

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

NEW ISSUE: BOOK-ENTRY-ONLY

Ratings: S&P: "AA-"
(See "OTHER INFORMATION - Ratings" herein)

PRELIMINARY OFFICIAL STATEMENT

November 17, 2020

In the opinion of Bond Counsel (identified below), assuming continuing compliance by the City (defined below) after the date of initial delivery of the Bonds (defined below) with certain covenants contained in the Ordinance (defined below) authorizing the Bonds and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. See "TAX MATTERS" herein.

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

\$9,000,000*

CITY OF FLORESVILLE, TEXAS

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

ELECTRIC LIGHT AND POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2020

Dated Date: November 15, 2020 (interest to accrue from the Delivery Date)

Due: August 15, as shown herein

Interest on the \$9,000,000* City of Floresville, Texas Electric Light and Power System Revenue Refunding Bonds, Series 2020 (the "Bonds") will accrue from the Delivery Date (defined below), will be payable on February 15 and August 15 of each year commencing February 15, 2021, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The City (defined below) intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), New York, New York, but reserves the right on its behalf or on behalf of DTC to discontinue such system. The principal of and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by UMB Bank, N.A., Austin, Texas, as the initial Paying Agent/Registrar (the "Paying Agent/Registrar") for the Bonds. No physical delivery of the Bonds will be made to the owners thereof. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

The Bonds are issued in accordance with the Constitution and laws of the State of Texas, including, but not limited to, Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), and Chapter 164, as amended, Texas Utilities Code; the City ordinances authorizing the issuance of the City's outstanding Parity Bonds (as defined in the Ordinance); and an ordinance (the "Ordinance") adopted by the City Council (the "Council") of the City of Floresville, Texas (the "City") on October 8, 2020. In the Ordinance, and as permitted by Chapter 1207, the Council authorized certain City and System (defined below) officials to execute an "Approval Certificate" finalizing the terms of the sale of the Bonds. The Bonds are special obligations of the City payable, both as to principal and interest, solely from and equally and ratably secured, together with the currently outstanding Parity Bonds, by a first and prior lien on and pledge of the Net Revenues (defined herein) of the Floresville Electric Light and Power System (the "System"). **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation or from any other source except the Net Revenues of the System** (see "THE BONDS – Authority for Issuance").

Proceeds from the sale of the Bonds will be used to (i) refund a portion of the System's currently outstanding bonds as disclosed in Schedule I attached hereto (the "Refunded Bonds") for debt service savings and (ii) pay costs of issuance of the Bonds. See "THE BONDS – Purpose" and "SCHEDULE I" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, REDEMPTION PROVISIONS AND CUSIP NUMBERS

(See Inside Cover Page)

The Bonds are offered for delivery when, as and if issued and received by the initial purchaser named below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel (see APPENDIX D - "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the City and the System by their counsel, Dykema Gossett PLLC, San Antonio, Texas, and for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. It is expected that the Bonds will be available for initial delivery through the services of DTC on or about December 22, 2020 (the "Delivery Date").

SAMCO CAPITAL MARKETS

*Preliminary, subject to change

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, REDEMPTION PROVISIONS AND
CUSIP NUMBERS**

CUSIP NO. PREFIX⁽¹⁾: 340405

\$9,000,000*

City of Floresville, Texas

Electric Light and Power System Revenue Refunding Bonds, Series 2020

Stated Maturity August 15	Principal Amount*	Initial Rate (%)	Initial Yield (%)	CUSIP No Suffix ⁽¹⁾
2021	\$ 75,000			
2022	540,000			
2023	555,000			
2024	570,000			
2025	580,000			
2026	605,000			
2027	625,000			
2028	640,000			
2029	660,000			
2030	680,000			
2031	700,000			
2032	730,000			
2033	745,000			
2034	770,000			
2035	525,000			

Redemption...The City reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, 2030, in whole or in part and in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption” herein).

*Preliminary, subject to change.

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

CITY OFFICIALS

CITY COUNCIL:

Name	Years Served	Term Expires	Occupation
Cecelia Gonzalez-Dippel Mayor	4	May 2021	Retired Radio Broadcaster
Gloria Morales Cantu, Mayor Pro-Tem Councilmember, Place 5	5	May 2022	Retired Educator
Marissa Ximenez Councilmember, Place 1	2	May 2021	Coordinator of Special Education for E.C.I.S.D
Gloria Estrada Martinez Councilmember, Place 2	6*	May 2021	Retired
Eduardo Villarreal Councilmember, Place 3	< 1	May 2022	Salesman
Jade Jimenez Councilmember, Place 4	1	May 2022	Dental Hygienist

* Previously served on the City Council from 2007 to 2011.

ADMINISTRATIVE OFFICIALS:

Name	Position	Years With the City
Henrietta Turner	City Manager	7 years
Cynthia Sturm	Finance Director	1 year
Monica Veliz	City Secretary	19 years

SYSTEM BOARD

Name	Length of Service	Term Expires (December)	Occupation
Daniel Tejeda* Chair, City of Floresville	2 years	2022	Senior Benefit Analyst–Human Resources
John L. Akin Vice Chair, City of Stockdale	3 years	2021	Retired Business Owner
Cecelia Gonzalez-Dippel Trustee, Mayor, City of Floresville	4 years	Ex-Officio	Retired Radio Broadcaster
Braden Lyssy Trustee, City of Poth	1 year	2023	Poth ISD – Business Manager
Bonna Reed Rotating Trustee, City of Floresville	1 year	2020	Retired School Teacher
Tim Braniff Advisory Trustee, City of Falls City	4 years	2023	Retired School Administrator
Sharon Tanneberger Advisory Trustee, City of La Vernia	7 years	2021	Retired

* Served on Board as Mayor of Floresville from 2006-2012.

APPOINTED OFFICIALS:

Name	Position	Length of Service to System	Total Utility Service
Winston Low	Chief Executive Officer	2 years	36 years
Marcy Jacobs	Chief Operating Officer	23 years	23 years

CONSULTANTS AND ADVISORS:

Auditor	BKD, LLP San Antonio, Texas
Bond Counsel	Norton Rose Fulbright US LLP San Antonio, Texas
Special Counsel to the System	Dykema Gossett PLLC San Antonio, Texas
Financial Advisor	RBC Capital Markets, LLC San Antonio, Texas

For additional information regarding the System, please contact:

Marcy Jacobs
Chief Operating Officer
Floresville Electric Light & Power System
1400 Fourth Street
P.O. Box 218
Floresville, Texas 78114
Phone: (830) 216-7000 ext. 261
Fax: (830) 393-0362

Robert V. Henderson and
R. Dustin Traylor
RBC Capital Markets, LLC
303 Pearl Parkway, Suite 220
San Antonio, Texas 78215
Phone: (210) 805-1118
Fax: (210) 805-1119

[The remainder of this page is intentionally left blank.]

USE OF INFORMATION IN THE OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission (“Rule 15c2-12”), this document constitutes an “official statement” of the City with respect to the Bonds that has been “deemed final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

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

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

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or the System or other matters described.

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

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

NONE OF THE CITY, THE FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE UNDERWRITER HAS PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT. THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH ITS RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITER DOES NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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

TABLE OF CONTENTS

COVER PAGE	i
MATURITY SCHEDULE.....	ii
CITY OFFICIALS	iii
SYSTEM BOARD	iii
APPOINTED OFFICIALS	iv
CONSULTANTS AND ADVISORS.....	iv
USE OF INFORMATION IN THE OFFICIAL STATEMENT	v
TABLE OF CONTENTS.....	vi
OFFICIAL STATEMENT SUMMARY.....	vii
SELECTED FINANCIAL INFORMATION	viii
INTRODUCTION.....	1
INFECTIOUS DISEASE OUTBREAK – COVID-19	1
THE BONDS.....	2
BOOK-ENTRY-ONLY SYSTEM.....	6
THE SYSTEM.....	8
ELECTRIC RATES AND REGULATION.....	9
REGULATORY MATTERS.....	11
DEBT INFORMATION	15
FINANCIAL INFORMATION.....	16
COVERAGE AND FUND BALANCES.....	16
COMPARATIVE RATES	16
NET UTILITY PLANT	17
LARGEST CUSTOMERS.....	17
INVESTMENTS	17
TAX MATTERS	18
OTHER INFORMATION	19
CONTINUING DISCLOSURE OF INFORMATION.....	21
VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS.....	22
FINANCIAL ADVISOR	22
UNDERWRITING.....	22
MISCELLANEOUS.....	23
SCHEDULE OF REFUNDED BONDS	<i>SCHEDULE I</i>
GENERAL INFORMATION REGARDING THE CITY	<i>APPENDIX A</i>
SELECTED PROVISIONS OF THE ORDINANCE.....	<i>APPENDIX B</i>
ANNUAL FINANCIAL REPORT.....	<i>APPENDIX C</i>
FORM OF BOND COUNSEL’S OPINION.....	<i>APPENDIX D</i>

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 Bonds 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 Floresville, Texas (the “City” or the “Issuer”) is the County seat, a political subdivision, and municipal corporation of the State of Texas operating pursuant to its Home Rule Charter, located primarily in Wilson County, Texas. The City covers approximately five square miles (see “INTRODUCTION – Description of the City” herein).
The System	The Floresville Electric Light and Power System (the “System”) is an electric light and power distribution system which serves most of Wilson County, Texas (located approximately 30 miles southeast of San Antonio, Texas) and portions of Karnes County, Texas, including the Cities of Floresville, Stockdale, Poth (each a “Participating City”), Falls City, and La Vernia and certain unincorporated areas. Management and control of the System is vested in a five-member Board of Trustees composed of the Mayor of the City of Floresville, one member for each of the Cities of Floresville, Poth and Stockdale appointed by the respective governing body thereof, and one member appointed on a rotating basis by the City Councils of the Cities of Floresville, Poth or Stockdale. The Board also includes two non-voting advisory members appointed by the cities of Falls City and La Vernia (see “THE SYSTEM – Management of the System” herein).
The Bonds	The Bonds are issued as \$9,000,000* City of Floresville, Texas Electric Light and Power System Revenue Refunding Bonds, Series 2020. The Bonds are issued as serial bonds maturing August 15 in each of the years 2021 through 2035*. (See “THE BONDS – Description of the Bonds” herein).
Paying Agent/Registrar	The initial paying agent/registrar is UMB Bank, N.A., Austin, Texas.
Payment of Interest	Interest on the Bonds accrues from the Delivery Date, and will be payable on February 15, 2021 and each August 15 and February 15 thereafter until stated maturity or prior redemption (see “THE BONDS – Description of the Bonds” and “THE BONDS – Optional Redemption”).
Authority for Issuance	The Bonds are issued in accordance with the Constitution and laws of the State of Texas including, but not limited to, Chapter 1207, as amended, Texas Government Code (“Chapter 1207”), and Chapter 164, Texas Utilities Code; the City ordinances authorizing the issuance of the City’s outstanding Parity Bonds, as defined in the ordinance; and pursuant to an ordinance (the “Ordinance”) passed by the City Council of the City (the “Council”) on October 8, 2020 (see “THE BONDS – Authority for Issuance” herein). In the Ordinance, and as permitted by Chapter 1207, the Council has authorized certain City and System officials to execute an “Approval Certificate” finalizing the terms of the sale of the Bonds.
Security for the Bonds	The Bonds constitute special obligations of the City, payable, both as to principal and interest, solely from and secured, together with the currently outstanding Parity Bonds, by a first and prior lien on and pledge of the Net Revenues of the System (each of such terms as defined herein). The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see “THE BONDS – Security and Source of Payment” herein).
Optional Redemption	The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption” herein).
Book-Entry-Only System	The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York, relating to the method and timing of payment and the method of transfer relating to the Bonds (see “BOOK-ENTRY-ONLY SYSTEM” herein).
Tax Exemption	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS”.
Qualified Tax-Exempt Obligations	The Bonds will be designated as “qualified tax-exempt obligations” for financial institutions (see “TAX MATTERS - Qualified Tax-Exempt Obligations” herein).
Use of Proceeds	Proceeds from the sale of the Bonds will be used to (i) refund a portion of the System’s currently outstanding bonds as disclosed in Schedule I attached hereto (the “Refunded Bonds”) and (ii) pay costs of issuance of the Bonds (see “THE BONDS – Purpose” and “SCHEDULE I” herein).
Ratings	The Bonds have been assigned unenhanced rating of “AA” by S&P Global Ratings (“S&P”) (see “OTHER INFORMATION - Ratings” herein).
Payment Record	The City has never defaulted in payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 12/31	Estimated System Population ⁽¹⁾	Electric Usage (KWH)			Net Available For Debt Service ⁽²⁾	Annual Debt Service Requirement	Coverage Of Debt ⁽²⁾
		Average Day Usage	Average KWH/ Customer	Total KWH Sold			
1998	32,764	549,354	18,985	200,514,328	2,129,328	503,685	4.23
1999	33,036	568,364	18,913	207,452,808	2,292,277	500,585	4.58
2000	34,145	623,905	19,929	227,725,215	2,899,494	968,036	3.00
2001	35,200	637,373	19,739	232,641,114	3,530,792	908,928	3.88
2002	35,990	655,698	19,824	239,329,877	3,062,617	935,940	3.27
2003	36,500	674,164	19,938	246,069,719	3,157,599	1,040,729	3.03
2004	37,100	668,524	19,384	244,011,425	2,915,595	1,041,004	2.80
2005	38,231	748,553	21,261	273,221,885	3,849,235	1,036,028	3.72
2006	40,256	759,847	21,154	277,344,437	4,696,311	1,191,711	3.94
2007	44,297	749,649	20,536	273,621,990	4,521,376	1,193,699	3.79
2008	42,799	769,962	20,790	281,036,006	4,264,866	1,301,473	3.28
2009	43,171	786,769	20,989	287,170,850	3,909,694	1,194,784	3.27
2010	45,517	806,721	21,296	294,453,163	4,399,220	1,466,708	3.00
2011	43,697	867,578	22,632	316,665,894	4,376,599	1,469,900	2.98
2012	44,370	852,233	21,721	311,065,350	4,620,185	2,135,391	2.16
2013	47,150	861,831	21,421	314,568,339	4,531,056	2,126,554	2.13
2014	48,627	961,507	23,265	350,950,014	7,309,137	2,130,516	3.43
2015	49,833	923,317	22,147	337,010,734	5,809,666	2,687,812	2.16
2016	51,296	890,061	21,197	325,762,398	7,326,556	2,653,433	2.76
2017	52,760	954,409	20,937	325,967,095	7,571,440	2,646,253	2.86
2018	51,077	961,417	22,169	350,917,205	9,053,038	2,637,253	3.43
2019	52,839	963,398	21,864	351,640,334	9,296,205	3,644,052	2.55

⁽¹⁾ Source: Estimates provided by staff members of the System.

⁽²⁾ 1998 was recalculated to remain consistent with all years.

[The remainder of this page is intentionally left blank.]

**OFFICIAL STATEMENT
RELATING TO**

\$9,000,000*

CITY OF FLORESVILLE, TEXAS

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

ELECTRIC LIGHT AND POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2020

INTRODUCTION

This Official Statement, which includes the Schedule and the Appendices hereto, provides certain information regarding the issuance of \$9,000,000* City of Floresville, Texas Electric Light and Power System Revenue Refunding Bonds, Series 2020 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance adopted by the City Council (the "Council") of the City of Floresville, Texas (the "City" or the "Issuer") on October 8, 2020, and which authorized the issuance of the Bonds (the "Ordinance"), except as otherwise indicated herein (see APPENDIX B - "Selected Provisions of the Ordinance" herein).

There follows in this Official Statement descriptions of the Bonds and certain information regarding the System and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the System's Financial Advisor, RBC Capital Markets, LLC, San Antonio, Texas, by electronic mail or, for physical copies, upon payment of reasonable copying, handling, and delivery charges.

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 Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") System. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers' terms expiring in even-numbered years and the terms of the other three Councilmembers expiring in odd-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, electric, water and sanitary sewer utilities, culture-recreation, public improvements, planning and zoning, and general administrative services. The City covers approximately five square miles.

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, which has been subsequently extended and is still in effect. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include executive orders which have, among other things, imposed limitations on social gatherings and temporarily curtailed business activity in sectors that were not considered "essential services" under federal guidelines. In addition to the actions by the state and federal officials, certain local officials, including Cameron County, Texas, have declared a local state of disaster and have issued "shelter-in-place" orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy. The Governor's Report to Open Texas, issued on April 27, 2020, and subsequent executive orders, have instituted a gradual reopening of businesses on a staggered basis with adherence to specified health protocols. On June 26, 2020, due to substantial increases in COVID-19 positive cases, positivity rates and hospitalizations, the Governor issued adjustments to the reopening plan, limiting and slowing the gradual reopening to reduce the growing spread of COVID-19. Further, on July 2, 2020, the Governor issued a new executive order requiring face coverage in certain counties and issued a proclamation related to limiting gathering sizes and require social distancing.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide and within the City. These negative impacts may reduce or otherwise negatively affect the Net Revenues of the System which are pledged as security for the Bonds. The City, however, cannot predict the effect of the continued spread of COVID-19 will have on the finances or operations and maintenance of the City or the System. Any continued spread of COVID-19 or a spike in its spread could have a negative impact on the Net Revenues pledged to pay debt service on the Bonds if, for example, the customers of the System become unable to pay the amounts billed for use of the System.

*Preliminary, subject to change

The Bonds are not a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Ordinance does not create a lien or mortgage on the System, except the Net Revenues, and the owners of the Bonds will never have the right to compel any exercise of taxing power of the City or to demand payment of the Bonds or interest thereon out of any funds other than from the Net Revenues (see “EXHIBIT B – SELECTED PROVISIONS OF THE ORDINANCE” herein).

Additionally, the City collects a sales and use tax on all taxable transactions within the City’s boundaries. A reduction in the collection of sales tax revenues may negatively impact the City’ operating budget and overall financial condition. The City continues to monitor the spread of COVID-19 and is working to address the potential impact of COVID-19. While the potential impact of COVID-19 on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City’s operations and financial condition.

The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the City’s financial condition.

THE BONDS

Purpose. Proceeds from the sale of the Bonds will be used to (i) refund a portion of the System’s currently outstanding bonds as disclosed in Schedule I attached hereto (the “Refunded Bonds”) for debt service savings and (ii) pay costs of issuance of the Bonds.

Description of the Bonds. The Bonds are dated November 15, 2020, and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest accrues from the Delivery Date (on or about December 22, 2020), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on each February 15 and August 15, commencing February 15, 2021. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company (“DTC”), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Principal of and interest on the Bonds will be payable by the paying agent/registrar, initially UMB Bank, N.A., Austin, Texas (the “Paying Agent/Registrar”), to Cede & Co., as nominee of DTC. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interest in the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein. So long as the Bonds are in Book-Entry-Only form, and DTC is the securities depository therefor, Cede & Co., as nominee for DTC, will be the registered owner of the Bonds and references herein to bondholders or registered owners shall mean Cede & Co. and not the beneficial owners of the Bonds. In the event the Bonds are no longer held in Book-Entry-Only form, interest on the Bonds will be payable by check, dated as of the interest payment date and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see “THE BONDS - Record Date for Interest Payment” herein), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, a registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as it made on the original date payment was due.

Authority for Issuance. The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, as amended, Texas Government Code (“Chapter 1207”), and Chapter 164, Texas Utilities Code, the ordinances of the City authorizing the outstanding Parity Bonds, and the Ordinance. In the Ordinance, and as permitted by Chapter 1207, the Council has authorized certain City and System officials to execute an “Approval Certificate” finalizing the terms of the sale of the Bonds.

Refunded Bonds. The Refunded Bonds, and interest due thereon, are to be paid on the scheduled interest payment dates and redemption date of such obligations from funds to be deposited with UMB Bank, N.A., Austin, Texas, as escrow agent (the “Escrow Agent”) pursuant to an Escrow Deposit Letter between the City and the Escrow Agent (the “Escrow Agreement”).

The Ordinance provides that the System will deposit certain proceeds of the sale of the Bonds along with other lawfully available funds of the System, if any, with the Escrow Agent in the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in an escrow account (the “Escrow Fund”) irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds and will be held uninvested in cash and/or used to purchase certain obligations of the United States of America (“Federal Securities”). Such Federal Securities, if any, and cash held in the Escrow Fund will not be available to pay the debt service requirements on the Bonds.

The issuance of the Bonds will be subject to delivery by Robert Thomas CPA, LLC, certified public accountants (the “Accountants”), of a report of the mathematical accuracy of certain computations. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities, if any, and cash deposits listed in the schedules provided by RBC Capital Markets, LLC, as financial advisor to the System, to be held in escrow, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Bonds. The Accountants will express no opinion on the assumptions provided to them. See “VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS” herein.

Simultaneously with the issuance of the Bonds, the System will give irrevocable instructions to provide notice to the owners of the Refunded Bonds that the Refunded Bonds will be redeemed prior to their stated maturity on the first optional redemption date, on which date money will be made available to redeem the Refunded Bonds from money held under the Escrow Agreement.

By the deposit of the Federal Securities, if any, and cash with the Escrow Agent pursuant to the Escrow Agreement, the System will have effected the defeasance of the Refunded Bonds pursuant to the terms of the ordinances authorizing their issuance and in accordance with State

law, including Chapter 1207. It is the opinion of Bond Counsel that, as a result of such defeasance (and in reliance on the verification report provided by the Accountants), the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement. See APPENDIX D - "Form of Bond Counsel's Opinion" herein.

The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Bonds, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund is insufficient to make such payment.

Security and Source of Payment. The Bonds are special obligations of the City, payable, both as to principal and interest, solely from and, together with the currently outstanding Parity Bonds and any additional parity bonds which may be issued in the future, equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the System (which represents revenues remaining after the payment of maintenance and operating expenses). Maintenance and operating expenses include contractual payments under which Texas laws and their provisions are established as operating expenses. The City has not entered into any contracts with payments established as operating expenses.

The Bonds are not a charge upon any other income or revenues of the Participating Cities and **will never constitute an indebtedness or pledge of the general credit or taxing powers of the Participating Cities (defined herein)**. The Ordinance does not create a lien or mortgage on the System or any other property, except the Net Revenues, and any judgment against the Participating Cities may not be enforced by levy and execution against any property owned by the Participating Cities.

Pledge of Net Revenues. All of the Net Revenues of the System with the exception of those in excess of the amounts required to establish and maintain the reserve fund portion of the Retirement Account are irrevocably pledged for the payment of all Parity Bonds, including the Bonds, and interest thereon. The Parity Bonds are equally and ratably secured by a first and prior lien upon the Net Revenues of the System.

Flow of Funds. The flow of funds of the System requires that gross revenues of the System be applied in sequence: (1) to the payment of current Maintenance and Operation Expenses, (2) to the payment of Parity Bonds (including the Bonds), including the establishment and maintenance of the reserve fund portion of the Retirement Account or repayment of any surety policy for the reserve fund portion of the Retirement Account, (3) to the payment and security of obligations hereinafter issued which are inferior in lien to the Parity Bonds, (4) to the Repair and Replacement Account, (5) to the payment of the annual amount due the Participating Cities, and (6) for any purpose authorized by law for the benefit of the System.

Rates. The City has covenanted in the Ordinance that it will at all times charge and collect rates for services rendered by the System sufficient to pay all operating, maintenance, replacement and improvement expenses, any other costs deductible in determining Net Revenues and to pay interest on and the principal of the currently outstanding Parity Bonds, the Bonds and any Additional Parity Bonds, and to establish and maintain the funds provided for in the Ordinance. The City has further covenanted that, if the System should become legally liable for any other indebtedness, it will fix and maintain rates and collect charges for the services of the System sufficient to discharge such indebtedness. The City has covenanted that the rates and charges will be fixed to produce Net Revenues during each Fiscal Year at least equal to 1.25 times the average annual principal and interest requirements of all outstanding Parity Bonds.

Reserve Amount. As additional security for the Parity Bonds, there has been established a Reserve Amount in the reserve fund portion of the Retirement Account which may be funded over a five year period in accordance with the provisions of the Ordinance in an amount not less than average annual debt service requirements on the outstanding Parity Bonds (the "Reserve Amount"), such amount to be determined as of the date of sale of such series of Parity Bonds (and which will be recalculated at the time of issuance of the Bonds). Any additional amount required to maintain the Reserve Amount as a result of withdrawals made therefrom or from the issuance of any series of Additional Parity Bonds may be funded in accordance with the provisions of the Ordinance, which includes a deposit or deposits of funds derived from bond proceeds or other lawfully available funds to occur not less frequently than monthly over a period of time not in excess of five years or the deposit of a debt service reserve surety policy (as further described below). (See APPENDIX B - "Selected Provisions of the Ordinance" herein.)

Surety Policy. In the Ordinance the City has retained the option to fund all or part of the Reserve Amount by purchasing an insurance policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Reserve Amount in the event funds on deposit in the referenced account are not sufficient to pay the debt service requirements on the Parity Bonds.

In the event an insurance policy issued to satisfy all or part of the City's obligation with respect to the Reserve Amount causes the amount then on deposit in the reserve fund portion of the Retirement Account to exceed the Reserve Amount, the City may transfer such excess amount to any fund or account established for the payment of or security for the Parity Bonds (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law.

The City currently has a debt service reserve fund policy to meet the Reserve Amount under the Ordinance. This surety policy will terminate on the final maturity or earlier redemption of the City's "Electric Light and Power System Improvement Revenue Bonds, Series 2018", which have a current final stated maturity of August 15, 2043.

Springing Covenants. As described in the definition of "Maintenance and Operating Expenses" included in "Selected Provisions of the Ordinance" attached hereto as APPENDIX B, the City has included the following "springing covenant" in the Ordinance. This covenant provides that, at such time as no Parity Bonds issued on or before April 14, 2011 are outstanding, the definition of Maintenance and Operation Expenses will not include depreciation, property retirement, depletion, obsolescence, and other items not requiring an outlay of cash, and will also exclude any interest on Parity Bonds and other debt payable from System revenues.

Defeasance. The Ordinance provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of stated maturity, redemption, or otherwise) is provided by irrevocably depositing with a paying agent in trust (1) money sufficient to make such payment, (2) Defeasance Securities (defined below) to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, or (3) a combination of money and Defeasance Securities together so certified sufficient to make such payment. The sufficiency of deposits as hereinbefore described shall be certified by an independent certified accountant, the System's Financial Advisor, the Paying Agent/Registrar, or some other qualified financial institution as specified in the Ordinance.

The Ordinance provides that "Defeasance Securities" means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (iv) any additional securities and obligations hereafter authorized by the State law as eligible for use to accomplish the discharge of obligations, such as the Bonds. City officials are authorized to limit the eligible securities as deemed necessary, in connection with the sale of the Bonds. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Defeasance Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible Defeasance Securities (such list consisting of those securities identified in clauses (i) through (iii) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible Defeasance Securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, Registered Owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other Defeasance Securities, notwithstanding the fact that such Defeasance Securities may not be of the same investment quality as those currently identified under State law as permissible Defeasance Securities.

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

Optional Redemption. The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2029 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar will determine by lot the Bonds, or portions hereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) is called for redemption and notice of such redemption given, such Bond (or the principal amount thereof to be redeemed) will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Notice of Redemption. Not less than 30 days prior to a redemption date for the Bonds, the City will 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. ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION WILL 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 CEASES TO ACCRUE.

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

Additional Bonds. The City may issue additional revenue obligations payable from the Net Revenues which together with the Parity Bonds then outstanding (which will include the Bonds) will be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System,

subject, however, to complying with certain conditions in the Ordinance (see APPENDIX B – “Selected Provisions of the Ordinance” herein, for terms and conditions to be satisfied for the issuance of Additional Bonds).

The City is also permitted to issue obligations secured by and payable from a lien on and pledge of Net Revenues, which lien and pledge is junior and inferior to the lien thereon and pledge thereof securing the Parity Bonds (including the Bonds). The City now has outstanding one such series of obligations secured by and payable from a lien on and pledge of the Net Revenues that is junior and inferior to the lien thereon and pledge thereof securing the Parity Bonds. (See Table 2 herein entitled “DEBT INFORMATION” herein.)

Paying Agent/Registrar. The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Ordinance, 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 Bonds are duly paid, and any successor Paying Agent/Registrar must be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause a written notice (including the address of the new Paying Agent/Registrar) thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid.

For information regarding the payment of principal and interest on the Bonds while held under DTC’s Book-Entry-Only System, see “BOOK-ENTRY-ONLY SYSTEM” herein. In the event the Bonds are no longer held under DTC’s Book-Entry-Only System, principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the principal office of the Paying Agent/Registrar and interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see “THE BONDS – Record Date for Interest Payment” herein), or 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 Bonds is a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

Future Transfer, Exchange and Registration. In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar 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. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bond 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 Bonds issued in an exchange or transfer of Bonds 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 Bonds 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 Bonds registered and delivered in an exchange or transfer will be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the City nor the Paying Agent/Registrar is required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Record Date for Interest Payment. The record date (“Record Date”) for determining the party to whom the interest on the Bonds is payable on any interest payment date means the close of business on the last business day of the preceding month.

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

Bondholders’ Remedies. If the City defaults in the payment of principal of and interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“Tooke”) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language.

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

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("Wasson"), the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that the 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 new case law issued by the Wasson Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality. The City has not waived the defense of sovereign immunity with respect thereto. 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 Bonds or the Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. As noted above, the Ordinance provides that bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of money due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues (such as the Net Revenues), such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without bankruptcy court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the bankruptcy court (which could require that the action be heard in bankruptcy court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a bankruptcy court in administering any proceeding brought before it. The opinion of Bond Counsel relating to the Bonds, the form of which is attached hereto as APPENDIX D, shall note that all opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

Perfection of Security for the Bonds. Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Net Revenues as security therefor, and such pledge is therefore, valid, effective and perfected. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Net Revenues is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

Use of Proceeds. Proceeds from the sale of the Bonds are expected to be expended as follows:

Sources of Funds

Principal Amount of Bonds
[Net] Premium/Discount

Total Sources

Use of Funds

Deposit to Escrow Fund
Underwriter's Discount
Costs of Issuance

Total Uses

BOOK-ENTRY-ONLY SYSTEM

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

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and

act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (“SEC”), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

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

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

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

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

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

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

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

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

THE SYSTEM

Participating Cities. On October 24, 1942, the City of San Antonio, Texas, granted an option to the Cities of Floresville, Stockdale, and Poth (the "Participating Cities") to acquire all of the properties necessary to establish the System. On December 3, 1942, the Participating Cities entered into an agreement that provided for the sharing of revenues generated by the System and established the rights of the Participating Cities in the System. Floresville exercised its option to purchase the properties establishing the System by entering into a trust indenture on January 1, 1943, and issuing bonds to finance the purchase. On January 12, 1945, the Participating Cities amended and supplemented the 1942 agreement to revise the method of revenue distribution and give additional rights to Stockdale and Poth. The Participating Cities entered into a revised agreement (the "System Agreement") as of September 30, 1996, to settle litigation among the Participating Cities. The System Agreement sets out the ownership interests of the System as follows: City of Floresville 64%, City of Poth 18% and the City of Stockdale 18%. It also provides for the re-establishment of a five-member Board composed of the Mayor of the City of Floresville, one member from each of the Cities of Floresville, Poth and Stockdale appointed by the respective governing body of each such Participating City, and one member appointed on a rotating basis by the City Councils of the Cities of Floresville, Poth or Stockdale. The Board also includes two non-voting advisory members appointed by the Cities of Falls City and La Vernia.

Management of the System. During such time as any of the Parity Bonds are outstanding and unpaid, the complete management and control of the System, pursuant to the authority contained in Chapter 1502, as amended, Texas Government Code, except as otherwise specifically provided in the Ordinance, will be vested in a board of trustees to be known as the "Floresville Electric Light and Power System Board of Trustees" (the "Board") as specified in the System Agreement and the designation of members of the Board and their successors will be governed by the System Agreement.

The Mayor of the City represents the City Council on the Board and is charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the Board and its conduct of the management of the System.

Except as otherwise specifically provided in the Ordinance and the System Agreement, the Board has absolute and complete authority and power with reference to the control, management, and operation of the System and the expenditure and application of the revenues of the System subject to the provisions contained in the Ordinance, all of which is binding upon and governs the Board. In connection with the management and operation of the System and the expenditure of the revenues therefrom, the Board is vested with all of the powers of the City with respect thereto, including all powers necessary or appropriate for the performance of all of the covenants, undertakings, and agreements of the City contained in the Ordinance, and it has full power and authority to make rules and regulations governing the furnishing of electric service to customers to pay for the payment of the same, and for the discontinuance of such services upon failure of customers to pay therefor, and, to the extent authorized by law, has full authority with reference to making of extensions, improvements, and additions to the System and the acquiring of properties of every kind in connection therewith.

The Board must elect one of its members as Chairman and one as Vice Chairman of the Board and appoint a Secretary and a Treasurer, or a Secretary-Treasurer, who may, but need not be, a member or members of the Board. If a member of the Board is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the System whose duties in the operation of the System require performance of similar duties may be appointed as Secretary or Treasurer or Secretary-Treasurer. The Board may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the System with the same freedom and in the same manner ordinarily employed by the board of directors of private corporations operating properties of a similar nature. No member of the Board, however, may ever vote by proxy in the exercise of his duties as a member.

The Board appoints and employs all officers, employees, and professional consultants which it deems desirable, including without limitation, a Chief Executive Officer of the System, attorneys, engineers, architects, and other advisors.

The Chief Executive Officer of the System prepares an annual budget to serve as a tool in controlling and administering the management and operation of the System. The annual budget may reflect an estimate of Gross Revenues and an estimate of the disposition of these revenues in accordance with the flow of funds requirements of the Ordinance. The annual budget may be presented to and approved by the Board at least 60 days prior to the beginning of the Fiscal Year. Immediately following the approval of the annual budget by the Board, it is submitted to the City Council of each of the Participating Cities for review and consultation. The Board may subsequently modify an approved budget by giving notice thereof to the Participating Cities. In the same manner, immediately following the completion of the System's audited financial statements, the Board must also provide a copy of such statements to each of the Participating Cities.

The members of the Board receive annual compensation in the amount of \$2,700 or such additional amount as may be determined from time to time by the City Council of each Participating City. An Advisory Member receives annual compensation in the amount of \$2,100 or such

additional amount as may be determined from time to time by the Board. The members of the Board are entitled to payment by the Board of their reasonable and necessary expenses for the discharge of their duties.

The members of the Board and administrative officers are not personally liable, either individually or collectively, for any act or omission not willfully fraudulent or in bad faith.

Description of the System. The area served by the System comprises most of Wilson County, Texas, and extends into Karnes County, Texas, including the Cities of Floresville, Stockdale, Poth, Falls City, and La Vernia, as well as the unincorporated communities of Saspamco, Sutherland Springs, Pandora, Denhawken, Kosciusko, Cestohowa, Pawelekville, and Hobson. The total area serviced is estimated by the management of the System to include approximately 600 square miles.

The System is currently serving its service area through four meter points in accordance with the wholesale power contract with CPS Energy. The four meter points are as follows: through the "Eagle Creek" substation which is located in the north-central part of the service area; through the "Floresville" substation which is located near the System's offices in Floresville; through the "Sutherland Springs" substation located in the east-central part of the service area; and through the "Falls City" substation located approximately 3 miles east of Falls City.

Improvements to the System have maintained it in a condition to serve approximately 16,083 electric customers and 4,047 security lighting customers at present. The properties constituting the System include four 138 KV/13.8 KV substations; the "Floresville" substation consisting of one 20 MVA transformer, one 25 MVA transformer and one 35 MVA transformer, the "Sutherland Springs" substation consisting of two 25 MVA transformers, the "Falls City" substation consisting of two 10 MVA transformers, and the "Eagle Creek" substation consisting of two 25 MVA transformers. The distribution system includes approximately 1,581 miles of 13.8 KV distribution lines and 13 miles of 138 KV overhead transmission lines. Additionally there are various items of equipment used to maintain the System.

Wholesale Power Agreement. The System has no electrical generating capacity and has historically purchased bulk electric power from the City of San Antonio, Texas ("San Antonio") acting by and through CPS Energy. The System is currently purchasing power pursuant to a Wholesale Power Agreement dated December 2, 2012 and an initial term commencing January 1, 2016 and expiring December 31, 2020. On December 26, 2016, the System and CPS Energy mutually agreed to extend the contract an additional five (5) year term. The term extension will commence January 1, 2021 and expire on December 31, 2025. In conjunction with the extension, the Fuel Charge was reduced for the years of 2017 through 2020 and includes market based fuel indexes that significantly reduce wholesale power costs for the years 2021 through 2025.

The System entered into power purchase agreements in 2019 for the System's purchase of the electric output from distributed generation solar facilities with an aggregate capacity of approximately 7 megawatts alternating current. The power purchase agreements grant the System the option to purchase the solar facilities.

ELECTRIC RATES AND RATE REGULATION

The City has exclusive original jurisdiction within the corporate boundaries of the City and original jurisdiction within its certified service area outside the boundaries of the City to fix all rates for all retail services furnished by the System, subject to the approval of the City Council of the City. In areas outside the boundaries of the City, retail rates are subject to review under the PUCT's (defined herein) appellate jurisdiction upon the proper filing of a petition by the lesser of 10,000, or 5% of the ratepayers situated outside the boundaries of the City. The Board's management reports that there are currently no petitions on file, and it is not aware of any planned filings. The System currently is not subject to federal regulation in the fixing of rates.

The current electric retail rates listed below were effective December 18, 2017 and were adopted by the City. The new rates adopted by the City are effective January 1, 2021. The rates set forth below are not purported to be the System's complete rate schedule, only a listing of the primary rate classifications. All rates shown below are subject to a purchased power adjustment charge. The purchased power adjustment charge represents the pass-through to System customers of the cost of purchased power from CPS Energy. As of the December 18, 2017 rate adjustment, the cost per kWh across all base rates was lowered by \$0.05 per kWh. This charge is now billed under the purchased power adjustment charge category as that portion of the rate is used directly for purchasing power and not System operations.

[Remainder of page intentionally left blank]

	Current Rates	Rates on 01/01/2021	
Residential Service Rates			Table 1
	\$15.00	\$20.00	Service Charge (Min)
	\$0.0237	\$0.0202	Per kWh
Small Commercial Rates			
	\$30.00	\$45.00	Service Charge (Min)
	\$0.0442	0.0295	Per kWh
Medium Commercial Rates			
	\$60.00	\$100.00	Service Charge (Min)
	\$0.0223	\$0.0158	Per kWh
	\$2.50	\$3.00	Demand Charge x KW of Billing Demand
Large Commercial Rates			
	\$100.00	\$250.00	Service Charge (Min)
	\$0.0205	\$0.00146	Per kWh
	\$3.00	\$3.75	Demand Charge x KW of Billing Demand
Industrial Rates			
	\$1,000.00	\$1,000.00	Service Charge (Min)
	\$0.0108	\$0.0108	Per kWh
	\$5.00	\$5.00	Demand Charge x KW of Billing Demand

Retail Service Rates. Under the Texas Public Utility Regulatory Act (“PURA”), significant original jurisdiction over the rates, services, and operations of “electric utilities” is vested in the Public Utility Commission of Texas (the “PUCT”). In this context, “electric utility” means an electric investor-owned utility. Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT’s jurisdiction over electric investor-owned utility (“IOU”) companies primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities (“Municipal Utilities”), such as the System, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. See “Transmission Access and Rate Regulation” herein. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility such as the System has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates.

The City has covenanted and is obligated under the Ordinance, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the System and to pay the debt service requirements on all revenue debt of the System, including the Parity Bonds, and to make all other payments prescribed in the respective bond ordinances relating thereto.

Transmission Access and Rate Regulation. Pursuant to amendments made by the Texas Legislature in 1995 to the PURA (“PURA95”), Municipal Utilities, including the System, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly reaffirm PUCT rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions, for purposes of recovery of the cost of capital investment in transmission by transmission owners. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method which sets the price for transmission at the system average for the Electric Reliability Council of Texas (“ERCOT”). The System’s wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing the System’s input to the calculation of the statewide postage stamp pricing method. The PUCT’s rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. In order to more equitably allocate the costs of transmission congestion, the PUCT completed implementation of the shift from zonal congestion pricing to nodal congestion pricing in 2010, following a seven-year program involving extensive market testing and training, and upgrades to the ERCOT system management hardware and software. Additional information on recovery of ERCOT transmission fees is discussed in “Governmentally Imposed Fees, Taxes or Payments” below and the transition to the nodal market is discussed in “REGULATORY MATTERS – Post Senate Bill 7 Wholesale Market Design Developments” herein.

The 2015 Texas Legislature amended the PURA, effective September 1, 2015, to require municipally owned utilities to obtain from the PUCT a certificate of convenience and necessity for newly constructed transmission lines that are located or extended more than ten miles outside the municipally owned utility’s certificated service area. Beginning in 2021, the certification process will apply to all such facilities that are constructed or extended outside the city boundaries of the owning municipality. Previously, this transmission certification process had not been applicable to municipally owned utilities such as the System. The amendment also authorizes recovery, as part of PUCT-approved transmission costs, of payments in lieu of ad valorem taxes by a municipally owned utility for such facilities that are made pursuant to a written agreement with other taxing entities.

Effective May 28, 2017, the PUCT issued a new rule allowing the PUCT, after notice and hearing, to revoke or amend any certificate of convenience and necessity if the PUCT finds that certain adverse conditions exist. The PUCT does not directly regulate retail rate cases of municipally owned electric utilities, but it does have limited appeal jurisdiction related to ratepayers outside of municipal jurisdiction.

Governmentally Imposed Fees, Taxes or Payments. System retail rates, as previously approved by various rate ordinances adopted by the City Council, may be adjusted without further action by the City Council to reflect the increase or decrease of fees, taxes or other required payments to governmental entities or for governmental or municipal purposes which may be hereafter assessed, imposed, or otherwise required and which are payable out of or are based upon Net Revenues of the System.

In 2000, two new governmental assessments resulting from regulatory changes in the Texas electric utility industry, including the open access wholesale transmission charges, were added to the City's electric billings as regulatory adjustments and are updated annually or as needed. The first assessment recovers additional ERCOT-related transmission expenditures not recovered through the System's current base rates. For residential System customer rates, this adjustment (effective September 2006) currently adds an additional \$0.00154 per kWh sold. The second assessment relates to the System's share of the cost to fund the staffing and operation of the Independent System Operator ("ISO") for ERCOT, the implementation of the nodal market within ERCOT, as well as other market-related costs due to congestion and voltage reliability issues. The PUCT retains oversight authority over ERCOT. For residential System customers, this charge increases bills by an additional \$0.00042 per kWh sold.

REGULATORY MATTERS

The Electric Utility Industry Generally. The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact the business affairs, financial condition and competitiveness of an electric utility and the level of utilization of generating facilities. For a description of retail competition in the electric utility industry in Texas, see "Electric Utility Restructuring in Texas; Senate Bill 7" herein. Wholesale competition in Texas is discussed above under "Transmission Access and Rate Regulation".

In addition, such factors include, among others, (i) effects of compliance with rapidly changing environmental, safety, licensing, regulatory and legislative requirements, (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy, (iii) changes that might result from a national energy policy, (iv) increased competition from independent power producers, (v) "self-generation" by certain industrial and commercial customers, (vi) issues relating to the ability to issue tax-exempt obligations, (vii) severe restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations, (viii) changes from projected future electricity requirements, (ix) increases in costs, (x) shifts in the availability and relative costs of different fuels, and (xi) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways. The City cannot predict what future effects these factors may or will have on the System's business operations and financial condition, but the effects could be significant. The following is a brief discussion of certain of these factors; however, this discussion does not purport to be comprehensive or definitive and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is available from sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

Federal Energy Legislation. Pursuant to the Energy Policy Act of 2005 ("2005 Energy Act") the Federal Energy Regulatory Commission ("FERC") delegated certain transmission reliability standard-setting responsibilities to a national reliability organization, the North American Electric Reliability Corporation ("NERC"), and via NERC, to certain regional reliability entities, including the Texas Reliability Entity ("Texas RE"). FERC has established through such entities mandatory reliability standards for operation of the nation's transmission system, including transmission facilities of entities such as the System. As part of its objectives, FERC adopted certain Critical Infrastructure Protection (CIP) cyber security reliability standards in 2008 and has developed refinements to those standards since then. In 2014, FERC approved physical security grid reliability standards intended to protect the facilities of the bulk grid system from attack. The City to date has not encountered any problems in complying with FERC's reliability standards now being implemented by Texas RE under FERC rules. Additional information on FERC's authority over the City can be found in "FERC Authority" below.

FERC Authority. Pursuant to the Energy Policy Act of 1992 ("Energy Act"), FERC required utilities under FERC jurisdiction to provide access to their electric transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. Municipal Utilities are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities and independent power producers. Under FERC rules promulgated subsequent to the Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access non-discriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 (discussed above) and SB 7, a State law discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the voluntary formation of regional transmission organizations in order to promote fair and open access to electric transmission service and facilitate wholesale competition. See "Federal Energy Legislation" herein. The ERCOT open access system is administered by an ISO pre-dating the 2005 Energy Act that conducts many of the functions of a regional transmission organization.

On November 16, 2016, FERC proposed to amend its regulations under the Federal Power Act to remove barriers to the participation of electric storage resources and distributed energy resource aggregations in the capacity, energy, and ancillary service markets operated by regional ISOs. Specifically, FERC proposed to require each ISO to revise its tariff to (1) establish a participation model consisting of market rules that, recognizing the physical and operational characteristics of electric storage resources, accommodates their participation in the organized wholesale electric markets and (2) define distributed energy resource aggregators as a type of market participant that can participate in the organized wholesale electric markets under the participation model that best accommodates the physical and operational characteristics of its distributed energy resource aggregation. In a per curiam opinion issued by the United States Court of Appeals for the District of Columbia on

June 20, 2017, the court denied Advanced Energy Management Alliance's petition to vacate FERC's approval as to capacity performance program changes.

ERCOT. ERCOT is one of eight Regional Reliability Councils overseen by NERC. The ERCOT bulk electric system is located entirely within the State and serves more than 26 million customers, representing approximately 90% of Texas' electrical load. The ERCOT service region covers more than 75%, or 200,000 square miles, of the State and contains a total of approximately 47,000 miles of transmission lines, including more than 9,000 miles at 345-kV.

In response to a directive from the Texas Legislature, ERCOT amended its articles of incorporation to establish an ISO in 1996. Under ERCOT's organizational structure, the ISO reports to the ERCOT Board of Directors, but the PUCT has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable. ISO responsibilities include security operations of the bulk system, facilitation of efficient use of the transmission system by all market participants including the retail switching process relating to customer choice, coordination of regional transmission planning among transmission owning utilities and providers, and wholesale market settlement for electricity production and delivery.

ERCOT's statutory functions include establishing and enforcing procedures relating to the reliability of the regional electrical network and accounting for the production and delivery of electricity among generators and all other market participants. The procedures are subject to PUCT oversight and review, and the PUCT chairman is an ex-officio member of the ERCOT Board. The PUCT may authorize ERCOT to charge a reasonable and competitively neutral rate to wholesale buyers and sellers to cover the independent organization's costs. Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. ERCOT, as the ISO, coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. SB 7 (described in greater detail below under "Electric Utility Restructuring in Texas; Senate Bill 7") provides that a retail electric provider, municipally-owned utility, electric cooperative, power marketer, transmission and distribution utility ("TDU"), or Power Generation Company shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines and procedures established by the ISO.

Under the PUCT's transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT.

On June 14, 2017, the ERCOT Board of Directors endorsed a transmission project that includes two new 345-kV lines to address future reliability concerns in West Texas. ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current ("DC") ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import/export capability.

Beginning in September 2006, the PUCT selected Potomac Economics ("Potomac"), an energy consulting firm, to serve as the independent market monitor ("IMM") for ERCOT, a function that was legislated at the request of the PUCT by the 2005 Texas Legislature. The IMM has the authority to conduct monitoring, analysis and reporting activities but has no enforcement authority. A PUCT rule provides that the IMM shall report directly to the PUCT any potential market manipulation, including market power abuse, and any violations of PUCT rules or ERCOT protocols.

The PUCT rule establishes the IMM as an office independent from ERCOT which is not subject to the supervision of ERCOT with respect to its monitoring and investigative activities. ERCOT funds the operations of the IMM, but the budget and expenditures of the IMM are subject to PUCT supervision and oversight. The ethical standards governing the IMM director and staff are intended to prevent conflicts of interest between the IMM and a market participant or an affiliate of a market participant.

Electric Utility Restructuring in Texas; Senate Bill 7. During the 1999 legislative session, the Texas Legislature enacted SB 7, providing for retail electric open competition, which began on January 1, 2002. SB 7 continued Texas electric transmission wholesale open access, which came into effect in 1997 and required all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 also fundamentally redefined and restructured the Texas electric industry. The following discussion of SB 7 applies primarily to the ERCOT region.

SB 7 includes provisions that apply directly to Municipal Utilities, as well as other provisions that govern IOUs and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allowed retail customers of IOUs to choose their electric energy suppliers. SB 7 also allows retail customers of those Municipal Utilities and Electric Co-ops that elect to operate their systems in retail competition, on or after that date, to choose their electric energy suppliers.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle their generation, transmission/distribution and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies and possibly operating divisions. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non-discriminatory bases. Municipal Utilities and Electric Co-ops which open their service territories ("opt-in") to retail electric competition are not required to, but may, unbundle their electric system components.

Entities that have Opted-in to Competition. The following discussion relates to entities that are currently in electric competition in Texas, and does not apply to the City or the System, but could apply if the System and the City opt-in to electric competition. Generation assets of IOUs are owned by Power Generation Companies, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell wholesale electricity at market prices. IOU owners of transmission and distribution facilities ("TDUs") are fully regulated by the PUCT. Retail sales activities are performed by "Retail Electric Providers" ("REPs") which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas, or, if

they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, and/or other parties and may resell that electricity to retail customers at any location in the ERCOT region (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). TDUs, Municipal Utilities, and Electric Co-ops that have chosen to participate in competition are obligated to deliver electricity to retail customers and are all also required to transport electricity to wholesale buyers. The PUCT is required to approve the construction of TDUs' new transmission facilities outside the electric system's service territory and may order the construction of new facilities in Texas in order to relieve transmission congestion. TDUs are required to provide access to both their transmission and distribution systems on a nondiscriminatory basis to all eligible customers. Retail rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than that of the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within Texas that participates in retail competition has a designated "Provider of Last Resort"; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another qualified entity as the Provider of Last Resort for its service territory. In such cases, the respective Municipal Utility or Electric Co-op, not the PUCT, will set the electric rates for such respective Provider of Last Resort.

Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets", through a program intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-bypassable competitive transition charge collected from the end retail electric users within the IOU's service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the "competitive transition charge". Neither the State of Texas nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

Additional Impacts of Senate Bill 7. Municipal Utilities and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of Municipal Utilities and Electric Co-ops have the sole discretion to determine whether and when to opt-in to retail competition. A Municipal Utility or Electric Co-op that has not voted to opt-in will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory, but will continue to be the sole provider of electric energy to retail customers within its traditional service area.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 directs the PUCT to determine electric wholesale transmission open access rates based on a 100% "postage stamp" pricing methodology.

As discussed above, Municipal Utilities and Electric Co-ops will also determine the rates for use of their distribution systems if they open their territories to retail competition, although the PUCT has established by rule the terms and conditions for access by competitive REPs to those systems. SB 7 also permits Municipal Utilities and Electric Co-ops to recover their stranded costs through collection of a non-bypassable transition charge from their customers if so determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of a Municipal Utility determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. Municipal Utilities and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by the City as to the magnitude of its stranded costs, if any (such costs generally relate to generation assets, and the city owns none), would be made in conjunction with the decision as to whether or not to participate in retail competition.

A Municipal Utility that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anticompetitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of Municipal Utilities electing to compete in the retail market. Since 2002, only one Electric Co-op, and no Municipal Utilities, have elected to participate in retail competition.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities and that nothing in that act may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants or other exemption of interest or tax-exempt status. The bill also improves the competitive position of Municipal Utilities by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. The System has adopted such an alternate procurement agreement. Also, under SB 7 matters affecting the competitiveness of Municipal Utilities are made exempt from disclosure under the open meetings and open records acts, provided the activity is reasonably related to one of six general categories of information, including generation costs and characteristics, bidding

or pricing information related to purchased power or fuel, risk management matters, system improvements and planning other than that related to transmission and distribution, and customer billing and electric pricing information. Also, the right of Municipal Utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

Post Senate Bill 7 Wholesale Market Design Developments. Features of the nodal wholesale market implemented by the PUCT in 2010 (See discussion above under *Transmission Access and Rate Regulation*) include, among other elements: direct assignment of the costs of local transmission congestion to market participants that cause the congestion; implementation of an integrated, financially binding day-ahead market; and nodal energy prices for resources and zonal energy prices for loads. The PUCT has stated that the nodal market is leading to lower overall long-term electricity prices through improved use of generation resources based on unit-specific dispatch, more efficient management of transmission congestion, provision of more accurate price signals for optimally locating new generation and transmission, and improved ability to efficiently and reliably integrate increasing quantities of intermittent resources, including wind and solar generation. Market participants, including the System's wholesale supplier, CPS Energy, upgraded elements of their systems as necessary to operate in the nodal market.

The PUCT has engaged in a continuing dialogue with ERCOT representatives and industry stakeholders regarding generation resource adequacy in ERCOT, prompted by factors including an excessively warm and dry summer in 2011, retirement of older gas-fired generation, and the effects of EPA rules relating to air emissions, as well as demand increases fueled by the state's growth. ERCOT and the PUCT have taken steps toward implementing market changes to alleviate reserve margin concerns, including increasing system-wide offer caps and the "Peaker Net Margin" limitation on a standard peaking gas unit's cumulative annual profits, establishing a process for recalling retired units to provide additional summer capacity, expanding Emergency Response Service to allow compensated voluntary load reduction, improving ancillary service pricing and deployment, and other steps. The PUCT Commissioners are continuing to monitor and study the issue, although more refined ERCOT and national load growth studies, coupled with and influenced by energy efficiency gains, positive effects from the PUCT's market adjustments, continued advances in the introduction of renewable generation in ERCOT, and the inauguration of new gas generation resources in ERCOT all suggest that ERCOT has sufficient power capacity to comfortably meet electric needs for the next several years.

Environmental Restrictions of Senate Bill 7 and Other Related Regulations. SB 7 contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the Texas Commission on Environmental Quality ("TCEQ") permitting program by virtue of "grandfathered" status. Under SB 7, annual emissions of nitrogen oxides ("NOx") from such units were reduced by 50% from 1997 levels, beginning May 1, 2003.

The Texas Legislature in 2005 specifically authorized the PUCT to identify areas with sufficient renewable wind energy potential, known as competitive renewable energy zones ("CREZs"), and pre-designate the need for transmission facilities serving the area. In July 2008, the PUCT voted to create five CREZs in west Texas and the Panhandle, in part based on financial commitments of wind project developers, and thereafter designated transmission companies to build the new transmission facilities. The PUCT approved line routings for the CREZ projects, which were substantially completed and energized in early 2014; the lines' capacity will permit approximately 18,500 MW of wind generation to be transported to load centers in ERCOT. Significant amounts of wind energy—nearly 22,000 megawatts of installed capacity-- have created energy scheduling challenges for those who manage the ERCOT system due to the intermittent character of wind capacity, and discussions are continuing among ERCOT representatives and stakeholders relating to parameters for the integration of wind resources into the ERCOT generation mix.

Environmental Protection Agency Carbon Dioxide Regulation. In June, 2014, the Environmental Protection Agency ("EPA") proposed new regulations under the authority of the federal Clean Air Act, section 111(d) that would affect carbon dioxide emissions by existing electric generating units, with the goal of promulgating a final rule by summer of 2015. EPA proposes to set "state-specific, rate-based goals for CO2 emission from the power sector, as well as guidelines for the states to follow in developing plans to achieve state-specific goals." The states would have from one to three years to submit plans to EPA depending on whether multi-state collaboration occurs, with "interim" goals being applied as an average between 2020 and 2029, and final goals required to be maintained on and after 2030. The EPA Best System of Emissions Reduction ("BSER") program for achieving the goals would entail reducing carbon intensity through heat-rate improvements at individual plants, substitution of less-carbon intensive generation (gas-fired resources), increased reliance on nuclear and renewable resource capacity, and enhancement of demand-side energy efficiency. The implications of the proposed rule for Texas, according to an assessment by the American Public Power Association, would be approximately 51 percent less generation with coal, 48 percent more generation with combined-cycle natural gas, an increase in renewable generation of 83 percent from 2020 to 2030, and a 1.5 percent annual reduction in load growth beginning in 2024. Challenges to the EPA Clean Power Plan by various industry groups and a number of states are pending before the D. C. Circuit Court of Appeals. The U.S. Supreme Court halted implementation of the Plan in 2016 while the appeals were being litigated in the lower courts. The PUCT has taken the position that the proposed rule will create significant reliability problems in Texas, unfairly penalizes Texas for its success in early adoption of renewable energy and energy efficiency programs, and that the rule proposes carbon emission limits for Texas that are arbitrary and unreasonable and would be unlawful. Notwithstanding the rule's controversial status, the System would nevertheless be relatively well-placed to weather carbon-emission changes because its primary energy supplier, CPS Energy, retired its oldest coal plant at the end of 2018, and has increased the natural gas and renewable components of its generation fleet significantly in the past few years. On October 16, 2017, the EPA published a proposal to repeal the Clean Power Plan. In response to numerous requests for additional opportunities for the public to provide testimony on the EPA's proposal, the EPA reopened the public comment period until April 26, 2018. On August 21, 2018, the EPA proposed the Affordable Clean Energy (ACE) rule which would replace the Clean Power Plan and establish emission guidelines for states to develop plans to address greenhouse gas emissions from existing coal-fired power plants. The public comment period on the proposed ACE rule expired October 31, 2018. The EPA finalized the rule in June 2019. Challenges to the rule by a number of states, cities and environmental groups are pending before the U.S. Court of Appeals for the D.C. Circuit.

DEBT INFORMATION
Floresville Electric Light and Power System
Pro-Forma Revenue Debt Service Requirements

Table 2

Fiscal Year Ended 12/31	Currently Outstanding Parity Bonds Debt Service ⁽³⁾	The Bonds ⁽¹⁾			Currently Outstanding Junior Lien Bonds Debt Service	Total Outstanding Debt Service
		Principal	Interest ⁽²⁾	Total		
2020	\$3,451,078				\$ 195,400	\$ 3,646,478
2021	3,034,213	\$ 75,000	\$ 205,442	\$ 280,442	190,900	3,505,554
2022	1,996,263	540,000	274,750	814,750	196,400	3,007,413
2023	1,988,813	555,000	258,550	813,550	201,600	3,003,963
2024	1,736,463	570,000	241,900	811,900	191,500	2,739,863
2025	1,732,413	580,000	224,800	804,800	195,725	2,732,938
2026	1,733,963	605,000	207,400	812,400	194,600	2,740,963
2027	1,733,713	625,000	189,250	814,250	192,400	2,740,363
2028	1,736,613	640,000	170,500	810,500	-	2,547,113
2029	1,732,513	660,000	151,300	811,300	-	2,543,813
2030	1,731,713	680,000	131,500	811,500	-	2,543,213
2031	1,574,313	700,000	111,100	811,100	-	2,385,413
2032	1,576,513	730,000	83,100	813,100	-	2,389,613
2033	1,582,113	745,000	61,200	806,200	-	2,388,313
2034	1,575,913	770,000	38,850	808,850	-	2,384,763
2035	1,578,313	525,000	15,750	540,750	-	2,119,063
2036	1,581,613	-	-	-	-	1,581,613
2037	1,574,813	-	-	-	-	1,574,813
2038	1,580,563	-	-	-	-	1,580,563
2039	1,578,125	-	-	-	-	1,578,125
2040	1,002,750	-	-	-	-	1,002,750
2041	1,001,500	-	-	-	-	1,001,500
2042	1,003,250	-	-	-	-	1,003,250
2043	<u>1,002,750</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,002,750</u>
	<u>\$40,820,278</u>	<u>\$9,000,000</u>	<u>\$2,365,392</u>	<u>\$11,365,392</u>	<u>\$1,558,525</u>	<u>\$53,744,194</u>

⁽¹⁾ Preliminary, subject to change.

⁽²⁾ Interest calculated at an assumed rate for purposes of illustration.

⁽³⁾ Net of the Refunded Bonds.

FINANCIAL INFORMATION
Condensed Statement of System Operations

Table 3

	Fiscal Year Ended December 31,				
	2019	2018	2017	2016	2015
<u>Revenues</u>					
Power Sold	\$38,198,212	\$39,863,943	\$38,816,155	\$38,465,435	\$36,583,982
Other Revenue	<u>1,798,482</u>	<u>1,546,605</u>	<u>1,510,659</u>	<u>1,421,118</u>	<u>1,336,212</u>
Total Revenues	\$39,996,694	\$41,410,548	\$40,326,814	\$39,886,553	\$37,920,194
<u>Expenses</u>					
Power Purchased	\$24,785,481	\$26,349,171	\$26,112,071	\$25,745,493	\$24,662,530
Distribution	1,913,713	2,062,769	2,467,866	2,753,212	3,196,640
Transmission	2,886	3,297	6,463	1,448	4,947
Administration	1,301,534	1,238,523	1,306,532	1,239,717	1,320,318
Other Expenses	<u>2,696,975</u>	<u>2,703,750</u>	<u>2,862,442</u>	<u>2,820,127</u>	<u>2,705,347</u>
Total Expense	\$30,700,589	\$32,357,510	\$32,755,374	\$32,559,997	\$31,889,782
Net Available for Debt Service	\$9,296,105	\$9,053,038	\$7,571,440	\$7,326,556	\$6,030,412
<u>Customer Count</u>	16,083	15,829	15,569	15,368	15,217

COVERAGE AND FUND BALANCES

Table 4

Average Annual Parity Bonds Principal and Interest Requirements, 2020-2043 ⁽¹⁾	\$ 2,174,403
Coverage of Average Annual Parity Bonds Requirements by 12/31/2019 Net Available for Debt Service ⁽¹⁾	4.28X
Estimated Maximum Parity Bonds Principal and Interest Requirements, 2020 ⁽¹⁾	\$ 3,451,078
Coverage of Maximum Parity Bonds Requirements by 12/31/2019 Net Available for Debt Service ⁽¹⁾	2.69X
Average Annual Total Principal and Interest Requirements (All Parity Bonds and Junior Lien Bonds), 2020-2043 ⁽¹⁾	\$ 2,239,341
Coverage of Average Annual Total Requirements by 12/31/2019 Net Available for Debt Service ⁽¹⁾	4.15X
Estimated Maximum Total Principal and Interest Requirements (All Parity Bonds and Junior Lien Bonds), 2020 ⁽¹⁾	\$ 3,646,478
Coverage of Maximum Total Requirements by 12/31/2019 Net Available for Debt Service ⁽¹⁾	2.55x
Electric System Revenue Bonds Outstanding (All Parity Bonds and Junior Lien Bonds) ⁽¹⁾	\$ 36,520,000
Interest and Sinking Fund, 12/31/19	\$ 1,468,276

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

COMPARATIVE RATES
Residential Electric Utility Rate Survey
As of February 2020

Table 5

Texas Utilities	1000kwh
Austin Energy (City of Austin) ⁽¹⁾	\$103.21
City of Boerne ⁽²⁾	94.12
CPS Energy (City of San Antonio) ⁽¹⁾	106.00
Floresville Electric Light & Power System⁽²⁾	107.70
Guadalupe Valley Electric Cooperative ⁽²⁾	107.00
Magic Valley Electric Cooperative ⁽¹⁾	104.95
New Braunfels Utilities ⁽²⁾	90.07
San Bernard Electric Cooperative ⁽²⁾	138.00
City of San Marcos ⁽²⁾	89.84
City of Seguin ⁽²⁾	107.00

⁽¹⁾ Source: Public Utility Commission

⁽²⁾ Source: Floresville Electric Light & Power System Staff Calculations.

NET UTILITY PLANT

Table 6

	Fiscal Year Ended December 31,				
	2019	2018	2017	2016	2015
Electric distribution system	\$103,039,659	\$97,532,986	\$92,300,081	\$86,805,118	\$82,575,429
Electric transmission system	1,735,982	1,721,359	1,705,435	1,650,360	1,623,240
Land, buildings and improvements	2,983,942	2,157,988	2,063,499	1,998,951	1,979,951
Automobiles and trucks	4,329,034	4,357,814	4,276,936	4,067,936	4,112,691
Office and computer equipment	1,618,295	1,849,200	1,442,563	1,213,695	1,139,784
Large tools	<u>626,117</u>	<u>604,294</u>	<u>594,269</u>	<u>548,976</u>	<u>542,268</u>
Total Value	\$114,333,029	\$108,224,272	\$102,382,783	\$96,285,036	\$91,973,363
Less: Depreciation	<u>53,791,687</u>	<u>51,447,233</u>	<u>48,937,196</u>	<u>45,959,069</u>	<u>43,398,781</u>
Net Utility Plant	\$60,541,342	\$56,777,039	\$53,445,587	\$50,325,967	\$48,574,582

Anticipated Issuance of Revenue Bonds. The System does not anticipate the issuance of additional revenue bonds in the 2021 calendar year.

Pension Fund. The System provides pension benefits for all of its full-time employees. The System makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX C - “Excerpts from the System’s Annual Financial Report” – Note #8).

**LARGEST CUSTOMERS
January 2019 – December 2019**

Table 7

Customer	Type of Industry	KWH'S	Percent of Power Sold ⁽¹⁾
Floresville ISD	School	12,462,107	3.54%
EOG Resources	Oil Production	4,961,699	1.41%
Lyssy & Eckel Feed	Pellet Plant & Elevators	4,679,307	1.33%
HEB Grocery Company, LP	Grocery Store	4,489,772	1.28%
Wal-Mart Inc	Store	3,790,800	1.08%
Connally Memorial Medical Ctr	Hospital	4,024,175	1.14%
Recoil Resources Operating	Oil Production	3,041,155	0.86%
City of Floresville	City Government	2,356,777	0.67%
Wilson County	County Government	2,087,558	0.59%
Texaloy	Foundry	<u>1,797,880</u>	<u>0.51%</u>
Total		<u>42,919,847</u>	<u>12.42%</u>

⁽¹⁾ Based on Total Twelve Month Sales of 351,640,304 KWH.

INVESTMENTS

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

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

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

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

Investment Policies. Under State law, the System 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 System is required to 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.

State law requires the System’s investments 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.” The System is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

Table 8

Current Investments. As of September 30, 2020, System investable funds were invested in the following categories:

<u>Category</u>	<u>Amount</u>	<u>% of Portfolio</u>
Cash	\$ 13,459,988	40.07%
Money Market	9,100,844	27.09%
TexPool	8,135,081	24.21%
Certificates of Deposit	<u>2,900,000</u>	<u>8.63%</u>
	\$33,595,913	100.00%

TAX MATTERS

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

In rendering the foregoing opinions, Bond Counsel will rely upon the verification report of the Accountants concerning the sufficiency of funds deposited to the Escrow Fund to defease the Refunded Bonds as disclosed in the caption "VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS" herein and upon the representations and certifications of the City made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

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

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

In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see “Qualified Tax-Exempt Obligations” below), property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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

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

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

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

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

OTHER INFORMATION

Ratings. The Bonds have been assigned unenhanced rating of “AA” by S&P Global Ratings (“S&P”). An explanation of the significance of such rating may be obtained from S&P. The rating of the Bonds by S&P reflects only the views of S&P at the time the rating is given, and the System makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

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

On the date of delivery of the Bonds to the Underwriter, the City will execute and deliver to the Underwriter a certificate to the effect that, except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, to restrain or enjoin the issuance or delivery of the Bonds or which would affect the provisions made for their payment or security or in any manner question the validity of the Bonds.

Registration and Qualification of Bonds for Sale. The sale of the Bonds 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 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. Neither the City nor the System assume any responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

Legal Investments and Eligibility to Secure Public Funds in Texas. Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "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 Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

Neither the City nor the System have made any investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. Neither the City nor the System have made any review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

Legal Opinions and No-Litigation Certificate. The City will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Bond is a valid and legally binding special obligation of the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel to the effect that the Bonds, issued in compliance with the provisions of the Ordinance, are valid and legally binding special obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor and the Underwriter from time to time with respect to matters unrelated to the Bonds, Bond Counsel has been engaged by and only represents only the City and the System in connection with the issuance of the Bonds. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, San Antonio, Texas, has reviewed the information under the captions "THE BONDS" (except for the information under the subcaptions "Bondholders' Remedies", "Perfection of Security for the Bonds", and "Use of Proceeds", as to which no opinion is expressed), "TAX MATTERS", "OTHER INFORMATION - Registration and Qualification of Bonds for Sale", "OTHER INFORMATION - Legal Investments and Eligibility to Secure Public Funds in Texas", "OTHER INFORMATION - Legal Opinion and No Litigation Certificate" (excluding the last two sentences thereof), and "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings", as to which no opinion is expressed) in the Official Statement and such firm is of the opinion that the information thereunder presents an accurate and fair description of the laws and the legal issue addressed therein, and with respect to the Bonds, such information conforms to the Ordinance. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds or which would affect the provisions made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the City and the System by their counsel, Dykema Gossett PLLC, San Antonio, Texas and for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The compensation for Underwriter's counsel is contingent upon the sale and delivery of the Bonds.

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

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

Forward Looking Statements. Statements contained in this Official Statement, and in any other information provided by the System that are not purely historical, are forward-looking statements, including statements regarding the System'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 System on the date hereof, and the System assumes no obligation to update any such forward-looking statements. It is important to note that the System's actual results could differ materially from those 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 System. 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.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City, acting by and through the System (who has accepted such responsibility by resolution of the System adopted on September 30, 2020), has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the System, on behalf of the City, will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system through an internet website accessible at www.emma.msrb.org.

Annual Reports. Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the System must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file each audit report with the Secretary of the Board of Trustees within 180 days after the close of the System's fiscal year. The System's fiscal records and audit reports are available for public inspection during the regular business hours of the Secretary of the Board of Trustees. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, as amended, Texas Government Code, Chapter 552. Thereafter, any person may obtain copies of these documents upon submission of a written request to the Chief Executive Officer of the System, 1400 Fourth Street, P.O. Box 218, Floresville, Texas 78114, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

The City, acting by and through the System, will file with the MSRB annually certain updated financial information and operating data. The information to be updated includes all quantitative financial information and operating data with respect to the System of the general type disclosed in Tables 1 through 8 in this Official Statement and in APPENDIX C hereto. The System will update and provide this information within six months after the end of each fiscal year ending in or after 2020.

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

The System's current fiscal year end is December 31. Accordingly, it must file with the MSRB updated information by June 30, in each year, unless the System changes its fiscal year. If the System changes its fiscal year, it will file notice of such change with the MSRB.

Notice of Certain Events. The City, through the System, will provide timely notices of certain events to the MSRB. Notice will be provided for any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten (10) business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City or the System; (13) the consummation of a merger, consolidation, or acquisition involving the City or the System or the sale of all or substantially all of the assets of the City or the System, other than in the ordinary course of business, the entry into a definitive agreement to undertake such action, or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) the appointment of a successor or additional paying agent/registrars or change of name of the paying agent/registrars, if material; (15) incurrence of a Financial Obligation of the City or the System, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City or the System, 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 or the System, any of which reflect financial difficulties. Neither the Bonds nor the Ordinance make any provision for credit enhancement or liquidity enhancement.

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

Availability of Information. Effective July 1, 2009 (the “EMMA Effective Date”), the SEC implemented amendments to Rule 15c2-12 which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under Rule 15c2-12 after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

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

Limitations and Amendments. The City, acting by and through the System, has agreed to update information and to provide notices of certain events only as described above. The City, acting by and through the System, 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 and the System make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City and the System disclaim any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City and the System to comply with their 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 and the System, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City and the System (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. 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 Ordinance 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 Bonds in the primary offering of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings. The City has, during the past five years, complied in all material respect with all continuing disclosure agreements made by it in accordance with Rule 15c2-12.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by RBC Capital Markets, LLC on behalf of the System was examined by Robert Thomas CPA, LLC (the “Accountants”). Such computations were based solely on assumptions and information supplied by RBC Capital Markets, LLC on behalf of the System. The Accountants have restricted their procedures to examining the arithmetical accuracy of certain computations and have not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Accountants will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities, if any, and cash deposits listed in the schedules provided by RBC Capital Markets, LLC, to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Bonds. The report of the Accountants will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Bonds.

FINANCIAL ADVISOR

RBC Capital Markets, LLC is employed as Financial Advisor to the System in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information contained in this Official Statement.

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at the prices indicated on the inside front cover hereof less an underwriting discount of \$_____, and no accrued interest. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing

[This page is intentionally left blank.]

SCHEDULE I

SCHEDULE OF REFUNDED BONDS

	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
Electric Light and Power System Improvement Revenue Bonds, Series 2009	08/15/2022	4.000%	\$ 155,000	12/30/2020	100.00
	08/15/2023 ⁽¹⁾	4.125	160,000	12/30/2020	100.00
	08/15/2024 ⁽¹⁾	4.125	165,000	12/30/2020	100.00
	08/15/2025 ⁽²⁾	4.375	170,000	12/30/2020	100.00
	08/15/2026 ⁽²⁾	4.375	180,000	12/30/2020	100.00
	08/15/2027 ⁽³⁾	4.500	190,000	12/30/2020	100.00
	08/15/2028 ⁽³⁾	4.500	195,000	12/30/2020	100.00
	08/15/2029 ⁽⁴⁾	4.750	205,000	12/30/2020	100.00
	08/15/2030 ⁽⁴⁾	4.750	215,000	12/30/2020	100.00
	08/15/2031 ⁽⁵⁾	4.750	225,000	12/30/2020	100.00
	08/15/2032 ⁽⁵⁾	4.750	235,000	12/30/2020	100.00
	08/15/2033 ⁽⁵⁾	4.750	245,000	12/30/2020	100.00
	08/15/2034 ⁽⁵⁾	4.750	<u>260,000</u>	12/30/2020	100.00
			\$ 2,600,000		
Electric Light and Power System Improvement Revenue Bonds, Series 2011	08/15/2022	4.000%	\$ 375,000	12/30/2020	100.00
	08/15/2023	4.000	390,000	12/30/2020	100.00
	08/15/2024	4.000	405,000	12/30/2020	100.00
	08/15/2025	4.000	420,000	12/30/2020	100.00
	08/15/2026	4.000	440,000	12/30/2020	100.00
	08/15/2027	4.000	455,000	12/30/2020	100.00
	08/15/2028	4.100	475,000	12/30/2020	100.00
	08/15/2029	4.125	495,000	12/30/2020	100.00
	08/15/2030 ⁽⁶⁾	4.250	515,000	12/30/2020	100.00
	08/15/2031 ⁽⁶⁾	4.250	535,000	12/30/2020	100.00
	08/15/2032 ⁽⁷⁾	4.700	560,000	12/30/2020	100.00
	08/15/2033 ⁽⁷⁾	4.700	585,000	12/30/2020	100.00
	08/15/2034 ⁽⁷⁾	4.700	610,000	12/30/2020	100.00
08/15/2035 ⁽⁷⁾	4.700	<u>640,000</u>	12/30/2020	100.00	
			\$ 6,900,000		

⁽¹⁾ Denotes Term Bonds maturing on August 15, 2024.

⁽²⁾ Denotes Term Bonds maturing on August 15, 2026.

⁽³⁾ Denotes Term Bonds maturing on August 15, 2028.

⁽⁴⁾ Denotes Term Bonds maturing on August 15, 2030.

⁽⁵⁾ Denotes Term Bonds maturing on August 15, 2034.

⁽⁶⁾ Denotes Term Bonds maturing on August 15, 2031.

⁽⁷⁾ Denotes Term Bonds maturing on August 15, 2035.

[The remainder of this page is intentionally left blank.]

[This page is intentionally left blank.]

APPENDICES

The information contained in Appendix A consists of General Information Regarding the City of Floresville, Texas and Wilson County.

The information contained in Appendix B consists of Selected Provisions of the Ordinance.

The information contained in Appendix C consists of City of Floresville Electric Light & Power System, Annual Financial Report for Fiscal Year Ended December 31, 2019.

The information contained in Appendix D consists of the Legal Opinion of Bond Counsel.

[This page is intentionally left blank.]

APPENDIX A

The information contained in Appendix A consists of General Information Regarding the City of Floresville, Texas and Wilson County.

[This page is intentionally left blank.]

THE CITY

Location and History. The City of Floresville, Texas (the “City”) is the County seat of Wilson County. The City is located approximately 30 miles southeast of San Antonio on U.S. Highway 181.

Population and Economy. The City is the commercial center for Wilson County, with an economy based primarily on agribusiness, including extensive facilities for receiving, drying, storing and shipping peanuts.

Historical population for the area includes:

Year ⁽¹⁾	City	County
1970	3,707	13,041
1980	4,381	16,756
1990	5,247	22,650
2000	5,868	32,408
2010	6,448	42,918

⁽¹⁾ Source: U.S. Census Bureau; Municipal Advisory Council.

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. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the aldermen’s terms expiring in even-numbered years and the other terms of the three Aldermen expiring in odd-numbered years. There are term limits of three two-year terms. 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, electric, water, and sanitary sewer utilities, culture-recreation, public improvements, planning and zoning, and general administrative services. The estimated 2019 population for the City was 8,045. The City covers approximately five square miles.

Education. The Floresville Independent School District is comprised of one high school, one middle school, two elementary schools, and one alternative education school with a combined 2019/20 enrollment of approximately 4,132. In addition to the public school system, there are several private kindergartens, licensed day care centers, and a parochial school (grades Pre K-4).

Medical. The Connally Memorial Medical Center serves the community, providing for major medical needs as well as minor emergency care. There are family doctors, dentists, ophthalmologists, chiropractors and specialized physicians also serving the community.

Wilson County. Wilson County is located in South Texas and is adjacent to Bexar County and just south of the San Antonio metropolitan area. Part of northern Wilson County is considered to be within the San Antonio metropolitan area. According to the Texas Almanac, Wilson County was created and organized from Bexar and Karnes counties in 1860 and was named for James C. Wilson, a member of the Mier Expedition. The county contains approximately 809 square miles of land area. Typical elevations vary from 300 feet above MSL to 781 feet above MSL. The average annual rainfall for the county is 29.4 inches. The county’s average mean minimal temperature is 36 degrees Fahrenheit generally occurring in January. The average mean maximum temperature is 96 degrees F and generally occurs in July. The 2010 U.S. Census population of Wilson County is 42,918, up from the 2000 Census population of 32,408. Floresville, the county seat of Wilson County has a 2010 Census population of 6,448. Other population centers for the county include La Vernia, Poth, Stockdale, and Sutherland Springs.

The most prominent urban market centers for the area are Floresville, and San Antonio located approximately thirty miles north of Floresville. Major traffic routes for the county include U.S. Highway 181, State Highway 97 and State Highway 123. These routes allow access to San Antonio, Seguin, Pleasanton, and Karnes City.

Significant attractions to the area include its convenient location for commuting to the San Antonio metropolitan area. Mission ranch ruins, historic homes, the Stockdale watermelon festival, the La Vernia bluebonnet festival, and the Floresville peanut festival attract tourism to the county. The economic base of this region is traditionally aligned with agriculture and energy production. Cattle, dairy products, poultry, peanuts, sorghum, corn, small grains, vegetables, watermelons, and fruit production are prominent in Wilson County.

Labor Force Statistics for Wilson County

	2020⁽¹⁾	2019	2018	2017	2016
Labor Force	24,807	24,876	24,556	24,155	23,708
Total Employed	23,270	24,174	23,806	23,320	22,782
Unemployed	1,537	702	750	835	926
% Unemployment	6.2%	2.8%	3.1%	3.5%	3.9%
% Unemployment (Texas)	8.3%	3.5%	3.9%	4.3%	4.6%
% Unemployment (U.S)	7.7%	3.7%	3.9%	4.4%	4.9%

Source: Texas Workforce Commission.

⁽¹⁾ As of September 2020.

[Remainder of page intentionally left blank]

APPENDIX B

Selected Provisions of the Ordinance

[This page is intentionally left blank.]

APPENDIX B

Selected Provisions of the Ordinance

SECTION 9: Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, certain terms used in Sections 32 and 50 of this Ordinance have the meanings assigned to them in such Sections, and all such terms, include the plural as well as the singular; (ii) all references in this Ordinance to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of this Ordinance as originally adopted; and (iii) the words “herein”, “hereof”, and “hereunder” and other words of similar import refer to this Ordinance as a whole and not to any particular Section or other subdivision.

A. “*Additional Parity Bonds*” - bonds or other obligations authorized to be issued under the provisions of Section 20 hereof, including refunding bonds, which are secured by a first and prior lien on and pledge of the Net Revenues.

B. “*Amortization Installment*” - the amount of money which is required for mandatory redemption of an obligation (whether at maturity or by mandatory redemption calls and including redemption premium, if any) provided that the total amortization installments for such obligations shall be sufficient to provide for retirement of the aggregate principal amount of such obligations and redemption premium, if any.

C. “*Authorized Officials*” shall mean the Mayor and/or the City Secretary and the Chief Executive Officer or Chief Operating Officer of the System.

D. “*Average Annual Principal and Interest Requirements*” - that amount equal to the average annual principal and interest requirements (including Amortization Installments) of all Parity Bonds outstanding. With respect to Additional Parity Bonds that bear interest at a rate which is not established at the time of issuance at a single numerical rate, Average Annual Principal and Interest Requirements shall be calculated by assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of The Bond Buyer (or its successor) at the time of calculation as the “Revenue Bond Index” or, if such Revenue Bond Index is no longer being maintained by The Bond Buyer (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity and (ii) that the principal of such bonds is amortized such that annual debt service is substantially level over the remaining stated life of such bonds.

E. “*Board*” - Board of Trustees of the Floresville Electric Light and Power System, existing and functioning pursuant to the provisions of this Ordinance, and any successor thereto.

F. “*Bonds*” - the bonds authorized by this Ordinance.

G. “*Business Day*” - any day when banks are not required or authorized by law or executive order to be closed in San Antonio, Texas or New York, New York or when the New York Stock Exchange is not required or authorized by law or executive order to be closed.

H. “*City*” or “*Issuer*” - the City of Floresville, Texas, and where appropriate, the City Council thereof.

I. “*Code*” - the Internal Revenue Code of 1986, as amended.

J. “*Credit Agreement*” - a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the City as a Credit Agreement in connection with the authorization, issuance, security, or payment of any Bond, including the form of Credit Agreement attached hereto and incorporated herein as Exhibit F between the City and the Credit Provider.

K. “*Credit Facility*” - a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations under and pursuant to Texas law (which is a “surety bond described in Section 55 of the ordinances authorizing the issuance of certain currently Outstanding Bonds” referenced in the definition of Surety Bond in the City ordinance authorizing the issuance of the Outstanding Bonds issued on April 14, 2011), including the debt service reserve surety policy issued by the Credit Provider and deposited in the reserve common account of the Retirement Account pursuant to Section 14(2) hereof, with the reimbursement obligations owed to the Credit Provider in connection therewith; or (ii) a letter or line of credit issued by any financial institution authorized under applicable Texas law to deliver such type of financial instruments.

L. “*Credit Provider*” - any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Facility, including Assured Guaranty Municipal Corp. (as issuer of the debt service reserve surety policy).

M. “*Depository*” - such bank or banks at any time selected by the Board to serve as depository of the funds hereinafter provided for with relation to the Parity Bonds.

N. “*Fiscal Year*” - the twelve-month operational period of the System commencing on January 1 of each year and ending on the following December 31, or such other twelve-month period designated by the Board and approved by the City.

O. “*Government Securities*” shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) 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 issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (iii) 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 issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

P. “*Interest Payment Date*” - February 15, 2021 and each August 15 and February 15 thereafter.

Q. “*Maintenance and Operating Expenses*” - those expenses required by the law (Article 1113, Vernon’s Texas Civil Statutes, as amended, now codified as Chapter 1502, as amended, Texas Government Code) to be a first lien on and charge against the income of the System, including the cost of insurance; the purchase and carrying of stores, materials, and supplies; the purchase, manufacture, and production of electricity for distribution and resale; the payment of salaries; and the payment of all other expenses properly incurred in operating and maintaining the System and keeping it in good repair and operating condition (classed as a maintenance and operating expense as opposed to a capital expenditure under the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners); provided, however, when no Outstanding Bonds that were issued on or before April 14, 2011 are no longer Outstanding, the definition of Maintenance and Operating Expenses shall never include any allowance for depreciation, property retirement, depletion, obsolescence, and other items not requiring an outlay of cash and any interest on the Parity Bonds or any other debt.

R. “*Moody’s*” - Moody’s Investors Service, Inc., or any successor thereto or assignee thereof.

S. “*Net Revenues*” - all income and revenues from the operation of the System after the deduction of Maintenance and Operating Expenses. The term “*Net Revenues*” shall also include any additional and further security for the payment of the Parity Bonds as may be pledged therefor consistent with the then applicable laws of the State of Texas, provided that any such additional and further security is made equally and ratably applicable as security for all outstanding Parity Bonds.

T. “*Outstanding*” - with respect to Parity Bonds means, as of the date of determination, all Parity Bonds theretofore issued and delivered except:

(1) Those Parity Bonds theretofore canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) Those Parity Bonds for which payment has been duly provided by the City by the irrevocable deposit with the Paying Agent/Registrar of money in the amount necessary to fully pay principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Parity Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to the ordinance authorizing the issuance of such Parity Bonds or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived;

(3) Those Parity Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof, and

(4) Those Parity Bonds which have been defeased as described in Section 33 hereof.

U. “*Outstanding Bonds*” - means the following outstanding bonds of the City, excluding the Refunded Obligations, (i) City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2009 originally issued in the principal amount of \$4,000,000, (ii) City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2011 originally issued in the principal amount of \$9,955,000, (iii) City of Floresville, Texas Electric Light and Power System Junior Lien Revenue Refunding Bonds, Series 2014 originally issued in the principal amount of \$2,015,000, (iv) City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2014 originally issued in the principal amount of \$8,935,000, (v) City of Floresville, Texas Electric Light and Power System Revenue Refunding Bonds, Series 2015 originally issued in the principal amount of \$6,565,000, (vi) City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2018 originally issued in the principal amount of \$14,770,000, and (vi) upon issuance, the Bonds.

V. “*Parity Bonds*” - the Outstanding Bonds, the Bonds, and any Additional Parity Bonds.

W. “*Participating Cities*” - collectively, the City, the City of Stockdale, Texas, and the City of Poth, Texas.

X. “*Paying Agent/Registrar*” - the bank, trust company, or other duly qualified and legally authorized entity named from time to time as Paying Agent/Registrar for the Bonds and any Additional Parity Bonds.

Y. “*Permitted Investments*” - any investment permitted by Chapter 2256, as amended, Texas Government Code.

Z. “*Related Document*” - this Ordinance, the System Agreement, or any other document related to the Bonds.

AA. “*S&P*” – S&P Global Ratings or any successor thereto or assignee thereof.

BB. “*System*” - the entire electric light and power plants and system and all property of every kind appurtenant to and used or acquired in connection with said electric light and power plant and system owned by the City and described in and covered by this Ordinance and any additional enterprise funds, businesses, or other facilities permitted by Chapter 164, as amended, Texas Utilities Code, upon obtaining the written consent from each of the Participating Cities while the System Agreement is in effect, together with all property of every kind now and hereafter owned or acquired by the City or the Participating Cities as a part of or for use in the operation of such electric light and power plants and system, excluding from the foregoing, however, to the extent now or hereafter authorized or permitted by law, facilities of any kind which are declared by the City Council prior to the acquisition or construction thereof by the

City, not to be a part of the System and which are acquired or constructed by or on behalf of the City with the proceeds of the issuance of "Special Facilities Bonds" which are hereby defined as being special revenue obligations of the City which are not payable from Net Revenues but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Parity Bonds, including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

CC. "*System Agreement*" - the "Agreement Establishing the Board Membership and Equity Ownership of the Floresville Electric Light and Power System" among the Participating Cities, dated as of September 30, 1996, attached hereto as Exhibit "A" and incorporated by reference herein as if copied in full.

SECTION 10: Pledge.

A. The principal of and interest on the Parity Bonds are and shall be payable from and secured by a lien on and pledge of the Net Revenues. The Net Revenues are further pledged irrevocably to the establishment and maintenance of the Funds created by this Ordinance. The Parity Bonds are not and will not be secured by or payable from a mortgage or deed of trust on any real, personal, or mixed properties constituting the System. The registered owner of the Parity Bonds shall never have the right to demand payment of such obligations out of any funds raised or to be raised by taxation, or from any source whatsoever other than the Net Revenues. This Ordinance shall not be construed as requiring the City to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the City from doing so.

B. Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Net Revenues granted by the City under subsection (a) of this Section, and such pledge is therefore, valid, effected, and perfected. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the pledge of the Net Revenues granted by the City is to be subject to the filing requirements of Chapter 9, as amended, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines as reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, as amended, Texas Business & Commerce Code and enable a filing to perfect the security interest in said pledge to occur.

SECTION 11: Rates and Charges. The City hereby covenants and agrees with the holders of the Parity Bonds that it will at all times maintain rates and charges for the sale of electric energy or other services furnished, provided, and supplied by the System to the City, the Participating Cities, and all other consumers which shall be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay:

A. All Maintenance and Operating Expenses; depreciation, replacement, and betterment expenses; and other costs as may be required by law;

B. The interest on and principal of all Parity Bonds, as and when the same shall become due, and provide for the establishment and maintenance of the Funds and Accounts created for the payment and security of the Parity Bonds; and

C. Any other legal debt or obligation of the System as and when the same shall become due.

The rates and charges shall be fixed to produce Net Revenues during each Fiscal Year at least equal to 1.25 times the Average Annual Principal and Interest Requirements of all outstanding Parity Bonds.

SECTION 12: Revenue Fund. The City hereby covenants with respect to the holders of the Parity Bonds, that all revenues of every nature from time to time as received through the operation of the System shall be deposited as received in the Revenue Fund (hereinafter referred to as the *Revenue Fund*), which shall be kept separate and apart from all other funds of the City in a Depository.

SECTION 13: Flow of Funds. The City hereby covenants and agrees with the holders of the Parity Bonds that funds in the Revenue Fund shall be pledged and appropriated to the following uses and in the order of precedence shown:

FIRST: To the payment of reasonable and proper Maintenance and Operating Expenses;

SECOND: To the payment of Parity Bonds, including the establishment and maintenance of the reserve therefor as described in Section 14 of this Ordinance;

THIRD: To the payment and security of obligations hereinafter issued which are inferior in lien to the Parity Bonds;

FOURTH: To the payment of an amount to be deposited in the Repair and Replacement Account to comply with Section 15 of this Ordinance;

FIFTH: To the payment of the annual amount due the Participating Cities, as provided in Section 16 of this Ordinance; and

SIXTH: For any purpose authorized by law for the benefit of the System.

SECTION 14: Parity Bond Retirement Account; Excess Bond Proceeds. For purposes of paying the principal of and interest on the Parity Bonds, when and as the same shall become due, and providing a reserve to prevent a default in the payment of such principal and interest on Parity Bonds, the City has heretofore created and established a special account known as the "City of Floresville Electric Light and Power System Parity Bond Retirement Account" (hereinafter referred to as *Retirement Account*), which account shall continue to be kept separate and apart from all other funds or accounts of the System or of the City. The City hereby covenants that the Retirement Account shall be established and kept at such Depository as the Board shall designate and funds deposited therein shall be used only for the purpose of paying the principal of and interest on the Parity Bonds. In addition, all sums received from the

purchasers of Parity Bonds (including the Purchasers) constituting accrued interest shall be placed in the interest and sinking fund portion of the Retirement Account.

From the Net Revenues pledged to the payment and security of the Parity Bonds, the Board shall cause to be paid into the Retirement Account such amounts as will be fully sufficient to (i) promptly pay, when due, all principal of and interest on the Parity Bonds (hereinafter sometimes referred to as the “interest and sinking fund portion” of the Retirement Account) and (ii) establish and maintain in the Retirement Account a reserve amount (hereinafter sometimes referred to as the “Reserve Amount” or “reserve fund portion”) equal to not less than the average annual principal and interest requirements of all outstanding Parity Bonds (calculated on a Fiscal Year basis as of the date the last series of Parity Bonds were authorized). The Reserve Amount may be provided in whole or in part by one or more Credit Facilities.

The Board is hereby directed to deposit in the interest and sinking fund portion of the Retirement Account the following amounts to pay the principal of and interest on the Bonds:

(1) Deposits for payment of interest—on or before the first calendar day of the first month to occur following the date of delivery of the Bonds to the Purchasers and on or before the first calendar day of each following month through February 1, 2021, an equal amount of money with such deposits totaling not less than the amount of the installment of interest coming due on the Bonds on August 15, 2021, and beginning on or before March 1, 2021 and on or before the first calendar day of each following month, until the Bonds are no longer outstanding, an amount of money equal to not less than one-sixth (1/6) of the next semiannual installment of interest to become due on the Bonds; provided, however, that to the extent there is money available in the interest and sinking fund portion of the Retirement Account to pay interest on the Bonds on any February 15 or August 15, such deposits may be reduced by the amount of the aforesaid money available to pay said interest on the Bonds.

(2) In accordance with the provisions of the ordinances authorizing the issuance of the Parity Bonds, the amount currently on deposit in the reserve fund portion of the Retirement Account is \$_____. By reason of issuance of the Bonds, the total amount to be accumulated and maintained in the reserve fund portion of the Retirement Account is hereby determined to be \$_____ (the *Reserve Amount*), which is at least equal to the Average Annual Principal and Interest Requirements for the Parity Bonds. Until the issuance of any Additional Parity Bonds, the Reserve Amount shall be accumulated in the following manner: beginning on or before the last day of the month following the delivery of the Bonds to the Purchasers and on or before the last day of each following month until the Reserve Amount has been accumulated, the City covenants and agrees to deposit to the reserve fund portion of the Retirement Account from the Net Revenues of the System, or any other lawfully available funds, an amount not less than \$0.00, being the required monthly Reserve Amount deposits. Notwithstanding the foregoing and in accordance with the provisions of Section 53 herein, the Reserve Amount for the Bonds and the Parity Bonds will be funded by a surety policy which shall be deposited into the Retirement Account.

(3) Deposits for payment of principal—on or before October 15, 2021, and on or before the 15th calendar day of each following month, until the Bonds are no longer outstanding, an equal amount of money so that such deposits shall total, when due, the next annual principal payment becoming due on the Bonds.

(4) Deposits for Replenishing the Reserve Amount—on the first day following the use of the reserve fund portion of the Retirement Account and continuing each month thereafter for a total of not less than 12 payments, the City shall repay all amounts drawn on the Credit Facility or Credit Facilities in proportion (including any interest and expenses due and owing in accordance with the terms of such Credit Facility or Credit Facilities, as appropriate) and then replenish any cash required in the Retirement Account to restore the Reserve Amount.

Accrued interest, if any, received from purchasers of Parity Bonds (including the Purchasers) which is deposited in the interest and sinking fund portion of the Retirement Account and income and profits received from the investment of funds in the Retirement Account may be taken into consideration and reduce the monthly deposits which would otherwise be required to be placed in the interest and sinking fund portion and reserve fund portion of the Retirement Account from the Net Revenues. In addition, any surplus proceeds from the sale of the Bonds, including investment income thereon, not expended for authorized purposes shall be deposited into the interest and sinking fund portion of the Retirement Account, and such amounts so deposited shall reduce the sum otherwise required to be deposited in the interest and sinking fund portion of the Retirement Account from Net Revenues.

SECTION 15: Repair and Replacement Account. A special fund or account has been created and established known as the “City of Floresville Electric Light and Power System Repair and Replacement Account” (hereinafter called *Repair and Replacement Account*) at such Depository as may be designated by the Board in an amount determined by the Board of not less than \$75,000 nor more than an amount reasonably determined by the Board pursuant to a specific resolution to be necessary for the purposes described below but not to exceed 5% of the value of the System less accumulated depreciation as determined by the Board. Money on deposit in the Repair and Replacement Account shall be used for the following purposes: (i) providing extensions, additions, and improvements to the System; (ii) meeting contingencies of any nature in connection with the operations, maintenance, improvement, replacement, or restoration of properties of the System; and (iii) paying bonds or other obligations for which other funds are not available, or for any or all of such purposes, as, from time to time, may be determined by the Board.

SECTION 16: Payments or Credits to the Participating Cities. After the payments to the Retirement Account and the Repair and Replacement Account have been made in full in accordance with the provisions of Sections 14 and 15 of this Ordinance (including any interest and expenses due and owing in accordance with the terms of such Credit Facility or Credit Facilities, as appropriate), there shall be paid over or credited to the Participating Cities (for general purposes of each Participating City), the amounts described and at the times specified in the System Agreement.

SECTION 17: Investments. Money on deposit in the Retirement Account and the Repair and Replacement Account may be, at the option of the Board, invested in Permitted Investments. Any obligations, or evidences of ownership of said obligations, in which funds on deposit in the aforementioned Accounts are so invested shall be kept in escrow in the respective Depositories for such Accounts and such investments shall be promptly sold when required and the proceeds of the sale applied to the making of payments required to be made from the Account from which the investment was made whenever such payments are necessary to be made. All income and profits received from the investment of funds in the Repair and Replacement Account shall be transferred and credited to the Revenue Fund. During the period of time the Reserve Amount in the Retirement Account is on deposit therein, all income and profits received from the investment of such funds shall be transferred to the interest and sinking fund portion of the Retirement Account, thereby reducing the amount required to be deposited therein, to meet the debt service requirements of Parity Bonds; otherwise income and profits received from investments of the funds constituting the reserve portion of the Retirement Account shall be retained as a portion of the reserve portion until the Reserve Amount is attained. Income and profits received from investments of funds on deposit in the interest and sinking fund portion of the Retirement Account shall be used only for the purposes of paying the principal of and interest on the Parity Bonds, as and when the same shall become due.

SECTION 18: Transfer of Funds to the Paying Agent/Registrar. On or before an interest or principal payment date of any Parity Bonds, the Board shall make a transfer of funds on deposit in the Retirement Account to the paying agent or paying agents (including the Paying Agent/Registrar) in the amounts calculated as fully sufficient to pay and discharge promptly, as due, each installment of interest and principal pertaining to the Parity Bonds then outstanding. In the event Parity Bonds may be called for redemption prior to maturity, the Board shall cause amounts calculated as sufficient to pay and discharge the Parity Bonds (including accrued interest and premium, if any) so called for redemption to be transferred to the paying agent or paying agents (including the Paying Agent/Registrar) on or before the date fixed for the redemption of such bonds.

SECTION 19: Security of Funds. All money on deposit in the special Funds or Accounts for which this Ordinance makes provision (except any portions thereof as may be at any time properly invested) shall be secured in the manner and to the fullest extent required by the laws of the State of Texas for the security of public funds.

SECTION 20: Issuance of Additional Parity Bonds.

A. In addition to the right to issue obligations of inferior lien, as authorized by the laws of the State of Texas, the City reserves the right to issue additional revenue obligations payable from the same source and equally and ratably secured in the same manner as the Outstanding Bonds (including the Bonds) and such additional revenue obligations and the Outstanding Bonds (including the Bonds) shall in all respects be of equal dignity. It is hereby covenanted and agreed that no Additional Parity Bonds or other obligations shall be issued or incurred on a parity with the Parity Bonds unless and until the following conditions can be satisfied and met:

(1) An authorized officer of the Board shall have executed a certificate stating that the City is not in default as to any covenant, obligation, or undertaking contained in any ordinance or other document relating to the issuance of any obligations then outstanding which are payable from and secured by a lien on and pledge of the Net Revenues, and that each of the Funds and Accounts created and established for the purpose of paying the principal of and interest on such obligations contains the amount then required to be on deposit therein.

(2) The Board shall have secured from the Chief Executive Officer or chief financial officer of the System evidencing his determination that the Net Revenues (including earnings from the investment of System's funds) were, during the last completed Fiscal Year or for any consecutive 12 month period during the last 15 consecutive months prior to the month of adoption of the ordinance authorizing the issuance of the additional obligations, equal to at least 1.25 times the Average Annual Principal and Interest Requirements on the then-outstanding Parity Bonds and the Additional Parity Bonds then proposed to be issued. For the purpose of making such determination, the Chief Executive Officer or chief financial officer of the System may adjust the Net Revenues to include a proper allowance for revenues arising from any increase in electric rates which has become effective prior to the issuance of the proposed Additional Parity Bonds, but which during all or any part of the past Fiscal Year, or other 12 month period used for determining said Net Revenues, was not in effect in an amount equal to the amount by which the billings of the System to customers for such Fiscal Year or 12 month period would have been increased if such increase in rates had been in effect during the whole of such Fiscal Year or 12 month period.

(3) The Additional Parity Bonds must mature on August 15 in each of the years in which they are scheduled to mature.

(4) The ordinance authorizing the issuance of the Additional Parity Bonds provides that the amount to be accumulated and maintained in the Retirement Account as the Reserve Amount shall be an amount equal to not less than the average annual requirements for the payment of principal of and interest on all Parity Bonds which will be outstanding after giving effect to the issuance of the Additional Parity Bonds then being issued; and provides that any increase to the Reserve Amount in the Retirement Account may be funded with the proceeds of the Additional Parity Bonds or shall be accumulated within five years and one month from the date of passage of the ordinance

authorizing the issuance of the Additional Parity Bonds or may be provided in whole or in part by one or more Credit Facilities (provided that acquisition of one or more Credit Facilities for such purpose shall be subject to the consent of the Insurer).

Provided, however, that Parity Bonds may be issued from time to time (pursuant to any law then available) for purposes of refunding Outstanding Parity Bonds upon such terms and conditions as the governing body of the City and the Board may deem to be in the best interest of the System and, if less than all Outstanding Parity Bonds are refunded, the proposed refunding bonds shall be considered as “Additional Parity Bonds” under the provisions of this Section, but the certificate required in paragraph (ii) of this Section shall give effect to the issuance of the proposed refunding bonds (and shall not give effect to the bonds being refunded following their cancellation or provision being made for their payment). Parity Bonds shall not be considered to be “Outstanding” (under the provisions of this Ordinance) when provision has been made for their payment in the manner and to the extent permitted by the laws of the State of Texas applicable at the time such provision is made and the criteria in Section 33 is met or they are in fact paid and retired.

B. Notwithstanding satisfaction of other conditions to the issuance of Additional Parity Bonds contained in this Ordinance, no such issuance may occur (i) should any default have occurred and be continuing unless such default shall be cured upon such issuance and (ii) unless the Reserve Amount is fully funded at its requirement (including the new issue) upon the issuance of such Additional Parity Bonds, in accordance with the provisions of this Ordinance.

SECTION 21: Inferior Lien Indebtedness. The City retains the right to create and issue evidences of indebtedness whose lien on Net Revenues shall be subordinate to that possessed by the Parity Bonds without meeting any of the requirements specified in Section 20 of this Ordinance.

SECTION 22: Management of the System. The City hereby agrees, covenants, and reaffirms that:

A. During such time as any Parity Bonds issued hereunder are outstanding and unpaid, the complete management and control of the System, pursuant to the authority contained in Article 1115, Vernon’s Texas Civil Statutes, as amended (codified as Section 1502.070, Texas Government Code on September 1, 1999), except as otherwise specifically provided in this Ordinance, shall be vested in a board of trustees to be known as the “Floresville Electric Light & Power System Board of Trustees” as specified in the System Agreement, and the designation of members of the Board and their successors shall be governed by the System Agreement upon the delivery of the Bonds.

B. The Mayor of the City shall represent the City Council on the Board and shall be charged with the duty and responsibility of keeping the City Council fully advised and informed at all times of any actions, deliberations, and decisions of the Board and its conduct of the management of the System.

C. Except as otherwise specifically provided in this Ordinance, the Board shall have absolute and complete authority and power with reference to the control, management, and

operation of the System and the expenditure and application of the revenues of the System subject to the provisions contained in this Ordinance, all of which shall be binding upon and shall govern the Board. In connection with the management and operation of the System and the expenditure and application of the revenues therefrom, the Board shall be vested with all of the powers of the City with respect thereto, including all powers necessary or appropriate for the performance of all of the covenants, undertakings, and agreements of the City contained in this Ordinance, and shall have full power and authority to make rules and regulations governing the furnishing of electric service to customers and for the payment of the same, and for the discontinuance of such services upon failure of customers to pay therefor, and, to the extent authorized by law, shall have full authority with reference to making of extensions, improvements, and additions to the System and the acquiring of properties of every kind in connection therewith.

D. The Board shall elect one of its members as Chairman and one as Vice Chairman of the Board and shall appoint a Secretary and a Treasurer, or a Secretary-Treasurer, who may, but need not be, a member or members of the Board. If a member of the Board is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the Board whose duties in the operation of the System require performance of similar duties may be appointed as Secretary or Treasurer or Secretary-Treasurer. The Board may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the System with the same freedom and in the same manner ordinarily employed by the board of directors of private corporations operating properties of a similar nature. No member of the Board, however, shall ever vote by proxy in the exercise of his duties as a Member.

E. The Board shall appoint and employ all officers, employees, and professional consultants which it may deem desirable, including without limitation, a Chief Executive Officer of the System, attorneys, engineers, architects, and other advisors.

F. The Chief Executive Officer of the System shall prepare an annual budget to serve as a tool in controlling and administering the management and operation of the System. The annual budget shall reflect an estimate of Gross Revenues and an estimate of the disposition of these revenues in accordance with the funds flow requirements of this Ordinance. The annual budget shall be presented to and approved by the Board at least 60 days prior to the beginning of the Fiscal Year. Immediately following approval of the annual budget by the Board, it shall be submitted to the governing body of each of the Participating Cities for review and consultation. The Board may subsequently modify an approved budget by giving notice thereof to the Participating Cities. In the same manner, immediately following the completion of the System's audited financial statements, the Board shall also provide a copy of such statements to each of the Participating Cities.

G. The Members of the Board shall receive annual compensation in the amount of \$2,700.00 or such additional amount as may be determined from time to time by the governing body of each Participating City. An Advisory Member shall receive annual compensation in the amount of \$2,100.00 or such additional amount as may be determined from time to time by the Board Members. The Members of the Board shall be entitled to payment by the Board of their reasonable and necessary expenses for the discharge of their duties.

H. The Members of the Board and administrative officers shall not be personally liable, either individually or collectively, for any act or omission not willfully fraudulent or in bad faith.

SECTION 23: Method of Amendment. The City hereby reserves the right to amend ordinances authorizing the issuance of Parity Bonds subject to the following terms and conditions:

A. The holders of Parity Bonds aggregating in principal amount 66-2/3% of the aggregate principal amount of then outstanding Parity Bonds shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit amendment of the terms and conditions of this Ordinance or in the Bonds so as to:

- (1) Make any change in the maturity of outstanding Parity Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding Parity Bonds;
- (3) Reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Parity Bonds;
- (4) Modify the terms of payment of principal or of interest or redemption premium on outstanding Parity Bonds or any of them or impose any condition with respect to such payment;
- (5) Affect the rights of the holders of less than all of the Parity Bonds then outstanding; or
- (6) Change the minimum percentage of the principal amount of bonds necessary for consent to such amendment.

B. If at any time the City shall desire to amend this Ordinance under this Section, the City shall cause notice of the proposed amendment to be mailed, first class postage prepaid, to the Bondholders and simultaneously to be published at least once in a financial publication published in The City of New York, New York. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the office of the City Secretary of the City for inspection by all holders of Parity Bonds then outstanding.

C. Whenever at any time within one year from the date of publication of such notice the City shall receive an instrument or instruments executed by the holders of at least 66-2/3% in aggregate principal amount of all Parity Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which shall specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the City Secretary of the City, the City may adopt the amendatory ordinance in substantially the same form.

D. Upon the adoption of any amendatory ordinance pursuant to the provisions of this Section, the ordinances authorizing the Parity Bonds then outstanding shall be deemed to be

modified and amended in accordance with such amendatory ordinance, and the respective rights, duties, and obligations of the City and all holders of outstanding Parity Bonds shall thereafter be determined, exercised, and enforced, subject in all respects to such amendment.

E. Any consent given by the holder of a Parity Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same bond during such period. Such consent may be revoked at any time after six months from the date of the publication of said notice by the holder who gave such consent, or by a successor in title, by filing notice with the City Secretary of the City, but such revocation shall not be effective if the holders of 66-2/3% in aggregate principal amount of the then outstanding Parity Bonds as in this Section defined, have, prior to the attempted revocation, consented to and approved the amendment.

F. For the purposes of establishing ownership of the Parity Bonds, the City shall rely solely upon the registration of the ownership of such bonds on the Registration Books kept by the appropriate paying agent/registrar, as provided in the ordinances authorizing the Parity Bonds.

G. Copies of any modification or amendment to any Related Document shall be sent to S&P and Moody's, at least ten days prior to the effective date thereof.

H. Notwithstanding the foregoing, the holders of Bonds, by their purchase of Bonds, and the Insurer shall, at the time of initial delivery of the Bonds, be deemed to have consented to the change in definition of Credit Facility referenced in this Ordinance for the purpose of an earlier effectuation of such definitional change, and such consent shall, at any time while the Bonds are Outstanding, be applied and count toward the satisfaction of the necessary threshold of Parity Bondholder consent for the effectuation of such amendment (as specified in Subsection A of this Section above). This amendment to such definitional change will become effective upon the initial issuance of delivery of the Bonds.

SECTION 24: Maintenance and Operation-Insurance. The City hereby covenants and agrees that the System shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Parity Bonds are Outstanding, the City, acting by and through the Board, agrees to maintain insurance of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business.

SECTION 25: Records--Accounts-Accounting Reports. The City hereby covenants and agrees that so long as any Parity Bonds, or any interest thereon, remain outstanding and unpaid, a proper and complete set of records and accounts pertaining to the operation of the System shall be kept and maintained separate and apart from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the System as provided in Article 1113, Vernon's Texas Civil Statutes, as amended (codified as Section 1502.069, Texas Government Code on September 1, 1999), and that the holder or holders of any of the Parity Bonds or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts, and data relating thereto and to inspect the System and all properties comprising the same. The Board shall, so far as practicable, keep

its books and records in the manner prescribed in the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners. It is further agreed that as soon after the close of each Fiscal Year as may reasonably be done, the City (acting by and through the Board) will cause an annual audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountants, shall reflect the revenues and expenses of the System for said Fiscal Year, and the assets, liabilities, and financial condition of the System (in reasonable detail) at the close of such Fiscal Year. Expenses incurred in making the audit above referred to are to be regarded as Maintenance and Operating Expenses and paid as such.

SECTION 26: Remedies in the Event of Default. In addition to all of the rights and remedies provided by the laws of the State of Texas, it is specifically covenanted and agreed particularly that in the event the City (i) defaults in the payments to be made to the Retirement Account as required by this Ordinance or (ii) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the holder or holders of any Parity Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City, its officers, the Board, and/or all of them, to observe and perform any covenants, conditions, or obligations prescribed in this Ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedies herein provided shall be cumulative of all other existing remedies and the specifications of such remedies shall not be deemed to be exclusive. However, in no event will acceleration of the maturity of the Bonds be a remedy available to any person.

SECTION 27: Special Covenants. The City hereby further covenants as follows:

A. It has the lawful power to pledge the revenues supporting the Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas, and the Bonds issued hereunder and the Additional Parity Bonds, when issued, shall be equally and ratably secured under said pledge of income in such manner that one bond shall have no preference over any other bond of said issues.

B. Other than for the payment of the Outstanding Bonds and the Bonds herein authorized, the rents, revenues, and income of the System have not in any manner been pledged to the payment of any superior or equally secured debt or obligation of the City or of the System.

C. So long as any of the Parity Bonds or any interest thereon remain outstanding, the City will not sell or encumber the System or any substantial part thereof, provided that this shall not be construed to prohibit the sale of such machinery or other properties or equipment by the Board which has become obsolete or otherwise unsuited to the efficient operation of the System; and, further, with the exception of the Additional Parity Bonds expressly permitted by this Ordinance, the City will not encumber the Net Revenues unless such encumbrance is made junior and subordinate to all of the provisions of this Ordinance.

D. To the extent it legally may, the City further covenants and agrees that, so long as any Parity Bonds or any interest thereon are outstanding, no franchise shall be granted for the installation or operation of any competing electric system other than that owned by the City, and the operation of any such system by anyone other than the City is hereby prohibited.

E. Except as permitted by applicable law, the City covenants that no free service will be provided by the System.

SECTION 28: Bonds are Special Obligations. The Bonds authorized by this Ordinance are special obligations of the City payable from the pledged Net Revenues and the holders thereof shall never have the right to demand payment out of funds raised or to be raised by taxation.

SECTION 29: Damaged, Mutilated, Lost, Stolen, or Destroyed Bonds. In the event any outstanding Bond is damaged, mutilated, lost, stolen, or destroyed, the Paying Agent/Registrar shall cause to be printed, executed, and delivered, a new bond of the same principal amount, maturity, and interest rate, as the damaged, mutilated, lost, stolen, or destroyed Bond, in replacement for such Bond in the manner hereinafter provided.

A. Application for replacement of damaged, mutilated, lost, stolen, or destroyed Bonds shall be made to the Paying Agent/Registrar. In every case of loss, theft, or destruction of a Bond, the applicant for a replacement bond shall furnish to the City and to the Paying Agent/Registrar such security or indemnity as may be required by them to save each of them harmless from any loss or damage with respect thereto. Also, in every case of loss, theft, or destruction of a Bond, the applicant shall furnish to the City and to the Paying Agent/Registrar evidence to their satisfaction of the loss, theft, or destruction of such Bond, as the case may be. In every case of damage or mutilation of a Bond, the applicant shall surrender to the Paying Agent/Registrar for cancellation the Bond so damaged or mutilated.

B. Notwithstanding the foregoing provisions of this Section, in the event any such Bond shall have matured, and no default has occurred which is then continuing in the payment of the principal of, redemption premium, if any, or interest on the Bond, the City may authorize the payment of the same (without surrender thereof except in the case of a damaged or mutilated Bond) instead of issuing a replacement Bond, provided security or indemnity is furnished as above provided in this Section.

C. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the City whether or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and proportionately with any and all other Bonds duly issued under this Ordinance.

D. This Section of this Ordinance shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such bonds is hereby authorized and

imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such bonds in the form and manner and with the effect, as provided in Section 5 of this Ordinance for Bonds issued in conversion and exchange for other Bonds.

SECTION 30: Ordinance to Constitute Contract; Recitals Incorporated. The provisions of this Ordinance shall constitute a contract between the City and the holder or holders from time to time of the Bonds and after the issuance of any of said bonds, no change, variation, or alteration of any kind in the provisions of this Ordinance may be made, unless as herein otherwise provided, until all of said bonds issued hereunder shall have been paid as to both principal and interest. The recitals and preamble of this Ordinance are incorporated by reference herein and shall be considered operative provisions hereof.

* * * *

[This page is intentionally left blank.]

APPENDIX C

The information contained in Appendix C consists of City of Floresville Electric Light & Power System,
Annual Financial Report for Fiscal Year Ended December 31, 2019.

[This page is intentionally left blank.]

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas

December 31, 2019 and 2018

Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	3
Financial Statements	
Statements of Net Position	9
Statements of Revenues, Expenses and Changes in Net Position	10
Statements of Cash Flows	11
Fiduciary Activities – Statements of Fiduciary Net Positions.....	13
Fiduciary Activities – Statements of Changes in Fiduciary Net Position.....	14
Notes to the Financial Statements	15
Required Supplementary Information	
Schedule of Changes in FELPS' Net Pension Liability and Related Ratios (Unaudited).....	37
Schedule of FELPS' Contributions to Pension Plan (Unaudited)	38
Supplementary Information	
Summary of Property and Equipment and Accumulated Depreciation.....	39
Schedule of Revenue Bond Debt Service Requirements to Maturity.....	40
Schedule of Power Sold.....	42

Independent Auditor's Report

The Board of Trustees
Floresville Electric Light
and Power System
Floresville, Texas

We have audited the accompanying financial statements of the business-type activities and the fiduciary activities of Floresville Electric Light and Power System (System/FELPS), a component unit of City of Floresville, Texas, as of and for the years ended December 31, 2019 and 2018, and the related notes to the financial statements, which collectively comprise FELPS' 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of FELPS as of December 31, 2019 and 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2019, the System adopted GASB 84, *Fiduciary Activities*. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise FELPS' basic financial statements. The Summary of Property and Equipment and Accumulated Depreciation, Schedule of Revenue Bond Debt Service Requirements to Maturity and Schedule of Power Sold as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the financial statements.

The Summary of Property and Equipment and Accumulated Depreciation, Schedule of Revenue Bond Debt Service Requirements to Maturity and Schedule of Power Sold supplemental information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Summary of Property and Equipment and Accumulated Depreciation, Schedule of Revenue Bond Debt Service Requirements to Maturity and Schedule of Power Sold supplemental information is fairly stated in all material respects in relation to the basic financial statements as a whole.

BKD, LLP

San Antonio, Texas
March 25, 2020

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Management's Discussion and Analysis
Fiscal Years Ended December 31, 2019 and 2018

The Management Discussion and Analysis (MD&A) serves as an introduction to the financial statements of Floresville Electric Light and Power System (FELPS/System). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the years ended December 31, 2019 and 2018. It also provides an overview of FELPS' general financial condition and results of operations for the years ended December 31, 2019 and 2018. This MD&A is in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The Audited Financial Statements Presented this Year Include the Following:

The *Statements of Net Position* present information on FELPS' assets, deferred outflows of resources, liabilities and deferred inflows of resources as of the end of the respective reporting periods. Assets are reported as current and restricted. Restricted assets include cash, cash equivalents and investments. These assets are classified as restricted due to State Law and Bond Ordinances. Additionally, receivables, investments inventories, prepayments and net capital assets are itemized. Liabilities are segregated into current and noncurrent to illustrate the long-term nature of net debt. Additionally, accounts payable, customer deposits, accrued liabilities and pension are itemized. Net position or the difference between the total assets and total liabilities, are reported. Net position is classified as net investment in capital assets (net of related debt), restricted and unrestricted which is available for operations. These statements provide information on the credit worthiness of the utility system as a whole.

The *Statements of Revenues, Expenses and Changes in Net Position* include all reporting period revenues and expenses. These statements identify the amount of revenue generated from existing energy sales to cover operating expenses for the year, with operating expenses shown by major cost categories. Remaining revenue is available to pay for disbursements according to the flow of funds, as stated in the Bond Ordinance.

The *Statements of Cash Flows* are prepared using the direct method, in accordance with GASB 34, which reports cash receipts and payments along with a reconciliation of operating income to net cash provided by the operating activities. Categories of cash flows presented are cash flows from operating activities, noncapital financing activities, capital and related financing activities and investing activities. The changes in cash balances during the year shown is an important indicator of FELPS' liquidity and financial condition. The flow of funds of the System, as stated in the Bond Ordinance, requires gross revenues of the System be applied in sequence: (1) to the payment of current Maintenance and Operation Expenses, (2) to the payment of all Parity Bonds, including the establishment and maintenance of the reserve fund portion of the retirement account or repayment of any Reserve Fund surety policy, (3) to the payment and security of obligations hereinafter issued which are inferior in lien to the Parity Bonds, (4) to the Repair and Replacement Account, (5) to the payment of the annual amount due to the Participating Cities and (6) for any purpose authorized by law for the benefit of the System.

GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires governments to recognize capital contributions to enterprise funds as revenues, not contributed capital. This revenue is shown on the statements of revenues, expenses and changes in net position.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Management's Discussion and Analysis

Fiscal Years Ended December 31, 2019 and 2018

Following are other analyses and explanations of the transactions, activities and events that had a major impact on either the net position or the change in net position for 2019 and 2018. This discussion will include three years of comparative data in accordance with GASB 34.

Major Transactions and Events

FELPS, during its history, has shown steady growth. When the System was purchased from CPS Energy (CPSE) in 1942, by the cities of Floresville, Stockdale and Poth, the utility had 802 customers compared with an average of 16,083 and 15,829 at the end of 2019 and 2018, respectively.

FELPS did not issue Revenue Bonds in 2019, however, Fitch Ratings reaffirmed FELPS' AA- rating, with a stable outlook. During 2018, Standard & Poor's raised FELPS' rating from A+ to AA- on the senior lien debt and raised the rating on the junior lien debt from A to A+. FELPS received an AA- rating from Fitch for the 2018 bond issuance. Bond funds will be used on significant capital projects over the next three years.

CPSE, with an industry leading credit rating, continues to serve as FELPS' wholesale power supplier. CPSE continues to diversify the fuel mix with traditional and renewable fuel sources. CPSE uses the output from two units of the South Texas Project (STP) nuclear power plant near Bay City, Texas, as well as output from natural gas and coal-fired plants. During 2019 and 2018, CPSE continued to increase their renewable generation capacity, securing their position as a leader in Texas renewable generation. They began a project to produce emission-free renewable energy and another to battery energy storage. CPSE also continued projects to increase energy efficiency and reduce pollution emissions. This diverse mix of generation fuels and efficiency help keep the electric bills the lowest among the nation's largest cities, which allow FELPS to keep electric retail bills low.

FELPS' Wholesale Power Agreement with CPSE began January 1, 2016. During 2016, FELPS renegotiated the agreement to include a cost reduction and an extension of the terms through December 31, 2025.

FELPS is allowed by the System Agreement and based on FELPS Board authorization, to transfer up to three percent of the system's gross electric sales revenue to the owner cities – Floresville, Stockdale and Poth. According to the franchise agreements, FELPS transfers 2 ½ of gross electric sales within the city limits of La Vernia and 2 percent within the city limits of Falls City. During 2019 and 2018, these distributions were made.

FELPS maintains ongoing training and development of staff with participation in outside organizations related to FELPS' engineering, operational and financial functions. Board of Trustee members attend periodic work sessions to help them make informed decisions. FELPS has implemented enhanced and regular key staff meetings to disseminate information and obtain vital feedback. Customers are continually provided timely information through bill mailings and other forums.

FELPS is meeting all legal and environmental standards. FELPS continues to work with the American Public Power Association, the Texas Public Power Association and other trade associations to ensure the best interests of the System.

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Management's Discussion and Analysis
Fiscal Years Ended December 31, 2019 and 2018

Management and the Board reviews all budgets on an ongoing basis and annually updates forecasts with new financial analysis from actual experience. FELPS financial planning window extends through 2023 and remains on track with its long-range forecast and plans.

The Board of Trustees and Management team continue to work well together and there is a good working relationship with the owner and franchise cities. FELPS is well positioned to provide quality service to meet growth requirements, as well as provide competitive service to the customers. FELPS also supports the community through donations for scholarships, stock shows and various other activities.

Comparison of 12 Months Ended December 2019, 2018 and 2017

Operating revenues from electric sales for year 2019 totaled \$38,198,212, a 4.2 percent decrease from the previous year. This overall decrease in revenue is attributed to the reduction in generation and transmission costs and slightly lower sales. During the year the number of customers increased by 254 to a year-end average of 16,083 presenting a 1.6 percent increase.

The Total Purchased Power Cost was \$24,785,481 or approximately 5.9 percent lower than the comparable amount for 2018. The purchased power cost was due to the savings on the fuel component in the wholesale power agreement and lower purchases as compared to 2018. The fuel and regulatory component of the purchased power cost is passed through to the customers in the form of a charge as stated in the FELPS rate tariffs.

FELPS' operating and maintenance expenses, other than Purchased Power Costs, amounted to \$9,033,146, which was 0.5 percent higher as compared to the previous year. Total depreciation expense amounted to \$3,481,995, which was \$159,256 or 4.8 percent greater than 2018. This increase reflects the distribution plant additions.

FELPS makes payments to the cities of Floresville, Stockdale and Poth based on a percentage of the prior year's gross electric sales revenue. FELPS, once again, has met the owner cities distribution transfer at the maximum Bond Ordinance level of three percent. The amount distributed in 2019 totaled \$1,195,918, which increased by 2.7 percent over last year, reflecting the slightly increased revenue used for the distribution calculation. Of this total, Floresville received \$765,388 and Poth and Stockdale each received \$215,265.

Income before contributions and distributions was \$4,673,121 in 2019, as compared to \$5,015,591 in 2018. This decrease of \$342,470 or 6.8 percent was primarily because of a decrease in revenue, due to a lower generation and transmission charge, versus a larger increase in expenses.

Operating revenues from electric sales for year 2018 totaled \$39,863,943, a 2.7 percent increase from the previous year. This overall increase in revenue is attributed to the additional sales for 2018. During the year the number of customers increased by 260 to a year-end average of 15,829; representing a 1.7 percent increase.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Management's Discussion and Analysis

Fiscal Years Ended December 31, 2019 and 2018

The Total Purchased Power Cost was \$26,349,170 or approximately 0.9 percent higher than the comparable amount for 2017. This increase was due to the higher fuel and regulatory charges in 2018. The fuel and regulatory component of the purchased power cost is passed through to the customers in the form of a charge as stated in the FELPS rate tariffs.

FELPS' operating and maintenance expenses, other than Purchased Power Costs, amounted to \$8,896,295, which was 4.7 percent lower as compared to the previous year. Total depreciation expense amounted to \$3,322,739, which was \$97,611 or 3.0 percent greater than 2017. This increase reflects the distribution plant additions.

FELPS makes payments to the cities of Floresville, Stockdale and Poth based on a percentage of the prior year's gross electric sales revenue. FELPS, once again, has met the owner cities distribution transfer at the maximum Bond Ordinance level of 3 percent. The amount distributed in 2018 totaled \$1,164,485, which increased by 0.9 percent over last year, reflecting the increased revenue from 2017. Of this total, Floresville received \$745,272 and Poth and Stockdale each received \$209,607.

Income before contributions and distributions was \$5,015,591 in 2018 as compared to \$3,825,723 in 2017. This increase of \$1,189,868 or 31.1 percent was primarily due to the increase in rate revenue, other income and applying pension expense as a regulatory asset in 2018.

Summary of Revenues, Expenses and Changes in Net Position Information

	Years Ended December 31,			Change		Change	
	2019	2018	2017	2019 vs. 2018		2018 vs 2017	
Operating Revenues							
Electric revenue	\$ 38,198,212	\$ 39,863,943	\$ 38,816,155	\$ (1,665,731)	-4.2%	\$ 1,047,788	2.7%
Total operating revenues	38,198,212	39,863,943	38,816,155	(1,665,731)	-4.2%	1,047,788	2.7%
Operating Expenses							
Purchased power	24,785,481	26,349,170	26,112,071	(1,563,689)	-5.9%	237,099	0.9%
Depreciation	3,481,995	3,322,739	3,225,128	159,256	4.8%	97,611	3.0%
Distribution expenses	1,913,713	2,062,769	2,467,866	(149,056)	-7.2%	(405,097)	-16.4%
Transmission	2,886	3,297	6,463	(411)	-12.5%	(3,166)	-49.0%
Meter reading, accounting and collecting	2,333,018	2,358,967	2,426,180	(25,949)	-1.1%	(67,213)	-2.8%
Administrative	1,301,534	1,238,523	1,306,532	63,011	5.1%	(68,009)	-5.2%
Total operating expenses	33,818,627	35,335,465	35,544,240	(1,516,838)	-4.3%	(208,775)	-0.6%
Nonoperating Revenues (Expenses)							
Interest on bonded debt	(1,504,946)	(980,628)	(956,850)	(524,318)	53.5%	(23,778)	2.5%
Net cost recoverable	-	(78,861)	-	78,861	-100.0%	(78,861)	100.0%
Other income, net	1,798,482	1,546,602	1,510,658	251,880	16.3%	35,944	2.4%
Total nonoperating revenues	293,536	487,113	553,808	(193,577)	-39.7%	(66,695)	-12.0%
Income before contributions	4,673,121	5,015,591	3,825,723	(342,470)	-6.8%	1,189,868	31.1%
Contributions in aid of construction	648,265	469,943	542,218	178,322	37.9%	(72,275)	-13.3%
Change in fund net position	5,321,386	5,485,534	4,367,941	(164,148)	-3.0%	1,117,593	25.6%
Payments to the cities of Floresville, Stockdale and Poth	(1,195,918)	(1,164,485)	(1,153,963)	(31,433)	2.7%	(10,522)	0.9%
Net position - Beginning	42,914,838	38,593,789	35,379,810	4,321,049	11.2%	3,213,979	9.1%
Net Position - Ending	\$ 47,040,306	\$ 42,914,838	\$ 38,593,788	\$ 4,125,468	9.6%	\$ 4,321,050	11.2%

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Management's Discussion and Analysis
Fiscal Years Ended December 31, 2019 and 2018

Total assets plus deferred outflows of resources at December 31, 2019, amounted to \$104,944,412, an increase of \$2,541,422. The increase from the prior year can be attributed to additional regulatory assets during the year. Bonds proceeds from the 2018 Bond Issue will be spent over the three-year period of 2019-2021.

Total assets plus deferred outflows of resources at December 31, 2018, amounted to \$102,402,990, an increase of \$19,248,630. The increase from the prior year is mostly due to an increase in proceeds from the 2018 bond issuance and capital plant additions. Bond proceeds from the 2018 Bond Issue will be spent over the next three years.

Summary of Statement of Net Position Information

	December 31,		
	2019	2018	2017
Assets			
Current and other assets	\$ 43,698,018	\$ 45,625,952	\$ 29,214,622
Capital assets - net	60,541,342	56,777,038	53,445,587
Deferred Outflows of Resources	705,052	-	494,151
Total assets and deferred outflows of resources	<u>\$ 104,944,412</u>	<u>\$ 102,402,990</u>	<u>\$ 83,154,360</u>
Liabilities			
Current liabilities	\$ 6,562,669	\$ 7,366,182	\$ 6,102,123
Noncurrent liabilities	50,380,760	51,836,572	38,458,448
Deferred Inflows of Resources	960,677	285,398	-
Total liabilities and deferred inflows of resources	<u>57,904,106</u>	<u>59,488,152</u>	<u>44,560,571</u>
Net Position			
Net investment in capital assets	34,710,043	31,714,741	27,180,318
Restricted	969,311	2,569,292	2,957,036
Unrestricted	11,360,952	8,630,805	8,456,435
Net position	<u>47,040,306</u>	<u>42,914,838</u>	<u>38,593,789</u>
	<u>\$ 104,944,412</u>	<u>\$ 102,402,990</u>	<u>\$ 83,154,360</u>

For the year ended December 31, 2019, cash and bond funds used for capital expenditures amounted to \$7,150,702 compared with \$6,716,950 in 2018, an increase of 11.8 percent. Capital expenditures are funded with a mixture of bond funds and cash reserves. FELPS continues to implement strategic initiatives and cost-containment efforts to provide effective, reliable and cost-efficient electricity. Major projects included in the capital expenditures for 2019 were pole testing and replacing poles throughout the

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Management's Discussion and Analysis

Fiscal Years Ended December 31, 2019 and 2018

distribution system, purchase of land for a new office complex, and the first phases of design on the new office complex. Several other major projects were continued in 2019. The design and engineering work for a new circuit out of the Sutherland Springs Substation is complete and construction will begin in the first quarter of 2020. Approximately 75 percent of the meters were replaced with AMI meters. The project is scheduled to be completed in the second quarter of 2020. FELPS constructed distribution lines to newly developed service areas, including several subdivisions. Many components associated with our network and infrastructure were upgraded. Other small capital projects were completed during 2019. Major projects expected in 2020 include the testing and replacing of rotten poles, completing the construction on the Sutherland Springs Substation circuit, the final phase of the Advanced Metering Infrastructure project and continued technology upgrades. Construction is expected to begin on the new office complex. Also budgeted for 2020, is the purchase of a right-of-way bucket, maintenance bucket, and small compressor. The first phase of a new radio system project will also begin. FELPS continues to optimize the level of permanent staff size with the use of unique outside professional services and contractors. FELPS had no changes to long-term debt other than payments in 2019 and issued \$14,770,000 of new bonds in 2018. There were no changes to credit ratings of bonds in 2019 or 2018.

For the year ended December 31, 2018, cash and bond funds used for capital expenditures amounted to \$6,716,950 compared with \$6,411,876 in 2017, an increase of 4.8 percent. As of December 31, 2017, FELPS exhausted the proceeds from the 2014 Bond Issue. Capital expenditures are funded with a mixture of bond funds and cash reserves, although 2018 was funded strictly through cash. FELPS continues to implement strategic initiatives and cost-containment efforts to provide effective, reliable and cost-efficient electricity. Major projects included in capital expenditures for 2018 were replacing rotten poles throughout the distribution system. A third power transformer was replaced at the Floresville Substation. Several other major projects were started in 2018. The design and engineering work for a new circuit out of the Sutherland Springs Substation is near completion. The communications equipment for an Advanced Metering Infrastructure was installed and approximately 15 percent of our current meters were replaced with AMI meters. An infrastructure audit project is underway to identify all equipment, phasing, wire size and report any damage found on the FELPS' poles. This project will help improve reliability and improve the safety of our employees when working. FELPS constructed distribution lines to newly developed service areas. Many components associated with our network domain and infrastructure were upgraded. Other small capital projects were completed during 2018.

Summary of Capital Assets, Net of Depreciation Information (Dollars in Thousands)

	December 31,			Change		Change	
	2019	2018	2017	2019 vs. 2018		2018 vs. 2017	
Electric plant distribution	\$ 58,446	\$ 55,146	\$ 52,390	\$ 3,300	6.0%	\$ 2,756	5.3%
Land, buildings and improvements	1,058	237	182	821	346.4%	55	30.2%
Automobiles and trucks	575	841	592	(266)	-31.6%	249	42.1%
Office and computer equipment	406	497	224	(91)	-18.3%	273	121.9%
Large tools	56	56	58	-	0.0%	(2)	-3.4%
Capital assets - net of depreciation	<u>\$ 60,541</u>	<u>\$ 56,777</u>	<u>\$ 53,446</u>	<u>\$ 3,764</u>	<u>6.6%</u>	<u>\$ 3,331</u>	<u>6.2%</u>

For more information, contact Winston G. Low, General Manager at 830.216.7000, ext. 257 or Marcy Jacobs, Executive Manager, Business Operations at ext. 261. FELPS' mailing address is P. O. Box 218, Floresville, Texas 78114.

(THIS PAGE INTENTIONALLY LEFT BLANK)

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Statements of Net Position
December 31, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	\$ 20,280,588	\$ 18,796,639
Restricted cash		
Customer utility deposit fund	249,377	249,300
Construction fund	7,693,000	5,590,000
Investments - certificates of deposit		
Operating fund - unrestricted	1,450,000	1,450,000
Customer utility deposit fund - restricted	500,000	700,000
Repair and replacement fund - restricted	250,000	-
Accounts receivable - trade (net of allowance for doubtful accounts 2019 - \$68,500 and 2018 - \$67,430)	1,886,633	1,721,054
Accounts receivable - miscellaneous	71,560	48,481
Accrued interest receivable	24,861	20,149
Inventory	1,427,532	1,601,024
Prepaid expenses	281,968	257,962
Total current assets	34,115,519	30,434,609
Noncurrent Assets		
Restricted cash		
Bond retirement fund	1,468,276	1,369,355
Bond reserve fund	-	1,518,620
Construction fund	5,308,743	10,165,515
Investments - certificates of deposit		
Operating fund - unrestricted	500,000	500,000
Repair and replacement fund - restricted	-	250,000
Customer utility deposit fund - restricted	200,000	-
Regulatory assets (Note 10)	2,105,480	1,387,853
Total noncurrent assets	9,582,499	15,191,343
Capital Assets		
Electric plant	104,775,641	99,254,344
General plant	9,557,388	8,969,927
	114,333,029	108,224,271
Less accumulated depreciation	53,791,687	51,447,233
Total capital assets	60,541,342	56,777,038
Total noncurrent and capital assets	70,123,841	71,968,381
Total assets	104,239,360	102,402,990
Deferred Outflows of Resources		
Pension items	705,052	-
Total assets and deferred outflows of resources	\$ 104,944,412	\$ 102,402,990

See Notes to Financial Statements

	<u>2019</u>	<u>2018</u>
Liabilities		
Current Liabilities		
Current maturities of revenue improvement bonds payable	\$ 2,189,226	\$ 2,265,000
Accounts payable - trade	2,626,045	3,491,590
Customer deposits	946,309	949,300
Accrued bond interest payable	523,826	338,832
Accrued liabilities		
Sales tax	49,420	43,802
Other	227,843	277,658
Total current liabilities	<u>6,562,669</u>	<u>7,366,182</u>
Noncurrent Liabilities		
Revenue improvement bonds payable	37,071,881	39,390,227
Net pension liability	<u>13,308,879</u>	<u>12,446,345</u>
Total noncurrent liabilities	<u>50,380,760</u>	<u>51,836,572</u>
Total liabilities	<u>56,943,429</u>	<u>59,202,754</u>
Deferred Inflows of Resources		
Pension items	<u>960,677</u>	<u>285,398</u>
Net Position		
Net investment in capital assets	34,710,043	31,714,741
Restricted	969,311	2,569,292
Unrestricted	<u>11,360,952</u>	<u>8,630,805</u>
Total net position	<u>47,040,306</u>	<u>42,914,838</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 104,944,412</u>	<u>\$ 102,402,990</u>

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating Revenues		
Electric revenue	\$ 38,198,212	\$ 39,863,943
Operating Expenses		
Purchased power	24,785,481	26,349,170
Distribution expenses		
System operations - distribution	987,541	1,064,653
System maintenance - distribution	832,636	920,383
Street lighting maintenance - distribution	93,536	77,733
Total distribution expenses	<u>1,913,713</u>	<u>2,062,769</u>
Transmission	2,886	3,297
Meter reading, accounting and collecting	2,333,018	2,358,967
Administrative and general	1,301,534	1,238,523
Depreciation		
Electric plant	3,118,038	2,977,956
General plant	363,957	344,783
Total depreciation	<u>3,481,995</u>	<u>3,322,739</u>
Total operating expenses	<u>33,818,627</u>	<u>35,335,465</u>
Operating Income	<u>4,379,585</u>	<u>4,528,478</u>
Nonoperating Revenues (Expenses)		
Miscellaneous service sales and other - net of expenses	467,194	428,086
Interest on investments	473,183	211,673
Miscellaneous and late fees	858,105	906,843
Interest on bonded debt	(1,504,946)	(980,628)
Net costs recoverable	-	(78,861)
Total nonoperating revenues	<u>293,536</u>	<u>487,113</u>
Income Before Contributions and Distributions	4,673,121	5,015,591
Capital contributions	648,265	469,943
Cash distributions - cities	(1,195,918)	(1,164,485)
Change in Net Position	4,125,468	4,321,049
Net Position, Beginning	42,914,838	38,593,789
Net Position, Ending	<u>\$ 47,040,306</u>	<u>\$ 42,914,838</u>

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Cash received from customers	\$ 38,009,554	\$ 40,158,783
Cash payments to suppliers for goods and services	(28,254,612)	(28,876,550)
Cash payments to employees for services	(3,053,768)	(3,559,244)
Net cash provided by operating activities	6,701,174	7,722,989
Cash Flows from Noncapital Financing Activities		
Other noncapital financing receipts	1,325,299	1,334,930
Cash distributions to cities from retained earnings	(1,195,918)	(1,164,486)
Net cash provided by noncapital financing activities	129,381	170,444
Cash Flows from Capital and Related Financing Activities		
Additions to capital assets	(7,076,776)	(6,654,190)
Proceeds on sale of capital assets	269,088	-
Contribution in aid of construction	648,265	469,943
Bonds payable payment	(2,265,000)	(1,655,000)
Net bond proceeds	-	16,000,000
Interest paid on bonds	(1,564,048)	(980,628)
Net cash provided by (used in) capital and related financing activities	(9,988,471)	7,180,125
Cash Flows from Investing Activities		
Purchase of certificates of deposit	(2,200,000)	(2,650,000)
Proceeds from maturities of certificates of deposit	2,200,000	2,650,000
Interest income	468,471	201,856
Net cash provided by investing activities	468,471	201,856
Net increase (decrease) in cash and cash equivalents	(2,689,445)	15,275,414
Cash and Cash Equivalents, Beginning of Year	37,689,429	22,414,015
Cash and Cash Equivalents, End of Year	\$ 34,999,984	\$ 37,689,429
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Restricted - current	\$ 7,942,377	\$ 5,839,300
Restricted - noncurrent	6,777,019	13,053,490
Unrestricted	20,280,588	18,796,639
	\$ 34,999,984	\$ 37,689,429

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities		
Operating income	\$ 4,379,585	\$ 4,528,478
Noncash items included in income from operations		
Depreciation expense	3,481,995	3,322,739
Change in net pension liability	862,534	(450,157)
Effect of changes in operating working capital		
Accounts receivable	(188,658)	294,840
Inventory	173,492	(14,487)
Prepaid expenses	(24,006)	(18,599)
Regulatory assets	(787,643)	(451,158)
Deferred outflows of resources - pension	(671,239)	-
Accounts payable	(1,304,157)	(264,012)
Customer deposits	(2,991)	(2,324)
Accrued liabilities	140,796	(1,880)
Deferred inflows of resources - pension	641,466	779,549
	\$ 6,701,174	\$ 7,722,989
Noncash Capital and Related Financing Activities		
Amortization of regulatory asset (debt issuance cost)	\$ 70,018	\$ 78,861
Amortization of bond premiums	\$ 129,120	\$ 29,402
Additions to electric utility plant through accounts payable	\$ 438,613	\$ -

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas

Statements of Fiduciary Net Position

Fiduciary Fund

Pension Trust

December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 345,260	\$ 329,344
Investments at fair value		
U.S. government obligations	702,859	610,683
Domestic corporate bonds	976,859	978,610
Mutual funds	5,039,040	4,325,805
Domestic stocks	4,328,176	3,698,240
Interest and dividend receivable	12,822	12,949
Prepaid benefits	95,914	89,466
	11,500,930	10,045,097
Liabilities		
Accrued expenses	-	127
Total liabilities	-	127
Net Position		
Restricted for pensions	11,500,930	10,044,970
Total net position	\$ 11,500,930	\$ 10,044,970

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Statements of Changes in Fiduciary Net Position
Fiduciary Fund
Pension Trust
Years Ended December 31, 2019 and 2018

	2019	2018
Additions		
Contributions		
Members	\$ 227,565	\$ 233,093
Employer	632,201	621,579
Total contributions	859,766	854,672
Investment earnings		
Net (depreciation) appreciation in fair value of investments	1,527,565	(1,267,995)
Realized gain	126,688	281,177
Interest	57,518	62,157
Dividends	284,890	301,241
Total investment earnings (loss)	1,996,661	(623,420)
Less investment fees	(60,139)	(61,167)
Total additions	2,796,288	170,085
Deductions		
Benefits paid to participants or beneficiaries	1,340,328	1,258,216
Total deductions	1,340,328	1,258,216
Net Increase (Decrease) in Fiduciary Net Position	1,455,960	(1,088,131)
Net Position, Beginning of Year	10,044,970	11,133,101
Net Position, End of Year	\$ 11,500,930	\$ 10,044,970

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

Note 1: Summary of Significant Accounting Policies

Reporting Entity

Floresville Electric Light and Power System (System/FELPS) is a municipally owned electric light and power distribution system which serves most of Wilson County, Texas, and portions of Bexar and Karnes Counties, Texas, including the cities of Floresville (City), Stockdale, Poth (each a participating city), Falls City and La Vernia. Management and control of the System is vested in a five-member Board of Trustees composed of the Mayor of Floresville, one member for each of the cities of Floresville, Poth and Stockdale appointed by the respective governing body and one member appointed on a rotating basis by the City Councils of the Cities of Floresville, Poth and Stockdale. The Board also includes two non-voting advisory members appointed by the cities of Falls City and La Vernia. As a municipal utility and a separate governmental entity, FELPS is exempt from taxes on its property and income. As required by GAAP, these financial statements present the System (the primary government) and its component unit, entity for which the System is considered to be financially accountable. In accordance with GASB Statement No. 14, as amended by GASB Statement No. 39, GASB Statement No. 61, and GASB Statement No. 84, the discretely presented component unit discussed below has been included in the System's reporting entity because of the significance of its operational or financial relationship with the System. The System has no blended component units.

The FELPS' pension plan (Plan) is a single-employer defined benefit pension plan designated as a public retirement system as defined in and authorized by Section 810.001 of the Texas Government Code and a government plan within the meaning of the IRC Section 414(d). The Plan is administered by the System and is fiscally dependent on the System. The Plan is reported as a fiduciary fund. The Plan issues a publicly available financial report that includes financial statements and required supplementary information of the Plan. Detailed information about the pension plan's fiduciary net position is available in that report. That report may be obtained by writing to Floresville Electric Light and Power System, P.O. Box 218, Floresville, Texas 78114 (a fee exists related to the copying of these financial statements).

The City reports FELPS as a proprietary discretely presented component unit in its Comprehensive Annual Financial Report (CAFR). FELPS operates under one industry segment with all operations in the Wilson County and portions of Bexar County and Karnes County areas. FELPS, as part of the City, is not subject to federal income taxes.

Basis of Accounting

FELPS accounts for its financial operations as a "proprietary fund" and the accompanying financial statements have been prepared using the accrual method of accounting in conformity with accounting principles generally accepted in the United States of America. FELPS' accounts are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission (FERC).

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

FELPS' accounting policies also follow the regulated operations provisions of Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which permits an entity with cost-based rates to defer certain costs or income that would otherwise be recognized when incurred to the extent that the rate-regulated entity is recovering or expects to recover such amounts in rates charged to customers. This method includes the philosophy that debt service requirements, as opposed to depreciation or amortization, are a cost for rate making purposes.

Use of Estimates

In preparing the financial statements, management is required to make estimates and assumptions that affect reported amounts of assets, deferred inflows and outflows of resources and liabilities and disclosure of contingent assets and liabilities as of the date of the statements of net position and reported revenues and expenses for the period. Actual results could differ from those estimates.

Budgets and Budgetary Accounting

FELPS is not legally required to adopt a budget; therefore, comparative statements of actual expenses to budgeted expenses are not included.

Cash and Cash Equivalents

The System considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2019 and 2018, cash equivalents consisted primarily of money market accounts with a bank.

Investments and Investment Income

FELPS invests funds in accordance with its policy, bond indentures and the Texas Public Funds Investment Act. Investments in investment pools and negotiable certificates of deposit (CDs) are carried at amortized cost. Investment income consists of interest and dividend income. Investments at December 31, 2019 and 2018, consisted of CDs and TexPool funds.

Restricted and Board Designated Assets

The bond retirement and bond reserve funds consist of monies deposited in accordance with debt service and reserve provisions of bond indentures and ordinances.

Repair and replacement funds are restricted in use to future contingencies and to the construction of improvements to the System as directed by the Board of Trustees.

In January 1996, the Board of Trustees established a Customer Meter Security Deposit Account as restricted funds.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

Trade Accounts Receivable

Trade accounts receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to expense and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written-off through a charge to the valuation allowance and a credit to trade accounts receivable. Accounts receivable is recorded net of estimated uncollectible amounts.

Inventory

Inventory is stated at the lower of cost (moving average method) or net realizable value.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. The System follows the policy of recording line construction at cost, which includes materials, labor and the automotive expenses applicable to the line construction. Other utility plant assets are recorded at cost. Costs of repairs and minor replacements are charged to expense as incurred.

Assets with lives greater than one year and that have a value greater than \$5,000 are capitalized. Depreciation is calculated by the straight-line method over the estimated useful life of each asset. Depreciation on automotive equipment is charged to line construction when applicable thereto. Other depreciation is charged to operations or utility plant depreciation. Estimated useful lives for capital asset additions range from 1 to 30 years.

Impairment of Long-lived Assets

The System reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended December 31, 2019 and 2018.

Compensated Absences

System policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

paid time off are recognized as an expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statements of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. At December 31, 2019 and 2018, the liability for compensated absences was \$129,955 and \$138,462, respectively, and was included in other accrued liabilities on the statement of net position.

Defined Benefit Pension Plan

The System has a single-employer defined benefit pension plan (Pension Plan for the Employees of City of Floresville Electric Light and Power System) (Plan). 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 Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future reporting period(s) and will not be recognized as an outflow of resources (expense or reduction of a liability) until then. FELPS has deferred outflows related to pensions.

Deferred Inflows of Resources

The System reports an acquisition of net position that is applicable to a future reporting period(s) as deferred inflows of resources in a separate section of its statement of net position. FELPS has deferred inflows related to pensions.

Costs Recoverable from Future Billings

Certain income and expense items which would be recognized during the current period are deferred and not included in the determination of the change in net position until such costs are expected to be recovered through rates charged to customers, in accordance with the regulated operations provisions of GASB Statement No. 62. At December 31, 2019 and 2018, costs recoverable from future billings are comprised entirely of costs incurred in relation to FELPS' debt issuance and pension expense.

Net Position

Net position of the System is classified in four components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

includes expendable and nonexpendable net position. Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose as specified by creditors for bond retirement, repair and replacement, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position consists of noncapital assets that are being used for a specified purpose as a bond reserve or part of the construction fund. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted.

Electric Revenue and Purchased Power Expense

Electric revenues are based on meter readings and billings rendered to customers on a monthly basis. As allowed under FERC, the System does not accrue unbilled services rendered. At December 31, 2019 and 2018, the estimated unbilled revenue was approximately \$2,780,000 and \$2,250,000, respectively.

Rate schedules include an adjustment clause. The Systems' adjustment clause permits recovery of regulatory assessments. Beginning in March 2000, the System began recovering assessments from the Public Utility Commission of Texas (PUCT) for transmission access charges and from the Texas Independent System Operator (ISO) for operating costs. FELPS charges their customers a rate per kilowatt hour based on historical rates of purchased power and is adjusted on an annual basis or at the discretion of management of FELPS to recoup the cost of purchased. The difference between the amount FELPS billed their customers and what they were charged for purchased power is considered deferred purchased power and is netted against future purchased power costs.

Classification of Operating and Nonoperating Revenues and Expenses

FELPS defines operating revenues and expenses as those revenues and expenses generated by a specified program offering either a good or service. This definition is consistent with Governmental Accounting Standards Board's (GASB) *Codification of Governmental Accounting and Financial Reporting Standards*, which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities. Operating expenses include purchased power, depreciation expense, and personnel services, contractual services, commodities, other expenses (such as insurance) related to distribution, transmission, meter reading accounting and collecting and administration. Revenues and expenses not fitting the above definitions are considered nonoperating.

Sales Tax

The state of Texas and local municipalities impose sales tax on the System's sales to nonexempt customers. The System collects that tax and remits the entire amount to the state.

The System's accounting policy is to exclude the tax collected and remitted from revenue and cost of power purchased.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

Reclassifications

Certain reclassifications have been made to the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net position.

Revision

The pension deferral for the difference between projected and actual earnings on pension plan assets in the 2018 statement of net position has been netted in accordance with GASB 68 and to be consistent with the 2019 presentation.

Change in Accounting Principles

During the year ended December 31, 2019, the System adopted GASB 84, *Fiduciary Activities*, retroactively by restating the 2018 financial statements to include fiduciary funds statements. A summary of the changes is as follows:

Statements of fiduciary net position and statements of changes in fiduciary net position were added. The System evaluated all potential component units and fiduciary funds and determined there was only one component unit and related fiduciary fund to be added, the Pension Plan for the Employees of City of Floresville Electric Light and Power System.

This change had no impact to the previously reported total change in net position of the business-type activities of the System.

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The System's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. treasury, U.S. agencies or instrumentalities or the state of Texas; bonds of any city, county, school district or special road district of the state of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

As of December 31, 2019 and 2018 the carrying amount of the System's deposits with banks and financial institutions was \$23,910,445 and \$32,143,401, respectively, and bank balances totaled \$23,838,549 and \$32,166,505, respectively. All bank balances were either fully insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized with securities held by third-party financial institutions and listing FELPS as pledgee.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

Investments

Chapter 2256 of the Texas Government Code, (the Public Funds Investment Act) authorizes the System to invest its funds under a written investment policy that ensures the safety of principal, provides liquidity and optimizes return on investments with the constraints of safety and liquidity.

Investment Pools - In accordance with its investment policy, the System is authorized to invest in “Local Government Investment Pools”, and has elected to use TexPool, which is managed by Texas Trust, an entity created by the Texas legislature as a special purpose entity to efficiently and economically manage, invest and safeguard funds for its clients. The cash and investment in TexPool at December 31, 2019 and 2018, of \$11,088,213 and \$5,544,703, respectively, approximates carrying value and fair value at year-end.

Concentration of Credit Risk - The System’s investment policy requires the portfolio to be structured with diversification and securities that have a high credit rating and are liquid in nature. The System places no limit on the amount the System may invest in any one issuer; however, the System manages exposure to concentration of credit risk through diversification.

Interest Rate Risk - Interest rate risk is minimized due to restrictions on weighted-average maturity and maximum maturity of any one investment, which should average 24 months or less.

The primary objectives of the System’s investment activity are the preservation and safety of principal and FELPS’ exposure to interest rate risk, as measured by the segmented time distribution by investment type and are summarized on the next page.

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

December 31, 2019			
Cash and Investment Maturities			
	Carrying Value	Less than One Year	One to Five Years
Cash	\$ 14,869,675	\$ 14,869,675	\$ -
Money Market	9,042,095	9,042,095	-
TexPool	11,088,214	11,088,214	-
Certificates of deposit	2,900,000	2,200,000	700,000
Total cash and investments	\$ 37,899,984	\$ 37,199,984	\$ 700,000
Included in the statements of net position			
Cash and cash equivalents	\$ 20,280,588		
Restricted cash - current	7,942,377		
Investments - current	2,200,000		
Certificates of deposit - noncurrent	700,000		
Restricted cash - noncurrent	6,777,019		
	\$ 37,899,984		

December 31, 2018			
Cash and Investment Maturities			
	Carrying Value	Less than One Year	One to Five Years
Cash	\$ 28,524,232	\$ 28,524,232	\$ -
Money Market	3,620,494	3,620,494	-
TexPool	5,544,703	5,544,703	-
Certificates of deposit	2,900,000	2,150,000	750,000
Total cash and investments	\$ 40,589,429	\$ 39,839,429	\$ 750,000
Included in the statements of net position			
Cash and cash equivalents	\$ 18,796,639		
Restricted cash - current	5,839,300		
Investments - current	2,150,000		
Certificates of deposit - noncurrent	500,000		
Restricted cash - noncurrent	13,053,490		
Restricted investments - noncurrent	250,000		
	\$ 40,589,429		

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

Credit Risk - The System's investment policy seeks to control credit risk by investing in compliance with the policy, qualifying the broker and financial institution with whom the System will transact, sufficient collateralization, portfolio diversification and limiting maturity. The System's investment policy limits the types of investment instruments that may be purchased by the System. TexPool meets the credit risk requirement of their investment policy to invest in securities rated AAA or AAA-m or at an equivalent rating, by at least one nationally recognized rating service.

Custodial Credit Risk - Custodial credit risk for investments is the risk that the System will not be able to recover the value of its investments in the event of a counterparty failure. The System uses third-party banks' custody and safekeeping services for its investment securities. Texas trust has been granted a direct account with the Federal Reserve and the Depository Trust Company and is allowed to maintain custody of assets at these organizations.

Foreign Currency Risk - The System does not engage in any deposit or investment transactions involving foreign currency.

Note 3: Undivided Ownership Interests

In an agreement signed in 1996 by the three mayors of the Cities of Floresville, Stockdale and Poth, each of the three cities shall be deemed an owner of an undivided interest in the System as set out below. The equity percentages so established shall be permanent in effect and shall remain constant regardless of subsequent differences in rates of growth, population or consumption of energy among the cities.

City of	Equity Percentages
Floresville	64%
Stockdale	18%
Poth	18%
	100%

Note 4: Cash Distributions

During 1996, in an agreement that was signed by the three Cities of Floresville, Stockdale and Poth, the System agreed to annually distribute in the aggregate to the cities, an amount not greater than 3 percent of the dollar value of annual electric sales for the entire System for the year. The amount distributed to each City shall be based on the respective equity percentage

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

of each City applied to the total amount approved for distribution by the Board. Any such distribution to the Cities will be paid monthly in amounts equal to one twelfth of the total distribution amount determined based on sales for the previous year. Total distributions to the three cities in 2019 and 2018 were \$1,195,918 and \$1,164,485, respectively.

Note 5: Capital Assets

A detail of utility plant accounts as of December 31, 2019, is as follows (in thousands):

	Cost Basis	Estimated Useful Lives	Depreciation Expense
Electric distribution system	\$ 103,040	30 years	\$ 2,939
Electric transmission system	1,736	30 years	51
	<u>104,776</u>		<u>2,990</u>
Land, buildings and improvements	2,984	5 to 20 years	73
Automobiles and trucks	4,329	3 to 10 years	307
Office and computer equipment	1,618	1 to 10 years	157
Large tools	626	3 to 5 years	21
	<u>9,557</u>		<u>558</u>
Capitalized depreciation	-		(66)
	<u>\$ 114,333</u>		<u>\$ 3,482</u>

Included in depreciation expense is \$66,005 of auto and truck depreciation that was capitalized into the utility plant in 2019.

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Notes to Financial Statements
December 31, 2019 and 2018

Capital asset activity for the years ended December 31, 2019 and 2018, was as follows (in thousands):

	Balance January 1, 2019	Additions Increases	Reductions Decreases	Balance December 31, 2019
Electric plant				
Depreciable	\$ 98,685	\$ 6,451	\$ 948	\$ 104,188
Construction in progress	412	4	-	416
Land	157	15	-	172
Total electric plant	<u>99,254</u>	<u>6,470</u>	<u>948</u>	<u>104,776</u>
Buildings and improvements				
Depreciable	2,101	161	68	2,194
Land	57	733	-	790
Total building and improvements	<u>2,158</u>	<u>894</u>	<u>68</u>	<u>2,984</u>
Other assets				
Automobile and trucks	4,358	41	70	4,329
Office and computer equipment	1,849	84	315	1,618
Large tools	605	21	-	626
Total other assets	<u>6,812</u>	<u>146</u>	<u>385</u>	<u>6,573</u>
Total capital assets	<u>108,224</u>	<u>7,510</u>	<u>1,401</u>	<u>114,333</u>
Accumulated depreciation and amortization				
Electric plant	44,108	2,990	768	46,330
Buildings and improvements	1,921	73	68	1,926
Automobiles and trucks	3,517	307	70	3,754
Office and computer equipment	1,352	157	297	1,212
Large tools	549	21	-	570
Total	<u>51,447</u>	<u>3,548</u>	<u>1,203</u>	<u>53,792</u>
Capital assets - net	<u>\$ 56,777</u>	<u>\$ 3,962</u>	<u>\$ 198</u>	<u>\$ 60,541</u>

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

	Balance January 1, 2018	Additions Increases	Reductions Decreases	Balance December 31, 2018
Electric plant				
Depreciable	\$ 93,623	\$ 5,546	\$ 484	\$ 98,685
Construction in progress	225	187	-	412
Land	157	-	-	157
Total electric plant	<u>94,005</u>	<u>5,733</u>	<u>484</u>	<u>99,254</u>
Buildings and improvements				
Depreciable	2,007	119	25	2,101
Land	57	-	-	57
Total buildings and improvements	<u>2,064</u>	<u>119</u>	<u>25</u>	<u>2,158</u>
Other assets				
Automobile and trucks	4,277	437	356	4,358
Office and computer equipment	1,443	414	8	1,849
Large tools	594	14	3	605
Total other assets	<u>6,314</u>	<u>865</u>	<u>367</u>	<u>6,812</u>
Total capital assets	<u>102,383</u>	<u>6,717</u>	<u>876</u>	<u>108,224</u>
Accumulated depreciation and amortization				
Electric plant	41,615	2,977	484	44,108
Buildings and improvements	1,882	64	25	1,921
Automobiles and trucks	3,685	188	356	3,517
Office and computer equipment	1,219	141	8	1,352
Large tools	536	16	3	549
Total	<u>48,937</u>	<u>3,386</u>	<u>876</u>	<u>51,447</u>
Capital assets - net	<u>\$ 53,446</u>	<u>\$ 3,331</u>	<u>\$ -</u>	<u>\$ 56,777</u>

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Notes to Financial Statements
December 31, 2019 and 2018

Note 6: Revenue Improvement Bonds Payable

Details of revenue improvement bonds at December 31, 2019, are as follows (in thousands):

Series	Original Amount	Call Option Date	Due Serially Through	Interest Rate	Balance Outstanding	
					Current	Long-term
2009	\$ 4,000	August 15, 2020	2034	3.5% to 4.75%	\$ 140	\$ 2,745
2011	\$ 9,955	August 15, 2021	2035	2.00% to 4.70%	350	7,260
2014 Jr. Lien	\$ 2,015	August 15, 2020	2024	2.00% to 4.00%	150	1,185
2014	\$ 8,935	August 15, 2021	2034	2.00% to 4.75%	265	7,375
2015	\$ 6,565	August 15, 2025	2030	2.00% to 4.00%	840	2,500
2018	\$ 14,770	August 15, 2038	2043	4.00% to 5.00%	330	13,880
					2,075	34,945
Add unamortized bond premium (net) on 2009, 2011, 2014, 2015 and 2018, series bonds					114	2,127
					<u>\$ 2,189</u>	<u>\$ 37,072</u>

Details of long-term debt activity for years ended December 31, 2019 and 2018, (in thousands) are on the following page:

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

Series	Balance Outstanding January 1, 2019	Additions Increases	Reductions Decreases	Balance Outstanding December 31, 2019
2009	\$ 3,020	\$ -	\$ 135	\$ 2,885
2011	7,950	-	340	7,610
2014 Jr.	1,475	-	140	1,335
2014	7,900	-	260	7,640
2015	4,170	-	830	3,340
2018	14,770	-	560	14,210
	<u>39,285</u>	<u>\$ -</u>	<u>\$ 2,265</u>	<u>37,020</u>
Less				
Bond current maturities	(2,265)			(2,189)
Add				
Unamortized bond premium	<u>2,370</u>			<u>2,241</u>
Long-term debt	<u>\$ 39,390</u>			<u>\$ 37,072</u>

Series	Balance Outstanding January 1, 2018	Additions Decreases	Reductions Decreases	Balance Outstanding December 31, 2018
2009	\$ 3,150	\$ -	\$ 130	\$ 3,020
2011	8,280	-	330	7,950
2014 Jr.	1,610	-	135	1,475
2014	8,155	-	255	7,900
2015	4,975	-	805	4,170
2018	-	14,770	-	14,770
	<u>26,170</u>	<u>\$ 14,770</u>	<u>\$ 1,655</u>	<u>39,285</u>
Less				
Bond current maturities	(1,655)			(2,265)
Add				
Unamortized bond premium	<u>95</u>			<u>2,370</u>
Long-term debt	<u>\$ 24,610</u>			<u>\$ 39,390</u>

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

A provision of the 2014 and 2015 Bond Series was to take part of the proceeds and "refund" parts of the 2002 (\$2,025,000) and 2005 (\$6,625,000) Bonds to effectively lower the overall interest rate on the outstanding bonds. The proceeds used to "refund" these bonds had been paid to the previous bond holders. The annual requirements to amortize the revenue improvement bonds payable outstanding as of December 31, 2019, are as follows:

Year Ending December 31,	Principal	Interest	Total Requirements
2020	\$ 2,075,000	\$ 1,571,478	\$ 3,646,478
2021	2,130,000	1,509,628	3,639,628
2022	1,695,000	1,442,178	3,137,178
2023	1,755,000	1,378,728	3,133,728
2024	1,560,000	1,309,078	2,869,078
2025-2029	8,450,000	5,512,362	13,962,362
2030-2034	9,070,000	3,678,994	12,748,994
2035-2039	6,730,000	1,833,507	8,563,507
2040-2043	3,555,000	455,250	4,010,250
	<u>\$ 37,020,000</u>	<u>\$ 18,691,203</u>	<u>\$ 55,711,203</u>

Total interest expense (including amortization of bond discount/premium) on the above bonds was \$1,319,953 and \$1,061,636 for 2019 and 2018, respectively, of which \$0- and \$28,019, was capitalized.

As of December 31, 2019 and 2018, bond debt service and reserve requirements for the 2005, 2009, 2011, 2014, 2015 and 2018 Series Bonds have been met.

Revenue Improvement Bonds Details

On April 1, 2009, April 14, 2011, October 2, 2014 and September 30, 2015, Improvement Revenue Bonds, Series 2009, Series 2011, Series 2014 and Series 2015 and October 30, 2014, Junior Lien Revenue Refunding Bonds Series 2014 Jr., (Bonds) were issued. The Bonds are special obligations of the City payable, both as to principal and interest, solely from and equally and ratably secured, together with the currently outstanding parity bonds, by a first lien on and pledge of the (net revenues) of the System after the payment of maintenance and operating expenses. Maintenance and operating expenses include contractual payments which under Texas laws and their provisions are established as operating expenses.

The Bonds are not a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The ordinance does not create a lien or mortgage on the System, except the net revenues and any judgment against the City may not be enforced by levy and execution against any property owned by the City.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

As additional security, a Retirement Account is required to be maintained, either in cash or a surety bond, in an amount at least equal to the average annual debt service requirements of the Bonds and any additional bonds issued on Parity with the Bonds (referred to as the reserve fund portion). The City has exercised its option and has purchased surety bonds for some of the required amounts.

Also, from the net revenues pledged to the payment and security of the Bonds, the Board shall cause to be paid in the Retirement Account such amounts as will be fully sufficient to promptly pay, when due, all principal of and interest on the Bonds (referred as the interest and sinking fund portion).

The City covenants with the holders of Parity Bonds that a special fund or account shall be created and established to be known as the City of Floresville Electric Light and Power System Repair and Replacement Account (hereinafter called Repair and Replacement Account) at such depository as may be designated by the Board in an amount determined by the Board of not less than \$75,000 nor more than an amount reasonably determined by the Board pursuant to a specific resolution to be necessary for specific purposes but not to exceed 5 percent of the value of the System less accumulated depreciation as determined by the Board.

On September 30, 2015, the System issued \$6.565 million of Series 2015 Improvement Revenue Bonds. The interest rate for this issue, which has maturities in 2016 through 2030, is 2.07 percent. Bond proceeds are used primarily for construction projects.

During 2018, the System issued \$14.8 million of Series 2018 Revenue Bonds. The interest rate for this issue, which has maturities in 2019 through 2043, is 4.00 percent. Bond proceeds are used primarily for construction projects.

Note 7: Pension Plan for the Employees of the City of Floresville Electric Light and Power System (Plan)

Plan Description

The System adopted in 1974 a contributory pension plan for the benefit of eligible employees. The Plan is a single-employer defined benefit pension plan administered by selected employees of the System. The Plan may be amended from time-to-time in any respect by resolution of the Board of Trustees of the System in accordance with provisions provided for in Section 13 of the Plan agreement.

A general summary of the defined benefit plan of the System is as follows: All employees who are regularly engaged full time employees are eligible on their date of employment. Each participant is required to contribute 6 percent of compensation and the System is to contribute at an actuarially determined rate. The current rate of the System's contribution is 18 percent and 16 percent of annual covered payroll for the years ended December 31, 2019 and 2018, respectively.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

Benefits Provided

The Plan provides retirement and death benefits to plan members and their beneficiaries. Normal retirement age is 65 with early retirement at age 55 plus ten years of vested service. The participant becomes vested only after ten years of employment service, at which time they are 100 percent vested. If the participant has completed 20 or more years of credited service and attains age 65, retirement benefits are 65 percent of the average of the highest five of the last ten consecutive plan years' monthly compensation. If the participant completed less than 20 years of service a different calculation based on the actual number of years completed will be used. Other rules apply related to disability, death and early retirement benefits.

Contributions

The current policy of FELPS is to use each actuarial valuation as the basis for determining employer contributions to the Plan during the fiscal year beginning in the calendar year after the valuation year. The Administrative Committee, composed of a cross-functional group of active and retired FELPS employees established funding levels, considering annual actuarial valuations. Generally, participating employees contribute 6 percent of their total compensation, commencing with the effective date of participation and continuing until normal or early retirement age of 65 with at least 20 years of credited service, or termination of employment. Participants who leave FELPS service before becoming eligible for retirement benefits receive a return of the total amount they contributed to the Plan, plus the vested portion of accumulated interest.

The balance of Plan contributions is the responsibility of FELPS, giving consideration to actuarial information, budget controls, legal requirements, compliance and industry and/or community norms. For 2019 and 2018, the amount to be funded was established using a general target near the 30-year funding contribution level as determined by the Plan's actuary using the entry-age normal cost method. For the years ended December 31, 2019 and 2018, the System contributed \$632,201 and \$621,579, respectively, to the Plan.

Net Pension Liability

FELPS net pension liability at December 31, 2019 and 2018, was measured as of December 31, 2018 and December 31, 2017, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2018 and January 1, 2017, respectively, and rolled forward using generally accepted actuarial procedures to the December 31, 2018 and 2017, measurement dates.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements December 31, 2019 and 2018

The employees covered by the Plan at the measurement dates are:

	December 31, 2018	December 31, 2017
Active Participants		
Vested	37	39
Nonvested	25	25
Total	62	64
Participants Entitled to but not yet Receiving Benefits	3	1
Participants Currently Receiving Benefits	34	31
Total participants	99	96

Actuarial Assumptions

Significant actuarial assumptions used in the January 1, 2018 and January 1, 2017, valuations include a rate of return on the investment assets of 6.5 percent and annual projected salary increases averaging 5.0 percent per year. The projected salary increases include an inflation rate of 3.0 percent. Mortality rates used were the RP-2014 Employee and Annuitant Blue Collar Table for Males and Females with generational projection from 2014 using scale MP-2014. The disabled mortality table used was RP-2014 Disabled Retiree Mortality with no projection.

Discount Rate

The discount rate used to measure the total pension liability was 6.5 percent for the years ended December 31, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that FELPS contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the 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 Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

Changes in the total pension liability, plan fiduciary net position and the net pension liability are:

	2019	2018
Total Pension Liability		
Service cost	\$ 520,289	\$ 538,530
Interest cost	1,520,989	1,466,743
Demographic gains	(927,933)	-
Benefit payments	(1,258,166)	(1,050,069)
Net change in total pension liability	(144,821)	955,204
Total pension liability, beginning of period	23,498,720	22,543,516
Total pension liability, end of period	23,353,899	23,498,720
Plan Fiduciary Net Position		
Employer contributions	621,579	654,854
Employee contributions	233,093	244,825
Earnings on Plan assets	(542,694)	1,555,751
Benefit payments	(1,258,166)	(1,050,069)
Administrative expense	(61,167)	-
Net change in Plan fiduciary net position	(1,007,355)	1,405,361
Plan fiduciary net position, beginning of period	11,052,375	9,647,014
Plan fiduciary net position, end of period	10,045,020	11,052,375
Net pension liability, end of period	\$ 13,308,879	\$ 12,446,345

The net pension liability of the System has been calculated using a discount rate of 6.5 percent. The following table presents the sensitivity of net pension liability calculation to a 1 percent increase and a 1 percent decrease in the discount rate:

Discount Rate	Net Pension Liability at December 31, 2019	Net Pension Liability at December 31, 2018
1% decrease - 5.5%	\$ 16,307,235	\$ 15,604,311
Current discount rate - 6.5%	\$ 13,308,879	\$ 12,446,345
1% increase - 7.5%	\$ 10,795,819	\$ 9,814,783

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

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

For the years ended December 31, 2019 and 2018, the System recognized pension expense of \$45,116 and \$0-, respectively, and capitalized \$832,761 and \$451,158, respectively, as a regulatory asset. The System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2019	December 31, 2018
Deferred Outflows of Resources		
Differences between projected and actual earnings on pension assets	\$ 705,052	\$ -
	\$ 705,052	\$ -
Deferred Inflows of Resources		
Differences between projected and actual earnings on pension assets	\$ -	\$ 252,654
Differences between expected and actual experience in the measurement of total pension liability	960,677	32,744
	\$ 960,677	\$ 285,398

Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to pensions will be recognized in pension expense as follows:

Year ended December 31,	
2020	\$ 133,098
2021	(35,303)
2022	(27,955)
2023	120,592
2024	(128,655)
Thereafter	(317,402)
	\$ (255,625)

Note 8: Purchased Power

Electric power purchased during 2019 and 2018, in the amount of \$21,770,849 and \$22,204,666, respectively, was purchased from one supplier. Electric power is purchased from this supplier under a contract through December 31, 2025 (inclusive of termination and option periods). FELPS also incurs a Transmission Cost of Service (TCOS), which is passed directly through on members'

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

bills. A total of \$4,452,944 and \$4,063,166 in 2019 and 2018, respectively, related to these costs incurred by the System. Deferred purchased power is netted against the costs of purchased power. Deferred purchased power of (\$1,438,312) and \$116,618 were recognized during 2019 and 2018, respectively.

Note 9: Commitments

Part of the proceeds from the Series 2014 and 2015 bonds were invested in government bonds which are included in the statements of net position under the caption "Construction Fund" as established by the System. The balance in the Construction Fund at December 31, 2019 and 2018, consisted of cash of \$13,001,743 and \$15,755,515, respectively.

FELPS enters into various purchase contracts for natural gas. The contracts specify the amount of natural gas to be provided. These contracts are effective January 1, 2021 through December 31, 2025.

Note 10: Regulatory Assets

Debt Issuance Costs

Under GASB 65, debt issuance costs are required to be expensed in the period incurred rather than amortized over the life of the related debt. In order to provide recovery for debt issuance costs through rates, the Board of Trustees approved the use of GASB 62, to recognize debt issuance costs as a regulatory asset and to amortize these costs over the life of the associated debt.

Unamortized debt issuance costs included in regulatory assets were \$866,677 and \$936,695 as of December 31, 2019 and 2018, respectively.

Pension Contribution Expense Recognition

Effective for the year ending December 31, 2019, FELPS Board of Trustees approved recording pension contributions as pension expense under GASB 62, since the pension contribution amount is known at the time of budget preparation and rate setting. The amortization amount will be included in pension expense for each year calculated. The regulatory asset for unamortized pension expense was \$1,238,803 and \$451,158 as of December 31, 2019 and 2018, respectively.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2019 and 2018

Note 11: Concentrations of Credit Risk

Financial instruments that potentially subject the System to concentrations of credit risk consist principally of trade accounts receivable. Concentrations of credit risk with respect to trade accounts receivable are limited due to the large number of utility customers (over 15,000), both residential and commercial, in the System's service area (most of Wilson County and parts of Bexar and Karnes Counties). Credit risk is also reduced by customer deposits held by the System.

Note 12: Risk Management

The System is exposed to various risks of loss including those related to torts, theft or destruction of assets, errors and omissions and natural disasters. The System purchases commercial liability and property insurance coverage to provide protection in the event of large losses. There has not been any significant reduction in insurance coverage from coverage in the prior years and there have not been any insurance settlements in the past three years that have exceeded the insurance coverage.

Note 13: Future Change in Accounting Principle

The Governmental Accounting Standards Board recently issued its Statement No. 87 (GASB 87), *Leases*. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or resources and outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee will be required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The System expects to first apply GASB 87 during the year ending December 31, 2020, using a prospective recognition method. The impact of applying the statement has not been determined.

Note 14: Subsequent Events

As a result of the spread of the COVID-19 coronavirus, economic uncertainties have arisen which may negatively affect the financial position, results of operations and cash flows of the System. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

APPENDIX D

The information contained in Appendix D consists of the Legal Opinion of Bond Counsel.

[This page is intentionally left blank.]



Norton Rose Fulbright US LLP
111 W. Houston, Suite 1800
San Antonio, Texas 78205-3792
United States

Tel +1 210 224 5575
Fax +1 210 270 7205
nortonrosefulbright.com

DRAFT

IN REGARD to the authorization and issuance of the “City of Floresville, Texas Electric Light and Power System Revenue Refunding Bonds, Series 2020” (the *Bonds*), dated November 15, 2020, in the aggregate principal amount of \$_____, we have reviewed the legality and validity of the issuance thereof by the City of Floresville, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. The Bonds have Stated Maturities of August 15 in each of the years 2021 through 2035, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the City, the Board of Trustees of the System, the City Council of the City of Poth, Texas, and the City Council of the City of Stockdale, Texas in connection with the issuance of the Bonds, including the Ordinance, the Escrow Deposit Letter (the *Escrow Agreement*) between the City and UMB Bank, N.A., Austin, Texas (the *Escrow Agent*), and a special report (the *Report*) of Robert Thomas CPA, LLC (the *Verification Agent*), concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the City and the System; (3) certificates executed by officers of the City and the System relating to the expected use and investment of proceeds of the Bonds and certain other funds of the City and the System, and to certain other facts solely within the knowledge and control of the City and the System; and (4) such other documentation, including an examination of the Bond

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at nortonrosefulbright.com.

Legal Opinion of Norton Rose Fulbright US LLP of San Antonio, Texas in connection with the authorization and issuance of “CITY OF FLORESVILLE, TEXAS ELECTRIC LIGHT AND POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2020”

executed and delivered initially by the City, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and binding obligation, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity), and that the outstanding obligations refunded, discharged, paid, and retired with certain proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in trust with the Escrow Agent, pursuant to the Escrow Agreement and the order authorizing their issuance, and in accordance with the provisions of Chapter 1207, as amended, Texas Government Code. In rendering this opinion, we have relied upon the Report of the Verification Agent concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding special obligations of the City enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds are payable from and equally and ratably secured solely, together with the currently Outstanding Bonds, by a first and prior lien on and pledge of the Net Revenues derived from the operation of the System. In the Ordinance, the City retains the right to issue Additional Parity Bonds without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Participating Cities, except with respect to the Net Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation.

IT IS FURTHER OUR OPINION THAT, assuming continuing compliance after the date hereof by the City and the System with the provisions of the Ordinance and in reliance upon the Report of the Verification Agent concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement and in reliance upon the representations and certifications of the City and the System made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, under existing

Legal Opinion of Norton Rose Fulbright US LLP of San Antonio, Texas in connection with the authorization and issuance of “CITY OF FLORESVILLE, TEXAS ELECTRIC LIGHT AND POWER SYSTEM REVENUE REFUNDING BONDS, SERIES 2020”

statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

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

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

Norton Rose Fulbright US LLP

[This page is intentionally left blank.]



Capital
Markets