OFFICIAL STATEMENT

Dated November 9, 2020

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

NEW ISSUE - Book-Entry-Only

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

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

$5,490,000
CITY OF PALESTINE, TEXAS
(Anderson County)
COMBINATION TAX AND REVENUE REFUNDING BONDS, SERIES 2020

Dated Date: November 1, 2020 **Due: August 15, 2021 and February 15, as shown on page 2**
Interest accrues from the Delivery Date (defined herein)

PAYMENT TERMS. . . Interest on the $5,490,000 City of Palestine, Texas, Combination Tax and Revenue Refunding Bonds, Series 2020 (the "Tax-Exempt Bonds") will accrue from the date of initial delivery to the initial purchaser of the Tax-Exempt Bonds (the "Delivery Date", anticipated to be on or about December 8, 2020), and will be payable February 15 and August 15 of each year commencing August 15, 2021, until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Tax-Exempt Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Tax-Exempt Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. No physical delivery of the Tax-Exempt Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Tax-Exempt Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Tax-Exempt Bonds (see "THE OBLIGATIONS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is Regions Bank, Houston, Texas (see "THE OBLIGATIONS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Tax-Exempt Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Government Code, Chapter 1207, as amended, and an ordinance (the "Tax-Exempt Ordinance") adopted by the City Council of the City (the "City Council"), and are direct obligations of the City of Palestine, Texas (the "City"), payable from a combination of (i) the proceeds of a direct and continuing annual ad valorem tax levied upon all taxable property within the City, within the limits prescribed by law, and (ii) the Surplus Revenues of the City's waterworks and sewer system (the "System") remaining after payment of all operating and maintenance expenses thereof, and all debt service, reserve, and other requirements in connection with any of the City's revenue bonds or other obligations (now or hereafter outstanding) which are payable from all of any part of the net revenues of the System, as provided in the Tax-Exempt Bond Ordinance) (see "THE OBLIGATIONS - Authority for Issuance of the Obligations").

PURPOSE. . . Proceeds from the sale of the Tax-Exempt Bonds will be used to (i) refund a portion of the City's outstanding debt described in Schedule I (the "Refunded System Obligations") for debt service savings and (ii) pay the costs of issuance associated with the sale of the Tax-Exempt Bonds.

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

INSURANCE. . . The scheduled payment of principal of and interest on the Tax-Exempt Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Tax-Exempt Bonds by Build America Mutual Assurance Company ("BAM") See "BOND INSURANCE" and "BOND INSURANCE RISKS" herein.

SEPARATE ISSUES…The Tax-Exempt Bonds are being offered by the City concurrently with the City of Palestine, Texas General Obligation Refunding Bonds, Taxable Series 2020 (the "Taxable Bonds") under a common Official Statement. The Tax-Exempt Bonds and the Taxable Bonds are sometimes referred to collectively herein as the "Obligations." The Tax-Exempt Bonds and the Taxable Bonds are separate and distinct securities offerings being issued and sold independently except for being offered through the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

LEGALITY . . . The Tax-Exempt Bonds are offered for delivery when, as and if issued and received by the initial purchaser of the Tax-Exempt Bonds (the "Tax-Exempt Bond Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Dallas, Texas, as Bond Counsel (see Appendix C, "Forms of Bond Counsel's Opinions"). Certain legal matters with respect to the Tax-Exempt Bonds will be passed upon by Bracewell LLP, Dallas, Texas, Disclosure Counsel for the City.

DELIVERY. . . It is expected that the Tax-Exempt Bonds will be available for delivery through the facilities of DTC on December 8, 2020.

SAMCO CAPITAL MARKETS

MATURITY SCHEDULE

CUSIP Prefix: 696327 [(1)]

Amount	Maturity Date	Initial Rate	Initial Yield	CUSIP Suffix[(1)]
$ 605,000	8/15/2021	4.000%	0.300%	HX6
595,000	2/15/2022	4.000%	0.350%	HY4
600,000	2/15/2023	2.000%	0.400%	HZ1
660,000	2/15/2024	2.000%	0.500%	JA4
660,000	2/15/2025	1.500%	0.600%	JB2
655,000	2/15/2026	1.500%	0.700%	JC0
665,000	2/15/2027	3.000%	0.800%	JD8
450,000	2/15/2028	3.000%	0.950%	JE6
315,000	2/15/2029	3.000%	1.100%	JF3
285,000	2/15/2030	3.000%	1.200%	JG1

(Interest to accrue from the Delivery Date.)

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

NO OPTIONAL REDEMPTION . . . The Tax-Exempt Bonds are not subject to redemption prior to maturity. (see "THE OBLIGATIONS – No Optional Redemption of the Obligations").

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OFFICIAL STATEMENT

Dated November 9, 2020

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

NEW ISSUE - Book-Entry-Only

Interest on the Taxable Bonds is not excludable from gross income for federal tax purposes under existing law. See "TAXABLE BONDS TAX MATTERS" herein.

$2,215,000
CITY OF PALESTINE, TEXAS
(Anderson County)
GENERAL OBLIGATION REFUNDING BONDS, TAXABLE SERIES 2020

Dated Date: November 1, 2020 **Due: August 15, 2021 and February 15, as shown on page 4**
Interest accrues from the Delivery Date (defined herein)

PAYMENT TERMS. . . Interest on the $2,215,000 City of Palestine, Texas, General Obligation Refunding Bonds, Taxable Series 2020 (the "Taxable Bonds") will accrue from the date of initial delivery to the initial purchaser of the Taxable Bonds (the "Delivery Date", anticipated to be on or about December 8, 2020), and will be payable February 15 and August 15 of each year commencing August 15, 2021, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Taxable Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Taxable Bonds may be acquired in denominations of $5,000 or integral multiples thereof within a maturity. No physical delivery of the Taxable Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Taxable Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Taxable Bonds (see "THE OBLIGATIONS - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is Regions Bank, Houston, Texas (see "THE OBLIGATIONS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Taxable Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas Government Code, Chapter 1207, as amended, and an ordinance (the "Taxable Bond Ordinance") adopted by the City Council of the City (the "City Council"), and are direct obligations of the City of Palestine, Texas (the "City"), payable from the proceeds of a direct and continuing annual ad valorem tax levied upon all taxable property within the City, within the limits prescribed by law, as provided in the Taxable Bond Ordinance authorizing the Taxable Bonds (see "THE OBLIGATIONS - Authority for Issuance of the Obligations").

PURPOSE. . . Proceeds from the sale of the Taxable Bonds will be used to (i) refund a portion of the City's outstanding debt described in Schedule II (the "Refunded Tax-Supported Obligations") for debt service savings and (ii) pay the costs of issuance associated with the sale of the Taxable Bonds.

CUSIP PREFIX: 696327
MATURITY SCHEDULE & 9 DIGIT CUSIP
See Schedule on Page 4

INSURANCE. . . The scheduled payment of principal of and interest on the Taxable Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Taxable Bonds by Build America Mutual Assurance Company ("BAM") See "BOND INSURANCE" and "BOND INSURANCE RISKS" herein.

SEPARATE ISSUES…The Taxable Bonds are being offered by the City concurrently with the City of Palestine, Texas Combination Tax and Revenue Refunding Bonds, Series 2020 (the "Tax-Exempt Bonds") under a common Official Statement. The Tax-Exempt Bonds and the Taxable Bonds are sometimes referred to collectively herein as the "Obligations." The Tax-Exempt Bonds and the Taxable Bonds are separate and distinct securities offerings being issued and sold independently except for being offered through the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, the federal, state or local tax consequences of the purchase, ownership or disposition of the Obligations and other features.

LEGALITY . . . The Taxable Bonds are offered for delivery when, as and if issued and received by the initial purchaser of the Taxable Bonds (the "Taxable Bond Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Dallas, Texas, as Bond Counsel (see Appendix C, "Forms of Bond Counsel's Opinions"). Certain legal matters with respect to the Taxable Bonds will be passed upon by Bracewell LLP, Dallas, Texas, Disclosure Counsel for the City.

DELIVERY. . . It is expected that the Taxable Bonds will be available for delivery through the facilities of DTC on December 8, 2020.

SWBC INVESTMENT SERVICES, LLC

MATURITY SCHEDULE

CUSIP Prefix: 696327 [(1)]

Amount	Maturity Date	Initial Rate	Initial Yield	CUSIP Suffix[(1)]
$ 215,000	8/15/2021	2.000%	0.650%	JH9
205,000	2/15/2022	2.000%	0.750%	JJ5
210,000	2/15/2023	2.000%	0.850%	JK2
215,000	2/15/2024	2.000%	1.000%	JL0
220,000	2/15/2025	2.000%	1.150%	JM8
220,000	2/15/2026	2.000%	1.400%	JN6
225,000	2/15/2027	2.000%	1.600%	JP1
230,000	2/15/2028	1.750%	1.750%	JQ9
235,000	2/15/2029	1.900%	1.900%	JR7
240,000	2/15/2030	2.050%	2.050%	JS5

(Interest to accrue from the Delivery Date.)

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

NO OPTIONAL REDEMPTION . . . The Taxable Bonds are not subject to optional redemption prior to maturity, except as described below with respect to extraordinary optional redemption. (see "THE OBLIGATIONS – No Optional Redemption of the Obligations").

EXTRAORDINARY OPTIONAL REDEMPTION . . . The Taxable Bonds are subject to extraordinary optional redemption, at the direction of the City, prior to their scheduled maturities, in whole or in part, at a redemption price equal to the par value thereof plus interest to the date of redemption, upon the sale or disposition of the Palestine Mall (the "Palestine Mall") acquired by the City in 2010 with City funds, including funds from the proceeds of the Refunded Tax-Supported Obligations. Such extraordinary optional redemption can be exercised within 90 days of the sale or disposition of the Palestine Mall. If the City does not exercise the right to redeem the Taxable Bonds within 90 days of the sale or disposition of the Palestine Mall, the rights of the City to redeem Taxable Bonds pursuant to the extraordinary optional redemption provisions of the Taxable Bond Ordinance shall automatically expire. (see "THE OBLIGATIONS – Extraordinary Optional Redemption of the Taxable Bonds").

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

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

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

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Obligations or the advisability of investing in the Obligations. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE" and "Appendix D - Specimen Municipal Bond Insurance Policy".

THE OBLIGATIONS 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 OBLIGATIONS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTION IN WHICH THE OBLIGATIONS HAVE BEEN REGISTERED, QUALIFIED OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

NONE OF THE CITY, THE INITIAL PURCHASERS, OR THE FINANCIAL ADVISOR MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK ENTRY-ONLY SYSTEM OR MAN OR THE MUNICIPAL BOND INSURANCE POLICIES, AS APPLICABLE, AS SUCH INFORMATION HAS BEEN PROVIDED BY THE DEPOSITORY TRUST COMPANY AND BAM, RESPECTIVELY.

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

The agreements of the City and others related to the Obligations 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 Obligations is to be construed as constituting an agreement with the purchasers of the Obligations. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

TABLE OF CONTENTS

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

OFFICIAL STATEMENT SUMMARY

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

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

THE OBLIGATIONS..................... The Tax-Exempt Bonds are issued as $5,490,000 Combination Tax and Revenue Refunding Bonds, Series 2020 (the "Tax-Exempt Bonds"). The Tax-Exempt Bonds are issued as serial bonds maturing on August 15, 2021 and February 15 in each of the years 2022 through 2030, inclusive (see "THE OBLIGATIONS - Description of the Obligations").

The Taxable Bonds are issued as $2,215,000 General Obligation Refunding Bonds, Taxable Series 2020 (the "Taxable Bonds"). The Taxable Bonds are issued as serial bonds maturing on August 15, 2021 and February 15 in each of the years 2022 through 2030, inclusive (see "THE OBLIGATIONS - Description of the Obligations").

PAYMENT OF INTEREST ON THE OBLIGATIONS................. Interest on the Obligations accrues from the date of initial delivery (the "Delivery Date") (anticipated to be December 8, 2020), and is payable February 15 and August 15 of each year, commencing August 15, 2021, until maturity or prior redemption, (with respect to the Taxable Bonds subject to extraordinary Optional Redemption). (see "THE OBLIGATIONS - Description of the Obligations").

AUTHORITY FOR ISSUANCE FOR THE OBLIGATIONS............... The Obligations are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code, Chapter 1207, as amended, and separate ordinances (collectively, the "Ordinances") each adopted by the City Council of the City (the "City Council") on November 9, 2020 (see "THE OBLIGATIONS - Authority for Issuance of the Obligations").

SECURITY FOR THE OBLIGATIONS............................ The Taxable Bonds constitute direct obligations of the City, payable from the proceeds of the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, upon all taxable property located within the City, as provided in the Taxable Bond Ordinance (see "THE OBLIGATIONS - Security and Source of Payment for the Obligations").

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

NO OPTIONAL REDEMPTION OF THE OBLIGATIONS...................... The Obligations are not subject to optional redemption prior to stated maturity, except as described under "THE OBLIGATIONS – Extraordinary Optional Redemption of the Taxable Bonds" (see "THE OBLIGATIONS – No Optional Redemption of the Obligations").

EXTRAORDINARY OPTIONAL REDEMPTION OF THE TAXABLE BONDS.. The Taxable Bonds are subject to extraordinary optional redemption, at the direction of the City, prior to their scheduled maturities, in whole or in part, at a redemption price equal to the par value thereof plus interest to the date of redemption, upon the sale or disposition of the Palestine Mall (the "Palestine Mall") acquired by the City in 2010 with City funds, including funds from the proceeds of the Refunded Tax-Supported Obligations. Such extraordinary optional redemption can be exercised within 90 days of the sale or disposition of the Palestine Mall. If the City does not exercise the right to redeem the Taxable Bonds within 90 days of the sale or disposition of the Palestine Mall, the rights of the City to redeem Taxable Bonds pursuant to the extraordinary optional redemption provisions of the Taxable Bond Ordinance shall automatically expire. (see "THE OBLIGATIONS – Extraordinary Optional Redemption of the Taxable Bonds").

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

TAXABLE BONDS TAX MATTERS............................ Interest on the Taxable Bonds is not excludable from gross income for federal tax purposes under existing law. See "TAXABLE BONDS TAX MATTERS" herein.

USE OF PROCEEDS FOR THE OBLIGATIONS............................. Proceeds from the sale of the Tax-Exempt Bonds will be used to (i) refund a portion of the City's outstanding debt described in Schedule I (the "Refunded System Obligations") for debt service savings and (ii) pay the costs of issuance associated with the sale of the Tax-Exempt Bonds.

Proceeds from the sale of the Taxable Bonds will be used to (i) refund a portion of the City's outstanding debt described in Schedule II (the "Refunded Tax-Supported Obligations") for debt service savings and (ii) pay the costs of issuance associated with the sale of the Taxable Bonds.

RATINGS FOR THE OBLIGATIONS............................. The Obligations are rated "AA" by S&P Global Ratings, a division of S&P Inc. ("S&P") by virtue of a municipal bond insurance policy to be issued by BAM upon delivery of the Obligations to the Initial Purchaser. In addition, the underlying rating on the Obligations is "A+" by S&P (see "OTHER INFORMATION – Ratings" "BOND INSURANCE" and "BOND INSURANCE RISK").

MUNICIPAL BOND INSURANCE................................. The scheduled payment of principal of and interest on the Obligations when due will be guaranteed under separate insurance policies to be issued concurrently with the delivery of the Tax-Exempt Bonds and Taxable Bonds by BAM (see "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS").

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

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

PAYING AGENT/REGISTRAR........ The initial Paying Agent/Registrar for each series of the Obligations is Regions Bank, Houston, Texas.

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SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population[1]	Net Taxable Assessed Valuation [2]	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year[3][4]	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2017	18,393	$ 974,895,657	$ 53,004	$11,862,420	1.22%	$ 645
2018	18,393	964,173,636	52,421	10,752,668	1.12%	585
2019	18,306	1,014,904,663	55,441	10,022,383	0.99%	547
2020	18,136	1,034,112,065	57,020	8,569,816	0.83%	473
2021	18,289	1,034,042,975	56,539	10,252,789 [5]	0.99% [5]	561 [5]

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(1) Source: City Staff.
(2) As reported by the Anderson County Appraisal District on the City's annual Certified Rolls; subject to change during the ensuing year.
(3) Includes self-supporting debt. See Table 1 – "Assessed Valuation and Exemptions" and Table 10 – "Self-Supporting Debt" for additional information on self-supporting debt.
(4) Includes Capital Leases. See Table 1 – "Assessed Valuation and Exemptions" for additional information on Capital Leases.
(5) Includes the Obligations, excludes the Refunded Obligations. Projected.

For additional information regarding the City, please contact:

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Steve Presley Mayor	3 Years	May 2021	Pharmacist
Larissa Loveless Councilmember	2 Years	May 2022	Public Relations, Entreprenuer
Mitchell Jordan Councilmember	5 Years	May 2021	Postal Service, Entreprenuer
Vickey L. Chivers Councilmember	18 Years	May 2022	Retired
Joe Baxter Councilmember	3 Years	May 2021	Retired
Dana Goolsby Councilmember	2 Years	May 2022	Tourism Entrepreneur
Ann Connor Councilmember	3 Years	May 2021	Retired

SELECTED ADMINISTRATIVE STAFF

Name	Position	Length of Service	Total Governmental Service
Teresa Herrera	Interim City Manager	14 Years	14 Years
Andy Sibai	Interim Finance Director	21 Months	7 Years
Teresa Herrera	City Secretary	14 Years	14 Years

CONSULTANTS AND ADVISORS

Auditors .... Frank Campos & Associates, PLLC
Palestine, Texas

Bond Counsel .... Bracewell LLP
Dallas, Texas

Financial Advisor .... Hilltop Securities Inc.
Dallas, Texas

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OFFICIAL STATEMENT

RELATING TO

$5,490,000
CITY OF PALESTINE, TEXAS
COMBINATION TAX AND REVENUE REFUNDING BONDS, SERIES 2020

AND

$2,215,000
CITY OF PALESTINE, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, TAXABLE SERIES 2020

INTRODUCTION

This Official Statement, which includes the Schedules and Appendices hereto, provides certain information regarding the issuance of the $5,490,000 City of Palestine, Texas Combination Tax and Revenue Refunding Bonds, Series 2020 (the "Tax-Exempt Bonds") and the $2,215,000 City of Palestine, Texas General Obligation Refunding Bonds, Taxable Series 2020 (the "Taxable Bonds") being offered herein. The Tax-Exempt Bonds and the Taxable Bonds are sometimes referred to collectively herein as the "Obligations". Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the respective ordinances adopted on the date of sale of the Obligations which will authorize the issuance of the respective Obligations, except as otherwise indicated herein (the ordinance authorizing the issuance of the Tax-Exempt Bonds (the "Tax-Exempt Bond Ordinance") and the ordinance authorizing the issuance of the Taxable Bonds (the "Taxable Bond Ordinance") are sometimes herein referred to jointly as the "Ordinances").

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

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor issued a series of executive orders relating to COVID-19 preparedness and mitigation and phased reopening of businesses in Texas. These include, executive orders which, among other things, impose operations and limitations on business occupancy and social gatherings and require people to wear face masks (with some exceptions). The Governor retains the authority to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the City. These negative impacts may reduce or otherwise negatively affect future property values and/or the collection of sales and other excise taxes, charges, and fees within the City as well as the assets of City pension funds. The Obligations are secured by an ad valorem tax (within the limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Obligations and the City's operations and maintenance expenses. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to $2.50 per $100 taxable assessed valuation for all City purposes.

The City also collects a sales and use tax on all taxable transactions within the City's boundaries, and other excise taxes and fees that depend on business activity. See TABLE 13 - MUNICIPAL SALES TAX HISTORY. Actions taken to slow the Pandemic could reduce economic activity within the City on which the City collects taxes, charges, and fees. A reduction in the collection of sales or other excise taxes, utility system revenue, and utility franchise and other fees and charges may negatively impact the City's operating budget and overall financial condition. In addition, the Pandemic has resulted in volatility of the value of investments in pension funds. Any prolonged continuation of the Pandemic could further weaken asset values or slow or prevent their recovery, which could require increased City contributions to fund or pay retirement and other post-employment benefits in the future.

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

SEPARATE ISSUES . . . The Tax-Exempt Bonds and Taxable Bonds are being offered concurrently by the City under a common Official Statement. The Tax-Exempt Bonds and Taxable Bonds are separate and distinct securities offerings being issued and sold independently except for being offered through the common Official Statement, and, while the Obligations share certain common attributes, each issue is separate from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of holders, and other features.

DESCRIPTION OF THE CITY. . . The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1871, and first adopted its Home Rule Charter in 1909 and is currently operating under a Home Rule Charter adopted in 1983. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is two years with the terms of the Mayor and three of the Councilmembers' terms expiring in odd-numbered years and the other terms of the other three Councilmembers expiring in even-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 18,712; the estimated 2020 population is 18,136. The City encompasses approximately 18 square miles.

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

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

PLAN OF FINANCING

PURPOSE. . . The Tax-Exempt Bonds are being issued for the purpose of refunding a portion of the City's outstanding debt, including a portion Waterworks and Sewer System (the "System") debt, listed in Schedule I (the "Refunded System Obligations"), in order to lower the overall annual debt service requirements of the City, and to pay the costs of issuance of the Tax-Exempt Bonds. See Schedule I for a detailed listing of the Refunded Obligations and their redemption date.

The Taxable Bonds are being issued for the purpose of refunding a portion of the City's outstanding tax-supported debt listed in Schedule II (the "Refunded Tax-Supported Obligations"), in order to lower the overall annual debt service requirements of the City, and to pay the costs of issuance of the Taxable Bonds. See Schedule II for a detailed listing of the Refunded Tax-Supported Obligations and their redemption date.

The Refunded System Obligations and the Refunded Tax-Supported Obligations are collectively sometimes referred to as the "Refunded Obligations" herein.

REFUNDED OBLIGATIONS... The Refunded Obligations are being redeemed on the dates set forth in Schedules I and II hereto (collectively, the "Redemption Date"). The principal and interest due on the Refunded Obligations are to be paid on the respective Redemption Dates from funds to be deposited pursuant to a certain escrow agreement (the "Escrow Agreement") with Regions Bank, Houston, Texas (the "Escrow Agent"). The Ordinances provide that from the proceeds of the sale of the Tax-Exempt Bonds and the Taxable Bonds received from the Tax-Exempt Bond Initial Purchaser and the Taxable Bond Initial Purchaser, as applicable, and other available funds of the City, if any, the City will deposit with the Escrow Agent the amount that will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their respective Redemption Dates. Prior to the Redemption Date, such funds will be held uninvested by the Escrow Agent in a special escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations.

Hilltop Securities Inc., in its capacity as Financial Advisor to the City, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Obligations, when due, on the Redemption Date (the "Sufficiency Certificate").

Prior to, or simultaneously with, the issuance of the Obligations, the City will give irrevocable instructions to provide notice to the owners of the Refunded Obligations that the Refunded Obligations will be redeemed prior to stated maturity on which date money will be made available to redeem the Refunded Obligations from money held under the Escrow Agreement.

By the deposit of the cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate provided by Hilltop Securities Inc., that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt.

SOURCES AND USES OF TAX-EXEMPT BOND PROCEEDS . . Proceeds from the sale of the Tax-Exempt Bonds, are expected to be expended as follows:

Sources:	
Par Amount of the Bonds	$ 5,490,000.00
Reoffering Premium	387,533.70
Transfers from System Debt Service Reserve Fund	987,817.00
Total Sources	$ 6,865,350.70
Uses:	
Deposit to Escrow Fund	$ 6,732,148.13
Initial Purchaser's Discount	40,623.29
Cost of Issuance	92,579.28
Total Uses	$ 6,865,350.70

SOURCES AND USES OF TAXABLE BOND PROCEEDS . . Proceeds from the sale of the Taxable Bonds, are expected to be expended as follows:

Sources:	
Par Amount of the Bonds	$ 2,215,000.00
Reoffering Premium	36,416.55
Total Sources	$ 2,251,416.55
Uses:	
Deposit to Escrow Fund	$ 2,160,952.26
Initial Purchaser's Discount	31,257.50
Cost of Issuance	59,206.79
Total Uses	$ 2,251,416.55

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS. . . The Obligations are dated November 1, 2020 (the "Dated Date"), and mature on August 15, 2021 and February 15 in each of the years and in the amounts shown on page 2 (with respect to the Tax-Exempt Bonds) and page 4 (with respect to the Taxable Bonds) hereof. Interest will accrue from the date of initial delivery (the "Delivery Date") anticipated to be December 8, 2020), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year commencing August 15, 2021, until maturity or prior redemption (with respect to the Taxable Bonds subject to extraordinary optional redemption). The definitive Obligations will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity of each series and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations (see "THE OBLIGATIONS - Book-Entry-Only System").

AUTHORITY FOR ISSUANCE OF THE OBLIGATIONS. . . The Tax-Exempt Bonds are being authorized and issued pursuant to the Constitution and general laws of the State, particularly Texas Government Code, Chapter 1207, as amended, and the Tax-Exempt Bond Ordinance to be adopted by the City Council on November 9, 2020.

The Taxable Bonds are being authorized and issued pursuant to the Constitution and general laws of the State, particularly Texas Government Code, Chapter 1207, as amended, and the Taxable Bond Ordinance to be adopted by the City Council on November 9, 2020.

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

The Taxable Bonds are payable from the proceeds of a continuing and direct annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property located within the City.

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

NO OPTIONAL REDEMPTION OF THE OBLIGATIONS . . . The Obligations are not subject to optional redemption prior to stated maturity, except as described below with respect to extraordinary optional redemption for the Taxable Bonds.

EXTRAORDINARY OPTIONAL REDEMPTION OF THE TAXABLE BONDS. . . The Taxable Bonds are subject to extraordinary optional redemption, at the direction of the City, prior to their scheduled maturities, in whole or in part, at a redemption price equal to the par value thereof plus interest to the date of redemption, upon the sale or disposition of the Palestine Mall (the "Palestine Mall") acquired by the City in 2010 with City funds, including funds from the proceeds of the Refunded Tax-Supported Obligations. Such extraordinary optional redemption can be exercised within 90 days of the sale or disposition of the Palestine Mall. If the City does not exercise the right to redeem the Taxable Bonds within 90 days of the sale or disposition of the Palestine Mall, the rights of the City to redeem Taxable Bonds pursuant to the extraordinary optional redemption provisions of the Taxable Bond Ordinance shall automatically expire.

NOTICE OF REDEMPTION. . . Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. In the Taxable Ordinance, the City reserves the right, in the case of an extraordinary optional redemption of the Taxable Bonds, to give notice of its election to redeem Taxable Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners.

Any Taxable Bonds subject to conditional redemption and such redemption has been rescinded shall remain Outstanding, and the rescission of such redemption shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available, in part or in whole, on or before the redemption date shall not constitute an Event of Default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. SUBJECT TO THE RIGHT OF THE CITY TO GIVE A CONDITIONAL NOTICE OF REDEMPTION AS DESCRIBED IN THE IMMEDIATELY PRECEDING PARAGRAPH, NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

TRANSFER, EXCHANGE AND REGISTRATION. . . In the event the Book-Entry-Only System should be discontinued, printed Obligation certificates will be delivered to the registered owners of the Obligations and thereafter the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed certificates to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Obligations may be assigned by the execution of an assignment form on the respective Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Obligations issued in an exchange or transfer of Obligations will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Obligations to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer shall be of the same series, in denominations of $5,000 or integral multiples thereof for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. See "THE OBLIGATIONS - Book-Entry-Only System" for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Obligation called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Obligation.

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

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

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

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

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

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("Wasson"), the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people" and protecting such municipalities "via the State's immunity is not an efficient way to ensure efficient allocation of State resources." While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018, clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship. Notwithstanding the foregoing, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

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

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

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

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Obligations, Build America Mutual Assurance Company ("BAM") will issue separate Municipal Bond Insurance Policies for the Tax-Exempt Bonds and Taxable Bonds, respectively, (referred to collectively as the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Obligations when due as set forth in the form of the Policy included as an appendix to this Official Statement.

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were $488.7 million, $143.6 million and $345.1 million, respectively.

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

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

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

Additional Information Available from BAM

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

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

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

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

BOND INSURANCE RISKS

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

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

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

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

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

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

TAX INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The City does not tax freeport property.

The City does not tax goods-in-transit.

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

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

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

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TABLE 1 – ASSESSED VALUATION AND EXEMPTION

2020/21 Market Valuation Established by Anderson County Appraisal District (excluding totally exempt property)		$1,189,466,792
Less Exemptions/Reductions at 100% Market Value:		
Over 65 Residence and Disabled Homestead Exemptions	$ 15,510,601	
Abatements	98,963,045	
Pollution Control	34,402	
Productivity Loss	4,403,975	
Freeport	1,044,740	
House Bill 366	23,632,555	
Disabled Veterans Exemptions	10,899,019	
Misc.	100,858	
Homestead Cap Loss	834,622	$ 155,423,817
2020/21 Taxable Assessed Valuation		$1,034,042,975
General Obligation Bonds & Certificates of Obligation Funded from Ad Valorem Taxes as of 11/1/2020(1)	$ 2,595,000	
Capital Leases funded from Ad Valorem Taxes as of 11/1/2020	2,029,790	
The Taxable Bonds	2,215,000	
The Tax-Exempt Bonds	5,490,000	
Total General Obligation Debt Funded from Ad Valorem Taxes as of 11/1/2020		$ 12,329,790
Less: Self-Supporting Debt as of 11/1/2020(1)(2)		
General Obligation Refunding Bonds, Series 2012 (Water & Sewer)	$ 175,000	
Combination Tax & Revenue Certificates of Obligation, Series 2013 (Water & Sewer)	1,765,000	
The Tax-Exempt Bonds (Water & Sewer)	5,490,000	
Total Self-Supporting Debt as of 11/1/2020(2)		$ 7,430,000
Net General Obligation Debt Funded Debt Payable from Ad Valorem Taxes		$ 4,899,790
Interest and Sinking Fund (as of 9/30/2020)		$ 251,858
Ratio Funded Tax Debt to Taxable Assessed Valuation		0.25%

2020 Estimated Population - 18,136

Per Capita Taxable Assessed Valuation - $57,016

Per Capita Funded Debt Payable from Ad Valorem Tax - $143

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(1) Excludes the Refunded Obligations.

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

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TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2021		2020		2019	
Category	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	$ 466,551,786	39.22%	$ 462,246,023	39.43%	$ 449,797,854	37.72%
Real, Residential Multi-Family	30,812,495	2.59%	30,823,205	2.63%	30,657,985	2.57%
Real, Vacant Platted Lots/Tracts	9,649,328	0.81%	9,653,544	0.82%	10,788,053	0.90%
Real Acreage (Land Only)	4,535,580	0.38%	4,609,177	0.39%	4,676,886	0.39%
Real, Farm and Ranch Improvements	14,204,956	1.19%	14,095,569	1.20%	16,524,867	1.39%
Real, Commercial and Industrial	408,085,902	34.31%	396,551,207	33.82%	397,110,943	33.30%
Real and Intangible Personal, Utilities	37,118,667	3.12%	34,074,379	2.91%	33,712,123	2.83%
Tangible Personal, Business & Other	206,437,976	17.36%	211,120,607	18.01%	239,794,524	20.11%
Tangible Personal Mobile Homes	2,214,723	0.19%	2,032,053	0.17%	1,978,011	0.17%
Real, Inventory	113,428	0.01%	109,775	0.01%	109,775	0.01%
Special Inventory	9,741,951	0.82%	7,130,916	0.61%	7,341,685	0.62%
Total Appraised Value Before Exemptions	$1,189,466,792	100.00%	$1,172,446,455	100.00%	$1,192,492,706	100.00%
Less: Total Exemptions/Reductions	155,423,817		138,334,390		177,588,043	
Taxable Assessed Value	$1,034,042,975		$1,034,112,065		$1,014,904,663	

	2018		2017	
Category	Amount	% of Total	Amount	% of Total
Real, Residential Single Family	$ 437,709,171	38.05%	$ 427,066,196	37.01%
Real, Residential Multi-Family	30,161,547	2.62%	29,083,082	2.52%
Real, Vacant Platted Lots/Tracts	10,664,085	0.93%	10,198,191	0.88%
Real Acreage (Land Only)	4,513,600	0.39%	4,518,787	0.39%
Real, Farm and Ranch Improvements	16,505,350	1.43%	15,093,769	1.31%
Real, Commercial and Industrial	370,155,978	32.18%	361,474,799	31.33%
Real and Intangible Personal, Utilities	33,678,930	2.93%	35,717,567	3.10%
Tangible Personal, Business & Other	237,103,324	20.61%	261,349,833	22.65%
Tangible Personal Mobile Homes	2,324,566	0.20%	2,024,004	0.18%
Real, Inventory	138,198	0.01%	169,733	0.01%
Special Inventory	7,428,820	0.65%	7,248,185	0.63%
Total Appraised Value Before Exemptions	$1,150,383,569	100.00%	$1,153,944,146	100.00%
Less: Total Exemptions/Reductions	186,209,933		179,048,489	
Taxable Assessed Value	$ 964,173,636		$ 974,895,657	

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

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TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population[1]	Net Taxable Assessed Valuation [2]	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year[3][4]	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2017	18,393	$ 974,895,657	$ 53,004	$11,862,420	1.22%	$ 645
2018	18,393	964,173,636	52,421	10,752,668	1.12%	585
2019	18,306	1,014,904,663	55,441	10,022,383	0.99%	547
2020	18,136	1,034,112,065	57,020	8,569,816	0.83%	473
2021	18,289	1,034,042,975	56,539	10,252,789 [5]	0.99% [5]	561 [5]

(1) Source: City Staff.
(2) As reported by the Anderson County Appraisal District on the City's annual Certified Rolls; subject to change during the ensuing year.
(3) Includes self-supporting debt. See Table 1 – "Assessed Valuation and Exemptions" and Table 10 – "Self-Supporting Debt" for additional information on self-supporting debt.
(4) Includes Capital Leases. See Table 1 – "Assessed Valuation and Exemptions" for additional information on Capital Leases.
(5) Includes the Obligations, excludes the Refunded Obligations. Projected.

TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2017	$ 0.6489	$ 0.5431	$ 0.1058	$ 6,334,034	94.84%	96.20%
2018	0.7187	0.5678	0.1509	6,934,427	98.09%	99.41%
2019	0.6926	0.5730	0.1196	6,877,795	99.48%	101.12%
2020	0.6813	0.6045	0.0768	6,971,730	98.20% [1]	100.30% [1]
2021	0.6838	0.5557	0.1281	7,070,517	NA	NA

(1) Collections as of September 30, 2020.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2020/21 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Wal-Mart Stores Division	Retail	$ 40,163,889	3.88%
MPT of Palestine-Lima LLC	Retail	20,900,140	2.02%
Sanderson Farms Inc	Processing Plant	15,190,103	1.47%
Oncor Electric Delivery Co	Utilities	15,104,280	1.46%
GVD Willow Creek LLC	Real Estate	12,644,928	1.22%
Union Pacific Railroad Co	Railroad	12,027,018	1.16%
Wal-Mart Stores East	Retail	10,980,799	1.06%
Lowes of Palestine #1892	Retail	10,238,906	0.99%
Atmos Energy/Mit-Tex Distribution	Utilities	9,082,782	0.88%
Wal-Mart Real Estate Business Trust	Real Estate	7,795,279	0.75%
		$ 154,128,124	14.91%

Source: Anderson County Appraisal District

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

TABLE 6 – TAX ADEQUACY [1]

Net Principal and Interest Requirements, 2021	$ 1,330,827	(1)(2)
$0.1327 Tax Rate at 97% Collection Produces	1,331,010	
Average Net Principal and Interest Requirements, 2021-2030	$ 533,931	(1)(2)
$0.0533 Tax Rate at 97% Collection Produces	534,611	
Maximum Net Principal and Interest Requirements, 2021	$ 1,330,827	(1)(2)
$0.1327 Tax Rate at 97% Collection Produces	1,331,010	

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(1) Excludes self-supporting debt. See Table 1 – "Assessed Valuation and Exemptions" and Table 10 – "Self-Supporting Debt." Excludes the Refunded Obligations and includes the Obligations.

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

TABLE 7 – ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2020/21 Taxable Assessed Value	2020/21 Tax Rate	Total G.O. Tax Debt 11/1/2020	Estimated % Applicable	City's Overlapping G.O. Tax Debt 11/1/2020
City of Palestine	$ 1,034,042,975	$ 0.6838	$ 12,329,790 (1) (2)	100.00%	$ 12,329,790 (1) (2)
Anderson County	2,771,357,415	0.5895	21,345,000	37.77%	8,062,007
Palestine Independent School District	1,187,128,824	1.4047	56,565,000	57.22%	32,366,493
Westwood Independent School District	528,818,710	1.0527	-	33.46%	-
Total Direct and Overlapping Tax-supported Debt [1]					$ 52,758,289
Ratio of Direct and Overlapping Tax-supported Debt to Taxable Assessed Valuation [1]					5.10%
Per Capita Overlapping Tax-supported Debt [1]					$ 2,909

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(1) Includes self-supporting debt. See Table 1 – "Assessed Valuation and Exemptions" and Table 10 – "Self-Supporting Debt." Includes the Obligations. Excludes the Refunded Obligations.

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

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DEBT INFORMATION

TABLE 8 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt Service(1)			The Taxable Bonds			The Tax-Exempt Bonds			Less Self-Supporting Debt(2)	Total Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total			
2021	$ 1,257,001	$ 97,790	$ 1,354,791	$ 215,000	$ 29,921	$ 244,921	$ 605,000	$ 99,057	$ 704,057	$ 972,942	$ 1,330,827	
2022	506,908	77,890	584,799	205,000	37,260	242,260	595,000	108,275	703,275	972,449	557,884	
2023	534,014	65,885	599,898	210,000	33,110	243,110	600,000	90,375	690,375	974,649	558,734	
2024	496,308	53,289	549,596	215,000	28,860	243,860	660,000	77,775	737,775	971,747	559,484	
2025	515,423	41,124	556,547	220,000	24,510	244,510	660,000	66,225	726,225	970,521	556,761	60.78%
2026	400,190	28,384	428,574	220,000	20,110	240,110	655,000	56,363	711,363	970,606	409,440	
2027	350,805	18,516	369,321	225,000	15,660	240,660	665,000	41,475	706,475	975,290	341,166	
2028	373,139	10,377	383,516	230,000	11,398	241,398	450,000	24,750	474,750	757,760	341,904	
2029	95,533	4,973	100,506	235,000	7,153	242,153	315,000	13,275	328,275	328,275	342,659	
2030	95,469	2,518	97,988	240,000	2,460	242,460	285,000	4,275	289,275	289,275	340,448	100.00%
	$ 4,624,790	$ 400,747	$ 5,025,536	$ 2,215,000	$ 210,441	$ 2,425,441	$ 5,490,000	$ 581,845	$ 6,071,845	$ 8,183,516	$ 5,339,306	

(1) Excludes the Refunded Obligations. Includes the Capital Leases which the City currently pays for with revenue generated from ad valorem taxes. Capital Leases consists of 3 equipment leases that the City has entered into in 2016, 2017 and 2020. See Table 1 - "Assessed Valuation and Exemptions" for additional information on Capital Leases.

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

TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION

Net Tax Supported Debt Service Requirements, Fiscal Year Ending 9/30/21 (1)		$ 1,330,827
Interest and Sinking Fund, Fiscal Year Ending 9/30/2020 (2)	$ 251,858	
Budgeted Interest and Sinking Fund Tax Collections	1,099,226	$ 1,351,084
Estimated Fund Balance, Fiscal Year Ending 9/30/21		$ 20,257

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(1) Excludes Self-Supporting Debt. See Table 10 – "Self-Supporting Debt." Includes Capital Leases. See Table 1 – "Assessed Valuations and Exemptions" for additional information on Capital Leases.
(2) Unaudited.

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

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT. . . The City expects to issue approximately $4,000,000 combination tax and revenue certificates of obligation for water and sewer system improvements within the next 6 months.

TABLE 10 – SELF-SUPPORTING DEBT

Water & Wastewater General Obligation Debt

	FY 2021 Outstanding Principal(1)(2)	FY 2021 Debt Service (P+I)
General Obligation Refunding Bonds, Series 2012	$ 175,000	$ 62,675
Combination Tax & Revenue Certificates of Obligation, Series 2013	1,765,000	206,120
The Tax-Exempt Bonds(3)	5,465,000	717,488
TOTAL	$ 7,405,000	$ 986,283

Water & Wastewater Revenue Available for Debt Service (FY 2019)	$ 2,837,994
Less: Water and Wastewater Revenue Bonds Debt Service (FY 2021)	-
Net Revenue Available for Water & Wastewater System GO Bonds	$ 2,837,994

(1) Principal outstanding at the beginning of the Fiscal Year. Excludes the Refunded Obligations.
(2) The amount shown is anticipated to be self-supported from the Water & Sewer System Fund Net Revenues. If such revenues are insufficient, the City will be required to assess an ad valorem tax to pay the difference.
(3) Excludes the Refunded Obligations. Preliminary; Subject to Change.

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TABLE 11 – OTHER OBLIGATIONS

In December of 2018, the City (lessee) entered into a master equipment lease agreement with Enterprise FM Trust (lessor) for the leasing of various vehicles. As of September 30, 2019, the City leased 22 vehicles from Enterprise FM Trust. The term of the lease for each vehicle is 60 months and begins on the date each vehicle is delivered to the City. Payments are made monthly and range from $300 to $780 with interest rates ranging from 3.31% to 6.33%. The total outstanding balance of these capital leases as of September 30, 2019 was $575,954.

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

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

Machinery and equipment	$ 592,879
Less: Accumulated Depreciation	(23,507)
Total	$ 569,372

Future minimum lease obligation as of September 30, 2019 are as follows:

	Year Ended September 30	Payments
	2020	$ 132,152
	2021	132,152
	2022	132,152
	2023	132,152
	2024	111,568
Total Minimum Lease Payments		$ 640,176
Less: Amount Representing Interest		(64,222)
Present Value of New Minimum Lease Payments		$ 575,954

PENSION FUND . . . All qualified employees of the City are members of the Texas Municipal Retirement System. For additional information see the City's financial statements for the fiscal year ended September 30, 2019, which are attached hereto as Appendix B, including Note J – "Defined Benefit Pension Plans – Texas Municipal Retirement System" under Section III – Detailed Notes on All Funds.

OTHER POST-EMPLOYMENT BENEFITS . . . See the City's financial statements for the fiscal year ended September 30, 2019, which are attached hereto as Appendix B, including Note K – "Other Post-Employment Benefit Plans" under Section III – Detailed Notes on All Funds for a description of the City's Other Post-Employment Benefits.

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FINANCIAL INFORMATION

TABLE 12 – GENERAL FUND REVENUE AND EXPENDITURE HISTORY

	Fiscal Years Ended September 30,				
	2019	2018	2017	2016	2015
Revenues:					
Taxes	$ 11,429,569	$ 11,007,682	$ 11,131,918	$ 11,565,539	$ 11,586,161
Permits, Licenses and Fees	95,902	122,050	100,586	116,308	96,400
Intergovernmental	616,228	686,929	768,352	567,822	481,997
Charges for Services	173,785	194,920	171,459	157,943	46,830
Fines and Forfeitures	364,832	330,313	292,782	567,885	426,724
Investment Earnings	115,279	28,316	63,701	35,172	17,256
Miscellaneous	4,749	122,854	149,750	83,027	166,263
Total Revenues	$ 12,800,344	$ 12,493,064	$ 12,678,548	$ 13,093,696	$ 12,821,631
Expenditures:					
General Government	$ 1,641,563	$ 2,008,490	$ 1,872,423	$ 1,637,433	$ 1,470,766
Public Safety	7,346,388	7,663,722	7,553,068	8,501,995	6,957,113
Community Services	2,898,922	3,622,143	3,918,928	3,525,390	3,250,329
Community Development	808,640	982,276	960,646	962,369	1,019,225
Total Expenditures	$ 12,695,513	$ 14,276,631	$ 14,305,065	$ 14,627,187	$ 12,697,433
Excess (Deficiency) of Revenues Over (Under) Expenditures	$ 104,831	$ (1,783,567)	$ (1,626,517)	$ (1,533,491)	$ 124,198
Other Financing Sources (Uses):					
Transfers In	$ 1,231,667	$ 1,720,853	$ 1,033,129	$ 1,063,490	$ 890,987
Transfers Out	(312,972)	(158,380)	(570,057)	(151,200)	(1,425,545)
Proceeds from sale of Capital Assets	7,250	990,984	-	-	-
Insurance Proceeds	58,229	-	-	-	-
Total Other Financing Sources (Uses)	984,174	2,553,457	463,072	912,290	(534,558)
Beginning Fund Balance	1,765,949	996,059	2,159,504	2,780,705	3,191,065
Ending Fund Balance (1)	$ 2,854,954	$ 1,765,949	$ 996,059	$ 2,159,504	$ 2,780,705

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Source: The City's audited financial statements.

(1) The City's unaudited estimated general fund balance at September 30, 2020 was $4,967,693.

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TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita [1]
2016	$5,604,257	89.81%	$ 0.5731	$ 304.70
2017	5,714,115	90.21%	0.5861	310.67
2018	5,848,741	84.34%	0.6066	317.99
2019	5,929,215	86.21%	0.5842	323.89
2020	6,315,949 [2]	89.65%	0.6108	348.25

(1) Source: Texas Comptroller Website. Excludes the portion collected for the Type 4A Corporation.
(2) Collections as of September 30, 2020.

FINANCIAL MANAGEMENT POLICIES

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

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

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

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

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

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

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

Budget amendments require the approval of the City Council.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City 's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City 's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City's custodian of the banking deposits issued for the City's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be pledged to the City , held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

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

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

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

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

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

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

TABLE 14 - CURRENT INVESTMENTS

As of October 16, 2020 the City's investable funds were invested in the following categories:

Description	Book Value	% of Investments	Market Value	% of Investments
Negotiable CDs	$ 1,550,000	12.02%	$ 1,550,000	12.02%
TexStar	10,900,520	84.50%	10,900,520	84.50%
Prosperity Bank Demand Deposits	450,000	3.49%	450,000	3.49%
Totals	$ 12,900,520	100.00%	$12,900,520	100.00%

TAX-EXEMPT BONDS MATTERS

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

TAX EXEMPTION

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

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

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

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

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

PURCHASE OF TAX-EXEMPT OBLIGATIONS BY FINANCIAL INSTITUTIONS

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) of the Code also provides an exception for financial institutions for tax-exempt obligations that are properly designated or deemed designated by an issuer as "qualified tax-exempt obligations."

The Tax-Exempt Bonds have been designated as "qualified tax-exempt obligations" based, in part, on the City's representation that the amount of the Tax-Exempt Bonds, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than "qualified 501(c)(3) bonds" or any obligations issued to currently refund any obligation to the extent the amount of the refunding obligation did not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the City during 2020, is not expected to exceed $10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than $10,000,000 in "qualified tax-exempt obligations" (including the Tax-

Exempt Bonds) during 2020.

Notwithstanding the designation of the Tax-Exempt Bonds as "qualified tax-exempt obligations" under this exception, financial institutions acquiring the Tax-Exempt Bonds will be subject to a 20% disallowance of allocable interest expense.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences

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

Tax Accounting Treatment of Original Issue Premium

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

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

Tax Legislative Changes

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

TAXABLE BONDS TAX MATTERS

INTEREST ON THE TAXABLE BONDS IS NOT EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW. INVESTORS SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO ANY TAX CONSEQUENCES TO THEM FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF THE BONDS, INCLUDING THE APPLICATION AND EFFECT OF FEDERAL, STATE, LOCAL, FOREIGN, AND OTHER TAX LAWS.

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The City will provide to the MSRB updated financial information and operating data annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the Tables numbered 1 through 6 and 8 through 14 and in Appendix B. The City will update and provide this information in the numbered Tables within six months after the end of each fiscal year ending in or after 2020 and, if then available, audited financial statements of the City. If audited financial statements are not available when the information is provided, the City will provide audited financial statements within 12 months of the end of the fiscal year, when and if they become available. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation. The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

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

NOTICES OF CERTAIN EVENTS . . . The City will file with the MSRB notice of any of the following events with respect to the Obligations in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. Neither the Obligations nor the Ordinances make any provision for debt service reserves, credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

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

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

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

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

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

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

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

OTHER INFORMATION

RATING

The Obligations are rated "AA" by S&P Global Ratings, a division of S&P Inc. ("S&P"), by virtue of municipal bond insurance policies to be issued by BAM upon delivery of the Obligations to the Initial Purchasers. In addition, the underlying rating on the Obligations is "A+" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflects only the view of such organization and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of said companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, may have an adverse effect on the market price of the Obligations.

LITIGATION

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

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

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

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

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

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

LEGAL OPINIONS

The delivery of the Obligations is subject to the approval of the Attorney General of Texas, who will deliver its opinions, to the effect that the Obligations are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and, with respect to the Tax-Exempt Bonds, from a pledge of the Surplus Revenues of the System and based upon examination of such transcripts of proceedings, the approving legal opinions of Bracewell LLP, Bond Counsel to the City ("Bond Counsel"), to like effect and to the effect that the interest on the Tax-Exempt Bonds will be excludable from gross income for federal income tax purposes under section 103(a) of the Internal Revenue Code, subject to the matters described under "TAX MATTERS" herein. The forms of Bond Counsel's opinions are attached hereto as APPENDIX C.

Though it represents the Financial Advisor and investment banking firms such as the Respective Initial Purchasers from time to time in matters unrelated to the issuance of the Obligations, Bond Counsel has been engaged by and only represents the City in the issuance of the Obligations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Notice of Sale and Bidding Instructions, the Official Bid Form or the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Obligations in the Official Statement to verify that such description conforms to the provisions of the Ordinances. Bracewell LLP also services as disclosure counsel to the City.

The legal opinions will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System. The legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

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

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

INITIAL PURCHASER FOR THE TAX-EXEMPT BONDS

After requesting competitive bids for the Tax-Exempt Bonds, the City accepted the bid of SAMCO Capital Markets (the "Tax-Exempt Bond Initial Purchaser") to purchase the Tax-Exempt Bonds at the interest rates shown on page 2 of the Official Statement at a price of par plus a net reoffering premium of $346,910.41. The Tax-Exempt Bond Initial Purchaser can give no assurance that any trading market will be developed for the Tax-Exempt Bonds after their sale by the City to the Tax-Exempt Bond Initial Purchaser. The City has no control over the price at which the Tax-Exempt Bonds are subsequently sold and the initial yield at which the Tax-Exempt Bonds will be priced and reoffered will be established by and will be the sole responsibility of the Tax-Exempt Bond Initial Purchaser.

INITIAL PURCHASER FOR THE TAXABLE BONDS

After requesting competitive bids for the Taxable Bonds, the City accepted the bid of SWBC Investment Services, LLC (the " Taxable Bond Initial Purchaser") to purchase the Taxable Bonds at the interest rates shown on page 4 of the Official Statement at a price of par plus a net reoffering premium of $5,159.05. The Taxable Bond Initial Purchaser can give no assurance that any trading market will be developed for the Taxable Bonds after their sale by the City to the Taxable Bond Initial Purchaser. The City has no control over the price at which the Taxable Bonds are subsequently sold and the initial yield at which the Taxable Bonds will be priced and reoffered will be established by and will be the sole responsibility of the Taxable Bond Initial Purchaser.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Obligations, the City will furnish a certificate, executed by a proper officer, acting in such officer's official capacity, to the effect that to the best of his or her knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Obligations and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, 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 audited financial statements of the City.

The Ordinances authorized the issuance of the Obligations have also approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Obligations by the Initial Purchasers.

/s/ Steve Presley
Mayor
City of Palestine, Texas

ATTEST:

/s/ Teresa Herrera
City Secretary
City of Palestine, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS WITH PROCEEDS FROM TAX-EXEMPT BONDS

Combination Tax and Revenue Certificates of Obligation, Series 2008

Original Dated Date	Original Maturity (Feb. 15)	Interest Rate	Principal Amount Outstanding	Call Date
4/1/2008	2021	3.874%	$ 110,000.00	1/7/2021
	2022	3.874%	115,000.00	1/7/2021
	2023	3.874%	120,000.00	1/7/2021
	2024	3.874%	120,000.00	1/7/2021
	2025	3.874%	125,000.00	1/7/2021
	2026	3.874%	130,000.00	1/7/2021
	2027	3.874%	140,000.00	1/7/2021
	2028	3.874%	145,000.00	1/7/2021
			$ 1,005,000.00	

Combination Tax and Revenue Certificates of Obligation, Series 2010B

Original Dated Date	Original Maturity (Feb. 15)	Interest Rate	Principal Amount Outstanding	Call Date
6/1/2010	2021	4.000%	$ 195,000.00	1/7/2021
	2022	4.000%	205,000.00	1/7/2021
	2023	4.000%	215,000.00	1/7/2021
	2024	4.000%	220,000.00	1/7/2021
	2025	4.000%	230,000.00	1/7/2021
	2026	4.000%	240,000.00	1/7/2021
	2027	4.000%	250,000.00	1/7/2021
	2028	4.000%	260,000.00	1/7/2021
	2029	4.000%	270,000.00	1/7/2021
	2030	4.000%	285,000.00	1/7/2021
			$ 2,370,000.00	

Waterworks and Sewer Sytem (Jr. Lien) Revenue Bonds, Series 2003

Original Dated Date	Original Maturity (July. 15)	Interest Rate	Principal Amount Outstanding	Call Date
5/1/2003	2021	3.050%	$ 400,000.00	1/7/2021
	2022	3.100%	410,000.00	1/7/2021
			$ 810,000.00	

Waterworks and Sewer Sytem Revenue Bonds, Series 2006

Original Dated Date	Original Maturity (July. 15)	Interest Rate	Principal Amount Outstanding	Call Date
8/1/2006	2021	2.800%	$ 50,000.00	1/7/2021
	2022	2.850%	50,000.00	1/7/2021
	2023	2.900%	55,000.00	1/7/2021
	2024	2.950%	55,000.00	1/7/2021
	2025	2.950%	55,000.00	1/7/2021
			$ 265,000.00	

Waterworks and Sewer Sytem Revenue Bonds, Series 2007

Original Dated Date	Original Maturity (July. 15)	Interest Rate	Principal Amount Outstanding	Call Date
7/15/2007	2021	2.400%	$ 250,000.00	1/7/2021
	2022	2.450%	255,000.00	1/7/2021
	2023	2.500%	260,000.00	1/7/2021
	2024	2.550%	265,000.00	1/7/2021
	2025	2.600%	275,000.00	1/7/2021
	2026	2.600%	280,000.00	1/7/2021
	2027	2.650%	290,000.00	1/7/2021
			$ 1,875,000.00	

Waterworks and Sewer Sytem Revenue Bonds, Series 2009

Original Dated Date	Original Maturity (July. 15)	Interest Rate	Principal Amount Outstanding	Call Date
8/1/2009	2021	3.400%	$ 30,000.00	1/7/2021
	2022	3.550%	30,000.00	1/7/2021
	2023	3.700%	30,000.00	1/7/2021
	2024	3.750%	35,000.00	1/7/2021
	2025	3.950%	35,000.00	1/7/2021
	2026	4.100%	35,000.00	1/7/2021
	2027	4.150%	35,000.00	1/7/2021
	2028	4.200%	40,000.00	1/7/2021
	2029	4.250%	40,000.00	1/7/2021
			$ 310,000.00	

SCHEDULE II

SCHEDULE OF REFUNDED OBLIGATIONS WITH PROCEEDS FROM TAXABLE BONDS

Combination Tax and Revenue Certificates of Obligation, Taxable Series 2010A

Original Dated Date	Original Maturity (Feb. 15)	Interest Rate	Principal Amount Outstanding	Call Date
2/18/2010	2021	4.500%	$ 105,000.00	1/7/2021
	2022	4.500%	112,000.00	1/7/2021
	2023	4.500%	120,000.00	1/7/2021
	2024	4.500%	128,000.00	1/7/2021
	2025	4.500%	137,000.00	1/7/2021
	2027	4.500%	147,000.00	1/7/2021
	2028	4.500%	157,000.00	1/7/2021
	2026	4.500%	168,000.00	1/7/2021
	2027	4.500%	180,000.00	1/7/2021
	2028	4.500%	192,000.00	1/7/2021
			$ 1,446,000.00	

Combination Tax and Revenue Certificates of Obligation, Tax-Exempt Series 2010

Original Dated Date	Original Maturity (Feb. 15)	Interest Rate	Principal Amount Outstanding	Call Date
2/18/2010	2021	4.500%	$ 53,000.00	1/7/2021
	2022	4.500%	56,000.00	1/7/2021
	2023	4.500%	59,000.00	1/7/2021
	2024	4.500%	62,000.00	1/7/2021
	2025	4.500%	65,000.00	1/7/2021
	2027	4.500%	69,000.00	1/7/2021
	2028	4.500%	72,000.00	1/7/2021
	2026	4.500%	76,000.00	1/7/2021
	2027	4.500%	80,000.00	1/7/2021
	2028	4.500%	85,000.00	1/7/2021
			$ 677,000.00	

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

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

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

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

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

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

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

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

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

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

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

	Average Annual				
	2020(1)	2019	2018	2017	2016
Civilian Labor Force	23,155	23,913	23,397	23,259	23,500
Total Employment	21,877	23,220	22,675	22,413	22,484
Total Unemployment	1,278	693	722	846	1,016
Percent Unemployment	5.5%	2.9%	3.1%	3.6%	4.3%

(1) Averages through September 2020.

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<u>APPENDIX B</u>

EXCERPTS FROM THE

CITY OF PALESTINE, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2019

The information contained in this Appendix consists of excerpts from the City of Palestine, Texas, Annual Financial Report for the Year Ended September 30, 2019, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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FRANK CAMPOS & ASSOCIATES, PLLC
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas, as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City of Palestine. Texas' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Palestine, Texas, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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Phone (903) 723-1040 | Fax (903) 723-2076
www.FrankCamposCPA.com

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules, and other post-employment benefit schedules on pages 3-10, 56, 57-58, and 59-60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 21, 2020, on our consideration of the City of Palestine, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City of Palestine, Texas' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Palestine, Texas' internal control over financial reporting and compliance.

Frank Campos & Associates PLLC

Frank Campos & Associates, PLLC
Palestine, Texas
May 21, 2020

CITY OF PALESTINE, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
SEPTEMBER 30, 2019

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Palestine, Texas (the City), for the year ended September 30, 2019. The analysis is based on currently known facts, decisions, or economic conditions. It presents a short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, establishes the content of the minimum requirements for the MD&A. Please read the MD&A and the City's financial statements, which follow this section.

STRUCTURE OF ANNUAL REPORT

The comprehensive annual financial report is presented in compliance with the financial reporting model in effect pursuant to GASB Statement No. 34. This financial reporting model requires governments to present certain basic financial statements as well as the MD&A and certain other Required Supplementary Information (RSI). The basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements.

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about the cost of services, operating results, and financial position of the City as an economic entity. The statement of net position and the statement of activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

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

The statement of activities presents information showing how the City's net position changed during the most recent year. All changes in the net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows, using the accrual method rather than the modified accrual method that is used in the fund level statements.

The statement of net position and the statement of activities divide the City into two classes of activities:

1. Governmental Activities - Most of the City's basic services are reported here including general government, community development, fire and rescue, leisure services, maintenance, municipal court, police, and streets and drainage. Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise tax, municipal court fines, and permit fees finance most of these activities.

2. Business-Type Activities - Services involving a fee for those services are reported here. These services include the City's water distribution, wastewater collection/treatment, sanitation, and retail.

The government-wide financial statements can be found after the MD&A.

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of the City funds are governmental and proprietary.

Governmental Funds

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

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

The City maintains 20 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and the debt service fund, which are considered to be a major funds. The City adopts an annual appropriated budget for its general fund and selected special revenue funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

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

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and wastewater collection/treatment (water and wastewater), solid waste (sanitation), and retail operations (retail). The proprietary fund financial statements provide separate information for the water and wastewater, sanitation, and retail funds.

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

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

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows exceed liabilities and deferred inflows by $32,217,012 as of yearend in the primary government. As required by GASB Statement No. 34, a comparative analysis of government-wide data has been presented as a component of the MD&A for the year. The largest portion of the City's net position (92%) reflects its investments in capital assets (e.g., land, building, machinery and equipment, improvements, construction in progress, and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position

The following table reflects the condensed statement of net position:

Summary of Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	$ 7,153,663	$ 6,550,428	$ 8,509,973	$ 8,281,736	$15,663,636	$14,832,164
Capital assets	17,234,452	17,477,170	27,001,126	27,247,876	44,235,578	44,725,046
Total assets	24,388,115	24,027,598	35,511,099	35,529,612	59,899,214	59,557,210
Deferred outflows of resources	3,200,541	1,641,786	752,344	345,725	3,952,885	1,987,511
Current and other liabilities	963,027	1,768,643	1,028,359	866,577	1,991,386	2,635,220
Long-term liabilities	19,977,179	16,950,002	8,414,826	8,775,086	28,392,005	25,725,088
Total liabilities	20,940,206	18,718,645	9,443,185	9,641,663	30,383,391	28,360,308
Deferred inflows of resources	1,010,510	1,822,275	241,186	406,245	1,251,696	2,228,520
Net Position:						
Net investment in capital assets	8,786,115	8,525,320	20,763,626	20,021,618	29,549,741	28,546,938
Restricted	1,538,169	1,799,601	1,206,730	1,804,479	2,744,899	3,604,080
Unrestricted	(4,686,344)	(5,196,457)	4,608,716	4,001,332	(77,628)	(1,195,125)
Total net position	$ 5,637,940	$ 5,128,464	$26,579,072	$25,827,429	$32,217,012	$30,955,893

A portion of the primary government's net position, $2,744,899, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position is a deficit of $77,628. Unrestricted net position did improve over the prior year.

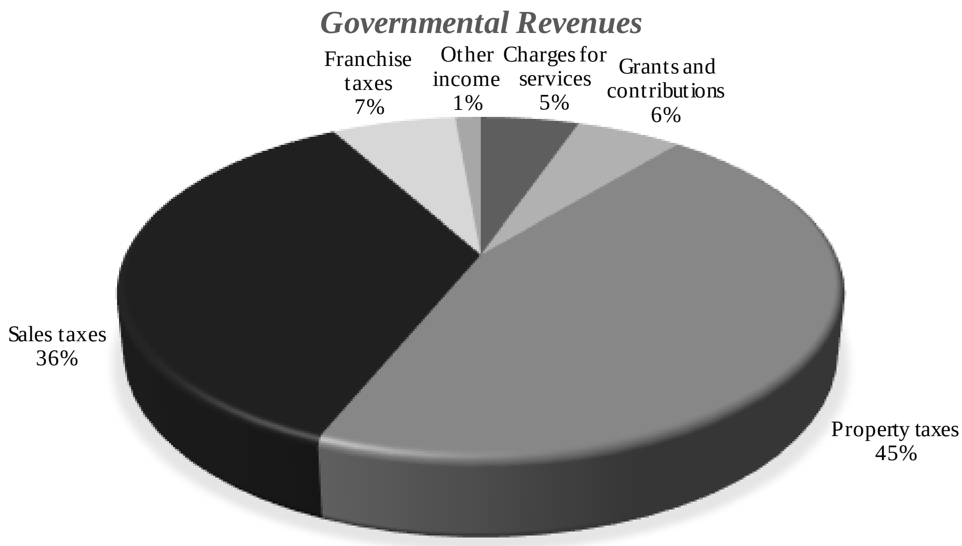
Statement of Activities

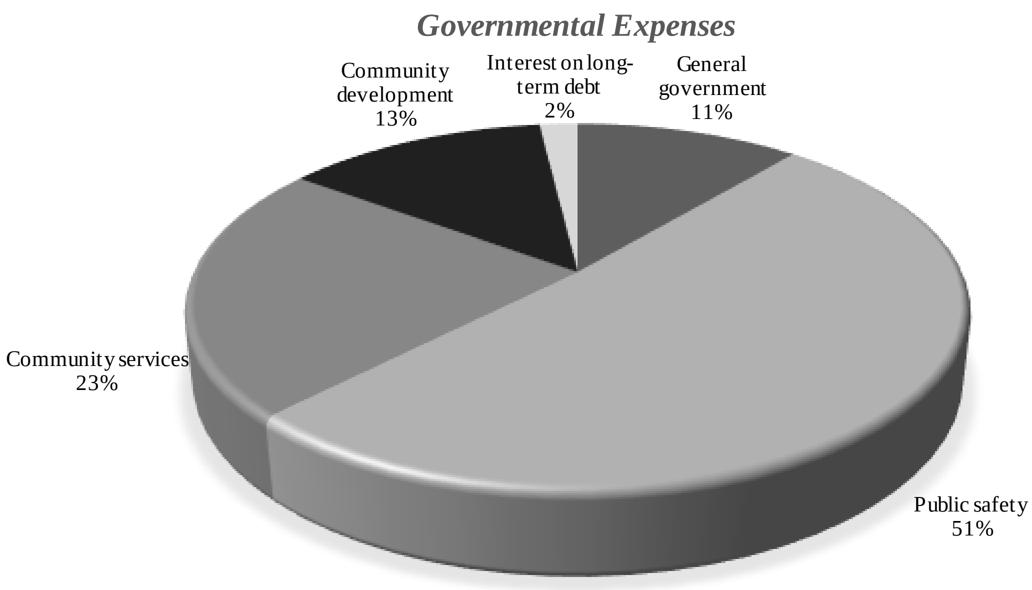
The following table provides a summary of the City's changes in net position:

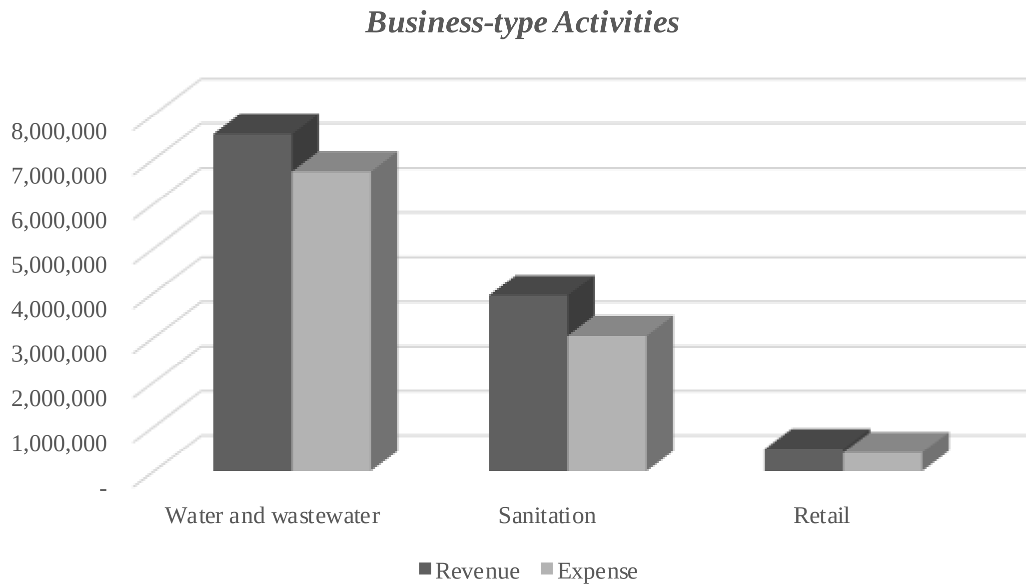
Summary of Statement of Activities

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	$ 825,140	$ 733,753	$ 11,839,027	$ 11,452,090	$ 12,664,167	$ 12,185,843
Operating grants and contributions	608,039	481,274	47,750	-	655,789	481,274
Capital grants and contributions	281,282	407,481	-	-	281,282	407,481
General revenues:						
Property taxes	7,072,216	6,961,566	-	-	7,072,216	6,961,566
Sales taxes	5,602,207	5,411,426	-	-	5,602,207	5,411,426
Franchise taxes	1,042,241	1,091,211	-	-	1,042,241	1,091,211
Investment earnings	151,108	106,787	100,650	48,636	251,758	155,423
Gain (loss) on sale of assets	6,321	711,863	-	-	6,321	711,863
Gain (loss) on impairment of assets	47,567	-	(3,648)	-	43,919	-
Miscellaneous other income	8,629	124,079	-	943	8,629	125,022
Total revenues	15,644,750	16,029,440	11,983,779	11,501,669	27,628,529	27,531,109
Expenses:						
General government	1,838,526	2,299,445	-	-	1,838,526	2,299,445
Public safety	8,466,414	7,752,446	-	-	8,466,414	7,752,446
Community services	3,748,112	4,512,989	-	-	3,748,112	4,512,989
Community development	2,155,926	2,372,808	-	-	2,155,926	2,372,808
Interest on long-term debt	314,411	336,512	-	-	314,411	336,512
Water and wastewater	-	-	6,714,535	6,822,610	6,714,535	6,822,610
Sanitation	-	-	3,033,192	2,849,302	3,033,192	2,849,302
Retail	-	-	417,092	441,514	417,092	441,514
Total expenses	16,523,389	17,274,200	10,164,819	10,113,426	26,688,208	27,387,626
Increase (decrease) in net assets before transfers	(878,639)	(1,244,760)	1,818,960	1,388,243	940,321	143,483
Transfers	1,094,479	1,148,847	(1,094,479)	(1,148,847)	-	-
Change in net position	215,840	(95,913)	724,481	239,396	940,321	143,483
Net position - beginning of year	5,128,464	5,319,223	25,827,429	25,760,671	30,955,893	31,079,894
Prior period adjustment	293,636	(94,846)	27,162	(172,638)	320,798	(267,484)
Net position - end of year	$ 5,637,940	$ 5,128,464	$ 26,579,072	$ 25,827,429	$ 32,217,012	$ 30,955,893

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







For the year, revenue from governmental activities totaled $15,644,750. Property and sales tax revenues are the City's largest revenue sources. Property taxes increased by 1.59%, while sales taxes increased by 3.53%. Franchise fees collected from electric, gas, cable, and telephone/telecommunications utilities totaled $1,042,241 for the year, a decrease of 4.49% from the prior year.

For the year, expenses for governmental activities totaled $16,523,389. This represents a decrease of $750,811, or 4.35%, over last year mostly due to personnel turnover and implementation of cost reduction strategies.

Business-type activities change in net position was $724,481. This was due to a 6% rate increase for refuse charges and a $6.30 monthly fee for the meter replacement project.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of $5,378,576. Of this, $282,715 is reported as nonspendable-prepaid items, $1,538,169 is reported as restricted, $954,541 is reported as committed and the remaining fund balance of $2,603,151 is unassigned.

The general fund reported an increase in fund balance of $1,089,005, and the debt service fund reported a decrease in fund balance of $184,117.

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

Net position of the water and wastewater fund at the end of the year amounted to $21,734,455, net position for the sanitation fund amounted to $1,344,042, and net position of the retail fund amounted to $3,500,575.

GENERAL FUND BUDGETARY HIGHLIGHTS

The general fund reported a positive change in fund balance of $1,089,005, which is an increase of $1,098,034 over the final budgeted amount. General fund revenues were over budget by $331,420 and general fund expenditures were under budget by $954,107. Due to cost reduction strategies, general government expenditures were under budget by $278,965, public safety expenditures were under budget by $513,138, community services expenditures were under budget by $153,208, and community development expenditures were under budget by $8,796. Further detail regarding the general fund budget can be found on page 56 of this report.

CAPITAL ASSETS

At yearend, the City had invested $44,235,578 in a variety of capital assets and infrastructure (net of accumulated depreciation). Depreciation is included with capital assets as required by GASB Statement No. 34 with depreciation expense of $3,419,316.

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

- Purchase of equipment
- Infrastructure improvements
- Completion of the water filter rehabilitation project
- Acquisition of a number of vehicles through capital leases

The following table reflects the summary schedule of the City's capital assets at yearend:

Capital Assets

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	$ 1,838,407	$ 1,839,336	$ 1,800,468	$ 1,800,468	$ 3,638,875	$ 3,639,804
Construction in progress	18,524	-	660,032	395,448	678,556	395,448
Buildings	5,568,358	5,578,026	10,520,820	10,520,820	16,089,178	16,098,846
Improvements	10,523,497	10,455,457	118,066	-	10,641,563	10,455,457
Machinery & equipment	12,799,413	11,921,852	1,709,972	1,627,937	14,509,385	13,549,789
Infrastructure	32,877,379	32,625,658	48,703,650	47,489,475	81,581,029	80,115,133
Less: accumulated depreciation	(46,391,126)	(44,943,159)	(36,511,882)	(34,586,272)	(82,903,008)	(79,529,431)
Total capital assets, net	$17,234,452	$17,477,170	$27,001,126	$27,247,876	$44,235,578	$44,725,046

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

DEBT ADMINISTRATION

At the end of the current year, the City had total certificates of obligation of $9,386,000, total revenue bonds of $4,087,500, and total financing capital leases of $636,383 The City redeemed $1,053,000 of certificates of obligation and $688,758 of revenue bonds during the year.

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

Long-term Debt

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Certificates of obligation	$ 7,236,000	$ 7,989,000	$ 2,150,000	$ 2,450,000	$ 9,386,000	$ 10,439,000
Revenue bonds	-	-	4,087,500	4,776,258	4,087,500	4,776,258
Financing capital leases	636,383	962,850	-	-	636,383	962,850
Total long-term debt	$ 7,872,383	$ 8,951,850	$ 6,237,500	$ 7,226,258	$ 14,109,883	$ 16,178,108

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

Palestine is a rural city, so nearby measures are helpful but not directly applicable. According to the US Bureau of Labor Statistics (BLS), the Consumer Price Index (Southern Region CPI-U) increased 0.8% for the South as a whole over the year April 2019 to April 2020. The BLS reports that the change in nonfarm wage and salary employment for the Tyler, Texas area over the same 12 months was up 1.7%.

The most recent U.S. Census Bureau estimate for the population of Palestine, as of July 1, 2018, was 18,136, a 3.3% decrease over the 2010 census data population of 18,712. These figures compare to the estimated population of Anderson County as a whole, which was estimated as of 2019 at 57,735, a 1.2% decrease over the 2010 census of 58,458.

Certified tax rolls from the Anderson County Appraisal District increased by $15 million ($1.014 billion to $1.029 billion) from 2018 to 2019.

The FY2019-20 Budget was approved by city council appropriating a tax rate from 0.715082 to 0.681277 with no increase in general fund revenues.

Since 2016, the City of Palestine has improved transparency and accountability reporting on the city website, providing the posting of monthly financial reports to council, monthly check and credit card registers, quarterly treasury reports, and investment and fund balance policies. The City posts its own annual debt and hotel tax disclosures rather than requiring citizens to search on the State Comptroller's website.

The Comprehensive Annual Financial Report (CAFR) demonstrates a commitment to continually improve the quality of financial reporting every year; the last year the City of Palestine produced a CAFR was 2018 and has received the Government Finance Officers Association award for Excellence in Financial Reporting.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Edena Atmore, Assistant City Manager/Chief Financial Officer, 504 N. Queen, Palestine, Texas, 75801, telephone (903) 731-8439, or email acmcfo@palestine-tx.org.

CITY OF PALESTINE, TEXAS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	PEDC
ASSETS				
Current Assets				
Cash and cash equivalents	$ 729,113	$ 3,057	$ 732,170	$ 1,408,909
Prepaid items	291,827	6,639	298,466	10,303
Receivables, net of allowance of doubtful accounts	1,860,226	1,151,510	3,011,736	172,651
Investments	421,811	1,521,475	1,943,286	-
Due from other governments	33,866	-	33,866	-
Due from component unit	59,997	-	59,997	-
Note receivable, current portion	-	-	-	50,000
Total current assets	3,396,840	2,682,681	6,079,521	1,641,863
Noncurrent Assets				
Restricted assets:				
Cash and cash equivalents	609,291	218,722	828,013	-
Receivables, net of allowance of doubtful accounts	99,533	-	99,533	-
Investments	1,008,890	929,705	1,938,595	-
Investments	2,039,109	4,678,865	6,717,974	-
Note receivable, less current portion	-	-	-	50,000
Capital assets:				
Nondepreciable	1,856,931	2,460,501	4,317,432	995,437
Depreciable, net of accumulated depreciation	15,377,521	24,540,625	39,918,146	2,695,626
Total noncurrent assets	20,991,275	32,828,418	53,819,693	3,741,063
Total assets	24,388,115	35,511,099	59,899,214	5,382,926
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions	2,315,992	537,411	2,853,403	-
Deferred outflows related to OPEBs	884,549	214,933	1,099,482	-
Total deferred outflows of resources	3,200,541	752,344	3,952,885	-
LIABILITIES				
Accounts payable	555,061	682,353	1,237,414	68,048
Accrued liabilities	576	-	576	-
Accrued wages payable	185,688	40,146	225,834	-
Accrued interest payable	44,708	26,373	71,081	8,071
Due to other governments	176,994	28,335	205,329	-
Due to primary government	-	-	-	59,997
Customer deposits	-	251,152	251,152	-
Noncurrent liabilities:				
Due within one year	2,269,832	424,205	2,694,037	333,003
Due in more than one year	17,707,347	7,990,621	25,697,968	1,595,687
Total liabilities	20,940,206	9,443,185	30,383,391	2,064,806
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	262,814	61,165	323,979	-
Deferred inflows related to OPEBs	732,764	178,296	911,060	-
Deferred revenue - Hot Pepper Festival	14,932	-	14,932	-
Deferred revenue - mall retail lease	-	1,725	1,725	-
Deferred revenue - office rent	-	-	-	1,500
Total deferred inflows of resources	1,010,510	241,186	1,251,696	1,500
NET POSITION				
Net investment in capital assets	8,786,115	20,763,626	29,549,741	1,762,373
Restricted for:				
Debt service	524,125	987,817	1,511,942	-
Capital projects	41,428	218,913	260,341	-
Public safety	161,074	-	161,074	-
Economic development	781,399	-	781,399	-
Community services	30,143	-	30,143	-
Unrestricted	(4,686,344)	4,608,716	(77,628)	1,554,247
Total net position	$ 5,637,940	$ 26,579,072	$ 32,217,012	$ 3,316,620

See the accompanying Notes to the Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED SEPTEMBER 30, 2019

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental Activities				
General Government	$ 1,838,526	$ -	$ -	$ -
Public Safety	8,466,414	469,643	139,323	144,854
Community Services	3,748,112	259,595	184,605	95,145
Community Development	2,155,926	95,902	284,111	41,283
Interest expense on long-term debt	314,411	-	-	-
Total Governmental Activities	16,523,389	825,140	608,039	281,282
Business-type Activities				
Water and Wastewater	6,714,535	7,450,889	39,250	-
Sanitation	3,033,192	3,916,708	-	-
Retail	417,092	471,430	8,500	-
Total Business-type Activities	10,164,819	11,839,027	47,750	-
Total Primary Government	26,688,208	12,664,167	655,789	281,282
Component Unit				
Palestine Economic Development Corp	$ 887,286	$ 207,511	$ -	$ -

General Revenues:

Property taxes

Sales taxes

Franchise taxes

Investment earnings

Gain (loss) on sale of capital assets

Gain (loss) on impairment of capital assets

Miscellaneous other revenue

Transfers

Total General Revenues and Transfers

Change in Net Position

Net Position - beginning of year

Change in Accounting Estimate (Note III-M)

Net Position - end of year

See the accompanying Notes to the Financial Statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	PEDC
$ (1,838,526)	$ -	$ (1,838,526)	$ -
(7,712,594)	-	(7,712,594)	-
(3,208,767)	-	(3,208,767)	-
(1,734,630)	-	(1,734,630)	-
(314,411)	-	(314,411)	-
(14,808,928)	-	(14,808,928)	-
-	775,604	775,604	-
-	883,516	883,516	-
-	62,838	62,838	-
-	1,721,958	1,721,958	-
(14,808,928)	1,721,958	(13,086,970)	-
-	-	-	(679,775)
7,072,216	-	7,072,216	-
5,602,207	-	5,602,207	1,000,021
1,042,241	-	1,042,241	-
151,108	100,650	251,758	15,618
6,321	-	6,321	-
47,567	(3,648)	43,919	1,670
8,629	-	8,629	50
1,094,479	(1,094,479)	-	-
15,024,768	(997,477)	14,027,291	1,017,359
215,840	724,481	940,321	337,584
5,128,464	25,827,429	30,955,893	2,979,036
293,636	27,162	320,798	-
$ 5,637,940	$ 26,579,072	$ 32,217,012	$ 3,316,620

CITY OF PALESTINE, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 1,350	$ -	$ 387,543	$ 388,893
Restricted cash and cash equivalents	-	360,882	248,409	609,291
Prepaid items	251,803	-	30,912	282,715
Receivables, net of allowance for estimated uncollectible accounts	1,764,229	-	86,325	1,850,554
Restricted receivables, net of allowance for estimated uncollectible accounts	-	59,298	40,235	99,533
Investments	1,899,504	-	561,416	2,460,920
Restricted investments	-	157,956	850,934	1,008,890
Due from other governments	33,207	-	659	33,866
Due from component unit	49,775	-	10,222	59,997
Due from other funds	40,821	-	-	40,821
Total assets	$ 4,040,689	$ 578,136	$ 2,216,655	$ 6,835,480
LIABILITIES				
Accounts payable	$ 319,895	$ -	$ 200,300	$ 520,195
Accrued liabilities	576	-	-	576
Accrued wages payable	183,766	-	1,922	185,688
Due to other governments	56,278	-	4	56,282
Total liabilities	560,515	-	202,226	762,741
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - property taxes	263,084	54,011	-	317,095
Unavailable revenue - fines	362,136	-	-	362,136
Deferred revenue - Hot Pepper Festival	-	-	14,932	14,932
Total deferred inflows of resources	625,220	54,011	14,932	694,163
FUND BALANCES				
Nonspendable:				
Prepaid items	251,803	-	30,912	282,715
Restricted for:				
Economic development	-	-	781,399	781,399
Debt service	-	524,125	-	524,125
Capital projects	-	-	41,428	41,428
Public safety	-	-	161,074	161,074
Community services	-	-	30,143	30,143
Committed for:				
Community forest	-	-	14,699	14,699
Cemetery	-	-	187,753	187,753
Community development	-	-	752,089	752,089
Unassigned	2,603,151	-	-	2,603,151
Total fund balances	2,854,954	524,125	1,999,497	5,378,576
Total liabilities, deferred inflows of resources, and fund balances	$ 4,040,689	$ 578,136	$ 2,216,655	$ 6,835,480

See the accompanying Notes to the Financial Statements.

CITY OF PALESTINE, TEXAS

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

SEPTEMBER 30, 2019

Total fund balances - governmental funds balance sheet	$	5,378,576
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds balance sheet.		
Capital assets, non-depreciable		1,856,931
Capital assets, depreciable		13,268,022
Deferred outflows of resources are not available to pay current period expenditures and, therefore, are deferred in the governmental funds financial statements.		
Deferred outflows related to pensions		2,315,992
Deferred outflows related to OPEBs		22,047
Some revenues will be collected after year end but are not available soon enough to pay current year's expenditures. Therefore, they are not reported in the governmental funds balance sheet.		
Unavailable revenue - property taxes		317,095
Unavailable revenue - fines		362,136
Receivables		9,672
Deferred inflows of resources are not due and payable in the current period and, therefore, are not reportable in the governmental funds financial statements.		
Deferred inflows related to pensions		(262,814)
Deferred inflows related to OPEBs		(4,077)
Some expenses reported in the statement of activities do not require the use of current financial resources; therefore, they are not reported as expenditures in governmental funds.		
Accounts payable		(120,080)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.		
Accrued interest payable liabilities		(33,782)
Noncurrent liabilities due in one year		(2,001,035)
Noncurrent liabilities due in more than one year		(16,244,656)
Internal service funds are used by management to charge the costs of equipment replacement, health insurance, and workers' compensation to individual funds. Assets and liabilities of the internal service funds are included in governmental activities on the statement of net position.		773,913
Net position of governmental activities - statement of net assets	$	5,637,940

See the accompanying Notes to the Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Taxes:				
Property	$ 5,856,788	$ 1,220,826	$ -	$ 7,077,614
Sales	4,540,212	-	1,061,995	5,602,207
Franchise	1,032,569	-	-	1,032,569
Licenses, permits, and fees	95,902	-	-	95,902
Intergovernmental	616,228	-	165,123	781,351
Charges for services	173,785	-	75,413	249,198
Fines and forfeitures	364,832	-	49,686	414,518
Contributions and donations	2,505	-	105,466	107,971
Investment	115,279	8,297	25,057	148,633
Other revenues	2,244	-	6,385	8,629
Total revenues	12,800,344	1,229,123	1,489,125	15,518,592
EXPENDITURES				
Current:				
General government	1,641,563	-	61,576	1,703,139
Public safety	7,346,388	-	216,245	7,562,633
Community services	2,898,922	-	62,674	2,961,596
Community development	808,640	-	1,294,156	2,102,796
Debt service:				
Principal	-	753,000	-	753,000
Interest and fiscal charges	-	285,100	-	285,100
Total expenditures	12,695,513	1,038,100	1,634,651	15,368,264
Excess (deficiency) of revenues over (under) expenditures	104,831	191,023	(145,526)	150,328
OTHER FINANCING SOURCES (USES)				
Insurance proceeds	58,229	-	-	58,229
Proceeds from sale of capital assets	7,250	-	-	7,250
Transfers in	1,231,667	-	250,852	1,482,519
Transfers out	(312,972)	(375,140)	(55,315)	(743,427)
Total other financing sources (uses)	984,174	(375,140)	195,537	804,571
Net change in fund balances	1,089,005	(184,117)	50,011	954,899
Fund balances - beginning of year	1,765,949	708,242	1,949,486	4,423,677
Fund balances - end of year	$ 2,854,954	$ 524,125	$ 1,999,497	$ 5,378,576

See the accompanying Notes to the Financial Statements.

CITY OF PALESTINE, TEXAS

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

FOR THE YEAR ENDED SEPTEMBER 30, 2019

Net change in fund balances - total governmental funds	$ 954,899
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	565,647
Depreciation	(1,174,165)
Net effect of various transactions involving capital assets (e.g., sales, trade-ins disposals, impairments, and donations) is to decrease net position.	(11,591)
Some revenues will be collected after year end, but are not available soon enough to pay current year's expenditures and they are not reported in the governmental funds balance sheet.	69,795
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.	(53,926)
The issuance of long-term debt (e.g., bonds, certificates of obligation, etc.) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.	
Principal expenditures	753,000
Interest expense	335
Change in compensated absences	(65,737)
Change in claims and judgements	(290,185)
Governmental funds report all payments to pension benefits as expenditures. However, in the government-wide statement of activities the pension expense is actuarially determined.	
(Increase) decrease in net pension liability	(2,696,494)
(Increase) decrease in deferred inlows related to pensions	1,513,692
Increase (decrease) in deferred outflows related to pensions	710,659
Governmental funds report all payments to OPEB benefits as expenditures. However, in the government-wide statement of activities the OPEB expense is actuarially determined.	
(Increase) decrease in total OPEB liability	(17,819)
(Increase) decrease in deferred inflows related to OPEBs	(4,077)
Increase (decrease) in deferred outflows related to OPEBs	(14,406)
Internal service funds are used by management to charge the costs of certain capital assets to individual funds. The net revenue is reported with governmental activities.	(23,787)
Change in net position of governmental activities - statement of activities	$ 215,840

See the accompanying Notes to the Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF FUND NET POSITION

PROPRIETARY FUNDS

SEPTEMBER 30, 2019

	Enterprise Funds				
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	Internal Service Funds
ASSETS					
Current Assets:					
Cash and cash equivalents	$ 3,057	$ -	$ -	$ 3,057	$ 340,220
Prepaid items	6,639	-	-	6,639	9,112
Receivables, net of allowance for estimated uncollectible accounts	699,673	450,757	1,080	1,151,510	-
Investments	981,999	539,476	-	1,521,475	-
Total current assets	1,691,368	990,233	1,080	2,682,681	349,332
Noncurrent Assets:					
Restricted cash and cash equivalents	218,722	-	-	218,722	-
Restricted investments	929,705	-	-	929,705	-
Investments	3,748,345	412,569	517,951	4,678,865	-
Capital assets:					
Nondepreciable	706,874	20,281	1,733,346	2,460,501	-
Depreciable, net of accumulated depreciation	22,602,032	485,145	1,453,448	24,540,625	2,109,499
Total capital assets, net of accumulated depreciation	23,308,906	505,426	3,186,794	27,001,126	2,109,499
Total noncurrent assets	28,205,678	917,995	3,704,745	32,828,418	2,109,499
Total assets	29,897,046	1,908,228	3,705,825	35,511,099	2,458,831
DEFERRED OUTFLOWS OF RESOURCES					
Deferred outflows related to pension	469,166	43,855	24,390	537,411	-
Deferred outflows related to OPEBs	184,134	20,434	10,365	214,933	862,502
Total deferred outflows of resources	653,300	64,289	34,755	752,344	862,502
LIABILITIES					
Current Liabilities:					
Accounts payable	221,098	451,647	9,608	682,353	35,498
Accrued wages payable	37,177	1,874	1,095	40,146	-
Accrued interest payable	26,249	-	124	26,373	10,926
Due to other governments	-	28,335	-	28,335	-
Due to other funds	-	-	-	-	40,821
Customer deposits	251,152	-	-	251,152	-
Long-term debt - due within one year	306,705	-	117,500	424,205	268,797
Total current liabilities	842,381	481,856	128,327	1,452,564	356,042
Noncurrent Liabilities:					
Long-term debt - due in more than one year	7,768,434	124,091	98,096	7,990,621	1,462,691
Total noncurrent liabilities	7,768,434	124,091	98,096	7,990,621	1,462,691
Total liabilities	8,610,815	605,947	226,423	9,443,185	1,818,733
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pension	52,331	5,543	3,291	61,165	-
Deferred inflows related to OPEBs	152,745	16,985	8,566	178,296	728,687
Deferred revenue - mall retail leases	-	-	1,725	1,725	-
Total deferred inflows of resources	205,076	22,528	13,582	241,186	728,687
NET POSITION					
Net investment in capital assets	17,188,905	505,426	3,069,295	20,763,626	897,162
Restricted for debt service	987,817	-	-	987,817	-
Restricted for capital projects	218,913	-	-	218,913	-
Unrestricted	3,338,820	838,616	431,280	4,608,716	(123,249)
Total Net Position	$ 21,734,455	$ 1,344,042	$ 3,500,575	$ 26,579,072	$ 773,913

See the accompanying Notes to the Financial Statements.

CITY OF PALESTINE, TEXAS

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

PROPRIETARY FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Enterprise Funds				
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	Internal Service Funds
OPERATING REVENUES					
Charges for services	$ 7,450,889	$ 3,916,708	$ 471,430	$ 11,839,027	$ 123,813
Other operating revenue	39,250	-	8,500	47,750	108,421
Total operating revenues	7,490,139	3,916,708	479,930	11,886,777	232,234
OPERATING EXPENSES					
Cost of sales and services	2,599,894	2,746,686	203,114	5,549,694	308,792
Personnel	2,122,901	241,824	97,215	2,461,940	-
Depreciation	1,795,919	44,682	108,895	1,949,496	295,655
Total operating expenses	6,518,714	3,033,192	409,224	9,961,130	604,447
Operating income (loss)	971,425	883,516	70,706	1,925,647	(372,213)
NON-OPERATING REVENUES (EXPENSES)					
Investment earnings	70,650	20,992	9,008	100,650	2,475
Interest expense and fiscal charges	(195,821)	-	(7,868)	(203,689)	(29,646)
Loss on impairment of capital assets	(3,648)	-	-	(3,648)	-
Total non-operating revenues (expenses)	(128,819)	20,992	1,140	(106,687)	(27,171)
Income (loss) before contributions and transfers	842,606	904,508	71,846	1,818,960	(399,384)
Transfers in	130,000	-	-	130,000	375,597
Transfers (out)	(745,994)	(425,029)	(53,456)	(1,224,479)	-
Change in net position	226,612	479,479	18,390	724,481	(23,787)
Net position - beginning of year	21,486,636	862,866	3,477,927	25,827,429	797,700
Change in Accounting Estimate (Note III-M)	21,207	1,697	4,258	27,162	-
Net position - end of year	$ 21,734,455	$ 1,344,042	$ 3,500,575	$ 26,579,072	$ 773,913

See the accompanying Notes to the Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Enterprise Funds				
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	Internal Service Funds
Cash Flows from Operating Activities:					
Receipts from customers	$ 7,607,257	$ 3,910,151	$ 481,292	$ 11,998,700	$ -
Receipts from interfund charges	-	-	-	-	123,813
Other receipts	-	-	-	-	108,421
Payments to suppliers and service providers	(2,664,900)	(2,498,388)	(206,352)	(5,369,640)	(569,146)
Payments to employees for salaries and benefits	(2,014,753)	(236,867)	(114,809)	(2,366,429)	-
Internal activity - payments to other funds	-	-	-	-	(27,556)
Net Cash Provided (Used) by Operating Activities	2,927,604	1,174,896	160,131	4,262,631	(364,468)
Cash Flows from Noncapital Financing Activities:					
Transfer from other funds	130,000	-	-	130,000	375,597
Transfer to other funds	(745,994)	(425,029)	(53,456)	(1,224,479)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(615,994)	(425,029)	(53,456)	(1,094,479)	375,597
Cash Flows from Capital and Related Financing Activities:					
Principal paid on capital debt	(874,999)	-	(113,759)	(988,758)	(343,392)
Interest and fiscal charges paid on capital debt	(199,692)	-	(8,088)	(207,780)	(33,124)
Acquisition and construction of capital assets	(1,625,261)	(56,538)	(61,528)	(1,743,327)	(80,167)
Insurance proceeds	36,933	-	-	36,933	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(2,663,019)	(56,538)	(183,375)	(2,902,932)	(456,683)
Cash Flows from Investing Activities:					
Interest on investments	70,650	20,992	9,008	100,650	2,475
Proceeds from sales and maturities of investments	2,905,997	-	387,965	3,293,962	-
Purchase of investments	(2,624,173)	(714,321)	(326,488)	(3,664,982)	-
Net Cash Provided (Used) by Investing Activities	352,474	(693,329)	70,485	(270,370)	2,475
Net Increase (Decrease) in Cash and Cash Equivalents	1,065	-	(6,215)	(5,150)	(443,079)
Cash and cash equivalents at beginning of year	220,714	-	6,215	226,929	783,299
Cash and cash equivalents at end of year	$ 221,779	$ -	$ -	$ 221,779	$ 340,220
Ending Cash and Cash Equivalents:					
Unrestricted cash and cash equivalents	$ 3,057	$ -	$ -	$ 3,057	$ 340,220
Restricted cash and cash equivalents	218,722	-	-	218,722	-
	$ 221,779	$ -	$ -	$ 221,779	$ 340,220

See the accompanying Notes to the Financial Statements.

CITY OF PALESTINE, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

FOR THE YEAR ENDED SEPTEMBER 30, 2019

	Enterprise Funds				
	Water & Wastewater Fund	Sanitation Fund	Retail Fund	Total Enterprise Funds	Internal Service Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (loss)	$ 971,425	$ 883,516	$ 70,706	$ 1,925,647	$ (372,213)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,795,919	44,682	108,895	1,949,496	295,655
(Increase) Decrease in Operating Assets and Deferred Outflows of Resources:					
Accounts receivable	131,423	(6,557)	(363)	124,503	-
Prepaid items	13,130	-	-	13,130	(9,112)
Deferred outflows of resources	(349,011)	(41,524)	(16,084)	(406,619)	-
Increase (Decrease) in Current Liabilities and Deferred Inflows of Resources:					
Accounts payable and accrued liabilities	521,228	299,840	6,773	827,841	(961,254)
Customer deposits	(14,305)	-	-	(14,305)	-
Due to other governments	-	7,997	-	7,997	-
Due to other funds	-	-	-	-	(27,556)
Deferred inflows of resources	(142,205)	(13,058)	(9,796)	(165,059)	710,012
Net Cash Provided (Used) by Operating Activities	$ 2,927,604	$ 1,174,896	$ 160,131	$ 4,262,631	$ (364,468)
NONCASH FINANCING, CAPITAL, AND INVESTING ACTIVITIES:					
Noncash acquisition of capital assets under leases	$ -	$ -	$ -	$ -	$ 592,496
Total noncash financing, capital, and investing activities:	$ -	$ -	$ -	$ -	$ 592,496

See the accompanying Notes to the Financial Statements.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

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

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

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

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

Discretely Presented Component Unit

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

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

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

The Palestine Economic Development Corporation, Inc. (PEDC) has been included in the reporting entity as a discretely presented component unit. PEDC is a governmental entity that promotes the creation of new and expanded industry and manufacturing activity within the City. PEDC's board of directors is appointed by and serves at the discretion of the City Council. City Council approval is required for the annual budget and the issuance of any debt. In the event of dissolution, any assets of PEDC will be transferred to the City. PEDC makes monthly payments to the City for payroll and other administrative costs. In addition, during the year ended September 30, 2019, PEDC also paid $133,674 on behalf of the City for various project costs including appraisals, engineering fees, and park improvements. Separate financial statements of the PEDC may be obtained from the Finance Department of the City.

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

B. Financial Statement Presentation

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

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

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

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

C. Government-Wide and Fund Financial Statements

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

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Government-Wide and Fund Financial Statements, Continued

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

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

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

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

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

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

The proprietary funds used by the City include the following:

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

Additionally, the government reports the following fund types:

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

C. Government-Wide and Fund Financial Statements, Continued

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

D. Measurement Focus and Basis of Accounting

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

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

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

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

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

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

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

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

1. Deposits and Investments

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

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

1. Deposits and Investments, Continued

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

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

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

2. Receivables and Payables

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

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

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

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

3. Inventories and Prepaid Items

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

4. Capital Assets

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

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

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

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

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

5. Restricted Assets

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

The balances of restricted assets at September 30, 2019 are as follows:

	Governmental Activities	Business-type Activities	Total
Debt service	$ 578,136	$ 929,705	$ 1,507,841
Special revenue purposes	1,098,150	-	1,098,150
Capital projects	41,428	218,722	260,150
Total restricted assets	$ 1,717,714	$ 1,148,427	$ 2,866,141

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

6. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment, retirement, or death. The estimated amount of compensation for vested or accumulated vacation, sick, and compensatory time that are not expected to be liquidated with expendable available financial resources are reported as long-term liabilities on the government-wide and proprietary fund financial statements. The estimated amount of compensation is calculated using the pay rates in effect at September 30, 2019 and includes additional amounts for the City's share of social security and medicare taxes.

7. Long-Term Obligations

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

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

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

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

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

8. Deferred Outflows/Inflows of Resources

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

8. Deferred Outflows/Inflows of Resources, Continued

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has three types of deferred inflows. Unavailable revenue, which only arises on a modified accrual basis of accounting, is comprised of property taxes and municipal court revenue and is reported only in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred revenue is comprised of booth deposits received by the City for the Hot Pepper Festival in October of the subsequent year and monthly mall retail lease payments received in advance. Deferred revenue for the component unit consists of rent collected from a tenant one month in advance. These amounts are deferred and recognized as inflows of resources in the periods the transactions take place. Deferred inflows related to pension and OPEBs represent the difference between expected and actual economic experience, difference in actuarial assumptions, and difference between projected and actual investment earnings. These amounts are deferred and amortized over the actuarial determined recognition period.

9. Fund Balance

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

- **Nonspendable fund balance** - represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaids) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

- **Restricted fund balance** - represents amounts with external constraints placed on the use of these resources (such as debt covenants, grantors, other governments, etc.) or imposed by enabling legislation.

- **Committed fund balance** - represents amounts that can only be used for specific purposes imposed by an ordinance of the City's highest level of decision-making authority, the City Council. Committed resources cannot be used for any other purpose unless the City Council removes or changes the specified use by the same type of action previously used to commit those amounts.

- **Assigned fund balance** - represents amounts the City intends to use for specific purposes as expressed by the City Council. The City Council may also assign fund balance when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. This is the residual classification for all governmental funds other than the general fund.

- **Unassigned fund balance** - represents the residual classification for the general fund or deficit balances in other funds.

The City’s minimum fund balance policy targets that fund balance shall be maintained at a level of 25 percent of general fund expenditures for the general fund and 15 percent of overall expenditures for all enterprise funds.

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

10. Estimates

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

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

11. Encumbrances

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

12. Pensions

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

13. Other Post-Employment Benefits

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

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgets

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

B. Deficit Fund Balance/Net Position

For the year ended September 30, 2019, deficit net position of $172,364 was reported in the health insurance fund.

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

At September 30, 2019, the City had the following cash and investments:

Primary Government	
Cash and cash equivalents	$ 732,170
Restricted cash and cash equivalents	828,013
Investments	8,661,260
Restricted investments	1,938,595
Total primary government	12,160,038
Component Unit	
Cash and cash equivalents	1,408,909
Total primary government	1,408,909
Total Cash and Investments	$ 13,568,947

Custodial credit risk. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. In compliance with state statutes, the City's investment policy requires funds on deposit at the depository bank to be fully collateralized by securities. As of September 30, 2019, the City and its component unit's deposits were covered by Federal Depository Insurance and by collateral held by a third-party custodian.

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

Credit risk. This is the risk that an issuer of an investment will be unable to fulfill its obligations. The rating of securities by nationally recognized rating agencies is designed to give an indication of credit risk. As of September 30, 2019, the City's investments in TexSTAR were rated AAAm by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency.

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

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

Concentration of credit risk. This is the risk of loss attributed to the magnitude of the City's investment in a single issuer (i.e., lack of diversification). The City attempts to avoid over-investment in local government pools and matches a portion of its investments with anticipated cash flow requirements. Approximately 7.1% of the City's investments at September 30, 2019 were in certificates of deposit at Prosperity Bank. As noted above, these certificates of deposit were fully collateralized at yearend.

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

A. Deposits and Investments, Continued

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

Investment Type	Fair Value	Weighted Average Maturity (Years)	Credit Risk
Primary government			
TexSTAR	$ 7,185,650	0.06	AAAm
Certificates of deposit	3,263,317	1.01	N/A
U.S. government securities	150,888	N/A	Aaa/AA+
Total primary government	$ 10,599,855		

<u>TexSTAR</u>

TexSTAR is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provide custodial, transfer agency, fund accounting, and depository services.

TexSTAR operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. TexPool and TexSTAR use amortized cost rather than fair value to report net position to compute share prices. Accordingly, the fair value of the position in TexSTAR is the same as the value of TexSTAR shares.

<u>Certificates of Deposits</u>

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

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

	Assets at Fair Value as of September 30, 2019			
	Level 1	Level 2	Level 3	Total
Certificates of Deposit	$ -	$ 3,263,317	$ -	$ 3,263,317
Texas Government Investment Pool	-	7,185,650	-	7,185,650
U.S. Government Securities	-	150,888	-	150,888
Total Investments	$ -	$ 10,599,855	$ -	$ 10,599,855

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

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

B. Receivables

The following comprise receivable balances at yearend:

Taxes and Accounts Receivable	General Fund	Debt Service Fund	Nonmajor Governmental Funds	Water and Wastewater Fund	Sanitation Fund	Retail Fund	Total	Component Unit
Ad valorem tax	$ 572,741	$ 98,487	$ -	$ -	$ -	$ -	$ 671,228	$ -
Sales tax	785,612	-	86,325	-	-	-	871,937	172,651
Franchise tax	303,611	-	-	-	-	-	303,611	-
Municipal court	1,295,250	-	-	-	-	-	1,295,250	-
Due from other governments	33,207	-	659	-	-	-	33,866	-
Due from other agencies	-	-	39,532	-	-	-	39,532	-
Due from component unit	49,775	-	10,222	-	-	-	59,997	-
Accounts	32,857	-	703	762,189	549,052	27,086	1,371,887	-
Gross receivables	3,073,053	98,487	137,441	762,189	549,052	27,086	4,647,308	172,651
Less: allowance for uncollectibles	(1,216,170)	(39,189)	-	(62,516)	(98,295)	(26,006)	(1,442,176)	-
Total taxes and accounts receivable, net	$ 1,856,883	$ 59,298	$ 137,441	$ 699,673	$ 450,757	$ 1,080	$ 3,205,132	$ 172,651

C. Operating Leases

Operating Leases - City is Lessee

The City is obligated under multiple operating leases for copiers, printers, and mail machines. These leases are considered to be operating for accounting purposes. Lease expenditures for this equipment for the year excluding maintenance agreements totaled $30,888. Monthly rental amounts range from $74 to $528. The terms of leases range from 48 months to 60 months. Future minimum lease payments on non-cancelable leases are as follows:

Year	Amount
2020	$ 30,888
2021	26,961
2022	19,214
2023	10,262
Total	$ 87,325

Operating Leases - City is Lessor

The City has leasing arrangements with 12 tenants in the City-owned mall. The terms of lease arrangements range from month-to-month to 60 months. Monthly rental amounts range from $250 to $14,999. Future minimum rentals on non-cancelable leases are as follows:

Year	Amount
2020	$ 215,066
2021	52,412
2022	50,337
2023	51,426
2024	35,443
2025	3,266
Total	$ 407,950

The cost of the mall, excluding the city library in the mall, is $4,158,319. The total amount of accumulated depreciation on the mall is $971,525, resulting in a net book value of $3,186,794 as of September 30, 2019, which is recorded in retail fund capital assets.

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

C. Operating Leases, Continued

Operating Leases – PEDC is Lessor

In March of 2016, the Palestine Economic Development Corporation entered into a lease agreement to rent one of its buildings at the Willow Creek Business Park to a third party (tenant). The term of the lease is five years, but the tenant has the right to terminate the lease prior to expiration of the term but no earlier than the 36th month of the lease term by giving a 120 days advance notice and paying an early termination fee of $206,739. Rent is received in equal monthly installments of $16,321.50 per month for the first year and $17,228.25 per month for years two through five. In addition, as an incentive to the tenant, rent for the following months is abated: year one, month 12; year 4 month 1; year 5, month 1. The cost of the building is $3,454,979, and the total amount of accumulated depreciation is $1,183,711, resulting in a net book value of $2,271,268 as of September 30, 2019.

In February of 2019, the Palestine Economic Development Corporation also entered into a lease agreement to rent office space at the Willow Creek Business Park to a third party. The original term of the lease was twelve months, but the tenant exercised its option to extend the lease beyond the expiration date on a month-to-month basis. Rent is received in equal monthly installments of $1,500 per month. In addition, a security deposit of $1,500 was received at the inception of the lease. The cost of the building is $410,586, and the total amount of accumulated depreciation is $51,324, resulting in a net book value of $359,262 as of September 30, 2019.

D. Capital Leases

In December of 2018, the City (lessee) entered into a master equity lease agreement with Enterprise FM Trust (lessor) for the leasing of various vehicles. As of September 30, 2019, the City leased 22 vehicles from Enterprise FM Trust. The term of the lease for each vehicle is 60 months and begins on the date each vehicle is delivered to the City. Payments are made monthly and range from $300 to $780 with interest rates ranging from 3.31% to 6.33%. The total outstanding balance of these capital leases as of September 30, 2019 was $575,954.

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

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

Machinery and equipment	$ 592,879
Less: accumulated depreciation	(23,507)
Total	$ 569,372

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

D. Capital Leases, Continued

Future minimum lease obligations as of September 30, 2019 are as follows:

	Year Ended September 30	Payments
	2020	$ 132,152
	2021	132,152
	2022	132,152
	2023	132,152
	2024	111,568
Total Minimum Lease Payments		640,176
Less: Amount Representing Interest		(64,222)
Present Value of Net Minimum Lease Payments		$ 575,954

E. Capital Assets

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

Governmental Activities:	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:				
Land	$ 1,839,336	$ -	$ (929)	$ 1,838,407
Construction-in-progress	-	18,524	-	18,524
Total assets not being depreciated	$ 1,839,336	$ 18,524	$ (929)	$ 1,856,931
Capital assets being depreciated:				
Buildings	$ 5,578,026	$ -	$ (9,668)	$ 5,568,358
Improvements	10,455,457	68,040	-	10,523,497
Machinery and Equipment	11,921,852	900,408	(22,847)	12,799,413
Infrastructure	32,625,658	251,721	-	32,877,379
Total assets being depreciated	60,580,993	1,220,169	(32,515)	61,768,647
Accumulated depreciation:				
Buildings	(4,405,300)	(51,819)	9,668	(4,447,451)
Improvements	(7,885,508)	(312,647)	-	(8,198,155)
Machinery and Equipment	(8,982,940)	(564,972)	12,185	(9,535,727)
Infrastructure	(23,669,411)	(540,382)	-	(24,209,793)
Total accumulated depreciation	(44,943,159)	(1,469,820)	21,853	(46,391,126)
Net capital assets being depreciated	$ 15,637,834	$ (249,651)	$ (10,662)	$ 15,377,521

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

E. Capital Assets, Continued

Total governmental activities capital assets, net of accumulated depreciation	$17,234,452
Less associated debt	(8,448,337)
Net Investment in Capital Assets	$ 8,786,115

Depreciation was charged to governmental functions as follows:

Governmental activities:	
General government	$ 160,323
Public safety	454,733
Community services	822,522
Community development	32,242
Total governmental activities depreciation expense	$ 1,469,820

Business-type Activities:	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:				
Land	$ 1,800,468	$ -	$ -	$ 1,800,468
Construction-in-progress	395,448	1,293,878	(1,029,293)	660,033
Total assets not being depreciated	$ 2,195,916	$ 1,293,878	$ (1,029,293)	$ 2,460,501
Capital assets being depreciated:				
Buildings	$10,520,820	$ -	$ -	$10,520,820
Improvements	-	118,066	-	118,066
Machinery and Equipment	1,627,937	82,035	-	1,709,972
Infrastructure	47,489,475	1,278,641	(64,467)	48,703,649
Total assets being depreciated	59,638,232	1,478,742	(64,467)	61,052,507
Accumulated depreciation:				
Buildings	(7,977,558)	(216,744)	-	(8,194,302)
Improvements	-	(35,946)	-	(35,946)
Machinery and Equipment	(529,922)	(185,713)	-	(715,635)
Infrastructure	(26,078,792)	(1,511,093)	23,886	(27,565,999)
Total accumulated depreciation	(34,586,272)	(1,949,496)	23,886	(36,511,882)
Net capital assets being depreciated	$25,051,960	$ (470,754)	$ (40,581)	$24,540,625

Total business-type activities capital assets, net of accumulated depreciation	$27,001,126
Less associated debt	(6,237,500)
Net Investment in Capital Assets	$20,763,626

Depreciation was charged to business-type activities as follows:

Business-type activities:	
Water and wastewater	$ 1,795,919
Sanitation	44,682
Retail	108,895
Total business-type activities depreciation expense	$ 1,949,496

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

E. Capital Assets, Continued

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

Component Unit - PEDC	Beginning	Increases	Decreases	Ending
Capital assets not being depreciated:				
Land - developed	$ 657,189	$ -	$ -	$ 657,189
Land - undeveloped	338,248	-	-	338,248
Total assets not being depreciated	$ 995,437	$ -	$ -	$ 995,437
Capital assets being depreciated:				
Buildings	$ 4,323,629	$ 19,353	$ (21,504)	$ 4,321,478
Machinery and Equipment	108,646	-	-	108,646
Total assets being depreciated	4,432,275	19,353	(21,504)	4,430,124
Accumulated depreciation:				
Buildings	(1,512,938)	(129,846)	2,150	(1,640,634)
Machinery and Equipment	(90,538)	(3,326)	-	(93,864)
Total accumulated depreciation	(1,603,476)	(133,172)	2,150	(1,734,498)
Net capital assets being depreciated	$ 2,828,799	$ (113,819)	$ (19,354)	$ 2,695,626

Total governmental activities capital assets, net of accumulated depreciation	$ 3,691,063
Less associated debt	(1,928,690)
Net Investment in Capital Assets	$ 1,762,373

Depreciation was charged to the component unit as follows:

Component unit:	
Palestine Economic Development Corporation	$ 133,172
Total depreciation expense	$ 133,172

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

F. Long-term Debt

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

Governmental Activities:	Balance 10/1/2018	Increases	Decreases	Balance 9/30/2019		Due Within One Year
Debt:						
Certificates of obligation	$ 5,580,000	$ -	$ (615,000)	$ 4,965,000	*	$ 935,000
Debt from direct borrowings and direct placements:						
Certificates of obligation	2,409,000	-	(138,000)	2,271,000	*	148,000
Financing capital leases	962,850	-	(326,467)	636,383	*	159,567
Other long-term liabilities:						
Capital leases	-	592,879	(16,925)	575,954	*	109,230
Claims and judgements	512,559	290,185	-	802,744		-
Compensated absences	1,138,957	2,734,302	(2,668,565)	1,204,694		918,035
Net pension liability	5,769,014	4,318,272	(1,621,779)	8,465,507		-
Total OPEB liabilities	796,545	1,134,290	(874,938)	1,055,897		-
Total long-term liabilities	$ 17,168,925	$ 9,069,928	$ (6,261,674)	$ 19,977,179		$ 2,269,832
Long-term liabilities due in more than one year				$ 17,707,347		
* Long-term liabilities associated with capital assets				$ 8,448,337		

Governmental long-term debt was comprised of the following at September 30, 2019.

Governmental Activities					
Description	Maturity Date	Interest Rate	Pledged Collateral	Pledged Revenue	Outstanding Balance
Certificates of Obligation:					
Series 2008	2/15/2028	3.874%	Ad valorem tax revenue	$ 1,314,547	$ 1,110,000
Series 2010B	2/15/2030	2%-4.125%	Ad valorem tax revenue	3,171,347	2,560,000
Series 2014	2/15/2021	1.750%	Ad valorem tax revenue	1,317,794	1,295,000
Certificates of Obligation from Direct Placements:					
Series 2010A Taxable	2/15/2030	4.500%	Ad valorem tax revenue	1,973,166	1,544,000
Series 2010A Non-taxable	2/15/2030	4.500%	Ad valorem tax revenue	924,146	727,000
Financing Capital Leases from Direct Borrowings:					
Southside Bank	3/31/2021	2.370%	Ad valorem tax revenue	219,101	211,551
Southside Bank	4/11/2026	3.247%	Ad valorem tax revenue	481,770	424,832
Total				$ 9,401,871	$ 7,872,383

Certificates of obligation were issued for general infrastructure improvements, water and wastewater system improvements, and the purchase and renovation of the mall.

The City is also obligated under two capital leases with Southside Bank that meet the definition of debt from direct borrowings and direct placements as stated in GASB Statement No. 88. These leases are for various machinery and equipment including a fire truck and various police communications equipment.

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

F. Long-term Debt, Continued

Pledged revenue recognized during the year for governmental debt is equal to principal and interest of $1,568,946 paid during the fiscal year ended September 30, 2019.

The City incurred and charged to expense $305,347 in interest expense on governmental activities long-term debt for the fiscal year ended September 30, 2019.

Annual debt service requirements to governmental activities are as follows:

	Governmental Activities					
Year Ending	Certificates of Obligation		Certificates of Obligation from Direct Placements		Financing Capital Leases from Direct Borrowings	
September 30	Principal	Interest	Principal	Interest	Principal	Interest
2020	$ 935,000	$ 157,324	$ 148,000	$ 99,154	$ 159,567	$ 18,808
2021	960,000	134,128	158,000	92,009	163,831	14,544
2022	320,000	116,039	168,000	84,676	58,662	10,163
2023	335,000	103,087	179,000	76,871	60,567	8,258
2024	340,000	89,738	190,000	68,746	62,533	6,291
2025-2029	1,790,000	232,495	1,151,000	198,572	131,223	6,424
2030-2034	285,000	5,877	277,000	6,284	-	-
Total	$ 4,965,000	$ 838,688	$ 2,271,000	$ 626,312	$ 636,383	$ 64,488

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

Business-type Activities:	Balance 10/1/2018	Increases	Decreases	Balance 9/30/2019	Due Within One Year
Debt:					
Certificates of obligation	$ 2,450,000	$ -	$ (300,000)	$ 2,150,000 *	$ 210,000
Revenue bonds	4,776,258	-	(688,758)	4,087,500 *	827,500
Other long-term liabilities:					
Compensated absences	189,505	454,946	(517,550)	126,901	96,705
Net pension liability	1,141,853	1,049,333	(394,090)	1,797,096	-
Total OPEB liabilities	190,308	275,631	(212,610)	253,329	-
Total long-term liabilities	$ 8,747,924	$ 1,779,910	$ (2,113,008)	$ 8,414,826	$ 1,134,205
Long-term liabilities due in more than one year				$ 7,280,621	
* Long-term liabilities associated with capital assets				$ 6,237,500	

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

F. Long-term Debt, Continued

Business-type long-term debt was comprised of the following at September 30, 2019.

Business-type Activities					
Description	Maturity Date	Interest Rate	Pledged Collateral	Pledged Revenue	Outstanding Balance
Certificates of Obligation:					
Series 2012	8/15/2023	1.58%	Ad valorem tax revenue	$ 239,164	$ 230,000
Series 2013	2/15/2028	2.15%	Ad valorem tax revenue	2,125,756	1,920,000
Revenue Bonds:					
Series 2003	7/15/2022	0.00% - 3.10%	Water and sewer revenue	1,274,035	1,200,000
Series 2006	8/15/2025	2.15% - 2.95%	Water and sewer revenue	347,703	315,000
Series 2007	7/15/2027	1.85% - 2.65%	Water and sewer revenue	2,366,631	2,115,000
Series 2009	7/15/2029	0.15% - 4.25%	Water and sewer revenue	419,278	340,000
Series 2010	9/15/2020	4.50%	Retail lease revenue	120,485	117,500
Total				$ 6,893,052	$ 6,237,500

Revenue bonds and certificates of obligation were issued for water and wastewater system improvements, the purchase of the mall and land, and facility improvements.

Pledged revenue recognized during the year for this debt is equal to principal and interest of $1,173,882 paid during the fiscal year ended September 30, 2019.

The City incurred and charged to expense $181,033 in interest expense on business-type activities long-term debt for the fiscal year ended September 30, 2019.

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

Business-type Activities				
Year Ending	Certificates of Obligation		Revenue Bonds	
September 30	Principal	Interest	Principal	Interest
2020	$ 210,000	$ 43,248	$ 827,500	$ 114,963
2021	230,000	38,885	730,000	92,353
2022	235,000	34,175	745,000	71,733
2023	255,000	29,274	345,000	50,285
2024	210,000	23,973	355,000	41,080
2025-2029	1,010,000	45,365	1,085,000	70,218
Total	$ 2,150,000	$ 214,920	$ 4,087,500	$ 440,632

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

F. Long-term Debt, Continued

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

Component Unit - PEDC	Balance 10/1/2018	Increases	Decreases	Balance 9/30/2019		Due Within One Year
Debt:						
Revenue bonds	$ 2,390,000	$ -	$ (461,310)	$ 1,928,690	*	$ 333,003
Total long-term liabilities	$ 2,390,000	$ -	$ (461,310)	$ 1,928,690		$ 333,003
Long-term liabilities due in more than one year				$ 1,595,687		
* Long-term liabilities associated with capital assets				$ 1,928,690		

The Palestine Economic Development Corporation's long-term debt was comprised of the following at September 30, 2019.

Component Unit - Palestine Economic Development Corporation					
Description	Maturity Date	Interest Rate	Pledged Collateral	Pledged Revenue	Outstanding Balance
Revenue Bonds:					
Series 2012A	8/15/2020	1.70%	Sales tax revenue	$ 64,074	$ 63,003
Series 2012B	8/15/2026	3.35%	Sales tax revenue	1,704,144	1,510,687
Series 2016	8/15/2025	3.63%	Sales tax revenue	400,557	355,000
Total				$ 2,168,775	$ 1,928,690

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

Pledged revenue recognized during the year is equal to principal and interest of $538,160 paid during the fiscal year ended September 30, 2019.

The Palestine Economic Development Corporation incurred and charged to expense $75,005 in interest expense on long-term debt for the fiscal year ended September 30, 2019.

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

Component Unit - PEDC		
Year Ending	Revenue Bonds	
September 30	Principal	Interest
2020	$ 333,003	$ 64,566
2021	285,000	54,296
2022	290,000	44,580
2023	300,000	34,697
2024	305,000	24,479
2025-2029	415,687	17,467
Total	$ 1,928,690	$ 240,085

Federal Arbitrage

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

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

F. Long-term Debt, Continued

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

G. Interfund Transactions

The composition of interfund balances as of September 30, 2019, is as follows:

	Due from	
Due to:	Internal Service Funds	Total
General Fund	$ 40,821	$ 40,821
Total	$ 40,821	$ 40,821

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

Transfers between funds during the year were as follows:

	Transfers In				
Transfers Out:	General Fund *	Nonmajor Governmental Funds	Water & Wastewater Fund	Internal Service Funds	Total
General Fund	$ -	$ 242,515	$ 70,000	$ 457	$ 312,972
Debt Service Fund	-	-	-	375,140	375,140
Nonmajor Governmental Funds	55,315	-	-	-	55,315
Water and Wastewater Fund	737,657	8,337	-	-	745,994
Sanitation Fund	365,029	-	60,000	-	425,029
Retail Fund	53,456	-	-	-	53,456
Total	$ 1,211,457	$ 250,852	$ 130,000	$ 375,597	$ 1,967,906

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

Transfers to the general fund were subsidies for administrative expenditures. The transfer from the water and wastewater fund to the sales tax repairs and maintenance fund (nonmajor governmental fund) was for street repairs related to a water line project. Transfers to the water and wastewater fund from the general fund and sanitation fund were for utilities. Transfers from the debt service fund to the equipment replacement fund (internal service fund) were for payments on capital leases in the equipment replacement fund.

H. Risk Management

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

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

H. Risk Management, Continued

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

	2019	2018
Beginning claims payable	$ 172,162	$ 1,489,624
Claims incurred	-	2,444,280
Claims incurred but not reported	-	172,162
Claims paid	(172,162)	(3,933,904)
Ending claims payable	$ -	$ 172,162

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

I. Contingent Liabilities

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

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

As of September 30, 2019, the City is also a defendant in other lawsuits. It is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

J. Defined Benefit Pension Plans - Texas Municipal Retirement System

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

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

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

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

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

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

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

	Plan Year 2019	Plan Year 2018
Employee deposit rate	6%	6%
Matching ratio (city to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service retirement eligibility		
(expressed as age/years of service)	60/5,0/20	60/5,0/20
Updated service credit	100% repeating transfers	100% repeating transfers
Annuity increase (to retirees)	70% of CPI repeating	70% of CPI repeating

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

Inactive employees or beneficiaries currently receiving benefits	161
Inactive employees entitled to but not yet receiving benefits	141
Active employees	168
Total	470

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

Employees of the City of Palestine, Texas, were required to contribute 6% of their annual gross earnings during the fiscal year. The contribution rates for the City of Palestine, Texas, were 13.71% and 13.42% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019, were $1,134,073 and were equal to the required contributions.

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

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

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

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

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

Actuarial Assumptions, Continued

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

The actuarial assumptions were developed primiarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumptions for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal (EAN) actuarial cost method and one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.30%
International Equity	17.50%	6.10%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.39%
Real Return	10.00%	3.78%
Real Estate	10.00%	4.44%
Absolute Return	10.00%	3.56%
Private Equity	5.00%	7.75%
Total	100.00%	

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.

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2017	$ 45,356,842	$ 38,445,974	$ 6,910,868
Changes for the year:			
Service Cost	1,173,593	-	1,173,593
Interest	3,019,410	-	3,019,410
Difference between expected and actual experience	(333,037)	-	(333,037)
Contributions - employer	-	1,170,053	(1,170,053)
Contributions - employee	-	512,778	(512,778)
Net investment income	-	(1,151,180)	1,151,180
Benefit payments	(2,423,263)	(2,423,263)	-
Administrative expense	-	(22,257)	22,257
Other changes	-	(1,163)	1,163
Balance at December 31, 2018	$ 46,793,545	$ 36,530,942	$ 10,262,603

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

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net pension liability	$ 16,847,627	$ 10,262,603	$ 4,911,604

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.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions
For the year ended September 30, 2019, the City recognized pension expense of $1,724,732.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ -	$ 323,979
Difference between projected and actual investment earnings	1,990,120	-
Contributions subsequent to the measurement date	863,283	-
Total	$ 2,853,403	$ 323,979

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

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

$863,283 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31	Net deferred outflows (inflows) of resources
2019	$ 574,878
2020	135,644
2021	206,364
2022	749,255
Total	$ 1,666,141

K. Other Post-Employment Benefit Plans

1. City Retiree Health Care Plan

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

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

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

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

Monthly Premiums Effective October 1, 2019

Plan	Retiree Only	Retiree & Spouse	Retiree & Children	Retiree & Family
HSA - Core Plan	$ 674.10	$ 1,483.01	$ 1,280.78	$ 2,089.70
PPO - Preferred Plan	$ 778.05	$ 1,771.72	$ 1,478.31	$ 2,411.97

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

K. Other Post-Employment Benefit Plans, Continued

1. City Retiree Health Care Plan, Continued

Employees Covered by Benefit Terms
At the September 30, 2019 valuation date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefit payments	3
Active employees	155
Total	158

Contributions
Retirees are required to pay the City for their health insurance premiums on the City-sponsored health insurance plan. Retirees paid the City $36,311 for their health insurance premiums for the year ended September 30, 2019.

The fully-insured premiums the City pays its insurance carrier are blended rates based on the combined experience of active and retired members. Because the average cost of providing the health care benefits to retirees under 65 is higher than the average cost of providing health care benefits to active employees, there is an implicit employer subsidy for the non-Medicare eligible retirees. This implicit subsidy is considered an employer contribution and was valued at $62,491 in the September 30, 2019 actuarial valuation.

Total OPEB Liability
The City's Total OPEB Liability (TOL) was measured and determined by an actuarial valuation as of September 30, 2019.

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

Actuarial Cost Method	Individual Entry-Age Normal
Discount Rate	2.75% as of September 30, 2019
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2018 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality	For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate rates of scale MP-2014 to account for future mortality improvements.
Health Care Trend Rates	Initial rate of 7.20% declining to an ultimate rate of 4.25% after 15 years.
Participation Rates	0% for employees retiring before age 50 5% for employees retiring at ages 50-54 15% for employees retiring at ages 55-59 20% for employees retiring at ages 60-64

The discount rate changed from 4.24% as of September 30, 2018 to 2.75% as of September 30, 2019. The health care trend rates and the plan participation rates were updated to reflect the plan's anticipated experience. Additionally, the demographic assumptions were updated to reflect the 2019 TMRS Experience Study.

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

K. Other Post-Employment Benefit Plans, Continued

1. <u>City Retiree Health Care Plan, Continued</u>

Discount Rate
For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rate is 2.75% (based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index"). The discount rate was 4.24% as of the prior measurement date.

Changes in the Total OPEB Liability

	Increase (Decrease) Total OPEB Liability (a)
Balance at September 30, 2018	$ 344,235
Changes for the year:	
Service Cost	98,389
Interest	16,126
Difference between expected and actual experience	1,222,485
Changes in assumptions	(1,010,597)
Benefit payments	(26,180)
Balance at September 30, 2019	$ 644,458

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate
The following presents the total OPEB liability of the City, calculated using the discount rate of 2.75%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	1% Decrease in Discount Rate (1.75%)	Current Discount Rate (2.75%)	1% Increase in Discount Rate (3.75%)
Total OPEB liability	$ 702,931	$ 644,458	$ 591,645

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

	1% Decrease in Healthcare Trend Rates	Current Healthcare Trend Rates	1% Increase in Healthcare Trend Rates
Total OPEB liability	$ 580,257	$ 644,458	$ 720,095

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

<u>OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs</u>
For the year ended September 30, 2019, the City recognized OPEB expense of $136,859.

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

K. Other Post-Employment Benefit Plans, Continued

1. City Retiree Health Care Plan, Continued

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 1,072,088	$ -
Difference in actuarial assumptions	-	905,445
Total	$ 1,072,088	$ 905,445

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

Year Ended September 30	Net deferred outflows (inflows) of resources
2020	$ 22,344
2021	22,344
2022	22,344
2023	22,344
2024	22,344
Thereafter	54,923
Total	$ 166,643

2. TMRS - Supplemental Death Benefit Fund

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

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

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

Inactive employees or beneficiaries currently receiving benefits	119
Inactive employees entitled to but not yet receiving benefits	29
Active employees	168
Total	316

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

K. Other Post-Employment Benefit Plans, Continued

2. TMRS - Supplemental Death Benefit Fund, Continued

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

The total SDBF contribution rate for the City was 0.20% and 0.19% in calendar years 2019 and 2018, respectively. The retiree portion of the SDBF contribution rate for the City was 0.07% for both calendar years 2019 and 2018. The City's contributions to the SDBF for the years ended September 30, 2019, 2018, and 2017 were $16,618, $16,364, and $17,123, respectively, representing contributions for both active and retiree coverage, which equaled the required contributions each year.

Total OPEB Liability
The City's Total OPEB Liability (TOL) was measured and determined by an actuarial valuation as December 31, 2018.

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

Inflation	2.50% per year
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.71%
Retiree's share of benefit-related costs	$0
Administrative expenses	All administrative expenses are paid for through the OPEB 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.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumptions for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013.

Discount Rate
The discount rate used to measure the Total OPEB Liability was 3.71%. Because the Supplemental Death Benefits Fund is considered an unfunded trust under GASB Statement No. 75, the relevant discount rate for calculating the Total OPEB Liability is based on the Fidelity Index's "20-Year Muncipal GO AA Index" rate as of the measurement date.

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

K. Other Post-Employment Benefit Plans, Continued

2. TMRS - Supplemental Death Benefit Fund, Continued

Changes in the Total OPEB Liability

	Increase (Decrease) Total OPEB Liability (a)
Balance at December 31, 2017	$ 642,620
Changes for the year:	
Service Cost	22,962
Interest	21,552
Difference between expected and actual experience	28,407
Changes in assumptions	(44,820)
Benefit payments	(5,953)
Balance at December 31, 2018	$ 664,768

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate
The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.71%) or 1-percentage-point higher (4.71%) than the current rate:

	1% Decrease in Discount Rate (2.71%)	Current Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
Total OPEB liability	$ 786,061	$ 664,768	$ 570,053

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

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEBs
For the year ended September 30, 2019, the City recognized OPEB expense of $51,010.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	$ 22,891	$ -
Difference in actuarial assumptions	-	5,615
Contributions subsequent to the measurement date	4,503	-
Total	$ 27,394	$ 5,615

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

K. Other Post-Employment Benefit Plans, Continued

2. TMRS - Supplemental Death Benefit Fund, Continued

$4,503 reported as deferred outflows of resources related to OPEBs resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEBs will be recognized in OPEB expense as follows:

Year Ended December 31	Net deferred outflows (inflows) of resources
2019	$ 6,496
2020	6,496
2021	6,496
2022	(1,734)
2023	(478)
Total	$ 17,276

L. Tax Abatements

The City entered into property tax abatement agreements with local businesses under the Texas Tax Code Chapter 312 “State Property Redevelopment and Tax Abatement Act” (the Act). As required by the Act, the City includes its own guidelines and criteria in granting abatements. Under the City’s program, projects must do one of the following: 1) increase property valuation, 2) provide additional new full-time equivalent jobs, or 3) increase payroll annually. Abatements are granted for up to 100% over a specified time period not to exceed 10 years and may be extended to either new or expanding businesses. Abatement is given to provide significant, long-term, positive economic impact to the community using local contractors and the resident workforce to the maximum extent feasible and by developing, redeveloping, and improving real estate within the City. Uses available for tax abatement include manufacturing, distribution centers, corporate or regional office parks, research facilities, and small entrepreneurs. If the agreement is terminated, all taxes which otherwise would have been paid to the City without the benefit of abatement will become a debt to the City and shall be due to the City within 60 days after the termination. The following table provides disclosures relevant for the fiscal year ended September 30, 2019. Due to the small volume of current agreements, all current agreements have been disclosed.

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

L. Tax Abatements, Continued

Name of Business	Criteria	Terms of Abatement	Anderson County Applied Value	Property Taxes Abated FY2019
Pentecom	Increase in property tax value of $225,000 and creation of 35 new full-time jobs	100% in 2015, 70% in 2016, 50% in 2017 and 2018, and 25% in 2019	$ 875,868	$ 3,033
Rhone Funeral Home	Increase in property tax value of $1,400,000 and creation of 5 new full-time jobs	80% in 2017, 60% in 2018, 40% in 2019, and 20% in 2020	1,834,575	7,624
Sanderson Farms Processing	Increase in property tax value of $75,000,000 and creation of 900 new full-time jobs	90% in 2015-2020, 85% in 2021, and 80% in 2022	82,294,100	513,003
Sanderson Farms Hatchery	Increase in property tax value of $16,000,000 and creation of 90 new full-time jobs	90% in 2015-2020, 85% in 2021, and 80% in 2022	21,829,734	136,082
			$ 106,834,277	$ 659,742

M. Change in Accounting Estimate

During the year, the City reviewed its compensated absences liability estimate and made changes to the estimate according to its leave policies. The change in estimate resulted in a total increase of $320,798 in net position. The restatement only affects the financial statements on the accrual basis of accounting, and were recorded as follows:

	Compensated Absences
Governmental activities:	$ 293,636
Business-type activities:	
Water and wastewater fund	21,207
Sanitation fund	1,697
Retail fund	4,258
Total business-type activities	27,162
Total prior period adjustment	$ 320,798

N. Subsequent Events

In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a global pandemic. As a result, economic uncertainties have arisen which are likely to negatively impact changes in net position and fund balances. For example, retail stores in the City closed for an extended period of time to reduce the spread of the virus, so the City can likely expect a decrease in sales tax revenue in the subsequent year. Other financial impact could occur, though such potential impact is unknown at this time. No adjustments have been made to these financial statements as a result of this uncertainty.

In November 2019, the City entered into a contract with a third party for the sale of the Palestine Mall. Closing of the sale is expected in fiscal year 2020.

In October 2019, the City entered into an equipment lease purchase agreement for various fire, streets, and utilities department equipment for a total amount of $1,558,865.

III. DETAILED NOTES ON ALL FUNDS, CONTINUED

N. Subsequent Events, Continued

Subsequent events have been evaluated through May 21, 2020, the date the financial statements were available to be issued.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINIONS

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[FORM OF BOND COUNSEL OPINION]

December 8, 2020

$5,490,000
CITY OF PALESTINE, TEXAS
COMBINATION TAX AND REVENUE REFUNDING BONDS
SERIES 2020

WE HAVE represented the City of Palestine, Texas (the "Issuer"), as its bond counsel in connection with an issue of bonds (the "Bonds") described as follows:

> CITY OF PALESTINE, TEXAS, COMBINATION TAX AND REVENUE REFUNDING BONDS, SERIES 2020, dated November 1, 2020, in the principal amount of $5,490,000.
>
> The Bonds mature, bear interest, and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the "Ordinance").

WE HAVE represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; an escrow agreement (the "Escrow Agreement") between the District and Regions Bank, as escrow agent (the "Escrow Agent"); a certificate (the "Sufficiency Certificate") of Hilltop Securities, Inc., financial advisor to the Issuer, verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded (the "Refunded Bonds"); customary certificates of officers, agents and representatives of the Issuer and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. 1 of this issue.

In providing the opinions set forth herein, we have relied on representations of the Issuer and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the Issuer and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Issuer;

(2) A continuing ad valorem tax upon all taxable property within the Issuer, necessary to pay the principal of and interest on the Bonds, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law; in addition, the payment of the principal of and interest on the Bonds is further secured by a pledge of the Surplus Revenues of the Issuer's Waterworks and Sewer System (as defined in the Ordinance); and the total indebtedness of the Issuer, including the Bonds, does not exceed any constitutional, statutory or other limitations;

(3) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Agreement; and

(4) Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

Except as stated above, we express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds. This opinion is specifically limited to the laws of the State of Texas and, to the extent applicable, the laws of the United States of America. Further, in the event that the representations of the Issuer or other parties upon which we have relied are determined to be inaccurate or incomplete or the Issuer fails to comply with the covenants of the Ordinance, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

[FORM OF BOND COUNSEL OPINION]

December 8, 2020

$2,215,000

CITY OF PALESTINE, TEXAS
GENERAL OBLIGATION REFUNDING BONDS
TAXABLE SERIES 2020

WE HAVE represented the City of Palestine, Texas (the "Issuer") as its bond counsel in connection with an issue of bonds described as follows:

> CITY OF PALESTINE, TEXAS GENERAL OBLIGATION REFUNDING BONDS, TAXABLE SERIES 2020, dated November 1, 2020, in the principal amount of $2,215,000 (the "Bonds").
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity, and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer on November 9, 2020 authorizing their issuance (the "Ordinance).

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of certified proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described in that certain opinion delivered under the agreement pertaining to the purchase of the Bonds.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; an escrow agreement (the "Escrow Agreement") between the Issuer and Regions Bank, as escrow agent (the "Escrow Agent"); a certificate (the "Sufficiency Certificate") of Hilltop Securities, Inc., financial advisor to the Issuer, verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded (the "Refunded Bonds"); customary certificates of officers, agents, and representatives of the

Issuer and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We have also examined executed Bond No. 1 of this issue.

In providing the opinions set forth herein, we have relied on representations of the Issuer and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the Issuer and such parties, which we have not independently verified.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and therefore the Bonds constitute valid and legally binding obligations of the Issuer;

(2) Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and therefore, the Refunded Bonds are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor in the Escrow Agreement; and

(3) A continuing ad valorem tax upon all taxable property within the Issuer, necessary to pay the principal and interest on the Bonds, has been levied and pledged irrevocably for such purposes; and the total indebtedness of the Issuer, including the Bonds, does not exceed any constitutional, statutory or other limitations.

THE RIGHTS OF THE OWNERS of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

IN PROVIDING SUCH OPINIONS, we have relied on representations of the Issuer and the Issuer's financial advisor, with respect to matters solely within the knowledge of the Issuer and the Issuer's financial advisor, respectively, which we have not independently verified.

WE OBSERVE THAT interest on the Bonds is not excludable from gross income for federal income tax purposes under existing law. We express no opinion as to the amount of interest on the Bonds or to any federal, state or local tax consequences resulting from the receipt or accrual of interest on or acquisition, ownership or disposition of the Bonds.

THE OPINIONS SET FORTH ABOVE 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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective.

APPENDIX D

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER] Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $__________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on] Effective Date: _________

Risk Premium: $_________
Member Surplus Contribution: $_________
Total Insurance Payment: $_________

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____

Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

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Financial Advisory Services
Provided By

HilltopSecurities
A Hilltop Holdings Company