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NEW ISSUE BOOK-ENTRY-ONLY

Insured Rating: “_____”
(See “BOND INSURANCE”, “BOND INSURANCE GENERAL RISKS” and
“OTHER PERTINENT INFORMATION – Rating” herein)

PRELIMINARY OFFICIAL STATEMENT
Dated: March 16, 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 Bonds (defined below) with certain covenants contained in the Ordinance (defined below) and subject to the matters described under “TAX MATTERS” herein, interest on the Bonds 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 Bonds and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See “TAX MATTERS” herein.)

The City will designate the Bonds as “Qualified Tax Exempt Obligations” for financial institutions.

\$6,245,000*
CITY OF KARNES CITY, TEXAS
(A political subdivision of the State of Texas located in Karnes County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2021

Dated Date: March 15, 2021

Due: February 1, as shown on page 2

The \$6,245,000* City of Karnes City, Texas General Obligation Refunding Bonds, Series 2021 (the “Bonds”) are being issued by the City of Karnes City, Texas (the “Issuer” or the “City”) in accordance with the Constitution and general laws of the State of Texas (the “State”), particularly Chapter 1207, as amended, Texas Government Code, and an ordinance (the “Ordinance”) to be adopted by the City Council on March 23, 2021. (See “THE BONDS - Authority for Issuance” herein.)

The Bonds are direct obligations of the Issuer payable from an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law. (See “THE BONDS - Security for Payment” and “AD VALOREM PROPERTY TAXATION” herein.)

Interest on the Bonds will accrue from March 15, 2021 (the “Dated Date”) will be payable on February 1 and August 1 of each year, commencing August 1, 2021 until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds 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 Bonds will be made available for purchase in principal amounts of \$5,000 or any integral multiple thereof within a maturity. Purchasers of the Bonds (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by UMB Bank, N.A., Austin, Texas, as initial 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 Bonds. (See “BOOK-ENTRY-ONLY SYSTEM” herein.)

Proceeds from the sale of the Bonds will be used (1) to refund certain of the City’s currently outstanding obligations, as identified in Schedule I attached hereto (the “Refunded Obligations”), for debt service savings, and (2) to pay costs of issuance and expenses relating to the Bonds. (See “THE BONDS – Purpose of Bonds” herein.)

The City has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy and will consider the purchaser of such insurance after an analysis of the bids from such companies has been made. The City will be responsible for paying the bond insurer’s bond insurance premium. See “BOND INSURANCE” and “BOND INSURANCE GENERAL RISKS” herein).

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

The Bonds are offered for delivery, when, as and if issued and received by the initial purchaser named below (the “Underwriter”) and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio and Austin, Texas, Bond Counsel. Certain matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst and Horton L.L.P., San Antonio, Texas. The legal opinion of Bond Counsel will be printed on, or attached to, the Bonds. (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 Bonds will be available for initial delivery through DTC on or about April 14, 2021.

FHN FINANCIAL CAPITAL MARKETS

*Preliminary, subject to change.

\$6,245,000*
 CITY OF KARNES CITY, TEXAS
 (A political subdivision of the State of Texas located in Karnes County)
 GENERAL OBLIGATION REFUNDING BONDS, SERIES 2021

STATED MATURITY SCHEDULE*

CUSIP No. Prefix ⁽¹⁾ 485683

Stated Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix ⁽¹⁾	Stated Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP No. Suffix ⁽¹⁾
2022	\$ 405,000				2030	\$ 320,000			
2023	405,000				2031	335,000			
2024	420,000				2032	340,000			
2025	435,000				2033	345,000			
2026	445,000				2034	355,000			
2027	465,000				2035	355,000			
2028	470,000				2036	370,000			
2029	480,000				2037	300,000			

(Interest to accrue from the Dated Date)

The Bonds maturing on or after February 1, 2031 are subject to optional redemption prior to their scheduled maturities at the option of the Issuer, 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 herein. Additionally, the Underwriter may select certain maturities of the Bonds to be grouped together as a "Term Bond" and such Term Bonds would be subject to mandatory sinking fund redemption. (See "THE BONDS - Redemption Provisions " herein.)

* Preliminary, subject to change.

⁽¹⁾ CUSIP numbers are included solely for the convenience of the owner of the Bonds. 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 Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF KARNES CITY TEXAS
314 E. Calvert
Karnes City, Texas 78118
Telephone: (830) 780-3422

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Leroy T. Skloss Mayor	7	2023	Retired
Jimmy D. Loya, Sr Mayor Pro-Tem	17	2022	Real Estate Agent
Lillian Lyssy Councilmember, District 1	16	2022	Retired
Robert Ebrom, Jr. Councilmember, District 2	2	2023	Chief Deputy – County
Aaron Rosales Councilmember, District 3	2	2022	Self Employed Contractor
Larry Franke Councilmember, District 4	2	2023	Dentist

ADMINISTRATION

Name	Position	Length of Service with the City (Years)
Ken Roberts	City Manager	1
Veronica Butler	City Secretary	7 ½

CONSULTANTS AND ADVISORS

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

Certified Public AccountantsArmstrong, Vaughn & Associates, P.C.
Universal City, Texas

Financial AdvisorSAMCO Capital Markets, Inc.
San Antonio, Texas

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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 Bonds 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 is 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 information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the Issuer's undertaking to provide certain information on a continuing basis.

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

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

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

None of the City, the Financial Advisor or the Underwriter make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its Book-Entry-Only System or the Bond Insurer, if any, and its municipal bond insurance policy described herein under the heading "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" as such information is provided by DTC and the Bond Insurer respectively.

The agreements of the City and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement or any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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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 Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement.

The Issuer	The City of Karnes City, Texas (the "Issuer" or the "City"), is located at the intersection of U.S. Highway 181 and State highways 80 and 123, fifty miles southeast of San Antonio, Texas. The City was incorporated in 1914 and is governed by an elected mayor and council and operates as a Type A general law municipality. (See "APPENDIX B –General Information Regarding the City of Karnes City, Texas and Karnes County, Texas" herein.)
The Bonds	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Chapter 1207, as amended, Texas Government Code, and an ordinance (the "Ordinance") to be adopted by the City Council of the City on March 23, 2021. (See "THE BONDS - Authority for Issuance" herein.)
Paying Agent/Registrar	The initial Paying Agent/Registrar for the Bonds is UMB Bank, N.A., Austin, Texas.
Security for the Bonds	The Bonds constitute direct and general obligations of the Issuer payable from the proceeds of an annual ad valorem tax levied against all taxable property in the City, within the limits prescribed by law. (See "THE BONDS - Security for Payment" and "AD VALOREM PROPERTY TAXATION" herein.)
Redemption Provisions	The Bonds maturing on or after February 1, 2031 are subject to optional redemption prior to their scheduled maturities at the option of the Issuer, 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 Underwriter may select certain consecutive maturities of the Bonds to be grouped together as one or more Term Bonds and such Term Bonds would be subject to mandatory sinking fund redemption. (See "THE BONDS - Redemption Provisions" herein.)
Tax Matters	In the opinion of Bond Counsel, the interest on the Bonds 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, and will not be included in calculating the alternative minimum tax of the owners thereof, subject to the matters described under "TAX MATTERS" herein. (See "TAX MATTERS" and "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein.)
Qualified Tax-Exempt Obligations	The City will designate the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS – Qualified Tax-Exempt Obligations" herein.)
Use of Bond Proceeds	Proceeds from the sale of the Bonds will be used (1) to refund certain of the City's currently outstanding obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings, and (2) to pay costs of issuance and expenses relating to the Bonds. (See "THE BONDS – Purpose of Bonds" herein.)
Book-Entry-Only System	The Issuer intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York relating to the method and timing of payment and the method and transfer relating to the Bonds. (See "BOOK-ENTRY-ONLY SYSTEM" 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 refunding bonds for debt service savings.
Delivery	When issued, anticipated to occur on or about April 14, 2021.
Legality	Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio and Austin, Texas, Bond Counsel.
Bond Insurance	The City has made application to municipal bond insurance companies to have the payment of the principal of and interest on the Bonds insured by a municipal bond insurance policy. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)
Rating	The City intends to apply for a municipal bond rating from S&P Global Ratings ("S&P") based upon a municipal bond insurance policy, if any is acquired. The outcome of the result will be made available as soon as possible. (See "OTHER PERTINENT INFORMATION – Rating" herein.)

*Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT

Relating to

\$6,245,000*

CITY OF KARNES CITY, TEXAS

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

GENERAL OBLIGATION REFUNDING BONDS, SERIES 2021

INTRODUCTORY STATEMENT

This Official Statement, including Schedule I and the appendices hereto, provides certain information in connection with the issuance by the City of Karnes City, Texas (the "City" or "Issuer") of its \$6,245,000* General Obligation Refunding Bonds, Series 2021 (the "Bonds") identified on page 2 hereof.

The Issuer is a political subdivision of the State of Texas (the "State") and a municipal corporation organized and existing under the Constitution and laws of the State of Texas. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Bonds 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 (defined below) pertaining to the Bonds will be filed by the Underwriter 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 Karnes 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 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 became effective 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.

In addition to the actions by the State and federal officials, certain local officials, including the City and Karnes County, Texas, have declared a local state of disaster and have issued "shelter-in-place" orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy. While these orders continue in areas throughout the State GA-34's impact will likely lessen these restrictions.

*Preliminary, subject to change.

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

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

The 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. The City has implemented various mitigation strategies to avoid significant changes to City services and operations. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition, and the effect could be material.

THE BONDS

Purpose of Bonds

Proceeds from the sale of the Bonds will be used (1) to refund certain of the City's currently outstanding obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings, and (2) to pay costs of issuance and expenses relating to the Bonds.

Refunded Obligations

The Refunded Obligations, and interest due thereon, are to be paid on their scheduled redemption date from cash and investments to be deposited with UMB Bank, N.A., Austin, Texas, a national banking association (the "Escrow Agent") pursuant to an Escrow Deposit Letter dated as of March 23, 2021 (the "Escrow Agreement") between the City and the Escrow Agent.

The Ordinance provides that the City will deposit certain proceeds of the sale of the Bonds, along with other lawfully available funds of the City (if any), with the Escrow Agent in the amount necessary and sufficient to accomplish the discharge and final payment of the Refunded Obligations at their scheduled date of early redemption (the "Redemption Date"). Such funds shall be held by the Escrow Agent in an escrow fund (the "Escrow Fund") irrevocably pledged to the payment of principal of and interest on the Refunded Obligations. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor to the City, will certify as to the sufficiency of the amount initially deposited to the Escrow Fund, without regard to investment (if any), to pay the principal of and interest on the Refunded Obligations, when due, on the Redemption Date (the "Sufficiency Certificate"). Amounts on deposit in the Escrow Fund shall, until such time as needed for their intended purpose, be (i) held uninvested in cash and/or (ii) invested in certain direct, noncallable obligations of the United States of America (including obligations unconditionally guaranteed by the United States of America) that were, on the adoption date of the Ordinance, rated as to investment quality by a nationally recognized rating firm of not less than "AAA". Cash and investments, if any, held in the Escrow Fund shall not be available to pay debt service requirements on the Bonds.

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

By the deposit of the cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Obligations in accordance with the law. It is the opinion of Bond Counsel, in reliance upon the Sufficiency Certificate provided by SAMCO Capital Markets, Inc., that as a result of such defeasance the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt. The City has covenanted in the Escrow Agreement to make timely deposits to the Escrow Fund, from lawfully available funds, of any additional amounts required to pay the principal of and interest on the Refunded Obligations, if for any reason, the cash balances on deposit or scheduled to be on deposit in the Escrow Fund be insufficient to make such payment.

General Description

The Bonds will be dated March 15, 2021 (the "Dated Date"), will be issued in denominations of \$5,000 principal or any integral multiple thereof within a stated maturity, and 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. Interest on the Bonds will accrue from the Dated Date, with such interest payable on February 1 and August 1 of each year, commencing August 1, 2021, until stated maturity or prior redemption. Principal and interest on the Bonds 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 Bonds 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 herein) 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 Bonds 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 Bonds will 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 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 Bonds are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") particularly Chapter 1207, as amended, Texas Government Code, and an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council") on March 23, 2021.

Security for Payment

The Bonds are general obligations of the City, payable 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" herein.)

Redemption Provisions

The Issuer reserves the right to redeem Bonds stated to mature February 1, 2031, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof (if within a stated maturity, selected at random and by lot by the Paying Agent/Registrar) on February 1, 2030 or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. Two or more consecutive maturities of the Bonds may be grouped together as a term bond by the Underwriter, and such term bonds would be subject to mandatory sinking fund redemption in accordance with the Ordinance.

Selection of Bonds Redeemed in Part

If less than all of the Bonds are to be redeemed, the City shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds, or portions thereof, to be redeemed.

Notice of Redemption

At least 30 days prior to the date fixed for any redemption of any Bonds 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 Bond 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 Bonds 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 Bonds 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 ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE, AND, PROVIDED THAT PROVISION FOR PAYMENT OF THE REDEMPTION PRICE IS MADE AND ANY OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST ON THE REDEEMED BONDS SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A BOND HAS NOT BEEN PRESENTED FOR PAYMENT.

Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any integral multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same stated maturity and interest rate for the unredeemed portion of the principal. In the event of redemption of less than all of the Bonds of a particular stated maturity, the Paying Agent/Registrar is required to select the Bonds of such stated maturity to be redeemed by such random method as it deems fair and appropriate and which may provide for the selection for redemption of portions (equal to any authorized denomination) of the Bonds of a denomination larger than \$5,000.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the Issuer will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants

and then DTC participants and indirect participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer or the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Sources and Uses

<u>Sources of Funds</u>	<u>The Bonds</u>
Par Amount	\$ _____
Accrued Interest	_____
[Net] Reoffering Premium	_____
City Cash Contribution	_____
Total Sources of Funds	\$ _____
<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ _____
Costs of Issuance	_____
Underwriter’s Discount	_____
Deposit to Bond Fund	_____
Total Uses of Funds	\$ _____

Payment Record

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

Legality

The Bonds are offered when, as and if issued, subject to the approval by the Attorney General of the State of Texas and the rendering of opinions as to certain legal matters by Norton Rose Fulbright US LLP, San Antonio and Austin, Texas (“Bond Counsel”). The legal opinion of Bond Counsel will accompany the Bonds to be deposited with DTC or will be printed on the Bonds should the Book-Entry-Only System be discontinued. A form of the legal opinion of Bond Counsel appears in APPENDIX C attached hereto.

Defeasance

The Ordinance provides for the defeasance of the Bonds when payment of the principal amount of the Bonds plus interest accrued on the Bonds 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, (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 Bonds. 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 Bonds. 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 Bonds. City officials may restrict the use of such Government Securities as deemed appropriate in connection with the sale of the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, 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 Bonds (“Defeasance Proceeds”), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

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

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 Bonds 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 Bonds affected, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price thereof, 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 Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition, or rescission.

Default and Remedies

If the City defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's Bonds are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the 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 (the "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 W.W.3d 427, (Tex. 2016), ("*Wasson*") 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 the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary at the time of conception of the contractual relationship.

Notwithstanding the foregoing 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 Bonds. As noted above, the Ordinance provides that Bondholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors or general principles of equity which 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 institution, shall be an association or a 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 shall be authorized by law to serve as a Paying Agent/Registrar. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class, postage prepaid.

The Bonds 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 earlier redemption upon presentation to the Paying Agent/Registrar. If the date for the payment of the principal or interest on the Bonds 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 person entitled to the receipt of the interest payable on a Bond on any interest payment date means the fifteenth (15th) day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER AND EXCHANGE - Special Record Date for Interest Payment" herein.)

Special Record Date for Interest Payment

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

Future Registration

In the event the Bonds are not in the Book-Entry-Only System, the Bonds 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 Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the 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 Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Bonds 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 Bonds 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 Bond or Bonds 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 Bonds.)

Limitation on Transfer of Bonds

Neither the City 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 of 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 Bond 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 Bond redeemed in part.

Replacement Bonds

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

The City, the Financial Advisor, and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or any 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 applicable series of Bonds), or any 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 (the "SEC"), and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of certificated securities. 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"). Direct Participants and Indirect Participants are jointly referred to as "Participants". DTC has a S&P Global Ratings rating of "AA+". The DTC Rules applicable to its Participants are on file with the SEC. More information about DTC can be found at www.dtcc.com.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of Bonds ("Beneficial Owner") is in turn to be recorded on the 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 Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Bonds representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Issuer or the Paying Agent/Registrar, on the 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 Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Issuer 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 the Participants.

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Issuer and the Underwriter believe to be reliable, but the Issuer, the Financial Advisors and the Underwriter take no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

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 Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE – Future Registration".

BOND INSURANCE

The City has applied for municipal bond insurance on the Bonds. No representation is hereby made that the City will use municipal bond insurance in connection with the issuance of the Bonds. The City shall notify the Underwriter upon obtaining a commitment from a municipal bond insurance company (the "Bond Insurer") concerning the Bonds. The premium for a municipal bond insurance policy (the "Policy") shall be paid by the City. The final Official Statement shall disclose, to the extent necessary, any relevant information relating to the Bond Insurer and the Policy.

BOND INSURANCE GENERAL RISKS

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

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

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

In the event the Bond Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the security provided pursuant to the applicable Bond documents. In the event the Bond Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

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

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

None of the City, the Financial Advisor, or the Underwriter have made independent investigation into the claims paying ability of any potential Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the City to pay principal and interest on the Bonds and the claims-paying ability of any potential Bond Insurer, particularly over the life of the Bonds.

Claims-Paying Ability and Financial Strength of Municipal Bond Insurers

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

In addition, past events in the credit markets have had substantial negative effects on the bond insurance business. These developments could be viewed as having a material adverse effect on the claims-paying ability of such bond insurers, including any bond insurer of the Bonds. Thus, when making an investment decision, potential investors should carefully consider the ability of any such bond insurer to pay principal and interest on the Bonds and the claims-paying ability of any such bond insurer, particularly over the life of the Bonds.

INVESTMENTS

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.

Current Investments ⁽¹⁾

TABLE 1

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

<u>Type of Security</u>	<u>Market Value</u>	<u>Percentage of Total</u>
Cash	\$6,101,840.81	100.00%

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

⁽¹⁾ Unaudited.

AD VALOREM PROPERTY TAXATION

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Karnes County Appraisal District (the “Appraisal District”). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (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.

Temporary Exemption for Qualified Property Damaged by a Disaster

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

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 to the City, see "CITY'S APPLICATION OF THE PROPERTY TAX CODE".

Chapter 380 Agreements

Cities are 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.

City and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent

(1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. See "AD VALOREM PROPERTY TAXATION – Temporary Exemption for Qualified Property Damaged by a Disaster" for a discussion of the applicability of this section of the Property Tax Code.

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; however, the governing body must order the automatic election by no later than the 78th day before the November election

date under the Texas Election Code, effectively making the 78th day before the November election date the deadline to adopt the tax rate. 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. 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 Bonds.

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 4, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$1.50 per \$100 of taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

CITY'S APPLICATION OF THE PROPERTY TAX CODE

See Table 1 in APPENDIX A for a listing of the amounts of the exemptions described below.

The City has not granted an exemption to the appraised value of the residence homestead of persons 65 years of age or older.

The City has not granted an additional exemption of 20% of the appraised value of residence homesteads.

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

Ad valorem taxes are levied by the City against the exempt value of residence homesteads for the payment of debt.

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

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

The City does not tax freeport property.

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

The City has not created any TIRZ zones.

The City has not entered into any tax abatement agreements or Chapter 380 agreements.

TAX MATTERS

Tax Exemption

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

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the Issuer made in a certificate of even date with the initial delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance with the provisions of the Ordinance by the Issuer subsequent to the issuance of the Bonds. The Ordinance contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds 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 Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

Tax Changes

Existing law may change to reduce or eliminate the benefit to Bond holders of the exclusion of interest on the Bonds 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 Bonds. Prospective purchasers of the Bonds 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 Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions (see "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 Bonds

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

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

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

Tax Accounting Treatment of Premium Bonds

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

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

Qualified Tax-Exempt Obligations

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

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

CONTINUING DISCLOSURE OF INFORMATION

The City is exempt from certain of the continuing disclosure obligations set forth in the United States Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule") pursuant to the exemption under subsection (d)(2), which applies to certain small issuers such as the Issuer who are not an "obligated person" (as defined in the Rule) responsible for the repayment of municipal securities outstanding (including the Bonds) in an aggregate principal amount exceeding \$10,000,000. This exemption allows the City to not file annual updates to all financial and operating data that is included in this Official Statement.

In the Ordinance, the City has made the following agreement for the benefit of the registered owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to timely file with the MSRB updated financial information and operating data of the City that is included in this Official Statement, that is customarily prepared by the City, and that is publicly available (as further described below under "Annual Reports"), as well as notice of specified events. The information provided to the MSRB will be available to the public free of charge via the EMMA system through an internet website accessible at www.emma.msrb.org. Such information may also be obtained from the City Secretary at the City office, which is currently located at 314 E. Calvert, Karnes City, Texas 78118.

Annual Reports

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City 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 City's fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City'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 the audited financial statements of the City (the "Audited Financial Statements"), which is customarily prepared by the City and publicly available. The City will update and provide this information within six months after the end of each fiscal year. If the audit of such Audited Financial Statements is not complete within six 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 City'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 City changes its fiscal year. If the City changes its fiscal year, it will file notice of such change with the MSRB through EMMA.

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 Bonds 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 Bonds, or other material events affecting the tax status of the Bonds, as the case may be; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of 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. Neither the Bonds nor the Ordinance make provision for credit enhancement (though the City has made application for municipal bond insurance on the Bonds), liquidity enhancement, or debt service reserves. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

For these purposes, (a) any event described in 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 Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB via the EMMA System at www.emma.msrb.org.

Limitations and Amendments

The City has agreed to update information and to provide notices of certain specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds 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 Bonds 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 Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Bonds. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. 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 Bonds, respectively, in the primary offering of the Bonds.

Compliance with Prior Undertakings

During the past five years, the City has not entered into any continuing disclosure agreement made in accordance with the Rule.

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Bond is a valid and legally binding 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 Bonds, 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 Bonds 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 Bonds, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Bonds. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, San Antonio and Austin, Texas has reviewed (except for numerical, statistical and technical data) the information under the captions "THE BONDS" (except under the subcaptions, "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 Opinions and No-Litigation Certificate" (except for the last sentence of the first paragraph thereof, 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 Bonds for Sale" in this Official Statement and such firm is of the opinion that the information relating to the Bonds 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 Bonds or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Bonds are contingent on the sale and initial delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain matters will be passed upon for the Underwriter by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas whose legal fees are contingent on the sale and initial delivery of the Bonds.

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

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.

Legal Investments and Eligibility to Secure Public Funds in Texas

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. See "OTHER PERTINENT INFORMATION - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds 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 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds 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 Bonds for Sale

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; or have the Bonds been qualified under the securities acts of any jurisdiction. The Issuer assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

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

Rating

The City intends to apply for a municipal bond rating from S&P Global Ratings ("S&P") based upon a municipal bond insurance policy, if any is acquired. Accordingly, the Bonds will not carry an underlying, unenhanced rating. The result will be made available as soon as possible. An explanation of the significance of such rating may be obtained from S&P. The rating of the Bonds by S&P reflects only the 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 S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

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 that are believed to be reliable. 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 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.

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.

Financial Advisor

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has assisted in drafting 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 delivery of the Bonds.

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.

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at a price of \$_____ (representing the par amount of the Bonds of \$_____, plus a [net] reoffering premium of \$_____, and less an Underwriter's discount of \$_____), and accrued interest on the Bonds in the amount of \$_____.

The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds, if any of the Bonds are purchased. The Bonds may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) and others at prices lower than such public offering prices, and such public prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc. is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc. for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

Certification of the Official Statement

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

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 Bonds 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 Bonds by the Underwriter.

This Official Statement will be approved by the City 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 KARNES CITY, TEXAS

ATTEST:

/s/ _____
Mayor
City of Karnes City, Texas

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

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

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SCHEDULE I *
SCHEDULE OF REFUNDED OBLIGATIONS

CITY OF KARNES CITY, TEXAS

Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2007
(Redemption Date 05-16-21 @ par)

Current Interest Bonds

Original Dated Date	Original Maturity (June 1)	Original Principal Amount	Principal Being Refunded	Interest Rate
May 1, 2007	2021	\$ 125,000.00	\$ 125,000.00	3.300%
	2022	130,000.00	130,000.00	3.350%
	2023	130,000.00	130,000.00	3.350%
	2024	135,000.00	135,000.00	3.400%
	2025	140,000.00	140,000.00	3.450%
	2026	145,000.00	145,000.00	3.450%
	2027	150,000.00	150,000.00	3.500%
	2028	155,000.00	155,000.00	3.500%
	2029	160,000.00	160,000.00	3.600%
	2030	165,000.00	165,000.00	3.600%
	2031	175,000.00	175,000.00	3.650%
	2032	180,000.00	180,000.00	3.700%
	2033	185,000.00	185,000.00	3.700%
	2034	195,000.00	195,000.00	3.700%
	2035	200,000.00	200,000.00	3.700%
	2036	210,000.00	210,000.00	3.700%
	2037	215,000.00	215,000.00	3.750%
		<u>\$ 2,795,000.00</u>	<u>\$ 2,795,000.00</u>	

** Preliminary, subject to change.*

SCHEDULE I *
SCHEDULE OF REFUNDED OBLIGATIONS

CITY OF KARNES CITY, TEXAS

Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2008
(Redemption Date 05-16-21 @ par)

Current Interest Bonds

Original Dated Date	Original Maturity (December 1)	Original Principal Amount	Principal Being Refunded	Interest Rate
February 1, 2008	2021	\$ 57,000.00	\$ 57,000.00	4.375%
	2022	59,000.00	59,000.00	4.375%
	2023	62,000.00	62,000.00	4.375%
	2024	65,000.00	65,000.00	4.375%
	2025	68,000.00	68,000.00	4.375%
	2026	71,000.00	71,000.00	4.375%
	2027	74,000.00	74,000.00	4.375%
	2028	77,000.00	77,000.00	4.375%
	2029	80,000.00	80,000.00	4.375%
	2030	84,000.00	84,000.00	4.375%
	2031	87,000.00	87,000.00	4.375%
	2032	91,000.00	91,000.00	4.375%
	2033	95,000.00	95,000.00	4.375%
	2034	99,000.00	99,000.00	4.375%
	2035	104,000.00	104,000.00	4.375%
	2036	108,000.00	108,000.00	4.375%
	2037	113,000.00	113,000.00	4.375%
	2038	118,000.00	118,000.00	4.375%
	2039	123,000.00	123,000.00	4.375%
	2040	129,000.00	129,000.00	4.375%
	2041	134,000.00	134,000.00	4.375%
	2042	140,000.00	140,000.00	4.375%
	2043	146,000.00	146,000.00	4.375%
	2044	153,000.00	153,000.00	4.375%
	2045	159,000.00	159,000.00	4.375%
	2046	166,000.00	166,000.00	4.375%
	2047	176,000.00	176,000.00	4.375%
		<u>\$ 2,838,000.00</u>	<u>\$ 2,838,000.00</u>	

* Preliminary, subject to change.

SCHEDULE I *
SCHEDULE OF REFUNDED OBLIGATIONS

CITY OF KARNES CITY, TEXAS

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014
(Redemption Date 05-16-21 @ par)

Current Interest Bonds

Original Dated Date	Original Maturity (February 1)	Original Principal Amount	Principal Being Refunded	Interest Rate
July 15, 2014	2022	\$ 165,000.00	\$ 165,000.00	2.940%
	2023	165,000.00	165,000.00	2.940%
	2024	170,000.00	170,000.00	2.940%
	2025	175,000.00	175,000.00	2.940%
	2026	180,000.00	180,000.00	2.940%
	2027	190,000.00	190,000.00	2.940%
	2028	195,000.00	195,000.00	2.940%
	2029	200,000.00	200,000.00	2.940%
		<u>\$ 1,440,000.00</u>	<u>\$ 1,440,000.00</u>	

* Preliminary, subject to change.

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APPENDIX A

**FINANCIAL INFORMATION
CITY OF KARNES CITY, 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).....	\$ 170,943,481
Less Exemptions:	
Optional Over-65 or Disabled Homestead	\$ 912,856
Disabled/Deceased Veterans'	386,404
Open-Space Land and Timberland	625,918
TOTAL EXEMPTIONS	<u>\$ 1,925,178</u>
2020 Certified Assessed Value of Taxable Property.....	\$ 169,018,303
Less: 2020 Freeze Taxable	<u>\$ 15,333,870</u>
2020 Certified Freeze Adjusted Assessed Value of Taxable Property.....	<u>\$ 153,684,433</u>

Source: Karnes County Appraisal District

GENERAL OBLIGATION BONDED DEBT

(as of March 1, 2021)

General Obligation Debt Principal Outstanding

Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2007	\$ -	* (1)
Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2008	-	* (1)
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014	-	* (1)
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016	625,000	
The Bonds	<u>6,245,000</u>	*
Total Gross General Obligation Debt	<u>\$ 6,870,000</u>	*
Less: Self Supporting Debt		
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016 (100% Utility Fund)	\$ 625,000	
The Bonds (80% Utility Fund)	<u>4,970,000</u>	*
Total Self-Supporting Debt	<u>\$ 5,595,000</u>	
Total Net General Obligation Debt Outstanding	<u>\$ 1,275,000</u>	*
2020 Net Assessed Valuation	\$ 169,018,303	
Ratio of Gross General Obligation Debt Principal to Net Taxable Assessed Valuation	4.06%	
Ratio of Net General Obligation Debt to Net Taxable Assessed Valuation	0.75%	
Population: 2000 - 3,457; 2010 - 3,042; est. 2020 - 3,396		
Per Capita Net Taxable Assessed Valuation - \$49,769.82		
Per Capita Gross General Obligation Debt Principal - \$2,022.97		
Per Capita Net General Obligation Debt Principal - \$375.44		

⁽¹⁾ Shown net of the Refunded Obligations.

* Preliminary, subject to change.

DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE **TABLE 2**

- NONE -

Source: The City's Comprehensive Annual Financial Report for fiscal year ended September 30, 2020.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending (9/30)	Current Total Outstanding Debt ⁽¹⁾	Less: Refunded Obligations*	The Bonds*			Total Combined Debt Service*	Less: Self Supporting Debt Service*	Total Net Debt Service *
			Principal	Interest	Total			
2021	\$ 715,986	\$ 256,923		\$ 61,200	\$ 61,200	\$ 520,263	\$ 321,507	\$ 198,756
2022	719,664	608,049	\$ 405,000	155,925	560,925	672,540	488,190	184,350
2023	707,900	598,305	405,000	143,775	548,775	658,370	483,445	174,925
2024	711,903	599,379	420,000	131,400	551,400	663,925	488,425	175,500
2025	710,343	599,939	435,000	118,575	553,575	663,979	488,054	175,925
2026	708,264	599,981	445,000	105,375	550,375	658,658	482,458	176,200
2027	715,610	604,499	465,000	94,050	559,050	670,161	488,061	182,100
2028	603,418	603,418	470,000	84,700	554,700	554,700	376,000	178,700
2029	601,883	601,883	480,000	70,400	550,400	550,400	371,900	178,500
2030	397,749	397,749	320,000	54,400	374,400	374,400	374,400	-
2031	402,221	402,221	335,000	44,650	379,650	379,650	379,650	-
2032	400,093	400,093	340,000	37,900	377,900	377,900	377,900	-
2033	398,539	398,539	345,000	31,050	376,050	376,050	376,050	-
2034	401,626	401,626	355,000	24,050	379,050	379,050	379,050	-
2035	399,167	399,167	355,000	16,950	371,950	371,950	371,950	-
2036	402,326	402,326	370,000	9,700	379,700	379,700	379,700	-
2037	328,919	328,919	300,000	3,000	303,000	303,000	303,000	-
2038	178,647	178,647	-	-	-	-	-	-
2039	178,594	178,594	-	-	-	-	-	-
2040	178,322	178,322	-	-	-	-	-	-
2041	178,809	178,809	-	-	-	-	-	-
2042	178,056	178,056	-	-	-	-	-	-
2043	178,063	178,063	-	-	-	-	-	-
2044	177,806	177,806	-	-	-	-	-	-
2045	178,266	178,266	-	-	-	-	-	-
2046	177,441	177,441	-	-	-	-	-	-
2047	177,331	177,331	-	-	-	-	-	-
2048	179,850	179,850	-	-	-	-	-	-
Total	\$ 11,286,795	\$ 10,164,200	\$ 6,245,000	\$ 1,187,100	\$ 7,432,100	\$ 8,554,694	\$ 6,929,738	\$ 1,624,956

⁽¹⁾ Includes self-supporting debt.

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

TAX ADEQUACY (Includes Self-Supporting Debt)*

2020 Certified Net Taxable Assessed Valuation	\$ 169,018,303
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2022)	672,540 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.40603 *

* Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.

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

TAX ADEQUACY (Excludes Self-Supporting Debt)*

2020 Certified Net Taxable Assessed Valuation	\$ 169,018,303
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2021)	198,756 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.11999 *

* Preliminary, subject to change. Includes the Bonds and excludes the Refunded Obligations.

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

INTEREST AND SINKING FUND MANAGEMENT INDEX

Audited I&S Fund Balance on 9/30/2020	\$ 910,608
2020 Anticipated Interest and Sinking Fund Tax Levy at 98% Collections Produce ⁽¹⁾	480,681
Transfer from Utility System	321,507
Total Available for General Obligation Debt	<u>\$ 1,712,796</u>
General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/21	\$ 520,263
Anticipated Unaudited I&S Fund Balance on 9/30/2021	\$ 1,192,534

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

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(as of March 1, 2021)

Fiscal Year Ending 9-30	Principal Repayment Schedule				Principal Unpaid at End of Year*	Percent of Principal Retired (%)*
	Currently Outstanding ^(a)	Less: Refunded Obligations*	The Bonds*	Total*		
2021	\$ 125,000	\$ 125,000		\$ -	\$ 6,870,000	0.00%
2022	452,000	352,000	\$ 405,000	505,000	6,365,000	7.35%
2023	454,000	354,000	405,000	505,000	5,860,000	14.70%
2024	472,000	367,000	420,000	525,000	5,335,000	22.34%
2025	485,000	380,000	435,000	540,000	4,795,000	30.20%
2026	498,000	393,000	445,000	550,000	4,245,000	38.21%
2027	521,000	411,000	465,000	575,000	3,670,000	46.58%
2028	424,000	424,000	470,000	470,000	3,200,000	53.42%
2029	437,000	437,000	480,000	480,000	2,720,000	60.41%
2030	245,000	245,000	320,000	320,000	2,400,000	65.07%
2031	259,000	259,000	335,000	335,000	2,065,000	69.94%
2032	267,000	267,000	340,000	340,000	1,725,000	74.89%
2033	276,000	276,000	345,000	345,000	1,380,000	79.91%
2034	290,000	290,000	355,000	355,000	1,025,000	85.08%
2035	299,000	299,000	355,000	355,000	670,000	90.25%
2036	314,000	314,000	370,000	370,000	300,000	95.63%
2037	323,000	323,000	300,000	300,000	-	100.00%
2038	113,000	113,000	-	-	-	
2039	118,000	118,000	-	-	-	
2040	123,000	123,000	-	-	-	
2041	129,000	129,000	-	-	-	
2042	134,000	134,000	-	-	-	
2043	140,000	140,000	-	-	-	
2044	146,000	146,000	-	-	-	
2045	153,000	153,000	-	-	-	
2046	159,000	159,000	-	-	-	
2047	166,000	166,000	-	-	-	
2048	176,000	176,000	-	-	-	
Total	<u>\$ 7,698,000</u>	<u>\$ 7,073,000</u>	<u>\$ 6,245,000</u>	<u>\$6,870,000</u>		

^(a) Includes self-supporting debt.

* Preliminary, subject to change.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 4

	2020 ⁽¹⁾	% of Total	2019	% of Total	2018	% of Total
Real, Residential, Single-Family	\$ 63,319,883	37.04%	\$ 73,200,229	36.17%	\$ 58,569,110	37.10%
Real, Residential, Multi-Family	5,260,832	3.08%	5,390,859	2.66%	3,959,469	2.51%
Real, Vacant Lots/Tracts	2,043,491	1.20%	2,033,419	1.00%	2,332,127	1.48%
Real, Acreage (Land Only)	650,317	0.38%	700,038	0.35%	6,392	0.00%
Real, Farm and Ranch Improvements	395,634	0.23%	460,358	0.23%	394,390	0.25%
Real, Commercial and Industrial	76,288,929	44.63%	96,040,308	47.45%	71,035,075	45.00%
Real & Tangible, Personal Utilities	2,117,110	1.24%	2,117,200	1.05%	2,165,060	1.37%
Tangible Personal, Commercial &	15,439,906	9.03%	17,804,892	8.80%	15,297,194	9.69%
Tangible Personal, Mobile Homes	5,102,455	2.98%	4,297,458	2.12%	3,762,971	2.38%
Real Property, Inventory	324,924	0.19%	355,161	0.18%	329,007	0.21%
Total Appraised Value	\$ 170,943,481	100.00%	\$ 202,399,922	100.00%	\$ 157,850,795	100.00%
Less:						
Loss to 10% HO Cap	\$ 912,856		\$ 5,320,044		\$ 451,606	
Disabled/Deceased Veterans'	386,404		426,385		394,354	
Open-Space Land and Timberland	625,918		624,335		638,447	
Net Taxable Assessed Valuation	\$ 169,018,303		\$ 196,029,158		\$ 156,366,388	

Source: Karnes County Appraisal District

⁽¹⁾ Decreases in taxable values in comparison to prior year are attributable to COVID related oil and gas industry reductions.

PRINCIPAL TAXPAYERS 2020

TABLE 5

Name	Type of Business/Property	2020 Net Taxable Assessed Valuation	% of 2020 Assessed Valuation
CPT Operating Partnership LP	Oil/Gas	\$ 15,700,866	9.29%
Karnes Hospitality Group LLC	Hotel	4,445,674	2.63%
Marathon Oil EF LLC	Oil/Gas	3,134,800	1.85%
Karnes Housing Corporation	Hotel	2,770,014	1.64%
Edgen Murray Corporation	Oil/Gas	2,720,790	1.61%
The Geo Group	Prison	2,653,100	1.57%
Perales Manufacturing	Oil/Gas	1,955,213	1.16%
AEP Texas Inc.	Electric Utility	1,598,600	0.95%
S8 Karnes Acquisition Co. LLC	Commercial Property	1,276,346	0.76%
Texas Fifteen Property LLC	Commercial Property	1,264,953	0.75%
		<u>\$ 37,520,356</u>	<u>22.20%*</u>

As shown in the table above, the top ten taxpayers in the City account for in excess of 22% 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. See "INFECTIOUS DISEASE OUTBREAK - COVID 19" in this Official Statement. Oil/gas prices in Texas and worldwide have been historically subject to fluctuation due to a multitude of factors. Recently, unprecedented volatility in the oil and gas industry due to the unused supply of oil as a result of COVID-19 stay-at-home orders and other mitigation efforts resulted in historic low prices in a key segment of the nation's oil trading. The State may be particularly at risk from any global slowdown in the oil and gas industry, given the prevalence of international trade in the State and the risk of contraction in the oil and gas industry and spillover effects into other industries. Should oil prices remain depressed over a long period of time or other adverse developments in economic conditions were to occur, particularly in the oil and gas industry, these businesses could be adversely impacted. In addition, prospective regulation of the industries which do business in the City's boundaries (including private prisons and oil and gas companies) may cause additional adverse impacts. As a result, the City's taxable assessed valuation and, therefore, the tax rates required to pay debt service on the City's indebtedness, may be subject to volatility in future years. 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 Bonds 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 BONDS – Default and Remedies" and "AD VALOREM PROPERTY TAXATION – City's Rights in the Event of Tax Delinquencies" in this Official Statement.

TAX RATE DISTRIBUTION

TABLE 6

	2020	2019	2018	2017	2016
General Fund	\$ 0.292100	\$ 0.239900	\$ 0.279600	\$ 0.314800	\$ 0.312600
I&S Fund	0.290200	0.256000	0.325200	0.496700	0.456200
Total Tax Rate	<u>\$ 0.582300</u>	<u>\$ 0.495900</u>	<u>\$ 0.604800</u>	<u>\$ 0.811500</u>	<u>\$ 0.768800</u>

Source: Karnes County Appraisal District

TAX DATA

TABLE 7

Taxes are due October 1 and become delinquent after January 31. Discounts are not allowed. Current collections are those taxes collected through August 31, applicable to the current year's tax levy. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentages of collections set for below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2013	\$ 69,978,459	\$ 0.748100	\$ 523,509	93.94%	94.83%	9/30/2014
2014	96,639,663	0.748100	722,961	95.38%	97.59%	9/30/2015
2015	174,649,431	0.697400	1,218,005	92.25%	93.43%	9/30/2016
2016	134,998,424	0.768800	1,037,868	93.24%	96.22%	9/30/2017
2017	130,909,952	0.811500	1,062,334	93.33%	96.58%	9/30/2018
2018	156,366,388	0.604800	945,704	95.09%	98.00%	9/30/2019
2019	196,029,158	0.495900	972,109	94.78%	96.23%	9/30/2020
2020 ⁽¹⁾	169,018,303	0.582300	984,194	(In Process of Collection)		9/30/2021

Source: Karnes County Appraisal District

⁽¹⁾ Decreases in taxable values in comparison to prior year are attributable to COVID related oil and gas industry reductions. See footnote (1) to TABLE 5.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2011-2020

TABLE 8

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2011-12	\$ 64,326,279	---	---
2012-13	67,664,621	3,338,342	5.19%
2013-14	69,978,459	2,313,838	3.42%
2014-15	96,639,663	26,661,204	38.10%
2015-16	174,649,431	78,009,768	80.72%
2016-17	134,998,424	(39,651,007)	-22.70%
2017-18	130,909,952	(4,088,472)	-3.03%
2018-19	156,366,388	25,456,436	19.45%
2019-20	196,029,158	39,662,770	25.37%
2020-21	169,018,303	(27,010,855) ⁽¹⁾	-13.78%

Source: Karnes County Appraisal District

⁽¹⁾ Decreases in taxable values in comparison to prior year are attributable to COVID related oil and gas industry reductions. See footnote (1) to TABLE 5.

MUNICIPAL SALES TAX COLLECTIONS

TABLE 9

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development tax. The Issuer has authorized the additional one-quarter cent sales tax for street maintenance/repair and one-quarter cent sales tax for the City's economic development corporation (4B). Net collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2010	\$ 204,429	41.53%	\$ 0.320
2011	458,291	95.23%	0.712
2012	648,226	128.06%	0.958
2013	958,499	183.09%	1.370
2014	871,450	120.54%	0.902
2015	1,010,845	82.99%	0.579
2016	755,984	72.84%	0.560
2017	656,401	61.79%	0.501
2018	857,765	90.70%	0.549
2019	819,562	84.31%	0.418
2020	694,710	70.59%	0.411
2021	79,351	(as of March 1, 2021)	

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

⁽¹⁾ Reduction in comparison to prior year's collections attributed to economic impacted by COVID-19 Pandemic. See "INFECTIOUS DISEASE - COVID-19" in the body of the Official Statement.

OVERLAPPING DEBT INFORMATION

(as of March 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 3/1/2021)	% Overlapping	Amount Overlapping
Karnes City ISD	\$ 14,315,000	3.24%	\$ 463,806
Karnes County	-	2.17%	-
Total Gross Overlapping Debt			\$ 463,806
Karnes City, City of			\$ 6,870,000 *
Total Gross Direct and Overlapping Debt			\$ 7,333,806 *

Ratio of Gross Direct Debt and Overlapping Debt 106.75% *
 Per Capita Gross Direct Debt and Overlapping Debt \$2,159.54 *

Note: The above figures show Gross General Obligation Debt for the City of Karnes, Texas. The Issuer's Net General Obligation Debt is \$1,275,000*. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt	\$ 1,738,806 *
Ratio of Net Direct and Overlapping Debt to 2020 Net Assessed Valuation	1.03% *
Per Capita Net Direct and Overlapping Debt	\$512.02 *

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

* Includes the Bonds and excludes the Refunded Obligations. Preliminary, subject to change.

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 10

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

	Fiscal Year Ended				
	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016
Fund Balance - Beginning of Year	\$ 1,791,618	\$ 1,430,294	\$ 840,104	\$ 415,545	\$ 299,338
Revenues	1,844,049	1,992,065	2,199,810	1,565,774	1,904,007
Expenditures	1,729,701	1,642,491	1,615,120	1,654,465	1,899,691
Excess (Deficit) of Revenues Over Expenditures	\$ 114,348	\$ 349,574	\$ 584,690	\$ (88,691)	\$ 4,316
Other Financing Sources (Uses):					
Operating Transfers In/(Out)	\$ 5,500	\$ 6,250	\$ -	\$ 1,782	\$ -
Capital Leases	\$ -	\$ -	\$ -	\$ -	\$ -
Sale of Capital Assets	-	5,500	5,500	7,950	-
Total Other Financing Sources (Uses):	\$ 5,500	\$ 11,750	\$ 5,500	\$ 9,732	\$ -
Prior Period Adjustment	-	-	-	503,518	111,891
Fund Balance - End of Year	\$ 1,911,466	\$ 1,791,618	\$ 1,430,294	\$ 840,104	\$ 415,545

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

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2020 Assessed Valuation	% of Actual	2020 Tax Rate
Karnes City ISD	\$ 5,267,959,649	100%	\$ 1.093000
Karnes County	7,657,864,717	100%	0.262000

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
Karnes City ISD	11/3/2020	\$ 22,050,000	\$ -	\$ 22,050,000
Karnes County	11/8/2011	7,000,000	1,000,000	6,000,000

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

UTILITY PLANT IN SERVICE*(As of September 30, 2020)*

Land	\$	243,328
Construction in Progress		929,354
Vehicles and Equipment		568,165
Infrastructure		17,099,285
Buildings and Improvements		91,279
Total	\$	18,931,411
Less: Accumulated Depreciation		(5,732,541)
Net Property, Plant and Equipment	\$	<u>13,198,870</u>

Source: *The Issuer's Comprehensive Annual Financial Report.***WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT**

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

	Fiscal Year Ended				
	9/30/2020	9/30/2019	9/30/2018	9/30/2017	9/30/2016
Revenues	\$1,788,591	\$1,837,350	\$1,916,322	\$1,777,891	\$1,469,712
Expenses	1,308,315	1,352,207	1,128,988	1,211,149	1,508,519
Net Revenue Available for Debt Service	<u>\$ 480,276</u>	<u>\$ 485,143</u>	<u>\$ 787,334</u>	<u>\$ 566,742</u>	<u>\$ (38,807)</u>

Source: *The Issuer's Annual Financial Reports.***WATER RATES****Effective October 1, 2016**

	Residential		Commercial	
	Inside City	Outside City	Inside City	Outside City
	Limits	Limits	Limits	Limits
Base Rate	\$29.00	\$47.00	\$56.00	\$67.00
0 - 3,000 Gallons	\$2.50		\$2.50	
3,001 - 6,000 Gallons	\$4.25		\$4.25	
6,001 - 9,000 Gallons	\$5.75		\$5.75	
9,001 - 12,000 Gallons	\$8.00		\$8.00	
12,001 Gallons +	\$10.00		\$10.00	

SEWER RATES**Effective October 1, 2016**

	Residential		Commercial	
	Inside City	Outside City	Inside City	Outside City
	Limits	Limits	Limits	Limits
Base Rate	\$20.64	\$27.05	\$22.78	\$29.89
Cost per 1,000 Gallons	\$2.75	\$2.75	\$2.75	\$2.75

EMPLOYEE'S PENSION PLAN AND OTHER POST EMPLOYMENT BENEFITS

Information regarding the City's Pension Plan can be found within the City's 2020 Annual Financial Report.

APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF KARNES CITY, TEXAS AND
KARNES COUNTY, TEXAS**

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GENERAL INFORMATION REGARDING THE CITY OF KARNES CITY AND KARNES COUNTY, TEXAS

The following information is qualified by the impact from the effects of the COVID-19 pandemic. Within the body of the Official Statement, under the caption “INFECTIOUS DISEASE OUTBREAK - COVID-19”, the City described this event, as well as its initial impact and possible effects. The City has not attempted to completely update the descriptions included in this APPENDIX B to account for the effects of COVID-19, as the specific results of this event are evolving and their extent unknown; rather, the City makes reference to the aforementioned section of the body of the Official Statement and directs the reader thereto for a general discussion of the COVID-19 event as of the date of the Official Statement.

Location and Economy

The City of Karnes City (the “City”) is located 45 miles southeast of San Antonio, Texas off highways 181, 123, and 80. It is the county seat and known for its agricultural and petroleum production. The City has a total area of 2.1 square miles.



Education

Karnes City Independent School District (the “District”) serves the City and portions of the District run into Atascosa County, Texas. The District has one primary school, one elementary school, one junior high school, one high school, and one college preparatory school. Higher education facilities available to the City are nearby in San Antonio, Texas. The facilities include the Texas A&M University-San Antonio and Alamo Community Colleges, Our Lady of the Lake University, Trinity University, University of the Incarnate Word, St. Mary’s University, University of Texas health Science Center, University of Texas at San Antonio.

KARNES COUNTY, TEXAS

The County

Karnes County, Texas (the “County”) is a south-central Texas county, traversed by U.S. Highway 181, State Highways 72,80,119, 123 and 239. The area of the County is 753 square miles and the City of Karnes City, Texas is the County seat.



The County’s principal sources of agricultural income are from beef cattle, hay, feed grains and cotton. Minerals produced in the County include oil and gas.

Labor Force Statistics ⁽¹⁾

	<u>2020</u> ⁽²⁾	<u>2019</u> ⁽³⁾	<u>2018</u> ⁽³⁾	<u>2017</u> ⁽³⁾	<u>2016</u> ⁽³⁾
Civilian Labor Force	7,309	7,187	6,861	6,448	6,274
Total Employed	6,828	7,008	6,667	6,223	5,968
Total Unemployed	481	179	194	225	306
% Unemployment	6.6%	2.5%	2.8%	3.5%	4.9%
Texas Unemployment	8.0%	3.5%	3.8%	4.3%	4.6%

(1) Source: Texas Workforce Commission.

(2) As of December 2020.

(3) Average Annual Statistic.

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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 Karnes City, Texas General Obligation Refunding Bonds, Series 2021” (the *Bonds*), dated March 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 Karnes City, Texas (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of February 1 in each of the years 2022 through 2037, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the Bonds, including the Ordinance, the Escrow Deposit Letter (the *Escrow Agreement*) between the Issuer and UMB Bank, N.A., Austin, Texas (the *Escrow Agent*), and the certification (the *Sufficiency Certificate*) by SAMCO Capital Markets, Inc., as Financial Advisor to the Issuer, concerning the sufficiency of the cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Issuer, and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Bonds 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

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Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP, Norton Rose Fulbright South Africa (incorporated as Denys Reitz, Inc.), each of which is a separate legal entity, are members of Norton Rose Fulbright Verein, a Swiss Verein. Details of each entity, with certain regulatory information, are at nortonrosefulbright.com. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF KARNES CITY, TEXAS GENERAL OBLIGATION REFUNDING BONDS, SERIES 2021”

documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

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

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding 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 Bonds are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the Issuer.

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

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF KARNES CITY, TEXAS GENERAL OBLIGATION REFUNDING BONDS, SERIES 2021”

such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Norton Rose Fulbright US LLP

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APPENDIX D

**EXCERPTS FROM THE CITY'S AUDITED FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2020**

**(Not intended to be a complete statement of the Issuer's financial condition.
Reference is made to the complete Annual Financial Report for further information.)**

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Armstrong, Vaughan & Associates, P. C.

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Karnes City, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate fund remaining information of the City of Karnes City, as of and for the year ended September 30, 2020, 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

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregated remaining fund information of the City of Karnes City, as of September 30, 2020, 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.

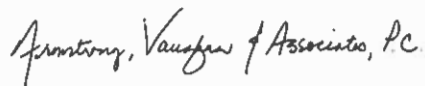
Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Karnes City's financial statements as a whole. The comparative and combining fund statements are presented for purposes of additional analysis and are not a required part of the financial statements. The information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Armstrong, Vaughan & Associates, P.C.

December 7, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Karnes City's annual financial report presents our discussion and analysis of the City's financial performance during the fiscal year ended September 30, 2020. Please read it in conjunction with the City's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

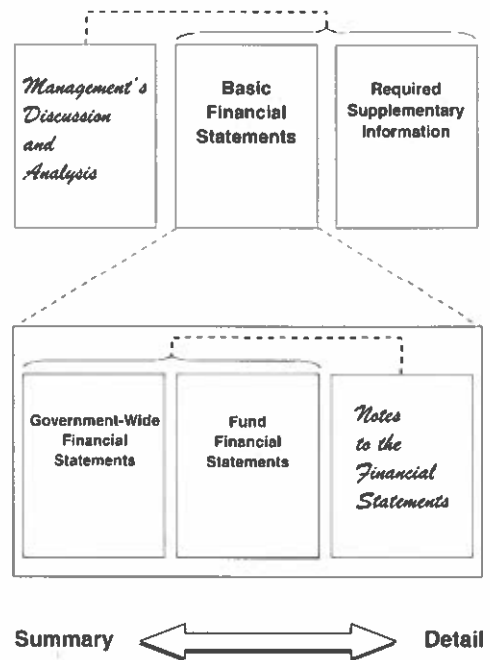
- The City's total combined net position was \$22.3 million at September 30, 2020.
- During the year, the City's governmental expenses were \$769 thousand less than the \$3.1 million generated in general and program revenues for governmental activities. The total cost of the City's programs decreased \$488 thousand from the prior year. Utility fund expenses decreased \$149 and were \$833 more than revenues.
- The general fund reported a fund balance this year of \$1.9 million, an increase of \$120 thousand.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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



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

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

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

Government-Wide Statements

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

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

- Over time, increases or decreases in the City's net position is an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional non-financial factors such as changes in the City's tax base.
- The government-wide financial statements of the City include the *Governmental activities*. Most of the City's basic services are included here, such as general government, fire, police, streets, and parks. Property taxes, oil royalties and charges for services finance most of these activities.

FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

Net position. The City's combined net position was \$22.3 million at September 30, 2020. (See Table A-1).

Table A-1
City's Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2020	2019	2020	2019	2020	2019	
<i>Assets:</i>							
Current Assets	\$ 12,544,160	\$ 13,137,391	\$ 677,209	\$ 600,963	\$ 13,221,369	\$ 13,738,354	(3.8)
Capital Assets (net)	5,243,479	4,728,374	13,198,870	12,678,948	18,442,349	17,407,322	5.9
Total Assets	17,787,639	17,865,765	13,876,079	13,279,911	31,663,718	31,145,676	1.7
<i>Deferred Outflows of Resources:</i>	66,597	201,123	25,274	123,597	91,871	324,720	(71.7)
<i>Liabilities:</i>							
Current Liabilities	594,933	432,013	580,892	566,481	1,175,825	998,494	17.8
Long-term Liabilities	1,805,331	2,108,483	6,268,180	6,647,808	8,073,511	8,756,291	(7.8)
Total Liabilities	2,400,264	2,540,496	6,849,072	7,214,289	9,249,336	9,754,785	(5.2)
<i>Deferred Inflows of Resources:</i>	131,671	118,469	78,527	68,879	210,198	187,348	12.2
<i>Net Position:</i>							
Net Investment in Capital Assets	3,643,479	2,973,374	6,860,870	6,073,948	10,504,349	9,047,322	16.1
Restricted	2,651,818	2,203,327	-	-	2,651,818	2,203,327	20.4
Unrestricted	9,027,004	10,231,222	112,884	46,392	9,139,888	10,277,614	(11.1)
Total Net Position	\$ 15,322,301	\$ 15,407,923	\$ 6,973,754	\$ 6,120,340	\$ 22,296,055	\$ 21,528,263	3.6

The unrestricted net position represents resources available to fund the programs of the City next year.

Fund Financial Statements

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

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

The City has the following kinds of funds:

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

- *Proprietary funds*—Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

Governmental Activities

Table A-2 summarizes the changes in the City’s net position for 2020 and 2019 fiscal years.

Table A-2
Changes in City's Net Position

	Governmental Activities		Business-Type Activities		Total		Percentage Change
	2020	2019	2020	2019	2020	2019	
<i>Program Revenues:</i>							
Charges for Services	\$ 93,542	\$ 118,381	\$ 2,229,970	\$ 2,251,030	\$ 2,323,512	\$ 2,369,411	(1.9)
Operating Grants and Contributions	219,139	254,861	-	-	219,139	254,861	(14.0)
Capital Contributions	-	-	1,000	1,000	1,000	1,000	0.0
<i>General Revenues:</i>							
Taxes	1,912,536	2,134,093	-	-	1,912,536	2,134,093	(10.4)
Oil and Gas Leases	775,985	1,836,996	-	-	775,985	1,836,996	(57.8)
Interest Earnings	56,482	89,300	3,891	5,896	60,373	95,196	(36.6)
Miscellaneous	11,711	89,547	-	-	11,711	89,547	(86.9)
TOTAL REVENUES	3,069,395	4,523,178	2,234,861	2,257,926	5,304,256	6,781,104	(21.8)
<i>Program Expenses:</i>							
Administration	520,069	527,743	-	-	520,069	527,743	(1.5)
Public Safety	933,640	1,040,633	-	-	933,640	1,040,633	(10.3)
Public Transportation	508,798	865,808	-	-	508,798	865,808	(41.2)
Culture and Recreation	234,453	301,600	-	-	234,453	301,600	(22.3)
Interest	103,810	53,067	-	-	103,810	53,067	95.6
Utility	-	-	2,235,694	2,384,997	2,235,694	2,384,997	(6.3)
Transfers	854,247	131,318	(854,247)	(131,318)	-	-	0.0
TOTAL EXPENSES	3,155,017	2,920,169	1,381,447	2,253,679	4,536,464	5,173,848	(12.3)
Change in Net Position	\$ (85,622)	\$ 1,603,009	\$ 853,414	\$ 4,247	\$ 767,792	\$ 1,607,256	(52.2)

Table A-3 presents the cost of each of the City’s largest functions, as well as each function’s net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by grants and charges for services of that program. The cost of all *governmental* activities this year was \$3.2 million. Taxpayers paid for 30% of these activities through property taxes. The City experienced decreases in oil lease revenues, sales taxes, hotel taxes and permits because of COVID. However, the City was able to maintain services at the same levels as previous years.

Table A-3
Net Cost of Selected City Functions

	Total Cost of			Net Cost of		
	Services		Percentage Change	Services		Percentage Change
	2020	2019		2020	2019	
Administration	\$ 520,069	\$ 527,743	(1.5)	\$ 484,496	\$ 477,178	1.5
Public Safety	933,640	1,040,633	(10.3)	658,423	721,668	(8.8)
Public Transportation	508,798	865,808	(41.2)	508,798	865,808	(41.2)
Culture and Recreation	234,453	301,600	(22.3)	232,562	297,888	(21.9)
Utility	2,235,694	2,384,997	(6.3)	4,724	132,967	(96.4)

Business-Type Activities

Charge for Services revenues of the City's utility business-type activities decreased \$22 thousand from reduced water and sewer consumption. However, costs also decreased \$149 thousand to almost break even for the year. Contributions from governmental activities towards capital projects resulted in a net change of \$853 thousand to net position.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of September 30, 2020, the City had invested \$28.1 million in a broad range of capital assets, including land, equipment, buildings, infrastructure (streets and water/sewer system) and construction in progress. The significant additions for 2020 were fees for the cooling tower project, several vehicles and continued street improvements. (See Table A-4.)

Table A-4
City's Capital Assets

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2020	2019	2020	2019	2020	2019	
	Land	\$ 120,573	\$ 120,573	\$ 243,328	\$ 243,328	\$ 363,901	
Buildings and Improvements	1,971,676	1,767,231	91,279	91,279	2,062,955	1,858,510	11.0
Vehicles and Equipment	3,381,687	3,054,274	568,165	568,165	3,949,852	3,622,439	9.0
Infrastructure	3,177,750	3,177,750	17,099,285	17,099,285	20,277,035	20,277,035	0.0
Construction in Progress	469,518	204,445	929,354	75,106	1,398,872	279,551	400.4
Totals at Historical Cost	9,121,204	8,324,273	18,931,411	18,077,163	28,052,615	26,401,436	6.3
Accumulated Depreciation	(3,877,725)	(3,595,899)	(5,732,541)	(5,398,215)	(9,610,266)	(8,994,114)	6.9
Net Capital Assets	\$5,243,479	\$4,728,374	\$13,198,870	\$12,678,948	\$18,442,349	\$17,407,322	5.9

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

Long Term Debt

As of September 30, 2020, the City had \$7.9 million in long term debt outstanding as shown in Table A-5. No new debt was issued. More detailed information about the City's debt is presented in the notes to the financial statements.

Table A-5
City's Long-Term Debt

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2020	2019	2020	2019	2020	2019	
Bonds	\$1,600,000	\$1,755,000	\$6,338,000	\$6,605,000	\$7,938,000	\$8,360,000	(5.0)
Total Long-Term Debt	\$1,600,000	\$1,755,000	\$6,338,000	\$6,605,000	\$7,938,000	\$8,360,000	(5.0)

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

Revenues from governmental fund types decreased \$1.4 million to \$3.1 million. Oil and gas revenues accounted for \$1.1 million of the decrease. Governmental expenditures increased \$308 thousand primarily for capital outlay for street improvements.

Budgetary Highlights

The City's actual expenditures in the General Fund were \$168 thousand less than final budgeted amounts. Reduction in activities from COVID led to revenues falling \$76 thousand short of the budget. Fund balance increased \$98 thousand more than projected.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The 2020-2021 budget includes an increase in property tax rates from \$0.495864 to \$0.582285. The increase in rate was necessary to offset losses in property values because of reduced mineral rights. Total general fund expenditures are expected to increase modestly to \$1.8 million. The City anticipates completing the water cooling towers in 2021 as well as street improvements. The City has also applied for a grant to improve sidewalks on main street. The City has built up significant reserves and believes it can weather prolonged revenue decreases from COVID without significant changes to City services or operations.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall at (830)-780-2227.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – Wide Financial Statements
- Fund Financial Statements:
 - Governmental Funds
 - Proprietary Fund
 - Fiduciary Fund

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



CITY OF KARNES CITY
STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

	Governmental Activities	Business-Type Activities	Total
ASSETS			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 12,195,588	\$ 438,365	\$ 12,633,953
Ad Valorem Taxes Receivable (net)	135,699	-	135,699
Other Receivables (Net of Allowances)	212,873	238,844	451,717
<i>Total Current Assets</i>	<u>12,544,160</u>	<u>677,209</u>	<u>13,221,369</u>
Capital Assets (Net)	5,243,479	13,198,870	18,442,349
TOTAL ASSETS	<u>17,787,639</u>	<u>13,876,079</u>	<u>31,663,718</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred Other Post Employment Benefit Outflows	6,277	4,114	10,391
Deferred Pension Related Outflows	60,320	21,160	81,480
TOTAL DEFERRED OUTFLOWS	<u>66,597</u>	<u>25,274</u>	<u>91,871</u>
LIABILITIES			
<i>Current Liabilities:</i>			
Accounts Payable	407,172	51,488	458,660
Accrued Wages	2,757	4,977	7,734
Accrued Interest	7,840	77,938	85,778
Accrued Compensated Absences	17,164	16,971	34,135
Customer Deposits	-	154,518	154,518
Current Maturities of Long-term Debt	160,000	275,000	435,000
<i>Total Current Liabilities</i>	<u>594,933</u>	<u>580,892</u>	<u>1,175,825</u>
<i>Long-term Liabilities:</i>			
Long-term Debt (Net of Current)	1,440,000	6,063,000	7,503,000
Total Other Post Employment Benefits Liability	42,480	25,309	67,789
Net Pension Liability	322,851	179,871	502,722
<i>Total Long-term Liabilities</i>	<u>1,805,331</u>	<u>6,268,180</u>	<u>8,073,511</u>
TOTAL LIABILITIES	<u>2,400,264</u>	<u>6,849,072</u>	<u>9,249,336</u>
DEFERRED INFLOWS OF RESOURCES			
Deferred Pension Related Inflows	125,416	74,962	200,378
Deferred Other Post Employment Benefits Inflows	6,255	3,565	9,820
TOTAL DEFERRED INFLOWS	<u>131,671</u>	<u>78,527</u>	<u>210,198</u>
NET POSITION			
Net Investment in Capital Assets	3,643,479	6,860,870	10,504,349
Restricted for:			
Parks	16,650	-	16,650
Police	9,631	-	9,631
Economic and Tourism Development	1,654,542	-	1,654,542
Debt Service	970,995	-	970,995
Unrestricted (Deficit)	9,027,004	112,884	9,139,888
TOTAL NET POSITION	<u>\$ 15,322,301</u>	<u>\$ 6,973,754</u>	<u>\$ 22,296,055</u>

See accompanying notes to basic financial statements.

CITY OF KARNES CITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020

<u>Functions and Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Primary Government:				
<i>Governmental Activities:</i>				
Finance	\$ 11,533	\$ -	\$ -	\$ -
Administration	391,511	-	-	-
Police	685,476	432	4,094	-
Court	91,471	57,191	-	-
Fire	85,956	-	213,500	-
Council	57,890	-	-	-
Streets	508,798	-	-	-
Park	234,453	346	1,545	-
Code Compliance	59,135	35,573	-	-
Animal Control	70,737	-	-	-
Interest	103,810	-	-	-
<i>Total Governmental Activities</i>	<u>2,300,770</u>	<u>93,542</u>	<u>219,139</u>	<u>-</u>
<i>Business-Type Activities:</i>				
Utility Service	2,235,694	2,229,970	-	1,000
Total Primary Government	<u>\$ 4,536,464</u>	<u>\$ 2,323,512</u>	<u>\$ 219,139</u>	<u>\$ 1,000</u>
General Revenues:				
Taxes				
Ad Valorem Taxes				
Franchise Taxes				
Sales Taxes				
Hotel Occupancy				
Oil and Gas Royalties				
Interest and Investment Earnings				
Miscellaneous				
Total General Revenues				
Transfers In/Out				
Change in Net Position				
Net Position at Beginning of Year				
Net Position at End of Year				

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net
Position

Primary Government

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (11,533)		\$ (11,533)
(391,511)		(391,511)
(680,950)		(680,950)
(34,280)		(34,280)
127,544		127,544
(57,890)		(57,890)
(508,798)		(508,798)
(232,562)		(232,562)
(23,562)		(23,562)
(70,737)		(70,737)
(103,810)		(103,810)
<u>(1,988,089)</u>		<u>(1,988,089)</u>
	\$ (4,724)	<u>(4,724)</u>
		<u>(1,992,813)</u>
973,227	-	973,227
108,672	-	108,672
685,074	-	685,074
145,563	-	145,563
775,985	-	775,985
56,482	3,891	60,373
11,711	-	11,711
<u>2,756,714</u>	<u>3,891</u>	<u>2,760,605</u>
<u>(854,247)</u>	<u>854,247</u>	<u>-</u>
(85,622)	853,414	767,792
15,407,923	6,120,340	21,528,263
<u>\$ 15,322,301</u>	<u>\$ 6,973,754</u>	<u>\$ 22,296,055</u>

CITY OF KARNES CITY
BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2020

	Major Fund General Fund	Major Fund Debt Service	Major Fund Asset Replacement
ASSETS			
Cash and Cash Equivalents	\$ 1,811,173	\$ 908,365	\$ 6,315,131
Ad Valorem Taxes Receivable	65,229	70,470	-
Other Receivables (Net of Allowances)	116,740	-	40,380
Due From Other Funds	-	-	15,009
TOTAL ASSETS	\$ 1,993,142	\$ 978,835	\$ 6,370,520
 LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
<i>Liabilities:</i>			
Accounts Payable	\$ 16,082	\$ -	\$ 390,860
Accrued Wages	2,757	-	-
Due to Other Funds	-	-	-
<i>Total Liabilities</i>	18,839	-	390,860
 <i>Deferred Inflows of Resources:</i>			
Unavailable Revenues - Property Taxes	62,837	68,227	-
 <i>Fund Balances:</i>			
Restricted for:			
Debt Service	-	910,608	-
Economic Development	-	-	-
Tourism Development	-	-	-
Police	-	-	-
Park	-	-	-
Committed for:			
Park	-	-	-
Fire	-	-	-
Capital Replacements	-	-	5,979,660
Unassigned	1,911,466	-	-
<i>Total Fund Balances</i>	1,911,466	910,608	5,979,660
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	\$ 1,993,142	\$ 978,835	\$ 6,370,520

See accompanying notes to basic financial statements.

Other Nonmajor Funds	Total Governmental Funds
\$ 3,160,919	\$ 12,195,588
-	135,699
55,752	212,872
-	15,009
\$ 3,216,671	\$ 12,559,168

\$ 230	\$ 407,172
-	2,757
15,009	15,009
15,239	424,938

-	131,064
---	---------

-	910,608
596,205	596,205
1,058,337	1,058,337
9,631	9,631
16,650	16,650
750,740	750,740
769,869	769,869
-	5,979,660
-	1,911,466
3,201,432	12,003,166

\$ 3,216,671	\$ 12,559,168
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CITY OF KARNES CITY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2020

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS \$ 12,003,166

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

Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. 5,243,479

Long-term liabilities, including bonds and capital lease payables are not due and payable in the current period and, therefore are not reported in the governmental funds. (1,600,000)

Net Pension Liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in governmental funds.

Net Pension Liability	(322,851)	
Pension Related Deferred Outflows	60,320	
Pension Related Deferred Inflows	<u>(125,416)</u>	(387,947)

Net Other Post Employment Benefit (OPEB) Liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in governmental funds.

Net Other OPEB Liability	(42,480)	
OPEB Related Deferred Outflows	6,277	
OPEB Related Deferred Inflows	<u>(6,255)</u>	(42,458)

Other liabilities are not due and payable in the current period, and therefore, not reported in the funds.

Accrued Interest	(7,840)	
Accrued Compensated Absences	<u>(17,164)</u>	(25,004)

Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recognized as revenue in the funds. 131,065

TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES \$ 15,322,301

CITY OF KARNES CITY
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020

	<u>Major Fund</u> General Fund	<u>Major Fund</u> Debt Service	<u>Major Fund</u> Asset Replacement
REVENUES			
Ad Valorem Taxes	\$ 468,416	\$ 487,175	\$ -
Intergovernmental	213,500	-	-
Franchise Fees	108,672	-	-
Sales Taxes	457,184	-	-
Hotel Occupancy	-	-	-
Fines and Forfeitures	57,191	-	-
Licenses, Permits, and Fees	35,573	-	-
Leases and Royalties	480,632	-	242,721
Interest Income	10,391	1,292	34,155
Misc Income	12,490	-	-
Grants and Donations	-	-	-
TOTAL REVENUES	<u>1,844,049</u>	<u>488,467</u>	<u>276,876</u>
EXPENDITURES			
Current:			
Finance	11,533	-	-
Administration	355,374	-	-
Police	656,370	-	-
Court	91,223	-	-
Fire	76,342	-	-
Council	57,890	-	-
Streets	237,626	-	-
Parks	115,135	-	-
Code Compliance	58,871	-	-
Animal Control	69,337	-	-
Capital Outlay	-	-	803,823
Debt Service:			
Principal	-	155,000	-
Interest	-	104,570	-
TOTAL EXPENDITURES	<u>1,729,701</u>	<u>259,570</u>	<u>803,823</u>
Excess (Deficiency) in Revenue Over (Under) Expenditures	114,348	228,897	(526,947)
OTHER FINANCING SOURCES (USES)			
Transfers In (Out)	5,500	-	(854,247)
TOTAL OTHER FINANCING SOURCES	<u>5,500</u>	<u>-</u>	<u>(854,247)</u>
Net Change in Fund Balance	119,848	228,897	(1,381,194)
BEGINNING FUND BALANCE	<u>1,791,618</u>	<u>681,711</u>	<u>7,360,854</u>
ENDING FUND BALANCE	<u>\$ 1,911,466</u>	<u>\$ 910,608</u>	<u>\$ 5,979,660</u>

See accompanying notes to basic financial statements.

Other Nonmajor Funds	Total Governmental Funds
\$ -	\$ 955,591
-	213,500
-	108,672
227,890	685,074
145,563	145,563
-	57,191
-	35,573
52,632	775,985
10,643	56,481
4,094	16,584
1,545	1,545
<u>442,367</u>	<u>3,051,759</u>
-	11,533
59,080	414,454
-	656,370
-	91,223
-	76,342
-	57,890
111,687	349,313
-	115,135
-	58,871
-	69,337
2,305	806,128
-	155,000
-	104,570
<u>173,072</u>	<u>2,966,166</u>
269,295	85,593
<u>(5,500)</u>	<u>(854,247)</u>
<u>(5,500)</u>	<u>(854,247)</u>
263,795	(768,654)
2,937,637	12,771,820
<u>\$ 3,201,432</u>	<u>\$ 12,003,166</u>



CITY OF KARNES CITY
 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, 2020

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ (768,654)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	796,931	
Depreciation Expense	<u>(281,826)</u>	515,105

The issuance of long-term debt (e.g. bonds and capital leases) provide current financial resources of 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 interest expense and compensated absences when they are due and payable, while the statement of activities recognizes interest expense and compensated absences when incurred.

Principal Payments on Long-term Debt	155,000	
Change in Compensated Absences	(894)	
Change in Accrued Interest	<u>760</u>	154,866

Governmental funds report required contributions to employee pensions as expenditures. However, in the Statement of Activities the expense for the pension is recorded based on the actuarially determined cost of the plan. This is the amount that contributions differed from the actuarially determined pension expense.

(1,928)

Governmental funds report required contributions to Other Post Employment Benefits (OPEB) as expenditures. However, in the Statement of Activities the expense for the OPEB is recorded based on the actuarially determined cost of the plan. This is the amount that contributions differed from the actuarially determined OPEB expense.

(2,647)

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

17,636

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ (85,622)

See accompanying notes to basic financial statements.

CITY OF KARNES CITY
STATEMENT OF NET POSITION – PROPRIETARY UTILITY FUND
SEPTEMBER 30, 2020

ASSETS

Current Assets:

Cash and Cash Equivalents	\$	438,365
Accounts Receivable (net)		238,844
<i>Total Current Assets</i>		677,209

Capital Assets (net)		13,198,870
TOTAL ASSETS		13,876,079

DEFERRED OUTFLOWS OF RESOURCES

Deferred Other Post Employment Benefit Related Outflows		4,114
Deferred Pension Related Outflows		21,160
TOTAL DEFERRED OUTFLOWS		25,274

LIABILITIES

Current Liabilities:

Accounts Payable		51,488
Accrued Wages		4,977
Accrued Interest		77,938
Accrued Compensated Absences		16,971
Customer Deposits		154,518
Current Portion of Long-term Debt		275,000
<i>Total Current Liabilities:</i>		580,892

Noncurrent Liabilities:

Long-term Debt (Net of Current Portion)		6,063,000
Total Other Post Employment Benefit Liability		25,309
Net Pension Liability		179,871
<i>Total Noncurrent Liabilities:</i>		6,268,180
TOTAL LIABILITIES		6,849,072

DEFERRED INFLOWS OF RESOURCES

Deferred Pension Related Inflows		74,962
Deferred Other Post Employment Benefit Inflows		3,565
TOTAL DEFERRED INFLOWS		78,527

NET POSITION:

Net Investment in Capital Assets		6,860,870
Unrestricted		112,884
TOTAL NET POSITION	\$	6,973,754

See accompanying notes to basic financial statements.

CITY OF KARNES CITY
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY UTILITY FUND
FOR THE YEAR SEPTEMBER 30, 2020

OPERATING REVENUES	
Water Charges	\$ 1,062,758
Sewer Charges	677,793
Sanitation Charges	445,270
Other Charges	44,149
TOTAL OPERATING REVENUES	2,229,970
 OPERATING EXPENSES	
Personnel	711,725
Water Repairs and Maintenance	351,969
Sewer Repairs and Maintenance	225,553
Sanitation	405,726
Depreciation	334,326
Administration	19,068
TOTAL OPERATING EXPENSES	2,048,367
OPERATING INCOME (LOSS)	181,603
 NONOPERATING REVENUES (EXPENSES)	
Grant Income	1,000
Interest Income	3,891
Interest Expense	(187,327)
TOTAL NONOPERATING REVENUES (EXPENSES)	(182,436)
Transfers In	854,247
CHANGE IN NET POSITION	853,414
NET POSITION AT BEGINNING OF YEAR	6,120,340
NET POSITION AT END OF YEAR	\$ 6,973,754

See accompanying notes to basic financial statements.

CITY OF KARNES CITY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Cash Flows From Operating Activities:	
Cash Received From Customers	\$ 2,271,372
Cash Paid to Employees for Services	(715,770)
Cash Paid to Suppliers for Goods and Services	(993,509)
Net Cash Provided (Used) by Operating Activities	562,093
 Cash Flows From Noncapital Financing Activities:	
Transfers From (to) Primary Government	854,247
Net Cash Provided (Used) by Noncapital Financing Activities	854,247
 Cash Flows From Capital-Related Financing Activities:	
Capital Grants Received	1,000
Principal Payments on Bonds	(267,000)
Interest Paid	(189,705)
Purchase of Capital Assets	(854,248)
Net Cash Provided (Used) by Capital-Related Financing Activities	(1,309,953)
 Cash Flows From Investing Activities:	
Investment Interest Received	3,891
Net Cash Provided (Used) by Investing Activities	3,891
 Net Increase (Decrease) in Cash and Cash Equivalents	 110,278
 Cash and Cash Equivalents at Beginning of Year	 328,087
 Cash and Cash Equivalents at End of Year	 \$ 438,365

See accompanying notes to basic financial statements.

CITY OF KARNES CITY
STATEMENT OF CASH FLOWS - PROPRIETARY FUND (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2020

Reconciliation of Operating Income to Net Cash

Provided (Used) by Operating Activities:

Operating Income (Loss)	\$	181,603
Adjustments to Reconcile Operating Income to Net Cash		
Provided (Used) by Operating Activities:		
Depreciation		334,326
(Increase) Decrease in Operating Assets and Deferred Outflows:		
Accounts Receivable (net)		34,032
Deferred Pension Outflows		100,917
Deferred Other Post Employment Benefit Outflows		(2,594)
Increase (Decrease) in Liabilities and Deferred Inflows:		
Accounts Payable		8,807
Accrued Wages		(15,080)
Accrued Compensated Absences		7,692
Customer Deposits		7,370
Net Pension Liability		(110,864)
Net Other Post Employment Benefits Liability		6,236
Deferred Pension Inflows		11,356
Deferred Other Post Employment Benefit Inflows		(1,708)
Total Adjustments to Reconcile Operating Activities		380,490
Net Cash Provided (Used) by		
Operating Activities	\$	562,093

See accompanying notes to basic financial statements.

CITY OF KARNES CITY
 STATEMENT OF FIDUCIARY NET POSITION
 FOR THE YEAR ENDED SEPTEMBER 30, 2020

	Property In Trust
ASSETS	
Cash and Cash Equivalents	\$ 11,151
Other Receivable	1,115
TOTAL ASSETS	12,266
 LIABILITIES	
Due to Others	12,266
TOTAL LIABILITIES	\$ 12,266

See accompanying notes to basic financial statements.

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS
SEPTEMBER 30, 2020

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Karnes City, Texas (“City”), the county seat of Karnes County since 1894, is at the intersection of U.S. Highway 181 and State highways 80 and 123, in the central part of the county some fifty miles southeast of San Antonio. The City incorporated in 1914. The City is governed by an elected mayor and council and operates as a Type A general law municipality. The City provides the following services: fire, police, animal control, street maintenance, library, and parks.

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

1. REPORTING ENTITY

Component Units

As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government’s operations; thus, data from these units, if any existed, would be combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize they are legally separate from the government. The City has one component unit that is blended in these financial statements:

Karnes City Economic Development Corporation

The City exerts significant control over the Economic Development Corporation (EDC), a legally separate entity. The EDC uses the taxing authority of the City and exists only to benefit the City and its community. City Council appoints all members of the Board, approves the budget, and conducts all accounting and administrative functions. This qualifies the EDC as a component unit, which is recorded as a separate fund of the City, using the blended method described in the previous paragraph. The EDC collects a ¼ cent sales tax to promote economic growth in the City. The EDC does not issue separate financial statements.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services.

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

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

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

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

Separate **fund financial statements** are provided for governmental, proprietary and fiduciary funds. The General Fund, Debt Services Fund, Asset Replacement, Street Maintenance and Utility Fund meet the criteria as *major funds*.

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

Revenues are classified as *program revenues* and *general revenues*. Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes, grants not restricted to specific programs, investment earnings, and other miscellaneous revenues.

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

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

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

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

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

The government reports the following major governmental funds:

General Fund is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include taxes and intergovernmental revenues. Primary expenditures are for general administration, streets, fire, police, and parks.

Debt Service Fund is used to account for property taxes levied specifically for the repayment of the general debts of the City.

Asset Replacement Fund is used to account for funds set aside for the future replacement of capital assets in the City. Council has assigned oil and gas lease revenues to support this fund.

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Fund is the Utility Fund (used to account for the provision of water, sewer and trash services to residents).

The **Proprietary Fund** is accounted for using the accrual basis of accounting as follows:

1. Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred.
2. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Fiduciary fund level financial statements are used to account resources held for others. The City's Property in Trust Fund holds oil royalties from struck-off properties held for the different taxing authorities.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

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

5. INVESTMENTS

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

The City reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments are stated at fair value (plus accrued interest) except for money market investments and participating interest-earning investment contracts (U.S. Treasuries) that have a remaining maturity at time of purchase of one year or less. Those investments are stated at amortized cost.

The City's investments in pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Therefore, the investments are reported a \$1 per share, which approximates fair value.

6. ACCOUNTS RECEIVABLE/REVENUE RECOGNITION

Property taxes are levied based on taxable value at January 1 prior to September 30 and become due October 1, 2019 and past due after January 31, 2020. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting.

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

CITY OF KARNES CITY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2020

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

6. ACCOUNTS RECEIVABLE/REVENUE RECOGNITION (CONT.)

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

The City also has several oil and gas leases. Revenue from upfront lease payments is recognized over the life of the lease term. Royalty payments are recorded as revenue when both measurable and available.

7. PREPAID ITEMS

Payments made for goods and services in advance are recorded as prepaid items on the balance sheet.

8. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

9. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more and a useful life in excess of two years. Infrastructure assets include City-owned streets, water system, and sewer system. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Asset	Estimated Life
Buildings and Improvements	20-50 years
Streets and Infrastructure	50 years
Vehicles and Equipment	5-10 years

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

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

10. COMPENSATED ABSENCES

Full-time employees earn sick and vacation leave at varying rates depending on length of service. Unused sick leave is not paid on termination and is not accrued in these financial statements. Vacation leave is paid on termination. Vacation leave is accrued as incurred in the government-wide and proprietary statements. However, it is recognized on the governmental fund statements when it is due and payable.

11. UNAVAILABLE/UNEARNED REVENUE

Property tax revenues are recognized when they become both measurable and available in the fund statements. Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenue not expected to be available for the current period are reflected as unavailable revenue (a deferred inflow of resources). Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied.

12. DEFERRED INFLOWS AND OUTFLOWS OF RESOURCES

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period, while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

13. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt (including capital leases) and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts are deferred and amortized over the life of the discount. Bond issuance costs are expensed as incurred. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the 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.

14. PENSIONS

The net pension liability, deferred inflows, and outflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS), and additions to and deductions from TMRS's fiduciary net position have been determined on the same basis as they are reported by TMRS. For this purpose, benefit payments (including refund of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

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

15. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

16. FUND BALANCES

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

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

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

Committed - Represents amounts that can only be used for a specific purpose by a resolution of City Council. Committed amounts cannot be used for any other purpose unless the City Council removes those constraints through the same formal action.

Assigned - Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council has also given the authority to create assignments to the City Manager.

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

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

The City has established a minimum fund balance policy in the General fund of 25% of subsequent year expenditures. Should fund balance drop below this number, timelines of one to five years are prescribed to return the fund balance to the minimum based on the fund balance deficiency.

17. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for sewer services. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

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

18. **USE OF ESTIMATES**

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

NOTE B -- DEPOSITS AND INVESTMENTS

1. Deposits

The City maintains deposits at two institutions that provide a combination of pledged collateral and FDIC insurance to completely collateralize the City's deposits.

2. Investments

As of September 30, 2020, the City's investments consisted of \$6,100,532 in Texpool, a AAAM rated local government investment pool. The investment is reported in cash and equivalents at \$1 per share, which approximates fair value.

The City was not exposed to custodial credit risk.

NOTE C -- PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Karnes County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2019, upon which the fiscal 2020 levy was based, was \$196 million (i.e., market value less exemptions).

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2020, was \$0.495864 per \$100 of assessed value, which means that the City has a tax margin of \$2.004136 for each \$100 value and could increase its annual tax levy by approximately \$3.9 million, based upon the present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the effective tax rate calculated in accordance with the Texas Property Tax Code without holding two public hearings. The Property Tax Code subjects an increase in the proposed tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's maintenance and operations tax rate.

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

NOTE D -- OTHER RECEIVABLES

Other receivables for the City as of September 30, 2020 are as follows:

	General Fund	Asset Replacement	Nomajor Governmental	Utility
Sales and Mixed Beverage Tax	\$ 59,932	\$ -	\$ 30,018	\$ -
Hotel Tax	-	-	21,531	-
Franchise Tax	11,808	-	-	-
County Fire Funding	45,000	-	-	-
Oil and Gas Royalties	-	40,380	4,203	-
Customer Charges	-	-	-	272,215
Allowance for Doubtful Accounts	-	-	-	(33,371)
Total Other Receivables	<u>\$ 116,740</u>	<u>\$ 40,380</u>	<u>\$ 55,752</u>	<u>\$ 238,844</u>

NOTE E -- CAPITAL ASSETS

Capital asset activity in the governmental funds for the year ended September 30, 2020, was as follows:

	Balance 10/1/2019	Additions	Disposals/ Transfers	Balance 9/30/2020
<i>Governmental Activities</i>				
Land	\$ 120,573	\$ -	\$ -	\$ 120,573
Buildings and Improvements	1,767,231	-	204,445	1,971,676
Vehicles and Equipment	3,054,274	327,413	-	3,381,687
Infrastructure	3,177,750	-	-	3,177,750
Construction in Progress	204,445	469,518	(204,445)	469,518
	<u>8,324,273</u>	<u>796,931</u>	<u>-</u>	<u>9,121,204</u>
Less Accumulated Depreciation				
Buildings and Improvements	(453,083)	(52,462)	-	(505,545)
Vehicles and Equipment	(2,650,153)	(148,997)	-	(2,799,150)
Infrastructure	(492,663)	(80,367)	-	(573,030)
	<u>(3,595,899)</u>	<u>(281,826)</u>	<u>-</u>	<u>(3,877,725)</u>
Governmental Activities, Net	<u>\$ 4,728,374</u>	<u>\$ 515,105</u>	<u>\$ -</u>	<u>\$ 5,243,479</u>

and and Construction in Progress are not depreciated.

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CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

NOTE E – CAPITAL ASSETS

Depreciation expense was charged to the governmental functions as follows:

Administration		\$	8,652
Police			27,363
Fire			9,614
Streets			150,359
Parks			<u>85,838</u>
Total Depreciation Expense - Governmental Activities			<u>\$ 281,826</u>

Capital asset activity in the business-type fund for the year ended September 30, 2020, was as follows:

	Balance 10/1/2019	Additions	Disposals/ Transfers	Balance 9/30/2020
<i>Business-Type Activities</i>				
Land	\$ 243,328	\$ -	\$ -	\$ 243,328
Buildings and Improvements	91,279	-	-	91,279
Vehicles and Equipment	568,165	-	-	568,165
Infrastructure	17,099,285	-	-	17,099,285
Construction in Progress	75,106	854,248	-	929,354
	<u>18,077,163</u>	<u>854,248</u>	<u>-</u>	<u>18,931,411</u>
 Less Accumulated Depreciation				
Buildings and Improvements	(28,259)	(1,466)	-	(29,725)
Vehicles and Equipment	(431,414)	(36,827)	-	(468,241)
Infrastructure	(4,938,542)	(296,033)	-	(5,234,575)
	<u>(5,398,215)</u>	<u>(334,326)</u>	<u>-</u>	<u>(5,732,541)</u>
 Business-Type Activities, Net	 <u>\$ 12,678,948</u>	 <u>\$ 519,922</u>	 <u>\$ -</u>	 <u>\$ 13,198,870</u>

Land and construction in progress are not depreciated.

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

NOTE F -- LONG-TERM DEBT

Changes in long-term debt were as follows:

	Balance 10/1/2019	Additions	Reductions	Balance 9/30/2020
<i>Governmental Activities:</i>				
Bonds and Notes	\$ 1,755,000	\$ -	\$(155,000)	\$ 1,600,000
Net Pension Liability	474,534	75,891	(227,574)	322,851
Total OPEB Liability	33,949	8,531	-	42,480
<i>Total Governmental</i>	<u>2,263,483</u>	<u>84,422</u>	<u>(382,574)</u>	<u>1,965,331</u>
<i>Business-Type Activities:</i>				
Bonds and Notes	6,605,000	-	(267,000)	6,338,000
Net Pension Liability	161,570	183,096	(164,795)	179,871
Total OPEB Liability	22,173	3,136	-	25,309
<i>Total Business-Type</i>	<u>6,788,743</u>	<u>186,232</u>	<u>(431,795)</u>	<u>6,543,180</u>
<i>Total Government</i>	<u>\$9,052,226</u>	<u>\$ 270,654</u>	<u>\$(814,369)</u>	<u>\$ 8,508,511</u>

NOTE G -- BONDS AND CERTIFICATES PAYABLE

Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2007

In 2007, the City issued \$3,600,000 in certificates to finance utility system improvements. The City has pledged utility fund revenues to service the debt. The certificates mature serially through 2037 and bear interest at rates ranging from 3.15 to 3.75%. The certificates were privately placed with no subjective acceleration clause or events of default with finance related consequences.

Combination Tax and Subordinate Lien Revenue Certificates of Obligation, Series 2008

In May 2008, the City issued \$3,361,000 in certificates to finance utility system improvements. The City has pledged utility fund revenues to service the debt. The certificates mature serially through 2047 and bear interest at 4.375%. The certificates were privately placed with no subjective acceleration clause or events of default with finance related consequences.

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014

In May 2008, the City issued \$2,290,000 in certificates to finance street and drainage improvements. The certificates are serviced by interest and sinking property taxes. The certificates mature serially through 2029 and bear interest at 2.94%. The certificates were privately placed with no subjective acceleration clause or events of default with finance related consequences.

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016

In May 2008, the City issued \$1,000,000 in certificates to finance the construction of a water tower. The certificates are serviced by a pledge of utility fund revenues. The certificates mature serially through 2027 and bear interest at 2.02%. The certificates were privately placed with no subjective acceleration clause or events of default with finance related consequences.

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

NOTE G -- BONDS AND CERTIFICATES PAYABLE (Cont.)

Changes in bonds and certificates were as follows:

	Balance 10/1/2019	Additions	Reductions	Balance 9/30/2020	Due Within One Year
<i>Governmental Activities:</i>					
Series, 2014	\$ 1,755,000	\$ -	\$ (155,000)	\$ 1,600,000	\$ 160,000
<i>Total Governmental</i>	<u>1,755,000</u>	<u>-</u>	<u>(155,000)</u>	<u>1,600,000</u>	<u>160,000</u>
<i>Business-Type Activities:</i>					
Series, 2007	2,845,000	-	(120,000)	2,725,000	125,000
Series, 2008	2,945,000	-	(52,000)	2,893,000	55,000
Series, 2016	815,000	-	(95,000)	720,000	95,000
<i>Total Business-Type</i>	<u>6,605,000</u>	<u>-</u>	<u>(267,000)</u>	<u>6,338,000</u>	<u>275,000</u>
<i>Total Government</i>	<u>\$ 8,360,000</u>	<u>\$ -</u>	<u>\$ (422,000)</u>	<u>\$ 7,938,000</u>	<u>\$ 435,000</u>

Requirements to service the certificates are as follows:

Year Ending September 30,	Principal	Interest	Total
<i>Governmental Activities</i>			
2021	\$ 160,000	\$ 44,688	\$ 204,688
2022	165,000	39,911	204,911
2023	165,000	35,060	200,060
2024	170,000	30,135	200,135
2025	175,000	25,064	200,064
2026-2029	765,000	45,938	810,938
Total	<u>\$ 1,600,000</u>	<u>\$ 220,796</u>	<u>\$ 1,820,796</u>
<i>Business-type Activities</i>			
2021	\$ 275,000	\$ 238,923	\$ 513,923
2022	287,000	230,378	517,378
2023	289,000	221,466	510,466
2024	302,000	212,393	514,393
2025	310,000	202,904	512,904
2026-2030	1,360,000	869,111	2,229,111
2031-2035	1,391,000	623,771	2,014,771
2036-2040	921,000	351,058	1,272,058
2041-2045	702,000	189,000	891,000
2046-2048	501,000	33,622	534,622
Total	<u>\$ 6,338,000</u>	<u>\$ 3,172,626</u>	<u>\$ 9,510,626</u>

CITY OF KARNES CITY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2020

NOTE H -- PENSION PLAN

Plan Description

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the state of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

	2019
Inactive Employees or Beneficiaries Currently Receiving Benefits	11
Inactive Employees Entitled to but Not Yet Receiving Benefits	15
Active employees	25
	51

Contributions

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

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

NOTE H -- PENSION PLAN (Continued)

Contributions (Continued)

For the year ending September 30, 2020, employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. The City matches at 1.5 to 1. The contribution rates for the City were 9.0% and 8.74% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$109,747, and were equal to the required contributions.

Actuarial Assumptions

The City's net pension liability (NPL) was measured as of December 31, 2019 and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date. The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Assumptions:

Inflation	2.50% per year
Overall Payroll Growth	2.75% per year
Investment Rate of Return*	6.75%

* Presented net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2109 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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.

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

NOTE H -- PENSION PLAN (Continued)

Actuarial Assumptions (Continued)

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	7.75%
Private Equity	10.00%	7.75%
	<u>100.00%</u>	

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

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

NOTE H -- PENSION PLAN (Continued)

Changes in the Net Pension Liability

The below schedule presents the changes in the Net Pension Liability as of December 31, 2019:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2018	\$ 3,027,109	\$ 2,261,840	\$ 765,269
Changes for the year:			
Service Cost	135,168	-	135,168
Interest	204,576	-	204,576
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	(81,623)	-	(81,623)
Changes of Assumptions	(424)	-	(424)
Contributions - Employer	-	110,011	(110,011)
Contributions - Employee	-	62,578	(62,578)
Net Investment Income	-	349,688	(349,688)
Benefit Payments, Including Refunds of Employee Contributions	(127,875)	(127,875)	-
Administrative Expense	-	(1,976)	1,976
Other Changes	-	(57)	57
Net Changes	<u>129,822</u>	<u>392,369</u>	<u>(262,547)</u>
Balance at December 31, 2019	<u>\$ 3,156,931</u>	<u>\$ 2,654,209</u>	<u>\$ 502,722</u>

Sensitivity of the net pension liability (asset) to changes in the discount rate.

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

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability (Asset)	\$ 964,545	\$ 502,722	\$ 122,781

Pension Plan Fiduciary Net Position

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

CITY OF KARNES CITY
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020

NOTE H -- PENSION PLAN (Continued)

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

For the year ended September 30, 2020, the City recognized pension expense of \$113,087. Also as of September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ -	\$ 119,508
Changes in Actuarial Assumptions	-	569
Differences Between Projected and Actual Investment Earnings	-	80,301
Contributions Subsequent to the Measurement Date	81,480	-
	\$ 81,480	\$ 200,378

Deferred outflows of resources in the amount of \$81,480 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Plan Year ended December 31,	
2020	\$ (48,307)
2021	(54,319)
2022	(28,189)
2023	(65,656)
2024	(3,907)
Thereafter	-
	\$ (200,378)

NOTE I -- OTHER POST-EMPLOYMENT BENEFIT

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

CITY OF KARNES CITY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2020

NOTE I -- OTHER POST-EMPLOYMENT BENEFIT (Continued)

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post-employment benefit," or OPEB. Membership in the plan at December 31, 2019, the valuation and measurement date, consisted of:

	2019
Inactive Employees or Beneficiaries Currently Receiving Benefits	7
Inactive Employees Entitled to but Not Yet Receiving Benefits	3
Active employees	25
	35

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

	Total SDBF Contribution Rate	Retiree SDBF Contribution Rate
For the Plan Year Ended December 31,		
2020	0.16%	0.02%
2019	0.21%	0.08%

These contribution rates are based on actuarial assumptions developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. For calculating the OPEB liability and the OPEB contribution rates, the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. Based on the size of the city, rates are multiplied by an additional factor of 100.0%.

CITY OF KARNES CITY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2020

NOTE I -- OTHER POSTEMPLOYMENT BENEFIT (Continued)

These assumptions are summarized below:

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.50%
Salary Increases	3.50% to 11.50% Including Inflation
Discount Rate	2.75% (Based on Fidelity's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid thru the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The City's Total OPEB Liability (TOL), based on the above actuarial factors, as of December 31, 2019, the measurement and actuarial valuation date, was calculated as follows:

	Total OPEB Liability
Balance at December 31, 2018	\$ 53,022
Changes for the year:	
Service Cost	3,129
Interest	2,007
Change of Benefit Terms	-
Difference Between Expected and Actual Experience	(1,509)
Changes in Assumptions or Other Inputs	12,141
Benefit Payments	(1,001)
Net Changes	14,767
Balance at December 31, 2019	\$ 67,789

There is no separate trust maintained to fund this TOL. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75 to pay related benefits.

CITY OF KARNES CITY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2020

NOTE I -- OTHER POSTEMPLOYMENT BENEFIT (Continued)

The following presents the TOL of the City, calculated using the discount rate of 2.75% as well as what the City's TOL would be if it were calculated using a discount rate that is 1-percentage point lower and 1-percentage point higher than the current rate:

	Discount Rate 1.75%	Discount Rate 2.75%	Discount Rate 3.75%
Total OPEB Liability	\$ 83,662	\$ 67,789	\$ 55,606

For the year ended September 30, 2020, the City recognized OPEB expense of \$5,117. Also as of September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumptions	\$ 10,205	\$ -
Changes in Experience	-	9,820
Contributions Subsequent to the Measurement Date	186	-
	\$ 10,391	\$ 9,820

Deferred outflows of resources in the amount of \$186 is related to OPEB benefits resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the total OPEB liability for the plan year ended December 31, 2020. Other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

For the Plan Year ended December 31,	
2020	\$ (19)
2021	(19)
2022	(19)
2023	(19)
2024	(255)
Thereafter	716
	\$ 385

CITY OF KARNES CITY
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2020

NOTE J -- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts for losses up to coverage limits.

NOTE K -- INTERFUND TRANSFERS

The following transfers occurred during the year ending September 30, 2020:

<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Nonmajor Governmental	General Fund	\$ 5,500	In support of fire department
Asset Replacement	Utility Fund	854,247	In support of capital projects
		<u>\$ 859,747</u>	

NOTE L -- COMMITMENTS AND CONTINGENCIES

Commitments

As of September 30, 2020, the City had open contracts as follows:

<u>Commitment</u>	<u>Estimated Project Cost to City</u>	<u>Expended through 9/30/20</u>	<u>Estimated Future Commitment</u>
Street Improvements	\$ 399,514	\$ 328,543	\$ 70,971
Utility Cooling Towers	893,120	797,075	96,045
	<u>\$ 1,292,634</u>	<u>\$ 1,125,618</u>	<u>\$ 167,016</u>

Litigation

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

Contingencies

The City is party to many oil and gas leases on City property owned outright and in trust with other taxing entities. Disputes over ownership of these mineral rights are common and if litigated may result in additional revenue to the City or the loss of revenue. No litigation is pending as of the date of this report, but the City believes any additional oil royalties the City may receive as a result of litigation would outweigh any loss of royalties. No amounts have been accrued as receivable or payable in these financial statements.

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Financial Advisory Services
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