

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

**CITY OF DAYTON, TEXAS**

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

**\$9,250,000\***

**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF  
OBLIGATION, SERIES 2021  
(THE "CERTIFICATES")**

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

**Bids due  
Monday, April 5, 2021  
at  
11:00 A.M., Central Time**

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

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

## OFFICIAL NOTICE OF SALE

**\$9,250,000\***

**CITY OF DAYTON, TEXAS**

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

**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2021**

**CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BID:** The City Council (the "City Council") of the City of Dayton, Texas (the "City" or the "Issuer") is offering for sale at competitive bid its \$9,250,000\* Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021 (the "Certificates").

**BIDS BY INTERNET:** Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 11:00 A.M., Central Time, on Monday, April 5, 2021. Bidders submitting a bid by internet shall not be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System ("PARITY") and should, as a courtesy, register with PARITY by 9:00 A.M., Central Time, on Monday, April 5, 2021 indicating their intent to submit a bid by internet.

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

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

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

**OPENING OF BIDS:** Bids will be opened and publicly read at 11:00 A.M., Central Time, on Monday, April 5, 2021, following which the bids will be evaluated by SAMCO Capital Markets, Inc. (the "Financial Advisor") and the City Council shall provide final approval of the award at a City Council meeting later that evening. The Mayor of the City or his representative shall award the Certificates as described in the section entitled "AWARD AND SALE OF THE CERTIFICATES" below.

**AWARD AND SALE OF THE CERTIFICATES:** By 12:00 P.M. (noon) Central Time, on the date set for receipt of bids, the Mayor of the City or his representative shall award the Certificates to the **low qualified bidder (the "Winning Bidder")**, as described in the section entitled "CONDITIONS OF SALE – Basis of Award" herein subject to final approval of the City Council which will take action to adopt an ordinance (the "Ordinance") authorizing the issuance and awarding sale of the Certificates or will reject all bids promptly at a scheduled meeting to commence at 6:00 P.M. Central Time on Monday, April 5, 2021. The City reserves the right to reject any or all bids and to waive any irregularities, except time of filing.

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

## THE CERTIFICATES

**DESCRIPTION OF CERTAIN TERMS OF THE CERTIFICATES:** The Certificates will be dated April 15, 2021 (the "Dated Date") with interest to accrue from the Dated Date and be payable initially on August 1, 2021, and semiannually on each August 1 and February 1 thereafter until the earlier of stated maturity or prior redemption. The Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof within a stated maturity. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.) The Certificates will be stated to mature on February 1 in each of the following years in the following amounts:

### MATURITY SCHEDULE (Due February 1)

Stated Maturity	Principal Amount*	Stated Maturity	Principal Amount*
2022	\$600,000	2032	\$450,000
2023	360,000	2033	460,000
2024	370,000	2034	475,000
2025	380,000	2035	485,000
2026	390,000	2036	500,000
2027	400,000	2037	510,000
2028	405,000	2038	525,000
2029	420,000	2039	535,000
2030	430,000	2040	550,000
2031	440,000	2041	565,000

**ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES:** The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$9,250,000\*. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

**SERIAL CERTIFICATES AND/OR TERM CERTIFICATES:** Bidders may provide that all of the Certificates be issued as serial maturities or may provide that any two or more consecutive annual principal amounts maturing on or after February 1, 2031, be combined into one or more term certificates, not to exceed five term certificates (the "Term Certificates").

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

**OPTIONAL REDEMPTION:** The City reserves the right, at its option, to redeem the Certificates maturing on or after February 1, 2031, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2030, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described in the Preliminary Official Statement.

**SECURITY FOR PAYMENT:** The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council on April 5, 2021, and the

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

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

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

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

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

#### CONDITIONS OF SALE

**TYPES OF BIDS AND INTEREST RATES:** The Certificates will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Certificates from the Dated Date of the Certificates to the date of Initial Delivery (defined herein) of the Certificates. **No bid producing a cash premium on the Certificates that results in a dollar price of less than 101% will be considered; provided, however, that any bid is subject to adjustment as described under the caption "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS".** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest for the Certificates (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate).** **No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Certificates of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

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

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

#### **ESTABLISHMENT OF ISSUE PRICE:**

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

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

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

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

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

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

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

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

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

(f) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such third-party distribution agreement, as applicable, to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder and as set forth in the related pricing wires, (ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter or dealer that is a party to a retail or other third-

party distribution agreement to be employed in connection with the initial sale of the Certificates to the public to require each broker-dealer that is a party to such third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder or the underwriter and as set forth in the related pricing wires.

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

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

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

**GOOD FAITH DEPOSIT:** A bank cashier's check payable to the order of "City of Dayton, Texas" in the amount of \$185,000, which is 2% of the par value of the Certificates (the "Good Faith Deposit"), is required. The Good Faith Deposit will be retained uncashed by the City until the Certificates are delivered, and at that time it will be returned to the Purchaser uncashed on the date of delivery of the Certificates; however, should the Purchaser fail or refuse to take up and pay for the Certificates, said Good Faith Deposit is to be cashed by the City and the proceeds accepted as full and complete liquidated damages. The above mentioned Good Faith Deposit may accompany the bid, or it may be submitted separately; however, if submitted separately, it shall be made available to the City prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Certificates has been made.

**ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:**

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

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (City of Dayton, Texas) and (b) item 3 - the identification number assigned to this contract by the City (Dayton CO2021 – Bid Form) and description of the goods or services (Purchase of the City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a non-publicly traded business entity contracting with the City to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/File>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the City. The executed Disclosure Form must be sent by email to the City's financial advisor at [mmcliney@samcocapital.com](mailto:mmcliney@samcocapital.com), as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Stephanie Leibe, c/o Norton Rose Fulbright US LLP, 111 Houston Street, Suite 1800, San Antonio, Texas 78205, along with a PDF executed version sent to [stephanie.leibe@nortonrosefulbright.com](mailto:stephanie.leibe@nortonrosefulbright.com).

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made "under penalty of perjury." Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the

essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed Disclosure Form is received. If applicable, the City reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder's obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at <https://www.ethics.state.tx.us/filinginfo/1295/>.

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

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

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

#### OFFICIAL STATEMENT

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

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

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

The City will complete and authorize distribution of the Official Statement identifying the Purchaser and containing information omitted from the Preliminary Official Statement. The City does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Purchaser on or after the sale date, the City intends the same to be final as of such date, within the meaning of Section 15c2-12(b)(3) of the Rule. Notwithstanding the foregoing, the City makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates.

**FINAL OFFICIAL STATEMENT:** In addition to delivering the Official Statement in a "designated electronic format", the City will furnish to the Purchaser, within seven (7) days after the sale date, an aggregate maximum of fifty (50) copies of the Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Certificates, in accordance with Section 15c2-12(b)(3) of the Rule. The Purchaser may arrange, at its own expense, to have the Official Statement reproduced and printed if it requires more than 50

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

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

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

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

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

## **DELIVERY AND ACCOMPANYING DOCUMENTS**

**INITIAL DELIVERY OF INITIAL CERTIFICATES:** The initial delivery of the Certificates to the Purchaser on the "Delivery Date", will be accomplished by the issuance of either (i) a single fully registered Certificate in the total principal amount of \$9,250,000 (preliminary, subject to change) payable in stated installments to the Purchaser and numbered T-1, or (ii) as one (1) fully registered Certificate for each year of stated maturity in the applicable principal amount and denomination, to be numbered consecutively from R-1 and upward (in either case, the "Initial Certificate"), signed by manual or facsimile signature of the Mayor and the City Secretary approved by the Attorney General of Texas, and registered and manually signed by an authorized representative of the Comptroller of Public Accounts of the State of Texas. Initial Delivery (defined below) of the Certificates will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Certificate, they shall be immediately canceled and one Certificate for each stated maturity will be registered in the name of Cede & Co. and deposited with DTC in connection with DTC's Book-Entry-Only System. Payment for the Initial Certificate must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six (6) business days' notice of the time fixed for delivery of the Certificates. It is anticipated that Initial Delivery of the Initial Certificate can be made on or about April 28, 2021, but if for any reason the City is unable to make delivery by April 28, 2021, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional thirty (30) days its obligation to take up and pay for the Certificates. If the Purchaser does not so elect within six (6) business days thereafter, then the Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided such failure is due to circumstances beyond the City's reasonable control.

**EXCHANGE OF INITIAL CERTIFICATES FOR DEFINITIVE CERTIFICATES:** Upon payment for the Initial Certificate at the time of such delivery, the Initial Certificate is to be canceled by the Paying Agent/Registrar and registered definitive Certificates delivered in lieu thereof, in multiples of \$5,000 for each stated maturity, in accordance with written instructions received from the Purchaser and/or members of the Purchaser's syndicate. Such Certificates shall be registered by the Paying Agent/Registrar. It shall be the duty of the Purchaser and/or members of the Purchaser's syndicate to furnish to the Paying Agent/Registrar, at least five days prior to the delivery of the Initial Certificate, final written instructions identifying the names and addresses of the registered owners, the stated maturities, interest rates, and denominations. The Paying



Agent/Registrar will not be required to accept changes in such written instructions after the five day period, and if such written instructions are not received by the Paying Agent/Registrar five days prior to the delivery, the cancellation of the Initial Certificate and delivery of registered definitive Certificates may be delayed until the fifth day next following the receipt of such written instructions by the Paying Agent/Registrar.

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

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

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

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

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

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

#### GENERAL CONSIDERATIONS

**FUTURE REGISTRATION:** The Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or its duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and interest rate as the Certificates surrendered for exchange or transfer.

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

**RATINGS:** A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Ratings" in the Preliminary Official Statement). An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

**SALE OF ADDITIONAL OBLIGATIONS:** Other than the potential issuance of refunding bonds for debt service savings, the City currently has no plans to issue additional ad valorem tax supported debt in 2021.

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

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

**ADDITIONAL COPIES:** Subject to the limitations described herein, an electronic copy of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from [www.samcocapital.com](http://www.samcocapital.com).

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

/s/ Caroline Wadzeck  
Mayor,  
City of Dayton, Texas

ATTEST:

/s/ Jennifer Billings  
City Secretary,  
City of Dayton, Texas

March 30, 2021

**OFFICIAL BID FORM**

Honorable Mayor and City Council  
 City of Dayton  
 117 Cook Street  
 Dayton, Texas 77535

April 5, 2021

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement dated March 30, 2021, which terms are incorporated by reference to this proposal (and which are agreed to as evidenced by our submission of this bid), we hereby submit the following bid for \$9,250,000 (preliminary, subject to change) CITY OF DAYTON, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2021, dated April 15, 2021 (the "Certificates").

For said legally issued Certificates, we will pay you \$\_\_\_\_\_ (being a price of no less than 101% of par value) plus accrued interest from their date to the date of delivery to us for Certificates maturing February 1 and bearing interest per annum as follows:

Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %	Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %
2022	\$600,000		2032*	\$450,000	
2023	360,000		2033*	460,000	
2024	370,000		2034*	475,000	
2025	380,000		2035*	485,000	
2026	390,000		2036*	500,000	
2027	400,000		2037*	510,000	
2028	405,000		2038*	525,000	
2029	420,000		2039*	535,000	
2030	430,000		2040*	550,000	
2031*	440,000		2041*	565,000	

*\*Maturities available for Term Certificates.*

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

**ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS:** As a condition to our submittal of this bid for the Certificates, we acknowledge the following: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$9,250,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Official Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

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

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

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

Cashier's Check of the \_\_\_\_\_ Bank, \_\_\_\_\_, Texas, in the amount of \$185,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this Bid), and is submitted in accordance with the terms as set forth in the Official Notice of Sale, said check is to be returned to the Purchaser.

We agree to accept delivery of the Certificates utilizing the Book-Entry-Only System through DTC and make payment for the Initial Certificate in immediately available funds at the Corporate Trust Division, UMB Bank, N.A., Austin Texas, not later than 10:00 A.M., Central Time, on Wednesday, April 28, 2021, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale. It will be the obligation of the purchaser of the Certificates to complete and file the DTC Eligibility Questionnaire. The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" and, as evidenced thereof, agrees to complete, execute, and deliver to the City, by the Delivery Date, a certificate relating to the "issue price" of the Certificates in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the City. (See "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale.)

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

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

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

Bidder: \_\_\_\_\_  
 By: \_\_\_\_\_  
 Authorized Representative  
 \_\_\_\_\_  
 Telephone Number  
 \_\_\_\_\_  
 E-mail Address

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Dayton, Texas, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 5<sup>th</sup> day of April 2021.

/s/ \_\_\_\_\_  
 Mayor,  
 City of Dayton, Texas

ATTEST:

/s/ \_\_\_\_\_  
 City Secretary,  
 City of Dayton, Texas

**\$9,250,000\***  
**CITY OF DAYTON, TEXAS**  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION,**  
**SERIES 2021**

**ISSUE PRICE CERTIFICATE**

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

**1. Reasonably Expected Initial Offering Price.**

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

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

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

**2. Defined Terms.**

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

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

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is April 5, 2021.

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

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

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Dated: April 28, 2021

\_\_\_\_\_  
\*Preliminary, subject to change.

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**SCHEDULE A**  
**EXPECTED OFFERING PRICES**

(this page intentionally left blank)



**SCHEDULE B**

**COPY OF UNDERWRITER'S BID**

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

NEW ISSUE - BOOK-ENTRY-ONLY

Rating: S&P: "Applied For"  
(See: "OTHER PERTINENT INFORMATION-Ratings")

**PRELIMINARY OFFICIAL STATEMENT**  
**March 30, 2021**

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

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

**\$9,250,000\***  
**CITY OF DAYTON, TEXAS**  
**(A political subdivision of the State of Texas located in Liberty County, Texas)**  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2021**

**Dated Date: April 15 2021**

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

The \$9,250,000\* City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City of Dayton, Texas (the "City" or the "Issuer") on April 5, 2021, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

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

Interest on the Certificates will accrue from April 15, 2021 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing August 1, 2021, until the earlier of stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system, including upgrades and improvements to the City's wastewater treatment plant, lift stations, and related facilities, and engineering for future lift stations and wastewater treatment plant improvements; (2) designing, constructing, renovating, improving and equipping the existing City Hall; (3) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (4) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

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

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*The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" and "APPENDIX C – Form of Legal Opinion of Bond Counsel" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about April 28, 2021.*

\* Preliminary, subject to change

**BIDS DUE MONDAY, APRIL 5, 2021, BY 11:00 A.M., CENTRAL TIME**

**\$9,250,000\***  
**CITY OF DAYTON, TEXAS**  
(A political subdivision of the State of Texas located in Liberty County, Texas)  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2021**

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

CUSIP Prefix No. 240082<sup>(1)</sup>

<u>Stated</u> <u>Maturity</u> <u>2/1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No.</u> <u>Suffix</u> <sup>(1)</sup>	<u>Stated</u> <u>Maturity</u> <u>2/1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No.</u> <u>Suffix</u> <sup>(1)</sup>
2022	\$ 600,000				2032	\$ 450,000			
2023	360,000				2033	460,000			
2024	370,000				2034	475,000			
2025	380,000				2035	485,000			
2026	390,000				2036	500,000			
2027	400,000				2037	510,000			
2028	405,000				2038	525,000			
2029	420,000				2039	535,000			
2030	430,000				2040	550,000			
2031	440,000				2041	565,000			

**(Interest to accrue from Dated Date)**

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2031, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2030, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. Additionally, the Purchaser may select certain consecutive maturities of the Certificates to be grouped together as a "Term Certificate" and such "Term Certificates" would also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

\* Preliminary, subject to change.

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

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

**CITY OF DAYTON TEXAS**  
**117 Cook Street**  
**Dayton, Texas 77535**  
**Telephone: (936) 258-2642**

**ELECTED OFFICIALS**

Name	Years Served	Term Expires (May)	Occupation
Caroline Wadzeck Mayor	2	2021	Retired
Troy Barton Mayor Pro-Tem	7	2021	Commercial Pump Tech
Daniel McDaniel Councilmember, Position 1	4 months	2022	Auditor
Sherial L. Lawson Councilmember, Position 2	8	2022	Registered Nurse
John Headrick Councilmember, Position 3	4 months	2022	Retired Police Chief
Andy Conner Councilmember, Position 4	1	2021	Financial Advisor

**ADMINISTRATION**

Name	Position	Length of Service (Years)
Theo Melancon	City Manager	3
Rudy Zepeda	Assistant City Manager	6
Jennifer Billings	City Secretary	2

**CONSULTANTS AND ADVISORS**

**Bond Counsel** .....Norton Rose Fulbright US LLP  
Austin and San Antonio, Texas

**Certified Public Accountants** .....Belt Harris Pechacek LLP  
Houston, Texas

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

**For Additional Information Please Contact:**

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Assistant City Manager  
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Dayton, Texas 77535  
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San Antonio, Texas 78209  
Telephone: (210) 832-9760  
afriedman@samcocapital.com

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

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

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

None of the City, the Financial Advisors or the Purchaser makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its Book-Entry-Only System as such information is provided by DTC respectively.

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

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

## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The Issuer</b>	The City of Dayton, Texas (the "City" or "Issuer") is in southwest Liberty County, Texas approximately 39 miles northeast of the City of Houston. The City became an incorporated municipality in 1911 after originally being considered part of the original town of Liberty, founded in 1831. The City operates under the council-mayor form of government and as a home rule municipality. The City Manager, appointed by the City Council, is the chief administrative and executive officer of the City. (See "APPENDIX B - General Information Regarding the City of Dayton and Liberty County, Texas" herein.)
<b>The Certificates</b>	The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City, on April 5, 2021 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas.
<b>Security</b>	The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise (See "THE CERTIFICATES - Security for Payment" and "AD VALOREM PROPERTY TAXATION" herein.)
<b>Redemption Provisions of the Certificates</b>	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2031, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2030, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. Additionally, the Purchaser may select certain consecutive maturities of the Certificates to be grouped together as a "Term Certificate" and such "Term Certificates" would also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)
<b>Tax Matters</b>	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS" and will not be included in calculating the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" herein.)
<b>Qualified Tax-Exempt Obligations</b>	The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)

**Use of Certificate Proceeds**

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the City's utility system, including upgrades and improvements to the City's wastewater treatment plant, lift stations, and related facilities, and engineering for future lift stations and wastewater treatment plant improvements; (2) designing, constructing, renovating, improving and equipping the existing City Hall; (3) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (4) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

**Rating**

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

**Payment Record**

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

**Future Debt Issues**

The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2021 except potentially issuing refunding bonds for debt service savings.

**Delivery**

When issued, anticipated on or about April 28, 2021.

**Legality**

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

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**PRELIMINARY OFFICIAL STATEMENT**  
relating to

**\$9,250,000\***

**CITY OF DAYTON, TEXAS**

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

**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2021**

**INTRODUCTORY STATEMENT**

This Official Statement provides certain information in connection with the issuance by the City of Dayton, Texas (the “City” or the “Issuer”) of its \$9,250,000\* Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021 (the “Certificates”) identified on the cover page.

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

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

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

**INFECTIOUS DISEASE OUTBREAK – COVID-19**

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and is currently affecting many parts of the world, including the United States and the State of Texas (the “State”). 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. In addition, certain local officials, including the City and Liberty County, have also declared a local state of disaster. 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 issued a number of executive orders relating to COVID-19 preparedness and mitigation. However, on March 2, 2021, the Governor issued Executive Order GA-34, which supersedes most of the executive orders relating to COVID-19 and provides, generally, for the reopening of all businesses in the State to 100%, ends the COVID-19 mask mandate, and supersedes any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 took effect on March 10, 2021. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

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

The full extent of the ongoing impact of COVID-19 on the City's longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies discussed above, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on 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 Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values within the City. The financial and operating data contained herein are the latest available but are for the dates and the periods stated herein, which are for periods prior to the economic impact of the Pandemic and efforts to slow it. It is unclear at this time what effect, if any, COVID-19 and resulting economic disruption may have on future assessed values or the collection of taxes, either because of delinquencies or collection and valuation relief resulting from the declared emergency. The Certificates are secured by an ad valorem tax and a limited amount of Net Revenues derived from the operation of the City's combined utility system, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Certificates as well as the City's share of operations and maintenance expenses payable from ad valorem taxes.

## **2021 Weather Event**

### *General*

From February 14, 2021 through February 19, 2021, the continental United States experienced a severe winter storm (the "2021 Event"). As a result of the 2021 Event, areas throughout Texas experienced widespread, record breaking cold.

Due to effects of the 2021 Event and a reduction in available gas supply, approximately 185 generating units in the Electric Reliability Council of Texas ("ERCOT") grid tripped offline, and the grid lost roughly 46,000 MW of generation. In order to limit demand and protect the integrity of the grid, ERCOT implemented widespread and prolonged blackouts. As a result, approximately 4 million Texas residents were without power for significant stretches of the week.

Extended subfreezing temperatures caused water pipes to freeze and burst, and combined with the lack of power, eventually led to multiple water system failures across the State that impacted water availability generally and, in some instances, required the issuance of water boil notices. Initial reports indicated that roughly 14 million Texans were under boil water notices as of February 19, 2021.

On February 19, 2021, the President of the United States issued a Major Disaster Declaration for 77 counties in Texas. The Texas Governor, on February 18, 2021, declared a new emergency item for the current Texas legislative session (in session until May 31, 2021) in which he requested the Legislature to mandate the winterization of Texas' power system and to ensure the necessary funding for winterization.

## **THE CERTIFICATES**

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

The Certificates will be dated April 15, 2021 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing August 1, 2021, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by UMB Bank, N.A., Austin, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

### **Authority for Issuance**

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council") on April 5, 2021, and the City's Home Rule Charter.

## **Security for Payment**

*Limited Pledge of Ad Valorem Taxes.* The Certificates are general obligations of the City, payable primarily from the proceeds of an ad valorem tax levied annually, within the legal limitations imposed by law, upon all taxable property located in the City. (See "AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations" herein.)

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

## **Redemption Provisions of the Certificates**

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after February 1, 2031, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Two or more consecutive maturities of the Certificates may be grouped together as a "Term Certificate" by the Purchaser, and such "Term Certificates" would also be subject to mandatory sinking fund redemption. If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

## **Notice of Redemption**

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

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

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

## **Selection of Certificates to be Redeemed**

The Certificates of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Certificates to be partially redeemed must be surrendered in exchange for one or more new Certificates for the unredeemed portion of the principal. If less than all of the Certificates are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to select, at random and by lot, the particular

Certificates, or portion thereof, to be redeemed. If a Certificate (or any portion of the principal sum thereof) will have been called for redemption and notice of such redemption will have been given, such Certificate (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**Use of Certificate Proceeds**

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the City’s utility system, including upgrades and improvements to the City’s wastewater treatment plant, lift stations, and related facilities, and engineering for future lift stations and wastewater treatment plant improvements; (2) designing, constructing, renovating, improving and equipping the existing City Hall; (3) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (4) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects.

**Sources and Uses**

Sources	
Par Amount of the Certificates	\$ _____
Accrued Interest on the Certificates	_____
[Net] Reoffering Premium	_____
Total Sources of Funds	_____
Uses	
Project Fund Deposit	\$ _____
Purchaser’s Discount	_____
Certificate Fund Deposit	_____
Costs of Issuance	_____
Total Uses	_____

**Payment Record**

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

**Amendments**

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

**Defeasance**

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City’s Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that “Government Securities” means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality

by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. City officials are authorized to restrict such eligible securities as deemed appropriate. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

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

#### **Default and Remedies**

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

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

In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson*") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between government and proprietary functions is not clear, the *Wasson* opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed *Wasson* again in June 2018 and clarified 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 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 and definitions found in the Texas Civil Practice and Remedies Code.

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

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect

to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

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

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

### **Record Date**

The record date ("Record Date") for determining the party to whom interest is payable on a Certificate on any interest payment date means the fifteenth (15<sup>th</sup>) day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment" herein.)

### **Special Record Date for Interest Payment**

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

### **Future Registration**

In the event the Certificates are not in the Book-Entry-Only System, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new

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

#### **Limitation on Transfer of Certificates**

Neither the Issuer nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Certificate or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Certificate redeemed in part.

#### **Replacement Certificates**

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

### **BOOK-ENTRY-ONLY SYSTEM**

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

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

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

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

Purchases of Certificates under the DTC system must be made by or through Direct Participants, which will receive a credit for the Certificates on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as

periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Certificates are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive physical certificates representing their ownership interests in Certificates, except in the event that use of the book-entry system for the Certificates is discontinued.

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

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

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

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

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

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

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

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

#### **Use of Certain Terms in Other Sections of this Official Statement**

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



### **Effect of Termination of Book-Entry-Only System**

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

### **INVESTMENT POLICIES**

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

#### **Legal Investments**

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

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

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

#### **Investment Policies**

Under State law, the City is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The City 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 City'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 City 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.

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

<u>Type of Security</u>	<u>Market Value</u>
General Time Value Investments	\$ 1,811,116

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

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

**AD VALOREM PROPERTY TAXATION**

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

**Valuation of Taxable Property**

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The Liberty County Appraisal District (the "Appraisal District") is primarily responsible for appraising property within the City generally as of January 1 of each year. Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

**State Mandated Homestead Exemptions**

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

**Local Option Homestead Exemptions**

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

### **Local Option Freeze for the Elderly and Disabled**

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

### **Personal Property**

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

### **Freeport and Goods-In-Transit Exemptions**

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

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

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

### **Other Exempt Property**

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

### **Tax Increment Reinvestment Zones**

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

### **Tax Abatement Agreements**

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

For a discussion of how the various exemptions described above are applied by the City, see “CITY’S APPLICATION OF THE PROPERTY TAX CODE” herein.

## **City and Taxpayer Remedies**

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

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

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

## **Levy and Collection of Taxes**

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

## **City’s Rights in the Event of Tax Delinquencies**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year. The City has approved a one-fourth percent (1/4%) sales and use tax for property tax reduction. See “APPENDIX A – Municipal Sales Tax Collections”.

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

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

### **Debt Tax Rate Limitations**

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 of taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

### **2021 Legislation**

On January 12, 2021, the 87th Texas Legislature convened in general session which is scheduled to adjourn on May 31, 2021. Thereafter, the Texas Governor may call one or more additional special sessions. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the City and its finances. The City makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed legislation for any developments applicable to the City.

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

The City grants a local option exemption to the appraised value of the residence homestead of persons 65 years of age or older of \$20,000.00.

The City has elected to grant a local option exemption to the appraised value of the residence homesteads of \$20,000.

The City has adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

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

The City does not tax nonbusiness personal property

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

The City does tax Goods-in-Transit.

The City does tax Freeport Property.

The City does collect an additional ½ of one percent sales tax for economic development.

Pursuant to the terms of the tax abatement agreement with Hiller Carbon, LLC ("Hiller"), the City has agreed to abate ad valorem taxation on any increase in assessed valuation from the 2016 tax year in the following amounts: 100 percent (100%) in tax years 2017 and 2018, 80 percent (80%) in tax year 2019, forty percent (40%) in tax year 2020, and twenty percent (20%) in tax year 2021. As a condition to this tax abatement, Hiller agreed to spend a minimum of \$2,750,000 on new improvements on the property and create at least nine full time jobs that pay prevailing wages for similar jobs in the county and State. If at any time during the term of this tax abatement agreement Hiller should fail to comply with the terms of the agreement, Hiller will be liable to the City for the value of all taxes abated since the agreement commenced.

The City is also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City has entered into various 380 agreements with businesses in the City. These agreements involve rebates of future ad valorem taxes and/or sales taxes and should not have a significant impact on current tax in future years. Once the terms of the 380 agreements expire, the tax base of the City will be increased to include the new businesses of the City. The City has a Chapter 380 Agreement with Jess-John, Inc. (the "Developer"). The Jess-John, Inc. Agreement allows the City to provide City Grant Payments, less City Service Retainage, to the Developer in order to pay for up to one half (1/2) of actual costs of Public Improvements not to exceed \$674,530. This Agreement took effect on November 17, 2014, for a term expiring the earlier of 15 years thereafter, or on the date that all payments required have been made.

### **Industrial Districts in Extraterritorial Jurisdiction**

Pursuant to Section 42.044, as amended, Texas Local Government Code, the City is authorized to designate any area within its extraterritorial jurisdiction as an "Industrial District" and contract with the Industrial District to guarantee the continuation of the District's extraterritorial status for a period not to exceed 15 years. In lieu of annexation, and the tax burden such annexation would impose, the landowners within an Industrial District typically agree to pay a lesser portion of those property taxes which they would have paid if the property within the District had been within the City limit. The City currently has one such Industrial District.

Kinder Morgan Texas Pipeline LLC (“Kinder Morgan”) has also entered into a non-annexation agreement with the City, which will terminate December 31, 2022, unless terminated earlier by the terms of the contract or extended. Pursuant to this agreement, the City has pledged not to annex any property identified in the agreement, owned by Kinder Morgan, for the term of the agreement. Kinder Morgan in return has agreed to pay an increasingly larger portion of the ad valorem taxes it would have paid if it were located within the City limit. For the years 2019 through 2022, Kinder Morgan paid or will pay the City an amount equivalent to 58% of the ad valorem taxes it would have paid upon all taxable property within the industrial development district based upon the land’s value on January 1 of the prior calendar year. Kinder Morgan will pay the City in annual installments, on or before September 30 of each year, for the term of the agreement.

## **TAX MATTERS**

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

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

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

### **Tax Changes**

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

### **Ancillary Tax Consequences**

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

### **Tax Accounting Treatment of Discount Certificates**

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

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

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

#### **Tax Accounting Treatment of Premium Certificates**

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

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

#### **Qualified Tax Exempt Obligations**

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by "financial institutions" described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for 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 Certificates as "qualified tax-exempt obligations" and will certify its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Certificates will not be subject to the 100% disallowance of interest expense allocable to interest on the Certificates under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Certificates will be reduced by 20% pursuant to section 291 of the Code.

### **CONTINUING DISCLOSURE OF INFORMATION**

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

#### **Annual Reports**

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



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

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

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

#### **Notice of Certain Events**

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

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

#### **Availability of Information**

All information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

#### **Limitations and Amendments**

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

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

#### **Compliance with Prior Agreements**

During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule.

### **LEGAL MATTERS**

#### **Legal Opinions and No-Litigation Certificate**

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

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

#### **Litigation**

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

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

#### **Legal Investments and Eligibility to Secure Public Funds in Texas**

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

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

#### **FORWARD LOOKING STATEMENTS**

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

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

#### **OTHER PERTINENT INFORMATION**

##### **Registration and Qualification of Certificates for Sale**

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

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

##### **Ratings**

A municipal bond rating application for the Certificates has been made to S&P Global Ratings ("S&P"). The outcome of the result will be made available as soon as possible. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

##### **Authenticity of Financial Information**

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

##### **Financial Advisor**

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Certificates. In this capacity, the Financial Advisor has compiled certain data relating to the Certificates and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and initial delivery of the Certificates.

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

**Winning Bidder**

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

**Certification of the Official Statement**

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) except as disclosed in the Official Statement, there has been no material adverse change in the financial condition of the City, since September 30, 2020, the date of the last financial statements of the City appearing in the Official Statement.

**Information from External Sources**

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

**Concluding Statement**

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

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

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

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

**CITY OF DAYTON, TEXAS**

\_\_\_\_\_  
/s/  
Mayor  
City of Dayton, Texas

ATTEST:

\_\_\_\_\_  
/s/  
City Secretary  
City of Dayton, Texas

**APPENDIX A**

**FINANCIAL INFORMATION RELATING TO  
THE CITY OF DAYTON, TEXAS**

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**FINANCIAL INFORMATION OF THE ISSUER**

**ASSESSED VALUATION**

**TABLE 1**

2020 Actual Certified Market Value of Taxable Property (100% of Market Value)	\$ 1,087,932,765
Less Exemptions:	
Over-65 or Disabled Exemption	\$ 21,999,705
Veterans' Exemption	5,983,562
Productivity Value Loss	94,129,139
Abatement Loss	12,655,440
Homestead	40,129,931
10% Per Year Cap on Res. Homesteads	2,967,274
<b>TOTAL EXEMPTIONS</b>	<u>177,865,051</u>
2020 Assessed Value of Taxable Property	\$ 910,067,714
Freeze Taxable	59,038,608
Transfer Adjustment	24,053
Freeze Adjusted Taxable Value	<u>\$ 851,005,053</u>

Source: Liberty County Appraisal District.

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

(as of April 1, 2021)

**General Obligation Debt Principal Outstanding**

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015	\$ 5,820,000
General Obligation Refunding Bonds, Series 2016	4,605,000
General Obligation Refunding Bonds, Series 2017	6,880,000
Tax Notes, Series 2017	120,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	5,550,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019	2,185,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020A	13,450,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020B	4,745,000
The Certificates	<u>9,250,000</u> *
Total Gross General Obligation Debt	<u>\$ 52,605,000</u> *
Less: Self Supporting Debt	
General Obligation Refunding Bonds, Series 2016 (100% Utility System)	\$ 4,605,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (73.78% Utility System)	4,095,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020A (100% Broadband Internet Enterprise Fund)	13,450,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020B (38.04% Utility Fund)	1,805,000
The Certificates (97.30% Utility System)	<u>9,000,000</u> *
Total Self-Supporting Debt	<u>\$ 32,955,000</u> *
Total Net General Obligation Debt Outstanding	<u>\$ 19,650,000</u> *
2020 Net Assessed Valuation	\$ 910,067,714
Ratio of Total Gross General Obligation Debt Principal to 2020 Certified Net Taxable Assessed Valuation	5.78%
Ratio of Net General Obligation Debt to 2020 Certified Net Taxable Assessed Valuation	2.16%

Population: 1990 - 5,151; 2000 - 5,7019; 2010 - 7,242; est. 2021 - 8,921  
Per Capita Certified Net Taxable Assessed Valuation - \$102,014.09  
Per Capita Gross General Obligation Debt Principal - \$5,896.76  
Per Capita Net General Obligation Debt Principal - \$2,202.67

\* Preliminary, Subject to change.

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

**DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE**

**TABLE 2**

Annual debt service requirements to retire outstanding capital leases are as follows:

FYE 9/30	Principal	Interest
2019	\$ 37,507	\$ 5,752
2020	39,334	3,925
2021	41,249	2,009
Totals	<u>\$ 118,090</u>	<u>\$ 11,686</u>

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

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

(as of April 1, 2021)

Fiscal Year ፳፻፲፱ (፳፻፲፱)	Current			Combined Debt Service <sup>(a)</sup>	Less: Self Supporting Debt	Total Net Debt Service	
	Outstanding Debt Service <sup>(a)</sup>	The Certificates <sup>(b)</sup>					
		Principal	Interest				Total
2021	\$ 4,195,132		\$ 77,083	\$ 77,083	\$ 4,272,215	\$ 1,916,138	\$ 2,356,077
2022	4,052,224	\$ 600,000	223,750	823,750	4,875,974	2,473,238	2,402,737
2023	4,209,052	360,000	211,750	571,750	4,780,802	2,754,988	2,025,815
2024	4,621,467	370,000	202,625	572,625	5,194,092	3,167,413	2,026,680
2025	4,530,386	380,000	193,250	573,250	5,103,636	3,074,463	2,029,174
2026	4,337,606	390,000	183,625	573,625	4,911,231	2,882,813	2,028,419
2027	4,332,300	400,000	173,750	573,750	4,906,050	2,879,038	2,027,013
2028	4,331,104	405,000	163,688	568,688	4,899,792	2,869,800	2,029,992
2029	2,623,188	420,000	153,375	573,375	3,196,563	2,088,363	1,108,200
2030	2,615,478	430,000	142,750	572,750	3,188,228	2,085,738	1,102,491
2031	2,342,519	440,000	131,875	571,875	2,914,394	1,811,538	1,102,856
2032	2,343,194	450,000	120,750	570,750	2,913,944	1,810,356	1,103,588
2033	2,350,356	460,000	109,375	569,375	2,919,731	1,807,706	1,112,025
2034	2,343,688	475,000	97,688	572,688	2,916,375	1,808,800	1,107,575
2035	2,348,941	485,000	85,688	570,688	2,919,628	1,808,381	1,111,247
2036	1,519,400	500,000	73,375	573,375	2,092,775	1,698,088	394,688
2037	1,515,488	510,000	60,750	570,750	2,086,238	1,692,988	393,250
2038	1,510,056	525,000	47,813	572,813	2,082,869	1,691,425	391,444
2039	1,208,531	535,000	34,563	569,563	1,778,094	1,408,463	369,631
2040	1,067,525	550,000	21,000	571,000	1,638,525	1,414,125	224,400
2041	-	565,000	7,063	572,063	572,063	572,063	-
<b>Total</b>	<b>\$ 58,397,634</b>	<b>\$ 9,250,000</b>	<b>\$ 2,515,583</b>	<b>\$ 11,765,583</b>	<b>\$ 70,163,217</b>	<b>\$ 43,715,919</b>	<b>\$ 26,447,298</b>

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

<sup>(b)</sup> Preliminary, subject to change. Interest calculated at an assumed rate for illustrative purposes only.

**TAX ADEQUACY (Includes Self-Supporting Debt)**

2020 Certified Freeze Adjusted Net Taxable Assessed Valuations	\$ 851,005,053
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2024)	\$ 5,194,092 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.5981

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

**TAX ADEQUACY (Excludes Self-Supporting Debt)**

2020 Certified Freeze Adjusted Net Taxable Assessed Valuations	\$ 851,005,053
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2022)	\$ 2,402,737 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.2767

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

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



**GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**

(as of April 1, 2021)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year	Percent of Principal Retired (%)
	Currently Outstanding <sup>(a)</sup>	The Certificates <sup>(b)</sup>	Total		
2021	\$ -	\$ -	\$ -	\$ 52,605,000	0.00%
2022	2,715,000	600,000	3,315,000	49,290,000	6.30%
2023	2,945,000	360,000	3,305,000	45,985,000	12.58%
2024	3,450,000	370,000	3,820,000	42,165,000	19.85%
2025	3,470,000	380,000	3,850,000	38,315,000	27.16%
2026	3,385,000	390,000	3,775,000	34,540,000	34.34%
2027	3,490,000	400,000	3,890,000	30,650,000	41.74%
2028	3,610,000	405,000	4,015,000	26,635,000	49.37%
2029	2,000,000	420,000	2,420,000	24,215,000	53.97%
2030	2,060,000	430,000	2,490,000	21,725,000	58.70%
2031	1,850,000	440,000	2,290,000	19,435,000	63.05%
2032	1,915,000	450,000	2,365,000	17,070,000	67.55%
2033	1,985,000	460,000	2,445,000	14,625,000	72.20%
2034	2,040,000	475,000	2,515,000	12,110,000	76.98%
2035	2,110,000	485,000	2,595,000	9,515,000	81.91%
2036	1,335,000	500,000	1,835,000	7,680,000	85.40%
2037	1,375,000	510,000	1,885,000	5,795,000	88.98%
2038	1,415,000	525,000	1,940,000	3,855,000	92.67%
2039	1,155,000	535,000	1,690,000	2,165,000	95.88%
2040	1,050,000	550,000	1,600,000	565,000	98.93%
2041	-	565,000	565,000	-	100.00%
<b>Total</b>	<b>\$ 43,355,000</b>	<b>\$ 9,250,000</b>	<b>\$ 52,605,000</b>		

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

<sup>(b)</sup> Preliminary, subject to change.

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2011-2020**

**TABLE 3**

Tax Year	Net Taxable	Change From Preceding Year	
	Assessed Valuation	Amount (\$)	Percent
2011	\$ 720,041,512	---	---
2012	688,138,456	(31,903,056)	-4.43%
2013	655,652,364	(32,486,092)	-4.72%
2014	714,940,898	59,288,534	9.04%
2015	749,905,833	34,964,935	4.89%
2016 <sup>(1)</sup>	658,247,341	(91,658,492)	-12.22%
2017	755,333,201	97,085,860	14.75%
2018	796,480,291	41,147,090	5.45%
2019	878,731,164	82,250,873	10.33%
2020	910,067,714	31,336,550	3.57%

Source: Liberty County Appraisal District.

<sup>(1)</sup> Decrease in taxable assessed value due to decline in oil and gas prices and City's concentration of oil and gas industry businesses located in the railyard (See "PRINCIPAL TAXPAYERS 2020 - Table 4" below). The City expects taxable assessed value to continue to fluctuate with oil prices as well as value of rolling stock within the railyard at time of annual appraisal by Liberty CAD.

**PRINCIPAL TAXPAYERS 2020**

**TABLE 4**

Name	Type of Business/Property	% of Total 2020	
		2020 Net Taxable Assessed Valuation	Assessed Valuation
Total Petrochemicals USA	Oil and Gas	\$ 58,916,410	6.47%
Global Tubing	Wire Products	43,943,630	4.83%
Equistar Chemicals LP	Oil and Gas	34,008,900	3.74%
TRT Lease Co LLC	Energy	23,110,070	2.54%
Exxon Chemical Americas	Oil and Gas	17,059,770	1.87%
Insteel Wire Products Co	Wire Products	14,854,800	1.63%
Westlake Polymers LP	Oil and Gas	12,605,790	1.39%
Chevron Phillips Chemical	Oil and Gas	12,014,930	1.32%
Oxy Vinyls LP	Oil and Gas	10,746,220	1.18%
Sumiden Wire Products Corp.	Wire Products	10,551,946	1.16%
		<u>\$ 237,812,466</u>	<u>26.13%*</u>

Source: Liberty County Appraisal District.

\* As shown in the table above, the top ten taxpayers in the City account for in excess of 26% of the City's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the City, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "THE CERTIFICATES- Default and Remedies" and "AD VALOREM PROPERTY TAXATION - City and Taxpayer Remedies" in this Official Statement.

**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 5**

	2020	% of Total	2019	% of Total	2018	% of Total
Real, Residential, Single-Family	\$ 355,759,250	32.70%	\$ 316,459,288	30.55%	\$ 288,926,439	30.18%
Real, Residential, Multi-Family	32,088,200	2.95%	26,747,950	2.58%	23,380,860	2.44%
Real, Vacant Lots/Tracts	25,026,558	2.30%	18,157,957	1.75%	17,921,342	1.87%
Real, Acreage (Land Only)	96,503,569	8.87%	79,432,373	7.67%	67,081,404	7.01%
Real, Farm and Ranch Improvements	37,570,679	3.45%	30,645,025	2.96%	27,727,940	2.90%
Real, Commercial and Industrial	190,976,829	17.55%	183,001,232	17.67%	166,884,129	17.43%
Oil and Gas	86,311	0.01%	97,300	0.01%	32,081	0.00%
Real & Tangible, Personal Utilities	33,980,510	3.12%	26,294,330	2.54%	25,043,330	2.62%
Tangible Personal Business	308,310,953	28.34%	348,383,134	33.63%	334,134,671	34.90%
Tangible Personal, Mobile Homes	7,330,076	0.67%	6,546,695	0.63%	6,111,881	0.64%
Special Inventory	299,830	0.03%	78,770	0.01%	253,440	0.03%
<b>Total Appraised Value</b>	<b>\$ 1,087,932,765</b>	<b>100.00%</b>	<b>\$ 1,035,844,054</b>	<b>100.00%</b>	<b>\$ 957,497,517</b>	<b>100.00%</b>
<b>Less:</b>						
Over-65 or Disabled Exemption	\$ 21,999,705		\$ 21,943,980		\$ 21,683,560	
Veterans' Exemption	5,983,562		5,636,411		5,084,721	
Productivity Value Loss	94,129,139		77,093,503		65,203,726	
Abatement Loss	12,655,440		15,315,080		34,139,890	
Homestead	40,129,931		36,345,059		33,570,811	
10% Per Year Cap on Res. Homesteads	2,967,274		778,857		1,334,518	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 910,067,714</b>		<b>\$ 878,731,164</b>		<b>\$ 796,480,291</b>	

Source: Liberty County Appraisal District.

**TAX DATA**

**TABLE 6**

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2009	\$ 659,540,328	\$ 0.725600	\$ 4,785,625	96.21	97.54	9/30/2010
2010	623,519,729	0.724500	4,517,400	95.69	99.61	9/30/2011
2011	720,041,512	0.630400	4,539,142	97.03	99.66	9/30/2012
2012	688,138,456	0.685300	4,715,813	97.87	102.17	9/30/2013
2013	655,652,364	0.722900	4,739,711	97.22	103.15	9/30/2014
2014	714,940,898	0.690000	4,933,092	96.55	98.24	9/30/2015
2015	749,905,833	0.680000	5,099,360	98.72	101.08	9/30/2016
2016	658,247,341	0.685300	4,510,969	98.09	101.94	9/30/2017
2017	755,333,201	0.670000	5,060,732	98.25	101.78	9/30/2018
2018	796,480,291	0.682100	5,432,792	99.73	100.26	9/30/2019
2019	878,731,164	0.664500	5,839,169	98.71	99.05	9/30/2020
2020	910,067,714	0.706000	6,425,078	92.77	99.79	9/30/2021 *

\* Collections as of January 31, 2021.

**TAX RATE DISTRIBUTION**

**TABLE 7**

	2020	2019	2018	2017	2016
General Fund	\$ 0.429400	\$ 0.420400	\$ 0.424900	\$ 0.429500	\$ 0.497100
Interest and Sinking Fund	0.276600	0.244100	0.257200	0.240500	0.188200
<b>Total</b>	<b>\$ 0.706000</b>	<b>\$ 0.664500</b>	<b>\$ 0.682100</b>	<b>\$ 0.670000</b>	<b>\$ 0.685300</b>

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Liberty County Appraisal District, the Issuer's Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2019, and information supplied by the Issuer.

**MUNICIPAL SALES TAX COLLECTIONS**

**TABLE 8**

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development sales tax. The City's approved a 1/2 cent sales tax for property relief to be effective 10/1/96. The City has an additional 1/2 of 1 cent sales tax for its Economic Development Corporation (4B). Collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2010	\$ 1,267,417	26.48%	\$ 0.192
2011	1,518,814	33.62%	0.244
2012	1,923,649	42.38%	0.267
2013	2,061,560	43.72%	0.300
2014	2,633,398	55.56%	0.402
2015	2,581,859	52.34%	0.361
2016	2,121,260	41.60%	0.283
2017	2,209,675	48.98%	0.336
2018	2,518,247	49.76%	0.333
2019	2,446,644	45.03%	0.307
2020	2,619,836	44.87%	0.298
2021	420,285	(As of April 2021)	

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

**OVERLAPPING DEBT INFORMATION**

(as of April 1, 2021)

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

Taxing Body	Gross Debt (As of 4/1/21)	% Overlapping	Amount Overlapping
Dayton ISD	\$ 81,815,000	43.06%	\$ 35,229,539
Liberty County	30,280,000	14.40%	4,360,320
Liberty ISD	42,600,630	0.01%	4,260
Total Gross Overlapping Debt			\$ 39,594,119
Dayton, City of			\$ 52,605,000 *
Total Gross Direct and Overlapping Debt			\$ 92,199,119 *
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			10.13% *
Per Capita Direct and Overlapping Debt			\$11,243.80 *

Note: The above figures show Gross General Obligation Debt for the City of Dayton, Texas. The Issuer's Net General Obligation Debt is \$19,650,000 (preliminary, subject to change). Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Direct and Overlapping Debt	\$ 59,244,119 *
Ratio of Direct and Overlapping Debt to Net Assessed Valuation	6.51% *
Per Capita Direct and Overlapping Debt	\$6,640.97 *

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

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

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

Governmental Subdivision	2020 Assessed Valuation	% of Actual	2020 Tax Rate
Dayton ISD	\$ 2,127,098,473	100%	\$ 1.200000
Liberty County	7,665,352,399	100%	0.554000
Liberty ISD	980,040,555	100%	1.299000

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

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

Issuer	Date of Authorization	Amount Authorized	Amount Issued to Date	Amount Unissued
Dayton ISD	None			
Liberty County	None			
Liberty ISD	None			

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

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

**TABLE 9**

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

	Fiscal Year Ended				
	9/30/2020*	9/30/2019	9/30/2018 <sup>(2)</sup>	9/30/2017 <sup>(1)</sup>	9/30/2016
Fund Balance - Beginning of Year	\$ 2,931,543	\$ 2,907,185	\$ 3,533,987	\$ 7,123,392	\$ 7,304,444
Revenues	\$ 7,420,827	\$ 7,558,838	\$ 6,627,462	\$ 5,731,182	\$ 6,329,676
Expenditures	8,637,789	8,148,531	7,516,430	7,483,170	6,775,728
Excess (Deficit) of Revenues Over Expenditures	\$ (1,216,962)	\$ (589,693)	\$ (888,968)	\$ (1,751,988)	\$ (446,052)
Other Financing Sources (Uses):					
Operating Transfers In	\$ 720,397	\$ 616,039	\$ 1,008,033	\$ 3,000,000	\$ 265,000
Operating Transfers Out	(200)	(1,988)	(745,867)	(5,412,417)	-
Debt Issued	-	-	-	575,000	-
Capital Leases	-	-	-	-	-
Proceeds from the Sale of Capital Assets	-	-	-	-	-
Total Other Financing Sources (Uses):	\$ 720,197	\$ 614,051	\$ 262,166	\$ (1,837,417)	\$ 265,000
Prior Period Adjustment	-	-	-	-	-
Fund Balance - End of Year	\$ 2,434,778	\$ 2,931,543	\$ 2,907,185	\$ 3,533,987	\$ 7,123,392

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

<sup>(1)</sup> Fund balance was drawn down deliberately to fund expansion of the City's Law Enforcement Center (\$2,500,000) as well as cover a one-time revenue shortfall of \$700,000 from decreased tax revenues related to the City's railyard and suppressed oil and gas prices.

<sup>(2)</sup> The City drew down fund balance as a result of unreimbursed expenses related to Hurricane Harvey, payout related to the removal of the City's police chief and professional services of the interim police chief, \$100,000 loss resulting from failed rollback tax election and the revenue loss resulting from the Community Center that was used as the National Guard's base of operations during Hurricane Harvey recovery.

\* Unaudited.

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

**TABLE 10**

Information pertaining to the City's pension plan and other post-employment benefits can be found within the City's Audit under IV. OTHER INFORMATION; C. Pension Plans.

**UTILITY SYSTEM PLANT IN OPERATION**

**TABLE 11**

	<b>FYE 9/30/2019</b>
Land	\$ 107,408
Construction in Progress	-
Machinery and Equipment	2,659,537
Buildings and Improvements	3,086,121
Water and Sewer System	<u>29,288,531</u>
Total Capital Assets	\$ 35,141,597
Less: Accumulated Depreciation	<u>(20,706,650)</u>
Net Capital Assets	<u>\$ 14,434,947</u>

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

**WATER AND SEWER OPERATING SYSTEM**

**TABLE 12**

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

	Fiscal Year Ended				
	9/30/2020*	9/30/2019	9/30/2018	9/30/2017	9/30/2016
Revenues	\$ 4,357,523	\$ 3,979,031	\$ 4,168,214	\$ 3,810,885	\$ 3,403,231
Expenses	<u>3,512,005</u>	<u>2,438,832</u>	<u>2,202,489</u>	<u>1,920,234</u>	<u>1,856,547</u>
Net Revenue Available for Debt Service	\$ 845,518	\$ 1,540,199	\$ 1,965,725	\$ 1,890,651	\$ 1,546,684
Customer Count:					
Water	3,179	2,893	2,730	2,774	2,573
Sewer	2,695	2,330	2,365	2,380	2,297

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

\* Unaudited.

**WATER RATES**

**TABLE 13**

<b>New Rates</b>	
<b>Effective October 1, 2020</b>	
Meter Size	Water
3/4"	\$ 19.34
1"	24.60
1.5"	31.63
2"	50.97
3"	193.34
4"	246.08
6"	369.09
Volumetric Charge per 1,000 Gallons	
All meters	\$ 4.06
<b>Old Rates</b>	
<b>Effective July 1, 2017</b>	
Gallons	Rates
Base Rate	\$18.00 to \$21.00
First 2,000	\$21.00

**New Rates**  
*Effective October 1, 2020*

<u>Meter Size</u>	<u>Water</u>
3/4"	\$ 19.34
1"	24.60
1.5"	31.63
2"	50.97
3"	193.34
4"	246.08
6"	369.09

Volumetric Charge per 1,000 Gallons

All meters	\$ 4.06
------------	---------

**Old Rates**  
*Effective July 1, 2017*

<u>Gallons</u>	<u>Rates</u>
Base Rate	\$18.00 to \$21.00
First 2,000 gallons	\$21.00

**APPENDIX B**

**GENERAL INFORMATION REGARDING THE CITY OF DAYTON  
AND LIBERTY COUNTY, TEXAS**

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## GENERAL INFORMATION

### City of Dayton

The City of Dayton (the “City”) is located in southwest Liberty County where State Highway 146 meets U.S. Highway 90. The City was recorded as an incorporated municipality on May 3, 1911.

The City provides a full range of municipal services including public safety, residential solid waste sanitation services, water and wastewater services, public improvements, repair and maintenance of infrastructure, recreational and community activities, and general administrative services. As an independent political subdivision of the State of Texas governed by an elected Mayor and Council, the City is considered a primary government.

The City continued its commitment to the Rosewood Water Well Rebuild project. This multi-year capital improvement project will provide a long-term water solution for our ever-growing community. Analysis of its estimated capacity, once completed, indicates that the City will have the ability to double its current population, without further infrastructure commitments, within the next 15 to 20 years.

### 2019 PRINCIPAL EMPLOYERS

<u>Employer</u>	<u>Employees</u>
Dayton Independent School District	830
Global Tubing	194
Dayton Lease and Pipeline Services	150
Huntsman Corporation	100
Insteel Wire Products	88
Sam’s Distribution Center	78
Harris Rebar, LLC	62
McCoy’s Building Supply	37
Fabrication and Construction Services	22
Campbell Concrete and Materials	<u>10</u>
Total	<u><u>1,571</u></u>

### Dayton Independent School District

The Dayton Independent School District (the “District”) is located 34 miles northeast of the City of Houston, Texas in Liberty County, Texas. A small portion of the District extends into Harris County, Texas. The economy is based on mineral production, agriculture, and lumbering. Since the industries of the Baytown area and the industries along the Houston Ship Channel are within easy driving range, many of the residents of the District commute to industrial jobs. The City of Dayton, Texas is the principal retail center of the District, located on U.S. Highway 90.

School	Grade	Enrollment 2020-19	Enrollment 2018-19	Enrollment 2017-18	Enrollment 2016-17	Enrollment 2015-16
Colbert Elementary	Pre K	230	220	225	228	203
Stephen F. Austin Elementary	K-1 <sup>st</sup>	930	895	857	786	806
Dr. E.R. Richter Elementary	2 <sup>nd</sup> – 3 <sup>rd</sup>	725	762	763	812	769
Kimmie M. Brown Elementary	4 <sup>th</sup> – 6 <sup>th</sup>	783	787	796	808	772
Woodrow Wilson Junior High School	7 <sup>th</sup> – 8 <sup>th</sup>	1,260	1,210	1,223	1,192	799
Dayton High School	9 <sup>th</sup> – 12 <sup>th</sup>	1,480	1,511	1,524	1,480	1,448
Total		5,408	5,385	5,388	5,306	4,797

## Liberty County

Liberty County, is located in southeast Texas on U.S. Highway 90 halfway between Beaumont and Houston. The County occupies an area of approximately 1,176 square miles and serves a population of approximately 76,000. City of Liberty is the County seat. The County's economy is diversified and has historically been based on mineral production (Oil and gas), agriculture, and lumber. The cities within the County offer many recreational and cultural opportunities.

Liberty County produces diversified crops including rice, sorghum, soybeans, corn, grains, fruits and vegetables. Beef cattle, sheep, poultry, hogs, and goats are raised and honey is produced commercially. Natural resources include timber, oil, natural gas, lignite, sulfur, iron ore, lime, salt, brick clay, and glass sand. Manufacturing facilities include chemicals and machinery.

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

	<u>2021<sup>(2)</sup></u>	<u>2020<sup>(3)</sup></u>	<u>2019<sup>(3)</sup></u>	<u>2018<sup>(3)</sup></u>	<u>2017<sup>(3)</sup></u>
Civilian Labor Force	34,054	33,582	33,468	32,718	31,982
Total Employed	29,839	30,011	31,793	30,807	29,688
Total Unemployed	4,215	3,571	1,675	1,911	2,294
% Unemployment	12.4%	10.6%	5.0%	5.8%	7.2%
Texas Unemployment	7.3%	7.6%	3.5%	3.9%	4.3%

(1) Source: Texas Workforce Commission.

(2) As of January 2021.

(3) Average Annual Statistics.

**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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**DRAFT**

IN REGARD to the authorization and issuance of the “City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021” (the *Certificates*), dated April 15, 2021 in the aggregate principal amount of \$\_\_\_\_\_ we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Dayton, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 20\_\_ through 20\_\_, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

WE HAVE EXAMINED, the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the Certificates, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Certificates and certain other funds of the Issuer and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other

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](http://nortonrosefulbright.com).

**Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF DAYTON, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2021”**

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

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

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

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance

**Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF DAYTON, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2021”**

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

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**APPENDIX D**

**FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2019**

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

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## ***INDEPENDENT AUDITORS' REPORT***

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

### **Report on the Financial Statements**

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

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

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

### **Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 City'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 City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## Opinions

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

## Other Matters

### *Required Supplementary Information*

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

### *Other Information*

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

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

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

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
Certified Public Accountants  
Houston, Texas  
May 28, 2020

***MANAGEMENT'S DISCUSSION  
AND ANALYSIS***

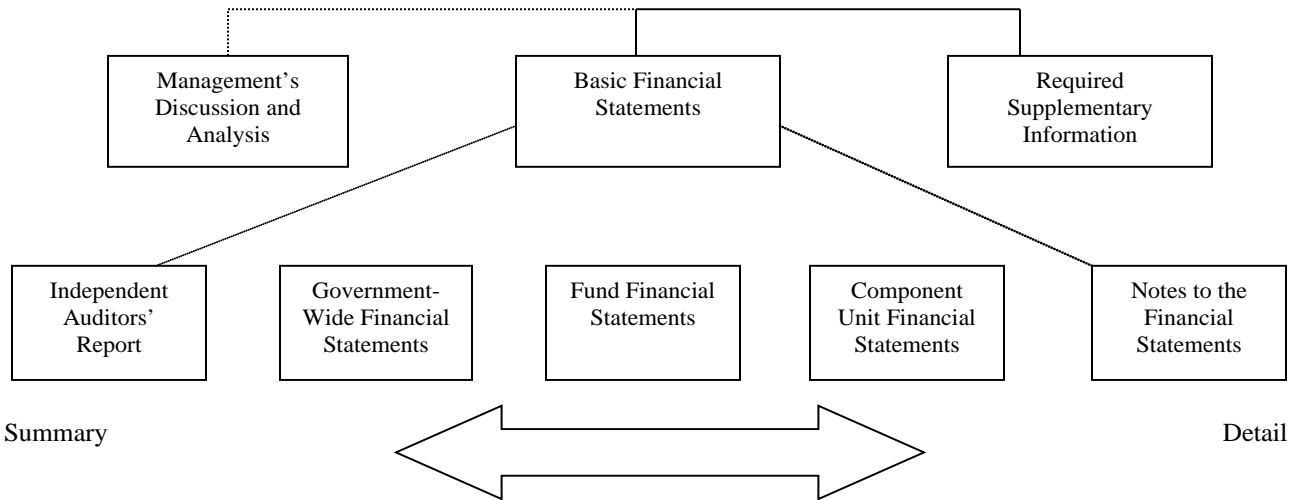
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**CITY OF DAYTON, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended September 30, 2019**

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Dayton, Texas (the "City") for the year ending September 30, 2019. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

**THE STRUCTURE OF OUR ANNUAL REPORT**

**Components of the Financial Section**



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

**Government-Wide Statements**

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

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

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change

**CITY OF DAYTON, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

occurs, regardless of the timing of related cash flows – the accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* – Most of the City's basic services are reported here including public safety (police, fire, and EMS), public works (street and park maintenance), culture and recreation, community enhancement, and general administration (City manager, City secretary, finance, human resources, and information technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water distribution, wastewater collection/treatment, and refuse services.

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

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

## **FUND FINANCIAL STATEMENTS**

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

### **Governmental Funds**

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

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

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



**CITY OF DAYTON, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

The City adopts an annual appropriated budget for its general fund, debt service fund, and hotel and motel tax fund. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

**Proprietary Funds**

The City maintains two types of proprietary funds: enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, water and sewer impact, water construction operations, and refuse services. The proprietary fund financial statements provide separate information for the water and sewer fund and refuse fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its employees benefit program. Because these services predominantly benefit governmental rather than business-type functions, this fund has been included within governmental activities in the government-wide financial statements.

**Notes to Financial Statements**

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

**Other Information**

In addition to the basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of changes in net pension and total other postemployment benefits liability and related ratios, schedule of the City's proportionate share of the net pension liability, and schedules of contributions for the Texas Municipal Retirement System and the Texas Emergency Services Retirement System. RSI can be found after the notes to the financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$26,204,784, as of September 30, 2019 for the primary government.

A portion of the City's net position, \$15,817,281, reflects its investments in capital assets (e.g., land, City hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

**CITY OF DAYTON, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

**Statement of Net Position**

The following table reflects the condensed Statement of Net Position:

	2019			2018		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 11,419,834	\$ 5,762,199	\$ 17,182,033	\$ 12,495,126	\$ 5,763,691	\$ 18,258,817
Capital assets, net	28,505,339	14,434,947	42,940,286	26,719,089	14,663,954	41,383,043
<b>Total Assets</b>	<b>39,925,173</b>	<b>20,197,146</b>	<b>60,122,319</b>	<b>39,214,215</b>	<b>20,427,645</b>	<b>59,641,860</b>
Deferred charge on refunding	168,371	-	168,371	187,870	-	187,870
Deferred outflows - pensions	542,323	142,666	684,989	337,293	73,376	410,669
Deferred outflows - OPEB	12,429	-	12,429	14,558	-	14,558
<b>Total Deferred Outflows of Resources</b>	<b>723,123</b>	<b>142,666</b>	<b>865,789</b>	<b>539,721</b>	<b>73,376</b>	<b>613,097</b>
Current liabilities	1,751,394	454,027	2,205,421	1,299,817	490,038	1,789,855
Long-term liabilities	25,913,746	6,447,620	32,361,366	24,644,776	6,976,652	31,621,428
<b>Total Liabilities</b>	<b>27,665,140</b>	<b>6,901,647</b>	<b>34,566,787</b>	<b>25,944,593</b>	<b>7,466,690</b>	<b>33,411,283</b>
Deferred inflows - pensions	152,873	38,136	191,009	160,141	31,093	9,454
Deferred inflows - OPEB	25,528	-	25,528	-	-	-
<b>Total Deferred Inflows of Resources</b>	<b>178,401</b>	<b>38,136</b>	<b>216,537</b>	<b>160,141</b>	<b>31,093</b>	<b>9,454</b>
<b>Net Position:</b>						
Net investment in capital assets	7,571,936	8,245,345	15,817,281	8,539,396	7,862,730	16,402,126
Restricted	2,826,394	-	2,826,394	2,546,588	-	2,546,588
Unrestricted	2,406,425	5,154,684	7,561,109	2,563,218	5,140,508	7,703,726
<b>Total Net Position</b>	<b>\$ 12,804,755</b>	<b>\$ 13,400,029</b>	<b>\$ 26,204,784</b>	<b>\$ 13,649,202</b>	<b>\$ 13,003,238</b>	<b>\$ 26,652,440</b>

A portion of the City's net position, \$2,826,394 or 10.8 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$7,561,109, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position decreased by \$447,656 as compared to the prior year.

Compared to the prior year, current assets decreased by \$1,076,784 while noncurrent assets increased by \$1,557,243. The decrease in current assets was mainly attributed to decreased cash holdings due to the purchase of capital assets. Current liabilities increased \$415,566 compared to the prior year due to increases in accounts payable and other short-term payable items. Long-term liabilities increased \$739,938 primarily due to the issuance of debt, as well as an increase in the pension liability.

**CITY OF DAYTON, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

**Statement of Activities**

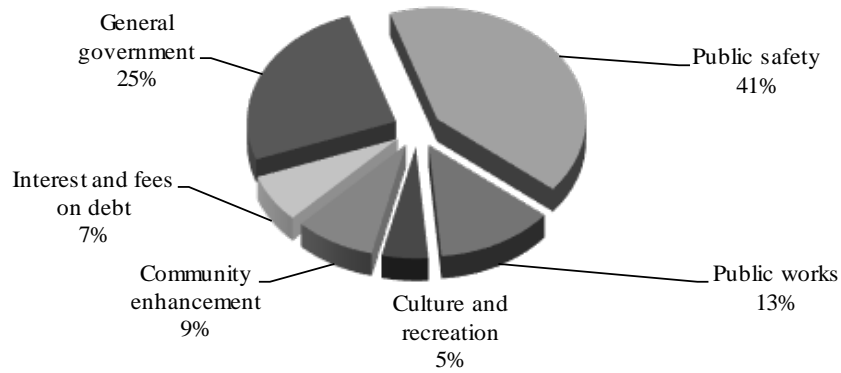
The following table provides a summary of the City's changes in net position:

	2019			2018		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 942,762	\$ 5,113,657	\$ 6,056,419	\$ 677,027	\$ 5,491,730	\$ 6,168,757
Grants and contributions	649,110	-	649,110	313,512	-	313,512
General revenues:						
Property taxes	5,399,604	-	5,399,604	4,828,060	-	4,828,060
Sales taxes	1,638,096	-	1,638,096	1,657,378	-	1,657,378
Franchise fees and local taxes	914,205	-	914,205	901,297	-	901,297
Investment income	180,597	60,599	241,196	54,284	39,535	93,819
Other revenues	101,609	97,741	199,350	147,162	13,689	160,851
<b>Total Revenues</b>	<u>9,825,983</u>	<u>5,271,997</u>	<u>15,097,980</u>	<u>8,578,720</u>	<u>5,544,954</u>	<u>14,123,674</u>
<b>Expenses</b>						
General government	2,696,118	-	2,696,118	2,574,650	-	2,574,650
Public safety	4,344,552	-	4,344,552	4,461,434	-	4,461,434
Public works	1,359,432	-	1,359,432	841,397	-	841,397
Culture and recreation	535,907	-	535,907	670,821	-	670,821
Community enhancement	926,551	-	926,551	824,133	-	824,133
Interest and fees on debt	744,569	-	744,569	656,507	-	656,507
Water and sewer	-	3,889,503	3,889,503	-	3,683,436	3,683,436
Refuse	-	1,049,004	1,049,004	-	1,001,909	1,001,909
<b>Total Expenses</b>	<u>10,607,129</u>	<u>4,938,507</u>	<u>15,545,636</u>	<u>10,028,942</u>	<u>4,685,345</u>	<u>14,714,287</u>
<b>Change in Net Position Before Transfers</b>						
	(781,146)	333,490	(447,656)	(1,450,222)	859,609	(590,613)
Transfers	(63,301)	63,301	-	582,659	(582,659)	-
<b>Total Transfers</b>	<u>(63,301)</u>	<u>63,301</u>	<u>-</u>	<u>582,659</u>	<u>(582,659)</u>	<u>-</u>
<b>Change in Net Position</b>	<u>(844,447)</u>	<u>396,791</u>	<u>(447,656)</u>	<u>(867,563)</u>	<u>276,950</u>	<u>(590,613)</u>
Beginning net position	<u>13,649,202</u>	<u>13,003,238</u>	<u>26,652,440</u>	<u>14,516,765</u>	<u>12,726,288</u>	<u>27,243,053</u>
<b>Ending Net Position</b>	<u>\$ 12,804,755</u>	<u>\$ 13,400,029</u>	<u>\$ 26,204,784</u>	<u>\$ 13,649,202</u>	<u>\$ 13,003,238</u>	<u>\$ 26,652,440</u>

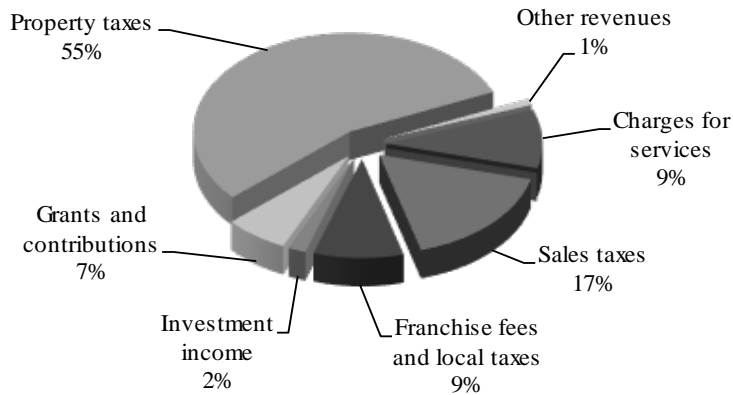
**CITY OF DAYTON, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

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

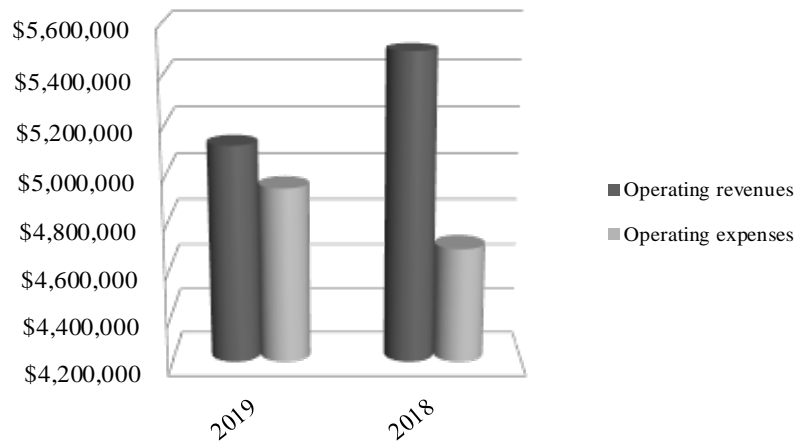
**Governmental Activities - Expenses**



**Governmental Activities - Revenues**



**Business-Type Activities - Revenues and Expenses**



**CITY OF DAYTON, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

For the year ended September 30, 2019, revenues from governmental activities totaled \$9,825,983. Compared to the prior year, governmental revenues increased by \$1,247,263. This increase was largely due to an increase in property tax revenues, which was the result of an increase in property tax valuations and an increase in the tax rate, grants and contributions related to a FEMA reimbursement, and an increase in charges for services resulting from the number of citations issued along with the number of licenses and permits issued.

For the year ended September 30, 2019, expenses from governmental activities totaled \$10,607,129, which was an increase of \$578,187 compared to the prior year. This increase is primarily due to an increase in personnel-related costs as a result of new positions created and pension expense related to the increase in the net pension liability.

For the year ended September 30, 2019, charges for services related to business-type activities totaled \$5,113,657. This is a decrease of \$378,073 from the previous year due to a decrease in overall usage and customers. Business-type expenses totaled \$4,938,507, which is an increase of \$253,162 from the prior year. This increase is largely due to an increase in personnel costs.

**FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

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

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

As of the end of the year, the City's governmental funds reflect a combined fund balance of \$9,016,590. Of this, \$46,994 is nonspendable for prepaid items and inventory, and \$6,305,515 is restricted for various purposes. Unassigned fund balance totaled \$2,664,081 as of year end. There was a combined decrease in governmental fund balances of \$1,600,614 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$2,664,081, while total fund balance reached \$2,931,543. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned and total fund balance represents approximately 33 percent and 36 percent, respectively, of total general fund expenditures.

Compared to the prior year, general fund revenues increased \$931,376. This increase is primarily due to an increase in property tax revenue based on higher property valuations and a higher maintenance and operations tax rate. The City also had increases in revenues from sales taxes, franchise fees, licenses and permits, grant reimbursements, and citations issued. Expenditures increased \$632,101 compared to the prior year. This increase is primarily due to an increase in personnel costs and public safety expenditures.

The debt service fund has a total fund balance of \$2,407,647, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was \$141,935. This increase can be attributed to a transfer in from the water and sewer fund.

The capital projects fund has a total fund balance of \$3,479,121, all of which is restricted for capital projects. The net decrease in fund balance during the fiscal year was \$1,793,462 due to repairs and various capital projects.

**CITY OF DAYTON, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

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

**GENERAL FUND BUDGETARY HIGHLIGHTS**

There had been a planned decrease in budgeted fund balance in the amount of \$433,179 in the general fund. The net change in the general fund balance was an increase of \$24,358. Actual general fund revenues were more than the amended budgeted revenues by \$512,388 during 2019 due primarily to positive budget variances in licenses and permits and intergovernmental revenues. Actual expenditures were more than total budgeted amounts by \$52,690.

The City amended its budget to reflect current and anticipated expenditures as of the fiscal year end.

**CAPITAL ASSETS**

As of the end of the year, the City's governmental and business-type activities had invested \$42,940,286 in a variety of capital assets and infrastructure, net of accumulated depreciation. This represents a net decrease of \$1,557,243.

Major capital asset events during the year include the following:

- Community Center audio/visual system for \$437,822
- A new Grappler Truck for \$184,188
- New paving projects totaling \$866,419
- A sanitary sewer manhole project totaling \$183,320
- New police video camera system totaling \$188,605
- Street vehicles totaling \$155,821
- Community center chillers totaling \$248,990

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

**LONG-TERM DEBT**

At the end of the current year, the City had total general obligation bonds, certificates of obligation, tax anticipation notes, and capital leases outstanding of \$29,920,583. Of this amount, \$14,415,000 was general obligation debt, certificates of obligation accounted for \$15,075,000, \$350,000 for tax anticipation notes, and capital leases totaled \$80,583.

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

**CITY OF DAYTON, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)**  
**For the Year Ended September 30, 2019**

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

For fiscal year 2020, the City approved a \$20,334,199 revenue budget and a \$19,876,795 expense/expenditure budget. General fund revenues were budgeted at \$8,334,268 while expenditures were budgeted at \$8,310,069. The water and sewer fund revenues were budgeted at \$4,710,400 while the expenses were budgeted at \$4,440,736. The property tax rate will decrease to \$0.6645. Property tax revenues were budgeted at \$5,535,635 for fiscal year 2020.

The City's financial stability remains strong and City management and Council are in constant review of the City's fund balance to ensure that there are sufficient funds always on hand to cover any unplanned events.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Rudy Zepeda, Director of Finance, City of Dayton, 117 Cook Street, Dayton, Texas 77535.

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***BASIC FINANCIAL STATEMENTS***

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# CITY OF DAYTON, TEXAS

## STATEMENT OF NET POSITION

September 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	DCDC
<b>Assets</b>				
Cash and cash equivalents	\$ 10,113,399	\$ 3,970,706	\$ 14,084,105	\$ 1,560,245
Restricted cash and cash equivalents	270,547	118,521	389,068	-
Receivables, net	1,677,385	908,129	2,585,514	146,362
Due from primary government	-	-	-	621,859
Internal balances	(700,280)	700,280	-	-
Due from component unit	11,789	-	11,789	-
Inventories	34,753	64,563	99,316	-
Prepaid items	12,241	-	12,241	-
Capital assets:				
Nondepreciable	1,384,811	107,408	1,492,219	162,912
Net depreciable capital assets	27,120,528	14,327,539	41,448,067	-
<b>Total Assets</b>	<b>39,925,173</b>	<b>20,197,146</b>	<b>60,122,319</b>	<b>2,491,378</b>
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding	168,371	-	168,371	-
Deferred outflows - pensions (TMRS)	530,137	142,666	672,803	48,098
Deferred outflows - pensions (TESRS)	12,186	-	12,186	-
Deferred outflows - OPEB	12,429	-	12,429	-
<b>Total Deferred Outflows of Resources</b>	<b>723,123</b>	<b>142,666</b>	<b>865,789</b>	<b>48,098</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	1,022,586	304,886	1,327,472	53,202
Due to primary government	-	-	-	11,789
Due to component unit	621,859	-	621,859	-
Customer deposits	-	118,521	118,521	-
Accrued interest payable	106,949	30,620	137,569	-
Noncurrent liabilities:				
Due within one year	1,816,178	584,750	2,400,928	-
Due in more than one year	24,097,568	5,862,870	29,960,438	57,885
<b>Total Liabilities</b>	<b>27,665,140</b>	<b>6,901,647</b>	<b>34,566,787</b>	<b>122,876</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - pensions (TMRS)	149,423	38,136	187,559	12,505
Deferred inflows - pensions (TESRS)	3,450	-	3,450	-
Deferred inflows - OPEB	25,528	-	25,528	-
<b>Total Deferred Inflows of Resources</b>	<b>178,401</b>	<b>38,136</b>	<b>216,537</b>	<b>12,505</b>
<b>Net Position</b>				
Net investment in capital assets	7,571,936	8,245,345	15,817,281	162,912
Restricted for:				
Debt service	2,407,647	-	2,407,647	-
PEG fees	115,875	-	115,875	-
Enabling legislation	302,872	-	302,872	-
Economic development	-	-	-	2,241,183
Unrestricted	2,406,425	5,154,684	7,561,109	-
<b>Total Net Position</b>	<b>\$ 12,804,755</b>	<b>\$ 13,400,029</b>	<b>\$ 26,204,784</b>	<b>\$ 2,404,095</b>

See Notes to Financial Statements.

# CITY OF DAYTON, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2019

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
<b>Governmental Activities</b>			
General government	\$ 2,696,118	\$ -	\$ 18,278
Public safety	4,344,552	651,207	4,704
Public works	1,359,432	291,555	626,128
Culture and recreation	535,907	-	-
Community enhancement	926,551	-	-
Interest and fees on debt	744,569	-	-
<b>Total Governmental Activities</b>	<b>10,607,129</b>	<b>942,762</b>	<b>649,110</b>
<b>Business-Type Activities</b>			
Water and sewer	3,889,503	3,872,285	-
Refuse	1,049,004	1,241,372	-
<b>Total Business-Type Activities</b>	<b>4,938,507</b>	<b>5,113,657</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 15,545,636</b>	<b>\$ 6,056,419</b>	<b>\$ 649,110</b>
<b>Component Unit</b>			
Dayton Community Development Corporation	\$ 1,119,536	\$ -	\$ -

**General Revenues:**

- Taxes
  - Property taxes
  - Sales taxes
  - Franchise fees and local taxes
- Investment income
- Other revenues

Transfers

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

**Net (Expense) Revenue and Changes in Net Position**

<b>Primary Government</b>			<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>	<b>DCDC</b>
\$ (2,677,840)	\$ -	\$ (2,677,840)	\$ -
(3,688,641)	-	(3,688,641)	-
(441,749)	-	(441,749)	-
(535,907)	-	(535,907)	-
(926,551)	-	(926,551)	-
(744,569)	-	(744,569)	-
<u>(9,015,257)</u>	<u>-</u>	<u>(9,015,257)</u>	<u>-</u>
-	(17,218)	(17,218)	-
-	192,368	192,368	-
-	175,150	175,150	-
<u>(9,015,257)</u>	<u>175,150</u>	<u>(8,840,107)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,119,536)</u>
\$ 5,399,604	\$ -	\$ 5,399,604	\$ -
1,638,096	-	1,638,096	819,049
914,205	-	914,205	-
180,597	60,599	241,196	50,233
101,609	97,741	199,350	-
(63,301)	63,301	-	-
<u>8,170,810</u>	<u>221,641</u>	<u>8,392,451</u>	<u>869,282</u>
(844,447)	396,791	(447,656)	(250,254)
13,649,202	13,003,238	26,652,440	2,654,349
<u>\$ 12,804,755</u>	<u>\$ 13,400,029</u>	<u>\$ 26,204,784</u>	<u>\$ 2,404,095</u>

# CITY OF DAYTON, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

September 30, 2019

	General	Debt Service	Capital Projects	Nonmajor Funds
<b><u>Assets</u></b>				
Cash and cash equivalents	\$ 3,718,043	\$ 2,363,616	\$ 3,855,183	\$ 175,424
Restricted cash and cash equivalents	270,547	-	-	-
Receivables, net	1,394,189	258,319	-	23,889
Due from component unit	11,789	-	-	-
Due from other funds	379,457	44,031	-	-
Prepaid items	12,241	-	-	-
Inventory	34,753	-	-	-
<b>Total Assets</b>	<b>\$ 5,821,019</b>	<b>\$ 2,665,966</b>	<b>\$ 3,855,183</b>	<b>\$ 199,313</b>
<b><u>Liabilities</u></b>				
Accounts payable and accrued liabilities	\$ 664,081	\$ -	\$ 358,198	\$ 307
Due to component unit	621,859	-	-	-
Due to other funds	1,105,177	-	17,864	727
<b>Total Liabilities</b>	<b>2,391,117</b>	<b>-</b>	<b>376,062</b>	<b>1,034</b>
<b><u>Deferred Inflows of Resources</u></b>				
Unavailable revenue - property taxes	498,359	258,319	-	-
<b><u>Fund Balances</u></b>				
Nonspendable:				
Prepaid items	12,241	-	-	-
Inventory	34,753	-	-	-
Restricted:				
Debt service	-	2,407,647	-	-
Capital projects	-	-	3,479,121	-
PEG fees	115,875	-	-	-
Enabling Legislation	104,593	-	-	198,279
Unassigned	2,664,081	-	-	-
<b>Total Fund Balances</b>	<b>2,931,543</b>	<b>2,407,647</b>	<b>3,479,121</b>	<b>198,279</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 5,821,019</b>	<b>\$ 2,665,966</b>	<b>\$ 3,855,183</b>	<b>\$ 199,313</b>

**Total  
Governmental  
Funds**

\$ 10,112,266

270,547

1,676,397

11,789

423,488

12,241

34,753

\$ 12,541,481

\$ 1,022,586

621,859

1,123,768

2,768,213

756,678

12,241

34,753

2,407,647

3,479,121

115,875

302,872

2,664,081

9,016,590

\$ 12,541,481

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

Total fund balances – total governmental funds \$ 9,016,590

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

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - nondepreciable	1,384,811	
Capital assets - net depreciable	<u>27,120,528</u>	28,505,339

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.

756,678

An internal service fund is used by management to charge the costs of employee benefits to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.

2,121

Some deferred outflows, deferred inflows, and liabilities, including bonds payable, net pension liability, and total other postemployment benefits (OPEB) liability, are not reported as liabilities in the governmental funds.

Accrued interest payable	(106,949)	
Noncurrent liabilities due in one year	(1,816,178)	
Noncurrent liabilities due in more than one year	(24,097,568)	
Deferred outflows - pensions	542,323	
Deferred outflows - OPEB	12,429	
Deferred inflows - pensions	(152,873)	
Deferred inflows -OPEB	(25,528)	
Deferred charge on refunding	<u>168,371</u>	

(25,475,973)

**Net Position of Governmental Activities**

\$ 12,804,755

See Notes to Financial Statements.

# CITY OF DAYTON, TEXAS

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2019

	General	Debt Service	Capital Project	Nonmajor Funds
<b>Revenues</b>				
Property tax	\$ 3,349,063	\$ 2,019,360	\$ -	\$ -
Sales tax	1,638,096	-	-	-
Franchise fees and local taxes	518,596	-	-	102,872
Licenses and permits	291,555	-	-	-
Intergovernmental	626,128	-	-	-
Fines and forfeitures	444,400	-	-	-
Charges for services	206,807	-	-	-
Investment income	59,741	47,251	72,146	1,091
Contributions and donations	18,278	-	-	-
Payments in lieu of taxes	292,737	-	-	-
Other revenue	113,437	-	-	-
<b>Total Revenues</b>	7,558,838	2,066,611	72,146	103,963
<b>Expenditures</b>				
<b>Current:</b>				
General government	2,676,418	-	-	-
Public safety	3,178,110	-	-	-
Public works	1,031,984	-	-	-
Culture and recreation	409,234	-	-	-
Community enhancement	416,357	-	-	-
Community center	390,442	-	-	-
Tourism promotion	-	-	-	77,408
<b>Capital outlay</b>	-	-	4,349,819	-
<b>Debt service:</b>				
Principal	37,507	1,585,000	-	-
Interest and fiscal charges	8,479	678,149	-	-
Debt issuance costs	-	1,700	105,230	-
<b>Total Expenditures</b>	8,148,531	2,264,849	4,455,049	77,408
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(589,693)	(198,238)	(4,382,903)	26,555
<b>Other Financing Sources (Uses)</b>				
Transfers in	616,039	340,173	-	-
Transfers (out)	(1,988)	-	(15,789)	-
Bonds issued	-	-	2,500,000	-
Premium on bonds issued	-	-	105,230	-
<b>Total Other Financing Sources</b>	614,051	340,173	2,589,441	-
<b>Net Change in Fund Balances</b>	24,358	141,935	(1,793,462)	26,555
Beginning fund balances	2,907,185	2,265,712	5,272,583	171,724
<b>Ending Fund Balances</b>	\$ 2,931,543	\$ 2,407,647	\$ 3,479,121	\$ 198,279

See Notes to Financial Statements.

**Total  
Governmental  
Funds**

\$ 5,368,423  
1,638,096  
621,468  
291,555  
626,128  
444,400  
206,807  
180,229  
18,278  
292,737  
113,437  
9,801,558

2,676,418  
3,178,110  
1,031,984  
409,234  
416,357  
390,442  
77,408  
4,349,819

1,622,507  
686,628  
106,930  
14,945,837

(5,144,279)

956,212  
(17,777)  
2,500,000  
105,230  
3,543,665

3,543,665

(1,600,614)

10,617,204  
\$ 9,016,590

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

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

Net changes in fund balances - total governmental funds	\$ (1,600,614)
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.</p>	
Capital outlay	3,263,259
Depreciation expense	(1,465,181)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.	31,181
An internal service fund is used by management to charge the costs of employee benefits to individual funds. The net revenue (expense) is reported with governmental activities.	368
<p>The issuance of long-term debt (e.g., bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. The net pension liability and total other postemployment benefits (OPEB) liability and deferred outflows and deferred inflows related to the net pension liability and total OPEB liability are not reported in the governmental funds.</p>	
Accrued interest	42,196
Debt issued	(2,500,000)
Premium on bonds issued	(78,938)
Principal expenditures	1,622,507
Deferred charges	(19,499)
Net pension liability	(310,778)
Total OPEB liability	13,963
Deferred outflows - pensions	(70,603)
Deferred outflows - OPEB	(2,129)
Deferred inflows - pensions	282,901
Deferred inflows - OPEB	(25,528)
Compensated absences	(15,724)
<b>Change in Net Position of Governmental Activities</b>	<b>\$ (844,447)</b>

See Notes to Financial Statements.

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# CITY OF DAYTON, TEXAS

## STATEMENT OF NET POSITION

### PROPRIETARY FUNDS

September 30, 2019

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
<b>Assets</b>				
<b>Current Assets</b>				
Cash and cash equivalents	\$ 2,380,687	\$ 1,590,019	\$ 3,970,706	\$ 1,133
Restricted assets - customer deposits	118,521	-	118,521	-
Receivables, net	696,478	211,651	908,129	988
Due from other funds	766,639	-	766,639	-
Inventories	64,563	-	64,563	-
<b>Total Current Assets</b>	<b>4,026,888</b>	<b>1,801,670</b>	<b>5,828,558</b>	<b>2,121</b>
<b>Noncurrent Assets</b>				
Capital assets:				
Nondepreciable	81,223	26,185	107,408	-
Net depreciable capital assets	14,099,435	228,104	14,327,539	-
<b>Total Noncurrent Assets</b>	<b>14,180,658</b>	<b>254,289</b>	<b>14,434,947</b>	<b>-</b>
<b>Total Assets</b>	<b>18,207,546</b>	<b>2,055,959</b>	<b>20,263,505</b>	<b>2,121</b>
<b>Deferred Outflows of Resources</b>				
Deferred outflows - pensions	137,903	4,763	142,666	-
<b>Liabilities</b>				
<b>Current Liabilities</b>				
Accounts payable and accrued liabilities	216,498	88,388	304,886	-
Due to other funds	65,583	776	66,359	-
Customer deposits	118,521	-	118,521	-
Accrued interest payable	30,620	-	30,620	-
Current portion of compensated absences	9,750	-	9,750	-
Current portion of bonds payable, net	575,000	-	575,000	-
<b>Total Current Liabilities</b>	<b>1,015,972</b>	<b>89,164</b>	<b>1,105,136</b>	<b>-</b>
<b>Noncurrent Liabilities</b>				
Compensated absences	1,083	-	1,083	-
Bonds payable, net	5,614,602	-	5,614,602	-
Net pension liability	229,077	18,108	247,185	-
<b>Total Liabilities</b>	<b>6,860,734</b>	<b>107,272</b>	<b>6,968,006</b>	<b>-</b>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - pensions	37,221	915	38,136	-
<b>Net Position</b>				
Net investment in capital assets	7,991,056	254,289	8,245,345	-
Unrestricted	3,456,438	1,698,246	5,154,684	2,121
<b>Total Net Position</b>	<b>\$ 11,447,494</b>	<b>\$ 1,952,535</b>	<b>\$ 13,400,029</b>	<b>\$ 2,121</b>

See Notes to Financial Statements.

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# CITY OF DAYTON, TEXAS

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

For the Year Ended September 30, 2019

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
<b><u>Operating Revenues</u></b>				
Water and sewer charges	\$ 3,872,285	\$ -	\$ 3,872,285	\$ -
Sanitation	-	1,241,372	1,241,372	-
Other services	71,465	26,276	97,741	1,188,178
<b>Total Operating Revenues</b>	3,943,750	1,267,648	5,211,398	1,188,178
<b><u>Operating Expenses</u></b>				
Personnel services	1,288,086	51,888	1,339,974	1,188,178
Services	518,297	928,875	1,447,172	-
Supplies	62,100	5,659	67,759	-
Utilities	293,181	3,672	296,853	-
Repairs and maintenance	238,330	18,680	257,010	-
Depreciation	1,315,143	33,183	1,348,326	-
Miscellaneous	38,838	7,047	45,885	-
<b>Total Operating Expenses</b>	3,753,975	1,049,004	4,802,979	1,188,178
<b>Operating Income</b>	189,775	218,644	408,419	-
<b><u>Nonoperating Revenues (Expenses)</u></b>				
Investment income	35,530	25,069	60,599	368
Interest and fiscal agent charges	(135,528)	-	(135,528)	-
<b>Total Nonoperating Revenues (Expenses)</b>	(99,998)	25,069	(74,929)	368
<b>Income Before Transfers</b>	89,777	243,713	333,490	368
<b><u>Capital Contributions and Transfers</u></b>				
Capital contribution	1,001,736	-	1,001,736	-
Transfers in	-	44,813	44,813	-
Transfers (out)	(983,248)	-	(983,248)	-
<b>Total Capital Contributions and Transfers</b>	18,488	44,813	63,301	-
<b>Change in Net Position</b>	108,265	288,526	396,791	368
Beginning net position	11,339,229	1,664,009	13,003,238	1,753
<b>Ending Net Position</b>	\$ 11,447,494	\$ 1,952,535	\$ 13,400,029	\$ 2,121

See Notes to Financial Statements.

# CITY OF DAYTON, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2019

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
<b><u>Cash Flows from Operating Activities</u></b>				
Receipts from customers	\$ 4,107,759	\$ 1,273,618	\$ 5,381,377	\$ -
Receipts from interfund charges	-	-	-	1,188,178
Payments to suppliers	(1,120,316)	(1,040,812)	(2,161,128)	(1,188,178)
Payments to employees	(1,269,694)	(49,937)	(1,319,631)	-
<b>Net Cash Provided by Operating Activities</b>	<b>1,717,749</b>	<b>182,869</b>	<b>1,900,618</b>	<b>-</b>
<b><u>Cash Flows from Noncapital Financing Activities</u></b>				
Transfer to other funds	(983,248)	44,813	(938,435)	-
<b>Net Cash (Used) by Noncapital Financing Activities</b>	<b>(983,248)</b>	<b>44,813</b>	<b>(938,435)</b>	<b>-</b>
<b><u>Cash Flows from Capital and Related Financing Activities</u></b>				
Capital purchases	(117,583)	-	(117,583)	-
Principal paid on capital debt	(565,000)	-	(565,000)	-
Interest paid on capital debt	(182,150)	-	(182,150)	-
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<b>(864,733)</b>	<b>-</b>	<b>(864,733)</b>	<b>-</b>
<b><u>Cash Flows from Investing Activities</u></b>				
Sale of investments	802,076	-	802,076	-
Interest on investments	35,530	25,070	60,600	368
<b>Net Cash Provided by Investing Activities</b>	<b>837,606</b>	<b>25,070</b>	<b>862,676</b>	<b>368</b>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<b>707,374</b>	<b>252,752</b>	<b>960,126</b>	<b>368</b>
Beginning cash and cash equivalents	1,791,834	1,337,267	3,129,101	765
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 2,499,208</b>	<b>\$ 1,590,019</b>	<b>\$ 4,089,227</b>	<b>\$ 1,133</b>
<b><u>Ending Cash and Cash Equivalents</u></b>				
Unrestricted cash and cash equivalents	\$ 2,380,687	\$ 1,590,019	\$ 3,970,706	\$ 1,133
Restricted cash and cash equivalents	118,521	-	118,521	-
<b>Ending Cash and Cash Equivalents</b>	<b>\$ 2,499,208</b>	<b>\$ 1,590,019</b>	<b>\$ 4,089,227</b>	<b>\$ 1,133</b>

# CITY OF DAYTON, TEXAS

## STATEMENT OF CASH FLOWS

### PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2019

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
<b>Reconciliation of Operating Income (Loss)</b>				
<b>to Net Cash Provided (Used) by Operating Activities</b>				
Operating income	\$ 189,775	\$ 218,644	\$ 408,419	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,315,143	33,183	1,348,326	-
<b>Changes in Operating Assets and Liabilities:</b>				
<b>(Increase) Decrease in:</b>				
Deferred outflows - pensions	(68,350)	(940)	(69,290)	-
Accounts receivable	(22,107)	5,970	(16,137)	-
Due from other funds	166,698	-	166,698	-
Inventories	(4,648)	-	(4,648)	-
<b>Increase (Decrease) in:</b>				
Accounts payable and accrued liabilities	35,078	(76,879)	(41,801)	-
Due to other funds	13,629	-	13,629	-
Net pension liability	80,394	1,976	82,370	-
Deferred inflows - pensions	6,128	915	7,043	-
Customer deposits	5,789	-	5,789	-
Compensated absences	220	-	220	-
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 1,717,749</b>	<b>\$ 182,869</b>	<b>\$ 1,900,618</b>	<b>\$ -</b>
Noncash investing, capital, and financing activities:				
Contributions of capital assets from governmental funds	\$ 1,001,736	\$ -	\$ -	\$ -

See Notes to Financial Statements.

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**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended September 30, 2019**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The City of Dayton, Texas (the “City”) is a Home Rule City. The City operates under a “Mayor-Council” form of government and provides services authorized by its charter. Presently, these services include: public safety (police, fire, and EMS), public works (street and park maintenance), culture and recreation, community enhancement, and general administrative services.

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

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

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

**Discretely Presented Component Unit**

**Dayton Community Development Corporation**

In May 1996, the City formed the Dayton Community Development Corporation (the “Corporation”), which was created by voters approving an additional sales tax. The mission of the Corporation is to promote economic development within the City and surrounding areas. The Board is composed of seven directors (voting members) and four advisory directors (nonvoting), each of whom is appointed by the City Council. The City Council may remove a Board member from office at any time without cause. Not more than three members of the Board may be a member of City Council or any other officer or employee of the City. The Corporation has been included in the reporting entity as a discretely presented component unit. The City has the ability to impose its will on the Corporation because it approves the Corporation’s budget and the City is legally entitled to, and has, complete access to the Corporation’s economic resources. As a discretely presented

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

component unit, the Corporation is reported in a separate column in the basic financial statements to emphasize that it is legally separate from the City. The Corporation is funded by the levy of one-half of one percent sales and use tax. The Corporation has a September 30 year end. Financial statements for the Corporation may be obtained by contacting Rudy Zepeda, Director of Finance, City of Dayton, 117 Cook Street, Dayton, Texas 77535.

**B. Government-Wide Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government and its component unit. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support. Likewise, the *primary government* is reported separately from a legally separate *component unit* for which the primary government is financially accountable.

**C. Basis of Presentation – Government-Wide Financial Statements**

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

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

**D. Basis of Presentation – Fund Financial Statements**

The fund financial statements provide information about the City's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales taxes, and franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, culture and recreation, and community enhancement. The general fund is always considered a major fund for reporting purposes.

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

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects. The hotel and motel tax and community development special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects fund* is used to account for the expenditures of resources accumulated from the sale of long-term debt and related interest earnings for capital improvement projects. The capital projects fund is considered a major fund for reporting purposes.

The City reports the following enterprise funds:

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

Additionally, the City reports the following fund type:

*Internal service funds* account for services provided to other departments of the City, or to other governments, on a cost reimbursement basis. The employee benefit fund is used to account for insurance provided to City employees.

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

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

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**E. Measurement Focus and Basis of Accounting**

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

The government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

Property taxes, sales taxes, franchise fees, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year end). All other revenue items are considered to be measurable and available only when cash is received by the City.

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

**1. Cash and Cash Equivalents**

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

**2. Investments**

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations



**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits are reported at cost.

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

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

**3. Restricted Assets**

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the general fund are restricted by enabling legislation. Restricted assets of the enterprise fund are restricted for customer deposits.

**4. Inventories and Prepaid Items**

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of supplies for infrastructure repairs and maintenance. The cost of such inventories is recorded as expenditure/expenses when consumed rather than when purchased.

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred, (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are recognized as expenditures when utilized.

**5. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation. Major outlays for capital assets and improvements are capitalized as projects are constructed.

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

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

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 7 years
Furniture and equipment	5 to 7 years
Water and sewer system	30 to 40 years
Buildings and improvements	50 years

**6. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time.

Deferred outflows/inflows of resources are amortized as follows:

- Deferred outflows/inflows from pension/other postemployment benefits (OPEB) activities are amortized over the average of the expected service lives of pension/OPEB plan members, except for the net differences between the projected and actual investment earnings on the pension/OPEB plan assets, which are amortized over a period of five years.
- For employer pension/OPEB plan contributions that were made subsequent to the measurement date through the end of the City’s fiscal year, the amount is deferred and recognized as a reduction to the net pension/OPEB liability during the measurement period in which the contributions were made.
- A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

**7. Compensated Employee Absences**

It is the City’s policy to permit employees to accumulate earned but unused vacation and compensatory time. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City’s personnel policy. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

maintained separately and represent a reconciling item between the fund and government-wide presentations.

**8. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

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

**9. Net Position Flow Assumption**

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

**10. Fund Balance Flow Assumptions**

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

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

**11. Fund Balance Policies**

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

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

**12. Estimates**

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

**13. Pensions**

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

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**14. Other Postemployment Benefits**

The City participates in a single-employer, unfunded, defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

Amounts reported as *program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

**2. Property Taxes**

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on January 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

**3. Proprietary Funds Operating and Nonoperating Revenues and Expenses**

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

**II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget as defined by the charter is the department level in the general fund and all others are the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year ended September 30, 2019.

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

For the year ended September 30, 2019, expenditures exceeded appropriations at the legal level of control in the following departments:

<u>Departments</u>	<u>Variance</u>
General	
Administration	\$ 127,189
Streets	76,484
Maintenance	40,200
Community enhancement	55,840
Community center	14,539
Hotel Motel Tax	
Tourism promotion	\$ 9,608

**III. DETAILED NOTES ON ALL FUNDS**

**A. Deposits and Investments**

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

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 3,860,265	0.09
Total	<u>\$ 3,860,265</u>	
Portfolio weighted average maturity		0.09

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

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 1,023,567	0.09
Total	<u>\$ 1,023,567</u>	
Portfolio weighted average maturity		0.09

*Credit risk.* The City's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/'P1' as provided by two of the top nationally recognized rating agencies. As of September 30, 2019, the City's investments in TexPool were rated 'AAAm' by Standard & Poor's.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective fair value of at least 103 percent. As of September 30, 2019, the fair values of pledged securities and FDIC coverage exceeded the City's bank balances. As of September 30, 2019, the fair values of pledged securities and FDIC coverage exceeded the Corporation's bank balances.

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

*Interest rate risk.* In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

**TexPool**

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rates TexPool ‘AAAm’. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, Texpool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool’s authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool’s liquidity.

**B. Receivables**

The following comprise receivable balances at year end for governmental funds, enterprise funds, and the discretely presented component unit:

	<b>General</b>	<b>Debt Service</b>	<b>Nonmajor Governmental</b>	<b>Component Unit</b>
Property tax	\$ 498,359	\$ 258,319	\$ -	\$ -
Sales tax	291,337	-	-	146,362
Other tax	597,591	-	-	-
Other	6,902	-	23,889	-
	<u>\$ 1,394,189</u>	<u>\$ 258,319</u>	<u>\$ 23,889</u>	<u>\$ 146,362</u>

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

	Water and Sewer	Refuse	Internal Service
Accounts	\$ 735,040	\$ 215,939	\$ 988
Other	9,863	-	-
Less allowance	(48,425)	(4,288)	-
	\$ 696,478	\$ 211,651	\$ 988

**C. Capital Assets**

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 1,384,811	\$ -	\$ -	\$ 1,384,811
<b>Total capital assets, not being depreciated</b>	1,384,811	-	-	1,384,811
Other capital assets:				
Infrastructure	4,701,978	1,032,281	-	5,734,259
Buildings and improvements	23,410,856	-	-	23,410,856
Machinery and equipment	6,557,489	2,230,978	(106,137)	8,682,330
<b>Total other capital assets</b>	34,670,323	3,263,259	(106,137)	37,827,445
Less accumulated depreciation for:				
Infrastructure	(1,502,462)	(219,750)	-	(1,722,212)
Buildings and improvements	(3,459,604)	(507,608)	-	(3,967,212)
Machinery and equipment	(4,373,979)	(737,823)	94,309	(5,017,493)
<b>Total accumulated depreciation</b>	(9,336,045)	(1,465,181)	94,309	(10,706,917)
Other capital assets, net	25,334,278	1,798,078	(11,828)	27,120,528
<b>Governmental Activities Capital Assets, Net</b>	\$ 26,719,089	\$ 1,798,078	\$ (117,965)	28,505,339
			Less debt associated with capital assets	(24,580,895)
			Plus unspent bond proceeds	3,479,121
			Plus deferred charge on refunding	168,371
			<b>Net Investment in Capital Assets</b>	\$ 7,571,936

Depreciation was charged to governmental functions as follows:

General government	\$ 69,875
Public safety	645,204
Public works	331,728
Culture and recreation	331,822
Community enhancement	86,552
<b>Total Governmental Activities Depreciation Expense</b>	\$ 1,465,181



**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
<b>Business-Type Activities:</b>				
Capital assets not being depreciated:				
Land	\$ 107,408	\$ -	\$ -	\$ 107,408
<b>Total capital assets not being depreciated</b>	<u>107,408</u>	<u>-</u>	<u>-</u>	<u>107,408</u>
Other capital assets:				
Building and improvements	3,086,121	-	-	3,086,121
Machinery and equipment	2,340,983	318,554	-	2,659,537
Water and sewer system	28,487,766	800,765	-	29,288,531
<b>Total other capital assets</b>	<u>33,914,870</u>	<u>1,119,319</u>	<u>-</u>	<u>35,034,189</u>
Less accumulated depreciation for:				
Building and improvements	(710,466)	(146,603)	-	(857,069)
Machinery and equipment	(1,511,134)	(141,032)	-	(1,652,166)
Water and sewer system	(17,136,724)	(1,060,691)	-	(18,197,415)
<b>Total accumulated depreciation</b>	<u>(19,358,324)</u>	<u>(1,348,326)</u>	<u>-</u>	<u>(20,706,650)</u>
Other capital assets, net	14,556,546	(229,007)	-	14,327,539
<b>Business-Type Activities Capital Assets, Net</b>	<u>\$ 14,663,954</u>	<u>\$ (229,007)</u>	<u>\$ -</u>	<u>14,434,947</u>
			Less associated debt	(6,189,602)
			<b>Net Investment in Capital Assets</b>	<u>\$ 8,245,345</u>

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 1,315,143
Refuse	33,183
<b>Total Business-Type Activities Depreciation Expense</b>	<u>\$ 1,348,326</u>

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
<b>Component Unit</b>				
Capital assets not being depreciated:				
Land	\$ -	\$ 162,912	\$ -	\$ 162,912
<b>Total capital assets not being depreciated</b>	<u>-</u>	<u>162,912</u>	<u>-</u>	<u>162,912</u>
<b>Component Unit Capital Assets</b>	<u>\$ -</u>	<u>\$ 162,912</u>	<u>\$ -</u>	<u>162,912</u>

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
For the Year Ended September 30, 2019

**D. Long-Term Debt**

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities:</b>					
Bonds, notes and other payables:					
General obligation bonds	\$ 1,525,000	\$ -	\$ 745,000	\$ 780,000	* \$ 780,000
Direct placement bonds	7,955,000	-	90,000	7,865,000	*
Tax anticipation notes	120,000	-	120,000	-	*
Direct placement tax notes	465,000	-	115,000	350,000	*
Certificates of obligation	13,090,000	2,500,000	515,000	15,075,000	*
<b>Total bonds and notes</b>	<u>23,155,000</u>	<u>2,500,000</u>	<u>1,585,000</u>	<u>24,070,000</u>	<u>1,680,000</u>
Plus deferred items:					
Issuance premiums	351,374	105,230	26,292	430,312	*
Capital leases	118,090	-	37,507	80,583	*
Other liabilities:					
Net pension liability (TMRS)	655,463	322,736	-	978,199	-
Net pension liability (TESRS)	71,280	-	11,958	59,322	-
Total OPEB liability (TMRS)	201,689	-	13,963	187,726	-
Compensated absences	91,880	169,187	153,463	107,604	96,844
	<u>\$ 24,644,776</u>	<u>\$ 3,097,153</u>	<u>\$ 1,828,183</u>	<u>\$ 25,913,746</u>	<u>\$ 1,816,178</u>

**Long-term liabilities due in more than one year** \$ 24,097,568

**\*Debt associated with governmental activity capital assets** \$ 24,580,895

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Business-Type Activities:</b>					
General obligation bonds	\$ 6,335,000	\$ -	\$ 565,000	\$ 5,770,000	* \$ 575,000
<b>Total bonds payable</b>	<u>6,335,000</u>	<u>-</u>	<u>565,000</u>	<u>5,770,000</u>	<u>575,000</u>
Plus deferred amounts:					
Issuance premiums	466,224	-	46,622	419,602	*
Other liabilities:					
Net pension liability (TMRS)	164,815	82,370	-	247,185	-
Compensated absences	10,613	22,054	21,834	10,833	9,750
<b>Total Business-Type Activities</b>	<u>\$ 6,976,652</u>	<u>\$ 104,424</u>	<u>\$ 633,456</u>	<u>\$ 6,447,620</u>	<u>\$ 584,750</u>

**Long-term liabilities due in more than one year** \$ 5,862,870

**\*Debt associated with capital assets** \$ 6,189,602

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

The following is a summary of changes in the Corporation's long-term liabilities for the year end:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due Within One Year
<b>Component Unit:</b>					
Net pension liability (TMRS)	\$ 30,876	\$ 27,009	\$ -	\$ 57,885	\$ -
<b>Total Component Unit</b>					
<b>Activities</b>	<u>\$ 30,876</u>	<u>\$ 27,009</u>	<u>\$ -</u>	<u>\$ 57,885</u>	<u>\$ -</u>

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The general fund liquidates the governmental activities portion of the compensated absences liability, the net pension liability through TMRS and TESRS, and the total OPEB liability.

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

Description	Original Issue	Interest Rates	Balance
<b>Governmental Activities:</b>			
<b>General Obligation Bonds</b>			
2008 general obligation bonds	\$ 13,255,000	4.00-5.25%	\$ 780,000
	<b>Total General Obligation Bonds</b>		<u>780,000</u>
<b>Direct Placement Bonds</b>			
2017 general obligation refunding bonds	\$ 8,045,000	2.23%	7,865,000
	<b>Total General Obligation Bonds</b>		<u>7,865,000</u>
<b>Direct Placement Tax Notes</b>			
2017 tax anticipation notes	\$ 575,000	1.68%	350,000
	<b>Total Tax Anticipation Notes</b>		<u>350,000</u>
<b>Certificates of Obligation</b>			
2015 certificates of obligation	\$ 6,990,000	2.00-4.00%	6,305,000
2018 certificates of obligation	\$ 6,595,000	2.00-4.00%	6,270,000
2019 certificates of obligation	\$ 2,500,000	2.00-5.00%	2,500,000
	<b>Total Certificates of Obligation</b>		<u>15,075,000</u>
<b>Capital Leases</b>			
	\$ 335,000	2.6-3.5%	80,583
	<b>Total Governmental Activities Long-Term Debt</b>		<u>\$ 24,150,583</u>
<b>Business-Type Activities:</b>			
<b>General Obligation Bonds</b>			
2016 general obligation refunding bonds	\$ 6,880,000	2.00-4.00%	\$ 5,770,000
	<b>Total General Obligation Bonds</b>		<u>\$ 5,770,000</u>
	<b>Total Business-Type Activities Long-Term Debt</b>		<u>\$ 5,770,000</u>

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

Year Ending Sept. 30	Governmental Activities							
	General Obligation Bonds		Certificates of Obligation		Direct Placement Tax Notes		Direct Placement Refunding Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2020	\$ 780,000	\$ 16,575	\$ 695,000	\$ 468,725	\$ 115,000	\$ 4,914	\$ 90,000	\$ 174,386
2021	-	-	825,000	447,275	115,000	2,982	895,000	163,403
2022	-	-	650,000	423,100	120,000	1,008	920,000	143,166
2023	-	-	665,000	401,800	-	-	940,000	122,427
2024	-	-	695,000	377,850	-	-	960,000	101,242
2025-2029	-	-	3,955,000	1,494,969	-	-	4,060,000	183,641
2030-2034	-	-	5,050,000	777,434	-	-	-	-
2035-2038	-	-	2,540,000	130,516	-	-	-	-
<b>Total</b>	<b>\$ 780,000</b>	<b>\$ 16,575</b>	<b>\$ 15,075,000</b>	<b>\$ 4,521,669</b>	<b>\$ 350,000</b>	<b>\$ 8,904</b>	<b>\$ 7,865,000</b>	<b>\$ 888,265</b>

Year Ending Sept. 30	Business-Type Activities	
	General Obligation Bonds	
	Principal	Interest
2020	\$ 575,000	\$ 170,750
2021	590,000	159,100
2022	600,000	147,200
2023	615,000	131,975
2024	635,000	113,225
2025-2028	2,755,000	222,450
<b>Total</b>	<b>\$ 5,770,000</b>	<b>\$ 944,700</b>

General obligation bonds, tax anticipation notes, and certificates of obligation are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds, certificates of obligation, and tax anticipation notes are from taxes levied on all taxable property located within the City. The City has issued debt for the purpose of capital asset acquisition and infrastructure improvements.

In prior fiscal years, certain outstanding bonds were defeased by placing proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust accounts and defeased bonds are not included in the financial statements. Governmental activities debt defeased in prior years in the amounts of \$7,735,000 remain outstanding.

During fiscal year 2019, the City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (the "Certificates") in the amount of \$2,500,000. Proceeds from the sale of the Certificates will be used for projects related to City hall, the City's civic center, streets, sidewalks, and drainage. The Certificates mature on February 1, 2039 and have an interest rate range of 2.00% to 5.00%.

Annual debt service requirements to retire outstanding capital leases are as follows:

**Capital Leases**

Year Ending Sept. 30	Governmental Activities	
	Principal	Interest
2020	\$ 39,334	\$ 3,925
2021	41,249	2,009
<b>Totals</b>	<b>\$ 80,583</b>	<b>\$ 5,934</b>

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

The assets acquired through capital leases are as follows:

		<u>Governmental Activities</u>
<b>Assets:</b>		
Machinery and equipment	\$	335,000
Less: accumulated depreciation		(129,813)
<b>Total</b>	<b>\$</b>	<u><u>205,187</u></u>

**E. Interfund Transactions**

The composition of interfund balances as of year end is as follows:

<u>Fund</u>	<u>Due From Other Funds</u>	<u>Due To Other Funds</u>
General	\$ 379,457	\$ 1,105,177
Debt service	44,031	-
Capital projects	-	17,864
Nonmajor	-	727
Water and sewer	766,639	65,583
Refuse	-	776
	<u>\$ 1,190,127</u>	<u>\$ 1,190,127</u>

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

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

	<u>Transfers In</u>	<u>Transfers Out</u>
<b>Governmental Funds:</b>		
Individual major governmental funds:		
General	\$ 616,039	\$ 1,988
Capital project	-	15,789
Debt service	340,173	-
<b>Total Governmental Funds</b>	<u>956,212</u>	<u>17,777</u>
 <b>Enterprise Funds:</b>		
Individual major enterprise funds:		
Water and sewer	-	983,248
Refuse	44,813	-
<b>Total Enterprise Funds</b>	<u>44,813</u>	<u>983,248</u>
<b>Total Transfers</b>	<u>\$ 1,001,025</u>	<u>\$ 1,001,025</u>

Amounts transferred between funds relate to amounts collected by general fund, capital projects fund, and the water and sewer fund for various governmental expenditures, capital projects, and debt payments.

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**F. Fund Equity**

Funds restricted by enabling legislation are \$302,872 and \$115,875 related to communications.

**IV. OTHER INFORMATION**

**A. Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements that exceeded coverage amounts for the past three years.

**B. Contingent Liabilities**

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

**C. Pension Plans**

**1. Texas Municipal Retirement System**

Plan Description

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

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

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Benefits Provided

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

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

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

	<u>2019</u>	<u>2018</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Transfers	100% Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

Employees Covered by Benefit Terms

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

Inactive employees or beneficiaries currently receiving benefits	47
Inactive employees entitled to, but not yet receiving, benefits	83
Active employees	97
<b>Total</b>	<u><u>227</u></u>

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.28 percent and 7.46 percent in calendar years 2019 and 2018, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2019 were \$364,812, which were equal to the required contributions.

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Net Pension Liability

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

Actuarial Assumptions

The TPL in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

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

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and annuity purchase rate are based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the EAN actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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



**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
<b>Total</b>	<b>100.0%</b>	

Discount Rate

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

Changes in the NPL

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (A)</u>	<u>Plan Fiduciary Net Position (B)</u>	<u>Net Pension Liability (A) - (B)</u>
Changes for the year:			
Service cost	\$ 570,125	\$ -	\$ 570,125
Interest	562,917	-	562,917
Difference between expected and actual experience	(273,080)	-	(273,080)
Contributions - employer	-	337,358	(337,358)
Contributions - employee	-	316,736	(316,736)
Net investment income	-	(221,728)	221,728
Benefit payments, including refunds of employee contributions	(436,505)	(436,505)	-
Administrative expense	-	(4,297)	4,297
Other changes	-	(222)	222
<b>Net Changes</b>	<b>423,457</b>	<b>(8,658)</b>	<b>432,115</b>
Balance at December 31, 2017	8,272,703	7,421,549	851,154
<b>Balance at December 31, 2018</b>	<b>\$ 8,696,160</b>	<b>\$ 7,412,891</b>	<b>\$ 1,283,269</b>

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Sensitivity of the NPL to Changes in the Discount Rate

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

	<b>1% Decrease in Discount Rate (5.75%)</b>	<b>Discount Rate (6.75%)</b>	<b>1% Increase in Discount Rate (7.75%)</b>
City's Net Pension Liability	\$ 2,521,019	\$ 1,283,269	\$ 268,160

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2019, the City recognized net pension expense of \$481,777.

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual economic experience	\$ 55,784	\$ 200,064
Difference between projected and actual investment earnings	381,222	-
Contributions subsequent to the measurement date	283,895	-
<b>Total</b>	<b>\$ 720,901</b>	<b>\$ 200,064</b>

\$283,895 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Fiscal Year Ended September 30</b>	<b>Pension Expense</b>
2020	\$ 90,936
2021	2,367
2022	(898)
2023	144,537
<b>Total</b>	<b>\$ 236,942</b>

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**2. Texas Emergency Services Retirement System**

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the TESRS and established and administered by the State of Texas (the “State”) to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2018, there were 238 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2018, the pension system membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,533
Terminated members entitled to, but not yet receiving, benefits	1,927
Active participants	3,927

Pension Plan Fiduciary Net Position

Detailed information about the TESRS’s fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and Required Supplementary Information, which can be obtained at [www.tesrs.org](http://www.tesrs.org). The separately issued actuarial valuations that may be of interest are also available at the same link.

Benefits Provided

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

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times the governing body’s average monthly contribution over the member’s years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic postretirement benefit increases.

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

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Funding Policy

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

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

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

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

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

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2018, total contributions (dues, prior service, and interest on prior service financing) of \$13,738 were paid by the City. The State appropriated \$1,329,219 for the fiscal year ending August 31, 2018 to the plan as a whole.

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Actuarial Assumptions

The TPL in the August 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	8/31/2018
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market value
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases	N/A
*Includes inflation at	3.00%
Cost of living adjustments	None

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 4.97%) and by adding expected inflation (3.00%). In addition, the final 7.75 percent assumption reflected a reduction of 0.22 percent for adverse deviation.

The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Net Real Rate of Return</u>
Equities		
Large cap domestic	32.0%	5.81%
Small cap domestic	15.0%	5.92%
Developed international	15.0%	6.21%
Emerging markets	5.0%	7.18%
Master limited partnership	5.0%	7.61%
Real estate	5.0%	4.46%
Fixed income	23.0%	1.61%
<b>Total</b>	<u>100.0%</u>	
Weighted average		5.01%

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. No projection of cash flows was used to determine the discount rate because the August 31, 2018 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity Analysis

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

	<b>1% Decrease in Discount Rate (6.75%)</b>	<b>Discount Rate (7.75%)</b>	<b>1% Increase in Discount Rate (8.75%)</b>
City's proportionate share of the net pension liability	\$ 117,892	\$ 59,322	\$ 19,819

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

At August 31, 2018, the City reported a liability of \$59,322 for its proportionate share of the plan's NPL. The amount recognized by the City as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the City were as follows:

City's proportionate share of the collective NPL	\$ 59,322
*State's proportionate share that is associated with the City	16,464
<b>Total</b>	<b>\$ 75,786</b>

*\*Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective NPL.*

The TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2018. GASB Statement No. 68 requires the NPL to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward (nor did they provide the necessary information for the participants to roll forward) the NPL to be measured as of a date no earlier than the end of the City's prior fiscal year. While the City acknowledges that the measurement date does not fall within this 12 month period, the City elected to honor the conservatism principle and report the NPL measured as of August 31, 2018. The City used the assumption that any differences in NPL measured as of August 31, 2018 versus September 30, 2019 would be immaterial. The employer's proportion of the NPL was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2017 through August 31, 2018.

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

At August 31, 2018, the employer's proportion of the collective NPL was 0.274 percent, which was a decrease of 0.023 percent from its proportion measured as of August 31, 2017.

There were no changes of assumptions or other inputs that affected measurement of the TPL during the measurement period.

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the year ended September 30, 2019, the City recognized pension expense of \$18,805. The City recognized on-behalf revenues of \$3,642 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

The City reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Net difference between projected and actual investment earnings	\$ -	\$ 3,279
Changes in assumptions	222	-
Changes in proportion and employer and proportionate share of contributions	16	171
Contributions paid to TESRS subsequent to the measurement date	11,948	-
<b>Total</b>	<b>\$ 12,186</b>	<b>\$ 3,450</b>

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Fiscal Years Ended September 30</b>	<b>Pension Expense</b>
2019	\$ 3,822
2020	(2,127)
2021	(3,130)
2022	(1,777)
<b>Total</b>	<b>\$ (3,212)</b>

**3. Aggregate Total Pension Expenses/Expenditures**

The City recognized aggregate total pension expenses/expenditures of \$500,582 during the fiscal year ending September 30, 2019 related to the City's TMRS and TESRS pension plans.

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

**D. Other Postemployment Benefits**

**TMRS Supplemental Death Benefits**

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under, and discontinue participation in, the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. As such, the SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2018 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	30
Inactive employees entitled to, but not yet receiving, benefits	15
Active employees	97
Total	142

Total OPEB Liability

The City's total OPEB liability of \$187,726 was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date.



**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

Actuarial Assumptions and Other Inputs

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

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.71%*
Retirees' share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projects on a fully generational basis with scale BB.
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rate are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

\* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Changes in the Total OPEB Liability

	<u><b>Total OPEB Liability</b></u>
Changes for the year:	
Service cost	\$ 11,764
Interest	6,841
Differences between expected and actual performance	(16,702)
Changes of assumptions	(14,056)
Benefit payments*	<u>(1,810)</u>
	<b>Net Changes</b>
	(13,963)
Beginning balance	<u>201,689</u>
	<b>Ending Balance</b>
	<u><u>\$ 187,726</u></u>

\* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

The discount rate changed from 3.31% to 3.71%. There were no other changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

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

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<b>1% Decrease in Discount Rate (2.71%)</b>	<b>Discount Rate (3.71%)</b>	<b>1% Increase in Discount Rate (4.71%)</b>
City's Total OPEB Liability	\$ 225,984	\$ 187,726	\$ 158,247

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$16,077. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes in actuarial assumptions	\$ 10,481	\$ 11,666
Differences between expected and actual economic experience	-	13,862
Contributions subsequent to the measurement date	1,948	-
<b>Total</b>	<b>\$ 12,429</b>	<b>\$ 25,528</b>

\$1,948 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2020.

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

<b>Fiscal Year Ended September 30</b>	<b>OPEB Expense Amount</b>
2019	\$ (2,528)
2020	(2,528)
2021	(2,528)
2022	(2,855)
2023	(4,608)
<b>Total</b>	<b>\$ (15,047)</b>

**E. Deferred Compensation Plan**

The City offers its employees a deferred compensation plan (the "Plan") created in accordance with the Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Plan's trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payments to employees deferring the

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under Plan provisions are disbursed monthly by the City to a third-party administrator. The third-party administrator handles all funds in the Plan and makes investment decisions and disburses funds to employees in accordance with Plan provisions.

**F. Chapter 380 Economic Development Agreement**

In November 2014, in accordance with Chapter 380 of the Texas Local Government Code, the City approved an agreement (the “Agreement”) with Jess-John, Inc. (the “Developer”). The Developer plans to construct residential housing that will require the development of infrastructure for City services for the tract of land within the City. The City has agreed to pay the Developer up to one-half of the cost of improvements, not to exceed \$674,530. The City has agreed to make annual payments in an amount equal to the project property tax increment in accordance with the Agreement. The project property tax increment shall consist of the prior year collection of additional real property ad valorem tax revenues by the City from tax accounts location within the tract of land owned by the Developer. The term of this Agreement is 15 years. During the fiscal year ending September 30, 2019, the City made payments of \$103,867 related to this Agreement.

**G. Dayton Community Development Corporation Grant Agreements**

The Dayton Community Development Corporation (the “Corporation”) entered into a Grant Performance Agreement for Business and Commerce Development (the “Agreement”) with Total Care Dayton, LLC (the “Company”). The Company has agreed to open an urgent care center within the City of Dayton, maintain eight full-time employees, and be open for business six days per week, 12 hours per day. The Corporation has agreed to make total grant payments to the Company of \$250,000 over the five-year term of the Agreement. \$150,000 of the grant funds will be for the reimbursement of medical equipment. The remaining \$100,000 is for rental assistance. In the event of default by the Company, the Company must repay all grant payments with interest of ten percent. During the fiscal year ending September 30, 2019, the Corporation made payments of \$5,000 related to this Agreement.

The Corporation entered into another Grant Performance Agreement for Business and Commerce Development (the “Agreement”) with Sumiden Wire Products Corporation (the “Company”). The Company has agreed to commitments of at least \$13,000,000 for the purchase of real estate for, or construction of, a manufacturing facility in the City of Dayton. The Company has also agreed to hire a minimum of 15 full-time employees at a minimum salary specified within the Agreement. The minimum number of employees hired will increase each year over the five-year term of the Agreement. The Corporation has agreed to maximum grant payments of \$643,200 over the term of the Agreement if the Company meets the various conditions noted for each year of the Agreement. In the event of default by the Company, the Company must repay all grant payments with interest of ten percent. During the fiscal year ending September 30, 2019, the Corporation made payments of \$100,000 related to this Agreement.

**H. Economic Development Agreement**

In May 2019, the City entered into a Chapter 380 Economic Development Agreement (the “Agreement”) with Envision Partners, LLC (the “Developer”). The Developer plans to construct a 66-room chain hotel at an estimated cost range of \$2.5 million to \$3.5 million. The City has agreed to rebate the Developer 71.43 percent of the City’s 7 percent share of the Hotel Occupancy Tax revenues generated by the hotel for the first five years that the hotel is in business. This rebate will

**CITY OF DAYTON, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS (Continued)**  
**For the Year Ended September 30, 2019**

minimum of 20 percent of the front façade out of either stone or brick. The Developer also agrees to complete construction of the hotel within 24 months of the execution of the Agreement. The Developer agrees to spend the grant payments in accordance with Chapter 351 of the Texas Tax Code which specifies how Hotel Occupancy Tax revenue may be spent. In the event of default by the Developer, the Developer shall be obligated to immediately repay all funds previously paid by the City with interest at a rate of 10 percent per annum from the date of receipt along with any other costs for collection. No payments were made to the Developer during the fiscal year ending September 30, 2019.

**I. Master Development and Reimbursement Agreement**

In December 2018, the City, the City of Dayton Tax Increment Reinvestment Zone No. 1 (the “Zone”), and CMC Railroad, LLC (the “Developer”) entered into a Master Development and Reimbursement Agreement (the “Agreement”) to provide for the financing and construction of public improvements and associated eligible project costs within the Zone. The Zone was created on May 28, 2018. In order to implement certain plans of the Zone, the City entered into purchase contracts for the necessary right of way for the widening and improvements to Stilson Road from two landowners in the estimated amount of \$306,720 plus related survey and closing costs and real estate agent fees. The Developer has agreed to advance funds necessary to pay for the eligible project costs to be reimbursed in accordance with the Agreement. Liberty County (the “County”) entered into an interlocal agreement with the Zone and the City to participate in the reinvestment zone. The County has agreed to pay the City for deposit into the tax increment fund 50 percent of all taxes collected by the County each year during the term of the interlocal agreement at the then-prevailing County tax rate on the captured appraised values. The term of the interlocal agreement shall end on August 1, 2044, or until 100 percent of the County tax increment participation has been paid.

The City and the County have agreed to reimburse the Developer annually for Zone improvements funded by the Developer based upon 50 percent of the tax increment payments collected within the Zone on the captured appraised values. The other 50 percent of the tax increment shall go into the Zone fund for future projects to be named/approved by the Zone board and City. The Agreement has a reimbursement cap up to \$68,200,000 for eligible project costs (Zone Improvements), plus developer interest (based upon the published prime commercial lending rate in the Wall Street Journal), plus an annual adjustment for the most recently published consumer price index. The agreement shall end upon the expiration of the Zone.

**J. Subsequent Events**

In March 2020, the City issued Certificates of Obligation Series 2020A (the “Certificates”) in the amount of \$13,450,000. Proceeds from the sale of the Certificates will be used for paying contractual obligations of the City to be incurred for making permanent public improvements to include but not limited to the installation and improvement of fiber optic cable and all related professional services. The Certificates will mature on February 1, 2040. The interest rates of the Certificates is 3%.

In April 2020, the City issued Certificates of Obligation Series 2020B (the “Certificates”) in the amount of \$4,870,000. Proceeds from the sale of the Certificates will be used for renovating and enlarging the City’s utility system, as well as improving City facilities such HVAC improvements and parks and recreation facilities. The Certificates will mature on February 1, 2040. The interest rates of the Certificates range from 3.00 to 5.00%.

***REQUIRED SUPPLEMENTARY INFORMATION***



**CITY OF DAYTON, TEXAS**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
For the Year Ended September 30, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original Budget</u>	<u>Budget as Amended</u>		
<b>Revenues</b>				
Property tax	\$ 3,387,000	\$ 3,387,000	\$ 3,349,063	\$ (37,937)
Sales tax	1,699,200	1,699,200	1,638,096	(61,104)
Franchise fees and local taxes	433,000	433,000	518,596	85,596
Licenses and permits	163,900	163,900	291,555	127,655
Intergovernmental	114,500	114,500	626,128	511,628
Fines and forfeitures	607,200	607,200	444,400	(162,800)
Charges for services	117,100	117,100	206,807	89,707
Investment income	71,250	71,250	59,741	(11,509)
Contributions and donations	500	500	18,278	17,778
Payments in lieu of taxes	370,100	370,100	292,737	(77,363)
Other revenue	82,700	82,700	113,437	30,737
<b>Total Revenues</b>	<u>7,046,450</u>	<u>7,046,450</u>	<u>7,558,838</u>	<u>512,388</u>
<b>Expenditures</b>				
General government				
Administration	1,817,300	1,892,698	2,019,887	(127,189) *
Inspection	610,800	708,300	656,531	51,769
<b>Total General Government</b>	<u>2,428,100</u>	<u>2,600,998</u>	<u>2,676,418</u>	<u>(75,420)</u>
Public Safety				
Police	2,675,150	2,787,857	2,678,526	109,331
Fire/Ambulance	199,400	199,400	189,648	9,752
Municipal court	342,400	344,800	309,936	34,864
<b>Total Public Safety</b>	<u>3,216,950</u>	<u>3,332,057</u>	<u>3,178,110</u>	<u>153,947</u>
Public works				
Streets	680,900	705,600	782,084	(76,484) *
Maintenance	207,700	209,700	249,900	(40,200) *
<b>Total Public Works</b>	<u>888,600</u>	<u>915,300</u>	<u>1,031,984</u>	<u>(116,684)</u>
Culture and recreation				
Library	330,900	334,480	301,760	32,720
City park	123,000	130,600	107,474	23,126
<b>Total Culture and Recreation</b>	<u>453,900</u>	<u>465,080</u>	<u>409,234</u>	<u>55,846</u>
Community enhancement				
Community center	277,200	360,517	416,357	(55,840) *
	386,100	375,903	390,442	(14,539) *
<b>Debt Service:</b>				
Principal	-	37,507	37,507	-
Interest and fiscal charges	-	8,479	8,479	-
<b>Total Debt Service</b>	<u>-</u>	<u>45,986</u>	<u>45,986</u>	<u>-</u>
<b>Total Expenditures</b>	<u>7,650,850</u>	<u>8,095,841</u>	<u>8,148,531</u>	<u>(52,690)</u>
<b>(Deficiency) of Revenues (Under) Expenditures</b>	<u>(604,400)</u>	<u>(1,049,391)</u>	<u>(589,693)</u>	<u>459,698</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	618,200	618,200	616,039	(2,161)
Transfers (out)	(20,000)	(1,988)	(1,988)	-
<b>Net Change in Fund Balance</b>	<u>\$ (6,200)</u>	<u>\$ (433,179)</u>	<u>24,358</u>	<u>\$ 457,537</u>
Beginning fund balance			2,907,185	
<b>Ending Fund Balance</b>			<u>\$ 2,931,543</u>	

Notes to Required Supplementary Information:

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).
2. \*Expenditures exceeded appropriations at the legal level of control.

**CITY OF DAYTON, TEXAS**  
**SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**For the Year Ended September 30, 2019**

	Measurement Year*			
	2014	2015	2016	2017
<b>Total Pension Liability</b>				
Service cost	\$ 324,986	\$ 415,360	\$ 490,826	\$ 540,698
Interest (on the total pension liability)	396,895	430,539	474,157	517,680
Difference between expected and actual experience	(19,939)	37,731	54,782	81,411
Changes in assumptions	-	216,362	-	-
Benefit payments, including refunds of employee contributions	(273,230)	(259,770)	(267,708)	(532,131)
<b>Net Change in Total Pension Liability</b>	<u>428,712</u>	<u>840,222</u>	<u>752,057</u>	<u>607,658</u>
Beginning total pension liability	<u>5,644,054</u>	<u>6,072,766</u>	<u>6,912,988</u>	<u>7,665,045</u>
<b>Ending Total Pension Liability</b>	<u>\$ 6,072,766</u>	<u>\$ 6,912,988</u>	<u>\$ 7,665,045</u>	<u>\$ 8,272,703</u>
<b>Plan Fiduciary Net Position</b>				
Contributions - employer	\$ 177,101	\$ 214,234	\$ 239,287	\$ 313,664
Contributions - employee	215,977	241,488	268,002	296,309
Net investment income	298,309	8,300	393,037	892,777
Benefit payments, including refunds of employee contributions	(273,230)	(259,770)	(267,708)	(532,131)
Administrative expense	(3,114)	(5,059)	(4,449)	(4,637)
Other	(256)	(250)	(240)	(235)
<b>Net Change in Plan Fiduciary Net Position</b>	<u>414,787</u>	<u>198,943</u>	<u>627,929</u>	<u>965,747</u>
Beginning plan fiduciary net position	<u>5,214,141</u>	<u>5,628,928</u>	<u>5,827,872</u>	<u>6,455,802</u>
<b>Ending Plan Fiduciary Net Position</b>	<u>\$ 5,628,928</u>	<u>\$ 5,827,871</u>	<u>\$ 6,455,801</u>	<u>\$ 7,421,549</u>
<b>Net Pension Liability</b>	<u>\$ 443,838</u>	<u>\$ 1,085,117</u>	<u>\$ 1,209,244</u>	<u>\$ 851,154</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	92.69%	84.30%	84.22%	89.71%
<b>Covered Payroll</b>	\$ 3,085,380	\$ 3,449,831	\$ 3,828,596	\$ 4,230,816
<b>Net Pension Liability as a Percentage of Covered Payroll</b>	14.39%	31.45%	31.58%	20.12%

\*Only five years of information is currently available. The City will build this schedule over the next five-year period.



**Measurement**  
**Year\***

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**2018**

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\$ 570,125  
562,917  
  
(273,080)

(436,505)  

---

423,457

8,272,703

---

**\$ 8,696,160**

---



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\$ 337,358  
316,736  
(221,728)

(436,505)  
(4,297)  
(222)

---

(8,658)

7,421,549

---

**\$ 7,412,891**

---



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**\$ 1,283,269**

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85.24%

\$ 4,524,803

28.36%

**CITY OF DAYTON, TEXAS**  
**SCHEDULE OF THE CITY'S PROPORTIONATE**  
**SHARE OF THE NET PENSION LIABILITY**  
**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)**  
**For the Year Ended September 30, 2019**

	<b>Measurement Year*</b>			
	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
City's proportion of the net pension liability	0.30%	0.31%	0.29%	0.30%
City's proportionate share of the net pension liability	\$ 54,697	\$ 83,002	\$ 85,603	\$ 71,280
State's proportionate share of the net pension liability	18,386	28,771	29,594	23,342
<b>Total</b>	<b>\$ 73,083</b>	<b>\$ 111,773</b>	<b>\$ 115,197</b>	<b>\$ 94,622</b>
Number of Active Members**	32	34	30	28
City's net pension liability per active member	\$ 1,709	\$ 2,441	\$ 2,853	\$ 2,546
Plan fiduciary net position as a percentage of the total pension liability	83.50%	76.90%	76.30%	76.30%

\*Only five years of information is currently available. The City will build this schedule over the next five-year period.

\*\*There is no compensation for active members. Number of active members is used instead.

**Notes to Required Supplementary Information:**

*Changes in benefit terms*

There were no changes of benefit terms that affected measurement of the total pension liability during the measurement period.

*Changes in assumptions*

There were no changes of assumptions or other inputs that affected measurement of the total pension liability during the measurement period.

**Measurement  
Year\***  
**2018**

0.27%

\$ 59,322

16,464  
\$ 75,786

29

\$ 2,046

84.30%



**CITY OF DAYTON, TEXAS**  
**SCHEDULE OF CHANGES IN**  
**TOTAL OPEB LIABILITY AND RELATED RATIOS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**For the Year Ended September 30, 2019**

	<u>Measurement Year*</u>	
	<u>2017</u>	<u>2018</u>
<b>Total OPEB Liability</b>		
Service cost	\$ 9,731	\$ 11,764
Interest (on the total OPEB liability)	6,621	6,841
Differences between expected and actual	-	(16,702)
Change of assumptions	15,885	(14,056)
Benefit payments	(1,692)	(1,810)
<b>Net Change in Total OPEB Liability</b>	<u>30,545</u>	<u>(13,963)</u>
Beginning total OPEB liability	<u>171,144</u>	<u>201,689</u>
<b>Ending Total OPEB Liability</b>	<u><u>\$ 201,689</u></u>	<u><u>\$ 187,726</u></u>
<b>Covered Payroll</b>	\$ 4,230,816	\$ 4,524,803
<b>Total OPEB Liability as a Percentage of Covered Payroll</b>	4.77%	4.15%

\*Only two-years of information is currently available. The City will build this schedule over the next eight-year period.

**Notes to Required Supplementary Information:**

Changes in Assumptions

The discount rate increased from 3.31% to 3.71%. There were no other changes in assumptions or other inputs that affected measurement of the total OPEB liability since the prior measurement period.

Changes in Benefits

There were no changes in benefit terms that affected measurement of the total OPEB liability during the measurement period.

**CITY OF DAYTON, TEXAS**  
**SCHEDULE OF CONTRIBUTIONS**  
**TEXAS MUNICIPAL RETIREMENT SYSTEM (TMRS)**  
**For the Year Ended September 30, 2019**

	Fiscal Year*			
	2014	2015	2016	2017
Actuarially determined contribution	\$ 170,209	\$ 201,762	\$ 244,564	\$ 296,886
Contributions in relation to the actuarially determined contribution	170,209	201,762	244,564	296,886
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 3,032,125	\$ 3,316,114	\$ 3,919,546	\$ 4,150,979
Contributions as a percentage of covered payroll	5.61%	6.08%	6.24%	7.15%

\* Only six years of information is currently available. The City will build this schedule over the next four-year period.

**Notes to Required Supplementary Information:**

1. Valuation Date:

Actuarially determined contribution rates are calculated as of December 31 and become effective in January, 13 months later.

2. Methods and Assumptions Used to Determine Contribution Rates:

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	10 year smoothed market; 15% soft corridor
Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Investment rate of return	6.75%
Retirement age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2017 valuation pursuant to an experience study of the period 2010-2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

3. Other Information:

There were no benefit changes during the year.

<b>Fiscal Year*</b>	
<b>2018</b>	<b>2019</b>
\$ 331,541	\$ 364,812
<u>331,541</u>	<u>364,812</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 4,421,733	\$ 4,981,259
7.50%	7.32%

**CITY OF DAYTON, TEXAS**  
**SCHEDULE OF CONTRIBUTIONS**  
**TEXAS EMERGENCY SERVICES RETIREMENT SYSTEM (TESRS)**  
**For the Year Ended September 30, 2019**

	Fiscal Year*			
	2014	2015	2016	2017
Contractually required contribution	\$ 14,852	\$ 14,852	\$ 17,342	\$ 14,364
Contributions in relation to the contractually required contribution	<u>14,852</u>	<u>14,852</u>	<u>17,342</u>	<u>14,364</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Number of active members**	34	34	30	30
Contributions per active member	\$ 437	\$ 437	\$ 578	\$ 479

\*Only six years of information is currently available. The City will build this schedule over the next four-year period.

\*\*There is no compensation for active members. Number of active members is used instead.



<b>Fiscal Year*</b>	
<b>2018</b>	<b>2019</b>
\$ 13,738	\$ 11,948
<u>13,738</u>	<u>11,948</u>
<u>\$ -</u>	<u>\$ -</u>
28	29
\$ 491	\$ 412

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Financial Advisory Services  
Provided By:

