources. The amount of the restatement can be seen in more detail in Note H.

**NOTE B – CASH AND INVESTMENTS**

**1. Cash**

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledge securities in an amount sufficient to protect City funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance. At December 31, 2018, the City's cash balance was fully collateralized.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE B – CASH AND INVESTMENTS (CONT.)**

**2. Investments**

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must 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, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. The Act requires that the Council review the investment policy at least annually, investment officers obtain minimum investment training, and investment officers sign quarterly investment reports submitted to Council. Audit procedures in this area, conducted as a part of the audit of the basic financial statements, disclosed that the City had not complied with those provisions as the investment policy was not approved in 2018 and the fourth quarter report was not prepared timely.

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

The City's investments at December 31, 2018 are as shown below:

<u>Investment</u>	<u>Rating</u>	<u>Input Level</u>	<u>Reported Value</u>	<u>Fair Value</u>	<u>Weighted Average Maturity (Days)</u>
<i>General Fund:</i>					
Certificates of Deposit		1	\$ 265,918	\$ 265,918	151
Texas CLASS Investment Pool	AAAm	1	341,382	341,382	56
<i>Total Government</i>			<u>\$ 607,300</u>	<u>\$ 607,300</u>	

The certificates of deposit are not fully collateralized under the City's depository agreement.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE B – CASH AND INVESTMENTS (CONT.)**

**3. Analysis of Specific Deposit and Investment Risks**

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

**a. Concentration of Credit Risk**

The risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year-end, the City did not maintain their letter of credit. As a result, at year-end, the City did not maintain their letter of credit. As a result, \$16,252 of their investments held in certificates of deposit were uncollateralized.

**b. Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the City was not significantly exposed to credit risk.

**c. Custodial Credit Risk**

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was not exposed to custodial credit risk.

**d. Interest Rate Risk**

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year-end, the City was not exposed to interest rate risk.

**e. Foreign Currency Risk**

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE C – RECEIVABLES**

Receivables as of December 31, 2018 are as follows:

	Governmental Funds			Total
	General Fund	Street Repair Fund	Nonmajor Funds	
<i>Receivables:</i>				
Property Taxes	\$ 2,809,381	\$ -	\$ -	\$ 2,809,381
Sales and Franchise Fees	271,008	43,269	42,257	356,534
Garbage and Other Fees	38,360	-	-	38,360
Gross Receivables	3,118,749	43,269	42,257	3,204,275
Less: Allowance for Uncollectibles	(45,361)	-	-	(45,361)
Net Total Receivables	<u>\$ 3,073,388</u>	<u>\$ 43,269</u>	<u>\$ 42,257</u>	<u>\$ 3,158,914</u>

**NOTE D – PROPERTY TAXES**

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Bexar County Appraisal District. Assessed values are reduced by lawful exemptions to arrive at taxable values. The City uses the October 1 levy to fund the operations of the City for the following calendar year. Since the City has an enforceable legal claim to the property taxes, the receivable is recognized in the year of the levy but the revenue is recognized in the fiscal year for which it is budgeted. Thus, property tax revenue recognized on these 2018 financials is from the collections on the 2017 and prior levies. For the fund financial statements the City accrues property tax collections received within 60 days of year end as this is considered available financial resources to fund current operations.

The total taxable value as of January 1, 2018 upon which the fiscal 2018 levy (2017 tax year) was based was \$674,104,280 (i.e., market value less exemptions). The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt.

The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended December 31, 2018, was \$0.501345 per \$100 of assessed value, which means that the City has a tax margin of \$1.998655 for each \$100 of assessed value and could increase its annual levy by approximately \$13,473,019 based upon present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the tax rate calculated in accordance with the Texas Property Code without holding a public hearing. The Property Tax Code subjects an increase in the effective tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's effective tax rate. The current year delinquent tax receivable is \$46,437.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE E – CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2018 was as follows:

Governmental Activities	Balances at 1/1/2018	Additions	Disposals	Transfers	Balances at 12/31/2018
Land	\$ 383,700	\$ -	\$ -	\$ -	\$ 383,700
Buildings and Improvements	3,028,036	3,875	-	-	3,031,911
Vehicles and Equipment	2,903,308	128,306	-	1,049,924	4,081,538
Infrastructure	2,751,846	-	-	-	2,751,846
Construction in Progress	1,153,891	29,775	-	(1,049,924)	133,742
	<u>10,220,781</u>	<u>161,956</u>	<u>-</u>	<u>-</u>	<u>10,382,737</u>
<i>Less Accumulated Depreciation:</i>					
Buildings and Improvements	(1,475,000)	(91,438)	-	-	(1,566,438)
Vehicles and Equipment	(2,290,715)	(297,453)	-	-	(2,588,168)
Infrastructure	(439,144)	(91,914)	-	-	(531,058)
	<u>(4,204,859)</u>	<u>(480,805)</u>	<u>-</u>	<u>-</u>	<u>(4,685,664)</u>
Governmental Capital Assets, Net	<u>\$ 6,015,922</u>	<u>\$ (318,849)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,697,073</u>

Land and Construction in Progress are not depreciated.

Depreciation Expense was charged to the governmental functions as follows:

Administration	\$ 72,715
Municipal Court	2,213
Police	138,197
Fire	121,273
Streets	119,714
Sanitation	26,693
Total Depreciation Expense	<u>\$ 480,805</u>

**NOTE F – LONG-TERM DEBT**

Changes in the City's long-term debt during the fiscal year ended December 31, 2018 were as follows:

Governmental Activities	Balance Outstanding 1/1/2018	Additions	Retirements	Balance Outstanding 12/31/2018	Due Within One Year
Capital Lease	\$ 549,924	\$ -	\$ (72,248)	\$ 477,676	\$ 74,257
Accrued Compensated Absences	368,285	104,781	(73,657)	399,409	79,882
Totals	<u>\$ 918,209</u>	<u>\$ 104,781</u>	<u>\$ (145,905)</u>	<u>\$ 877,085</u>	<u>\$ 154,139</u>

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE F – LONG-TERM DEBT (CONT.)**

In December 2017, the City entered into a capital lease agreement with PNC Equipment Finance, LLC for the purchase of a new fire truck. The total cost of the fire truck was \$1,049,924. The City paid a down payment of \$500,000 and the remaining balance was financed over 7 years with an interest rate of 2.78% per annum. The lease calls for annual payments of \$87,536 beginning December 20, 2018 through December 20, 2024. The fire truck is recorded as a capital asset of the City with a cost of \$1,049,924. As of December 31, 2018, \$96,243 had been recognized in accumulated depreciation.

Requirements to amortize the capital lease over the remaining life is as follows:

Year End December 31	Capital Lease
2019	\$ 87,536
2020	87,536
2021	87,536
2022	87,536
2023	87,536
2024	87,536
Total Minimum Lease Payments	525,216
Less Interest	(47,540)
Present Value of Minimum Payments	<u>\$ 477,676</u>

**NOTE G – LICENSE AGREEMENTS**

The City is leasing two billboards to Clear Channel Outdoor, Inc. for a period of 25 years. This agreement runs from December 1, 2015 through November 30, 2040. The license is paid in annual installments. Clear Channel Outdoor, Inc. has the right to remove the billboards at any time or within 120 days following the termination of such rights to use or possess the billboards. If the value or utilization of the billboard is reduced, Clear Channel Outdoor, Inc. may terminate the agreement and receive any prepaid license payments from the City. The balance of unrecognized license agreement revenue is shown as license agreements received in advance on the Balance Sheet and the Statement of Net Position. The future minimum lease revenues under the license are as follows:

Year End December 31,	Billboard License
2019	\$ 190,000
2020	190,000
2021	199,500
2022	201,496
2023	203,510
2024-2028	1,048,488
2029-2033	1,101,970
2034-2038	1,158,182
2039-2040	479,650
	<u>\$ 4,772,796</u>



CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE H -- PRIOR PERIOD ADJUSTMENT**

In accordance with GASB Statement No. 75, the City has recorded a prior period adjustment to recognize the Other Post-Employment Benefit (OPEB) liability as described in Note J, below. The OPEB liability at December 31, 2017 was allocated to the general fund resulting in a prior period adjustment to restate the beginning fund balances as of December 31, 2017 as follows:

	Governmental Activities
Beginning Fund Balance/Net Assets, previously reported	\$ 10,739,721
Understated OPEB Liability	(182,192)
Beginning Fund Balance/Net Assets, restated	<u>\$ 10,557,529</u>

**NOTE I -- EMPLOYEE RETIREMENT SYSTEM**

Texas Municipal Retirement System

**Plan Description**

The City participates as one of 883 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](http://www.tmrs.com).

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

**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.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2018**

**NOTE I – EMPLOYEE RETIREMENT SYSTEM (CONT.)**

**Benefits Provided (Cont.)**

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

	2016	2017
Inactive employees or beneficiaries currently receiving benefits	44	48
Inactive employees entitled to but not yet receiving benefits	34	32
Active employees	66	67
	<u>144</u>	<u>147</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.

For the year ending December 31, 2018, employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 11.58% and 11.57% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended December 31, 2018 were \$411,648 and were \$321 more than the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary Increases	3.0% per year
Investment Rate of Return*	6.75%

\* Presented 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 Health Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE I -- EMPLOYEE RETIREMENT SYSTEM (CONT.)**

**Actuarial Assumptions (Cont.)**

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

Actuarial assumptions used in the December 31, 2017 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. 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. 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 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 rates of return by the target asset allocation percentage and by adding the expected inflation.

In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of 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%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
	<u>100.00%</u>	

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE I – EMPLOYEE RETIREMENT SYSTEM (CONT.)**

**Discount Rate**

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

**Changes in the Net Pension Liability**

The schedule below presents the changes in the Net Pension Liability as of December 31, 2017:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2016	\$ 17,071,422	\$ 14,777,637	\$ 2,293,785
Changes for the year:			
Service Cost	543,595	-	543,595
Interest (on Total Pension Liability)	1,143,903	-	1,143,903
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	88,526	-	88,526
Changes of Assumptions	-	-	-
Contributions - Employer	-	423,323	(423,323)
Contributions - Employee	-	255,895	(255,895)
Net Investment Income	-	2,048,055	(2,048,055)
Benefit Payments, Including Refunds of Employee Contributions	(793,003)	(793,003)	-
Administrative Expense	-	(10,614)	10,614
Other Changes	-	(538)	538
Net Changes	983,021	1,923,118	(940,097)
Balance at December 31, 2017	\$ 18,054,443	\$ 16,700,755	\$ 1,353,688

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:

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability (Asset)	\$ 3,945,465	\$ 1,353,688	\$ (761,305)

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE I -- EMPLOYEE RETIREMENT SYSTEM (CONT.)**

**Pension Plan Fiduciary Net Position**

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

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

For the year ended December 31, 2018, the City recognized pension expense of \$322,216. Also as of December 31, 2018, 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
Differences between Expected and Actual Economic Experience	\$ 24,858	\$ -
Changes in Actuarial Assumptions	-	(289)
Differences Between Projected and Actual Investment Earnings	-	(431,495)
Contributions Subsequent to the Measurement Date	411,941	-
	<u>\$ 436,799</u>	<u>\$ (431,784)</u>

Deferred outflows of resources in the amount of \$411,941 is related to contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>For the Plan Year ended December 31,</u>	
2018	\$ (27,197)
2019	4,903
2020	(184,006)
2021	(200,626)
	<u>\$ (406,926)</u>

**NOTE J -- OTHER POST EMPLOYMENT BENEFITS**

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

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE J – OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONT.)**

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB. Membership in the plan at December 31, 2017, the valuation and measurement date, consisted of:

Inactive employees or beneficiaries currently receiving benefits	38
Inactive employees entitled to but not yet receiving benefits	4
Active employees	67
	109

The SDBF required contribution rates, based on these assumptions, are as follows:

<u>For the Plan Year Ended December 31.</u>	<u>Total SDBF Contribution Rate</u>	<u>Retiree Portion of SDBF Contribution Rate</u>
2017	0.20%	0.05%
2018	0.18%	0.05%

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

Inflation	2.5% per year
Salary Increases	3.5% to 10.5%, including inflation
Discount Rate	3.31% (Based on Fidelity Index's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE J -- OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONT.)**

The City's Total OPEB Liability (TOL), based on the actuarial factors, as of December 31, 2018 was calculated as follows:

	Total OPEB Liability
Balance at December 31, 2016	\$ 184,019
Changes for the year:	
Service Cost	6,580
Interest (on Total OPEB Liability)	7,046
Change of Benefit Terms	-
Difference Between Expected and Actual Experience	-
Changes of Assumptions or Other Inputs	16,051
Benefit Payments	(1,828)
Net Changes	27,849
Balance at December 31, 2017	\$ 211,868

A separate trust is not maintained to fund this Total OPEB Liability. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

The following presents the TOL of the City, calculated using the discount rate of 3.31% as well as what the City's TOL would be if it were calculated using a discount rate that is 1-percentage point lower (2.31%) and 1-percentage point higher (4.31%) than the current rate:

	Discount Rate 2.31%	Discount Rate 3.31%	Discount Rate 4.31%
Total OPEB Liability	\$ 252,626	\$ 211,868	\$ 179,668

For the year ended December 31, 2018, the City recognized OPEB expense of \$16,215. Also as of December 31, 2018, the City reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumptions	\$ 13,462	\$ -
Differences Between Projected and Contributions Subsequent to the Measurement Date	-	-
	1,780	-
	\$ 15,242	\$ -

CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE J – OTHER POST EMPLOYMENT BENEFITS (OPEB) (CONT.)**

Deferred outflows of resources in the amount of \$1,780 is related to OPEB benefits resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the total OPEB liability for the plan year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>For the Plan Year Ended December 31,</u>		
2018	\$	2,589
2019		2,589
2020		2,589
2021		2,589
2022		2,589
Thereafter		517
	<u>\$</u>	<u>13,462</u>

**NOTE K – CONTINGENCIES AND COMMITMENTS**

Litigation

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management and legal counsel are of the opinion that the City's liability in these cases, if decided adversely to the City, will not have a material effect on the City's financial position.

**NOTE L – RISK MANAGEMENT**

The City has identified possible risk of losses arising from events such as the following: torts; theft of, damage to, or destruction of assets; errors and omissions; job-related illnesses or injuries to employees; acts of God.

The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified liability risks. TML is a multi-employer group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are set annually by TML. Liability by the City is generally limited to the contributed amounts up to coverage limits. Annual contributions for the plan year ending December 31, 2018 were \$71,629.



CITY OF CASTLE HILLS, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2018

**NOTE L -- RISK MANAGEMENT (CONT.)**

For risks related to workers compensation, the City participates in the Deep East Texas Self Insurance Fund, a public entity risk pool, which is self-sustained through member contributions. The Fund reinsures to statutory limits through commercial companies for claims in excess of \$850,000 for the plan year ending October 31, 2019. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves. The members of Deep East Texas Self Insurance Fund have no known premium liabilities for workers' compensation coverage excess of their contracted annual premium. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund's liabilities. This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and as of the most recent audit, the Fund has adequate assets to more than cover more than 100% of all liabilities. Annual contributions for the plan year ending October 31, 2019 were \$57,500.



## **REQUIRED SUPPLEMENTARY INFORMATION**

Required supplementary information includes financial information and disclosures that are required by the GASB but are not considered a part of the basic financial statements. Such information includes:

- **Budgetary Comparison Schedule – General Fund**
- **Schedule of Changes – Net Pension Liability and Related Ratios**
- **Schedule of Employer Contributions**
- **Schedule of Changes – Total Other Post-Employment Benefit Liability and Related Ratios**

**CITY OF CASTLE HILLS, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018**

	Budget Amounts		Actual	Variance
	Original	Final	Amounts	With Final Budget - Positive (Negative)
<b>REVENUES</b>				
Property Tax	\$ 3,426,468	\$ 3,426,468	\$ 3,313,412	\$ (113,056)
Sales Taxes	1,147,000	1,147,000	1,117,587	(29,413)
Franchise Fees	475,000	475,000	555,339	80,339
Carbage Fees	455,000	455,000	454,111	(889)
Building and Other Permits	334,500	334,500	377,086	42,586
Fines and Forfeitures	985,500	985,500	864,791	(120,709)
Investment Income	25,000	25,000	122,305	97,305
Miscellaneous	131,798	131,798	122,992	(8,806)
<b>TOTAL REVENUES</b>	<b>6,980,266</b>	<b>6,980,266</b>	<b>6,927,623</b>	<b>(52,643)</b>
<b>EXPENDITURES</b>				
<i>Current:</i>				
Administration	970,226	970,226	1,115,492	(145,266)
Municipal Court	318,156	318,156	344,887	(26,731)
Police	2,446,696	2,446,696	2,258,238	188,458
Fire	1,678,506	1,678,506	1,641,665	36,841
Streets	738,797	738,797	388,459	350,338
Sanitation	454,677	454,677	439,256	15,421
Drainage	3,500	3,500	3,435	65
Capital Outlay	38,000	1,087,924	32,859	1,055,065
Debt Service:				
Principal	-	-	72,248	(72,248)
Interest	-	-	15,288	(15,288)
<b>TOTAL EXPENDITURES</b>	<b>6,648,558</b>	<b>7,698,482</b>	<b>6,311,827</b>	<b>1,386,655</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	331,708	(718,216)	615,796	1,334,012
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In (Out)	(128,100)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(128,100)</b>	<b>-</b>	<b>-</b>	<b>-</b>
Net Change in Fund Balance	203,608	(718,216)	615,796	1,334,012
Fund Balance - January 1	4,603,483	4,603,483	4,603,483	-
Fund Balance - December 31	\$ 4,807,091	\$ 3,885,267	\$ 5,219,279	\$ 1,334,012

CITY OF CASTLE HILLS, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL – STREET REPAIR FUND  
FOR THE YEAR ENDED DECEMBER 31, 2018

	Budget		Actual	Variance
	Original	Final	Amounts	With Final Budget - Positive (Negative)
<b>REVENUES</b>				
Sales Taxes	\$ 275,000	\$ 275,000	\$ 267,079	\$ (7,921)
License Agreements	38,000	38,000	38,000	-
<b>TOTAL REVENUES</b>	<u>313,000</u>	<u>313,000</u>	<u>305,079</u>	<u>(7,921)</u>
<b>EXPENDITURES</b>				
<i>Current:</i>				
Streets	25,625	25,625	11,503	14,122
Capital Outlay	120,254	120,254	29,775	90,479
<b>TOTAL EXPENDITURES</b>	<u>145,879</u>	<u>145,879</u>	<u>41,278</u>	<u>104,601</u>
 Net Change in Fund Balance	 <u>167,121</u>	 <u>167,121</u>	 <u>263,801</u>	 <u>96,680</u>
 Fund Balance - January 1	 <u>517,232</u>	 <u>517,232</u>	 <u>517,232</u>	 <u>-</u>
Fund Balance - December 31	<u>\$ 684,353</u>	<u>\$ 684,353</u>	<u>\$ 781,033</u>	<u>\$ 96,680</u>

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-**  
**BUDGET AND ACTUAL**  
**DECEMBER 31, 2018**

**Budgetary Information**

The budget is prepared in accordance with accounting principles generally accepted in the United States of America. The City maintains strict budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council and as such is a good management control device. The following are the funds which have legally adopted annual budgets: General Fund, Street Repair Fund, and Crime Control and Prevention District.

Budgetary preparation and control is exercised at the department level. Actual expenditures may not legally exceed appropriations at the fund level. Actual expenditures exceeded appropriations in the General Fund.

The City does not use encumbrances.

**CITY OF CASTLE HILLS, TEXAS**  
**REQUIRED SUPPLEMENTAL INFORMATION**  
**SCHEDULE OF CHANGES – NET PENSION LIABILITY AND RELATED RATIOS**  
**LAST FOUR PLAN YEARS**

	Total Pension Liability			
	2014	2015	2016	2017
Service Cost	\$ 373,750	\$ 475,976	\$ 519,906	\$ 543,595
Interest (on the Total Pension Liability)	1,039,608	1,069,749	1,076,375	1,143,903
Changes of Benefit Terms	-	-	-	-
Difference between Expected and Actual Experience	(417,323)	(302,567)	91,064	88,526
Change of Assumptions	-	(1,015)	-	-
Benefit Payments, Including Refunds of Employee Contributions	(637,785)	(595,341)	(604,541)	(793,003)
Net Change in Total Pension Liability	358,250	646,802	1,082,804	983,021
Total Pension Liability - Beginning	14,983,566	15,341,816	15,988,618	17,071,422
Total Pension Liability - Ending	<u>\$ 15,341,816</u>	<u>\$ 15,988,618</u>	<u>\$ 17,071,422</u>	<u>\$ 18,054,443</u>
	Plan Fiduciary Net Position			
	2014	2015	2016	2017
Contributions - Employer	\$ 380,234	\$ 433,297	\$ 420,366	\$ 423,323
Contributions - Employee	209,084	228,052	242,785	255,895
Net Investment Income	745,640	20,251	932,351	2,048,055
Benefit Payments, Including Refunds of Employee Contributions	(637,785)	(595,341)	(604,541)	(793,003)
Administrative Expense	(7,786)	(12,335)	(10,531)	(10,614)
Other	(640)	(610)	(567)	(538)
Net Change in Plan Fiduciary Net Position	688,747	73,314	979,863	1,923,118
Plan Fiduciary Net Position - Beginning	13,035,713	13,724,460	13,797,774	14,777,637
Plan Fiduciary Net Position - Ending	<u>\$ 13,724,460</u>	<u>\$ 13,797,774</u>	<u>\$ 14,777,637</u>	<u>\$ 16,700,755</u>
Net Pension Liability (Asset) - Ending	\$ 1,617,356	\$ 2,190,844	\$ 2,293,785	\$ 1,353,688
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	89.46%	86.30%	86.56%	92.50%
Covered Payroll	\$ 2,986,911	\$ 3,257,881	\$ 3,468,354	\$ 3,655,649
Net Pension Liability as a Percentage of Covered Payroll	54.15%	67.25%	66.13%	37.03%

Note: The schedule above reflects the changes in the net pension liability for the current year and the previous two years. GASB Statement No. 68 requires 10 fiscal years of data to be provided in this schedule. The City will build this schedule over the 10-year period beginning December 31, 2014 as data becomes available.

**CITY OF CASTLE HILLS, TEXAS  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF EMPLOYER CONTRIBUTIONS  
LAST FIVE FISCAL YEARS**

**Schedule of Contributions:**

	2014	2015	2016	2017	2018
Actuarially Determined Contribution	\$ 380,831	\$ 433,317	\$ 420,402	\$ 423,129	\$ 411,648
Contributions in Relation to the					
Actuarially Determined Contribution	380,831	433,317	420,402	423,129	411,970
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -	\$ (322)
Covered Payroll	\$ 2,986,913	\$ 3,257,874	\$ 3,468,364	\$ 3,655,638	\$ 3,557,893
Contributions as a Percentage of					
Covered Payroll	12.75%	13.30%	12.12%	11.57%	11.57%

Note: The schedule above reflects the TMRS contributions made by the City for the current year and the previous three fiscal years. GASB Statement No. 68 requires 10 fiscal years of data to be provided in this schedule. The City will build this schedule over the 10-year period beginning December 31, 2014 as data becomes available.

**Notes to the Schedule of Contributions:**

**Valuation Date:**

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, thirteen (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	25 Years
Asset Valuation Method	10 Year Smoothed Market; 15% Soft Corridor
Inflation	2.50%
Salary Increases	3.50% to 10.50% 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 pursuant to an experience study of 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 CASTLE HILLS, TEXAS  
REQUIRED SUPPLEMENTAL INFORMATION  
SCHEDULE OF CHANGES – OTHER POST-EMPLOYMENT BENEFIT  
LIABILITY AND RELATED RATIOS  
LAST CALENDAR YEAR

	Total OPEB Liability
Balance at December 31, 2016	\$ 184,019
Changes for the year:	
Service Cost	6,580
Interest (on Total OPEB Liability)	7,046
Change of Benefit Terms	-
Difference Between Expected and Actual Experience	-
Changes of Assumptions or Other Inputs	16,051
Benefit Payments	(1,828)
Net Changes	27,849
Balance at December 31, 2017	\$ 211,868
 Covered Payroll	 \$ 3,655,649
 Total OPEB Liability at a Percentage of Covered Payroll	  5.80%

Note: The schedule above reflects the changes in the net pension liability for the current year. GASB Statement No. 75 requires 10 years of data to be provided in this schedule. The City will build this schedule over the 10-year period beginning December 31, 2017 as data becomes available.

**NOTES TO SCHEDULE OF CHANGES**

No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

**Methods and Assumptions Used to Determine Contribution Rate**

Inflation	2.5% per year
Salary Increases	3.5% to 10.5%, including inflation
Discount Rate	3.31% (Based on Fidelity Index's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Mortality Rates - Disabled Retirees	RP2000 Combined Mortality Table with blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

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