

OFFICIAL STATEMENT  
Dated May 11, 2021

NEW ISSUE – Book-Entry-Only

RATING:  
S&P: “AA/A+” (Enhanced/Unenhanced)  
BAM Insured  
(SEE: “OTHER INFORMATION-Rating”  
and “BOND INSURANCE”)

*In the opinion of Bond Counsel (defined below), under existing law, assuming continuing compliance by the City (defined herein) after the date of initial delivery of the Bonds described below (the “Bonds”) with certain covenants contained in the Ordinance (defined below) authorizing the Bonds and subject to the matters set forth under “TAX MATTERS” herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds (the “Code”). In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. (see “TAX MATTERS” herein).*

THE BONDS WILL BE DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS  
(see “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions”)



**\$3,595,000**  
**CITY OF KINGSVILLE, TEXAS**  
**(A Home Rule Municipal Corporation located in Kleberg County)**  
**LIMITED TAX REFUNDING BONDS, SERIES 2021**

**Dated Date: May 1, 2021**  
**(Interest Accrues from the Delivery Date)**

**Due: August 1, as shown on the next page**

**PAYMENT TERMS . . .** Interest on the \$3,595,000 City of Kingsville, Texas Limited Tax Refunding Bonds, Series 2021 (the “Bonds”) will be payable February 1 and August 1 of each year commencing August 1, 2021 until maturity or prior redemption, will accrue from the Delivery Date (defined below), and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see “THE BONDS - Book-Entry-Only System” herein). The initial Paying Agent/Registrar is U.S. Bank N.A. Houston, Texas (see “THE BONDS - Paying Agent/Registrar”).

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued pursuant to the Constitution and laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended (“Chapter 1207”), the City’s Home-Rule Charter, and the bond ordinance adopted by the City Commission of the City of Kingsville, Texas (the “City Commission”) on February 22, 2021 (the “Bond Ordinance”). In the Bond Ordinance, as permitted by Chapter 1207, the City Commission delegated the authority to certain authorized City officials to execute a “Pricing Certificate” evidencing final terms related to the issuance and sale of the Bonds. The Pricing Certificate was executed by an authorized City official on May 11, 2021. The Bond Ordinance and the Pricing Certificate are referred to as the “Ordinance” (see “THE BONDS - Authority for Issuance” herein).

**PURPOSE . . .** Proceeds from the sale of the Bonds shall be used for: (i) refunding certain obligations of the City identified in Schedule I hereto for a debt service savings (the “Refunded Obligations”), and (ii) paying the costs of issuance of the Bonds (see “PLAN OF FINANCING”).

The scheduled payment of principal and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See “OTHER INFORMATION - Rating” and “BOND INSURANCE.”



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**CUSIP PREFIX: 496782**  
**MATURITY SCHEDULE, INTEREST RATES,**  
**INITIAL YIELDS, 9 DIGIT CUSIP, AND OPTIONAL**  
**REDEMPTION**  
**See Schedule on Page 2**

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**DELIVERY . . .** 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 legal opinion of the Attorney General of the State of Texas and the legal opinion of Winstead PC, San Antonio, Texas, Bond Counsel (see Appendix C, “Form of Bond Counsel’s Opinion”). Certain legal matters will be passed upon for the Underwriter by Locke Lord LLP, Austin, Texas. It is expected that the Bonds will be available for delivery through DTC on or about June 10, 2021 (the “Delivery Date”).

**SAMCO CAPITAL MARKETS**

**\$3,595,000**  
**CITY OF KINGSVILLE, TEXAS**  
**LIMITED TAX REFUNDING BONDS, SERIES 2021**  
**MATURITY SCHEDULE, INTEREST RATES, INITIAL YIELDS, AND CUSIP NUMBERS**

**CUSIP<sup>(1)</sup> Prefix: 496782**

Maturity (August 1)	Principal Amount	Interest Rate	Initial Yield <sup>(2)</sup>	CUSIP <sup>(1)</sup> Suffix
2022	\$ 255,000	3.000%	0.260%	QH9
2023	265,000	3.000%	0.290%	QJ5
2024	265,000	3.000%	0.460%	QK2
2025	280,000	3.000%	0.600%	QL0
2026	285,000	3.000%	0.750%	QM8
2027	295,000	3.000%	0.900%	QN6
2028	300,000	3.000%	1.050%	QP1
2029	310,000	3.000%	1.230%	QQ9
2030	325,000	3.000%	1.320%	QR7
2031	330,000	2.000%	1.350% <sup>(3)</sup>	QS5
2032	335,000	2.000%	1.410% <sup>(3)</sup>	QT3
2033	350,000	2.000%	1.440% <sup>(3)</sup>	QU0

**(Interest to accrue from the Delivery Date)**

**REDEMPTION** . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See “THE BONDS – Optional Redemption.”

<sup>(1)</sup> 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 and are included solely for convenience of the registered owners of the Bonds. 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 Underwriter, the City nor the Financial Advisor is responsible for the selection or correctness of the CUSIP Numbers set forth herein.

<sup>(2)</sup> Initial yield represents the initial offering yield to the public which has been established by the Underwriter for the offers to the public by the Underwriter as their sole responsibility which may be subsequently changed.

<sup>(3)</sup> Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 1, 2030, the first optional call date for such Bonds, at a redemption price of par plus accrued interest to redemption date.

*[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]*

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

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

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

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

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

THE 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 THESE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

*Neither the City, the Underwriter, nor the Financial Advisor 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 any municipal bond insurer with respect to its policy of municipal bond insurance, as such information was provided by DTC and the municipal 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 nor any other statement made in connection with the offer or sale of the Bonds is to be construed or constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING ALL SCHEDULES AND APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.*

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

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

## OFFICIAL STATEMENT SUMMARY

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

- THE CITY** ..... The City of Kingsville (the “City”) is located in Kleberg County on U.S. Highway 77/future I-69, 46 miles southwest of Corpus Christi. The City was founded in 1904 and incorporated in 1911. The City’s Home Rule Charter (the “City Charter”) was adopted in April, 1916, and the most recent amendments to the City Charter were adopted on November 3, 2020. The City operates under a commissioner/manager form of government pursuant to the Texas Constitution and laws of the State of Texas. The City Commission consists of the Mayor and four City Commissioners elected at-large every two years (see APPENDIX A – “General Information Regarding the City”).
- THE BONDS** ..... The Bonds are issued as \$3,595,000 Limited Tax Refunding Bonds, Series 2021. (see “THE BONDS - Description of the Bonds”).
- PAYMENT OF INTEREST** ..... Interest on the Bonds accrues from Delivery Date, and is payable on August 1, 2021, and each August 1 and February 1 thereafter until maturity or prior redemption (see “THE BONDS - Description of the Bonds” and “THE BONDS - Optional Redemption”).
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended (“Chapter 1207”), the City’s Home-Rule Charter, and the Bond Ordinance adopted by the City Commission on February 22, 2021 (the “Bond Ordinance”). In the Bond Ordinance, as permitted by Chapter 1207, the City Commission delegated the authority to certain authorized City officials to execute a “Pricing Certificate” evidencing final terms related to the issuance and sale of the Bonds. The pricing certificate was executed by an authorized City official on May 11, 2021. The Bond Ordinance and the Pricing Certificate are referred to as the “Ordinance” (see “THE BONDS - Authority for Issuance” herein).
- SECURITY FOR THE BONDS**..... The Bonds constitute direct obligations of the City and are payable as to principal and interest from an annual ad valorem tax levied against all taxable property therein, within the limits prescribed by law (see “THE BONDS - Security and Source of Payment”).
- QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The City has designated the Bonds as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions”).
- REDEMPTION** ..... The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – Optional Redemption”).
- TAX EXEMPTION**..... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS” herein.
- USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds shall be used for: (i) refunding certain obligations of the City identified in Schedule I hereto for a debt service savings (the “Refunded Obligations”), and (ii) paying the costs of issuance of the Bonds (see “PLAN OF FINANCING”).
- RATING AND BOND INSURANCE**..... S&P Global Ratings, Inc. (“S&P”) assigned a rating of “AA” (stable outlook) to the Bonds based on the financial guaranty insurance policy of BAM to be issued simultaneously with the delivery of the Bonds. The presently outstanding debt of the City is rated “A+” (Stable Outlook) by S&P (see “OTHER INFORMATION – Rating”).

**BOOK-ENTRY-ONLY**

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

**PAYMENT RECORD** ..... The City has not defaulted in payment of its tax supported debt since 1941 when all bonds and warrants were refunded at par with a reduction in interest rate.

**FUTURE DEBT ISSUANCE** ..... The City anticipates selling its \$3,358,000 Tax and Revenue Certificates of Obligation, Series 2021 to the Texas Water Development Board at a 0% interest rate. These debt obligations will be issued as taxable debt obligations and will not affect the qualified tax-exempt obligations limitations for the 2021 calendar year.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Per Capita Funded Debt Service			Ratio	
			Taxable Assessed Valuation	Outstanding at End of Year	Per Capita Tax Debt	Debt to Taxable Assessed Valuation	% of Total Tax Collections
2017	26,225	\$ 789,457,160	\$ 30,103	\$ 16,522,836	\$ 630	2.09%	98.43%
2018	26,177	833,161,066	31,828	15,220,168	581	1.83%	97.89%
2019	25,782	854,684,495	33,150	13,842,567	537	1.62%	96.36%
2020	28,948	882,204,022	30,475	12,459,590	430	1.41%	96.10%
2021	29,237	913,258,576	31,236	11,609,007 <sup>(3)</sup>	397	1.27%	89.27% <sup>(4)</sup>

<sup>(1)</sup> Source: The City.

<sup>(2)</sup> As reported by the Kleberg County Appraisal District on the City’s Certified Roll; subject to change during the ensuing year.

<sup>(3)</sup> Does not include self-supporting debt. Includes the Bonds; Excludes the Refunded Obligations.

<sup>(4)</sup> Collections through February 2021.

**CHANGE IN NET ASSETS CONSOLIDATED STATEMENT SUMMARY**

	Fiscal Years Ended September 30,				
	2020	2019	2018	2017	2016
Beginning Net Assets	\$ 17,782,446	\$ 17,779,023	\$ 16,674,860	\$ 16,118,948	\$ 15,541,171
Total Revenues	20,122,782	19,206,105	18,670,889	18,544,696	20,648,980
Total Expenditures	(20,234,803)	(21,894,018)	(20,180,533)	(21,293,155)	(21,908,897)
Increase (Decrease) in Net Position	(112,021)	(2,687,913)	(1,509,644)	(2,748,459)	(1,259,917)
Prior Period Adjustment	-	-	327,533	-	-
Transfers	2,823,386	2,697,336	2,286,274	3,304,371	1,837,694
Ending Net Assets	\$ 20,493,811	\$ 17,788,446	\$ 17,779,023	\$ 16,674,860	\$ 16,118,948

Source: City of Kingsville, Texas Annual Comprehensive Financial Report.

**GENERAL FUND CONSOLIDATED STATEMENT SUMMARY**

Fiscal Years Ended September 30,

	2020	2019	2018	2017	2016
Beginning Balance	\$ 10,778,333	\$ 9,985,027	\$ 9,119,697 <sup>(1)</sup>	\$ 10,444,894 <sup>(2)</sup>	\$ 10,519,157
Total Revenue	21,410,319	20,002,747	19,410,823	18,708,480	17,862,622
Total Expenditures	(21,122,627)	(20,986,412)	(20,623,201)	(21,683,354)	(20,725,567)
Net Funds Available	\$ 287,692	\$ (983,665)	\$ (1,212,378)	\$ (2,974,874)	\$ (2,862,945)
Prior Adjustments	-	793,306	865,333	(1,325,198)	(74,264)
Other Sources	2,085,865	1,776,971	2,077,711	1,649,676	2,788,681
Ending Balance	<u>\$ 13,151,890</u>	<u>\$ 10,778,333</u>	<u>\$ 9,985,027</u>	<u>\$ 9,119,696</u>	<u>\$ 10,444,893</u>

Source: City of Kingsville, Texas Annual Comprehensive Financial Report.

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

For additional information regarding the City, please contact:

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**CITY OFFICIALS, STAFF AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>City Commission</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Sam Fugate Mayor	17 Years	May 4, 2024	Lawyer - Self Employed
Hector Hinojosa Mayor Pro Tem	3 Years	May 4, 2024	Retired
Edna Lopez Commissioner	5 Years	May 4, 2024	Kingsville ISD Employee
Norma Nelda Alvarez Commissioner	4 Years	May 4, 2024	Retired
Ann Marie Torres Commissioner	1 Year	May 4, 2024	Retired

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service to City</u>	<u>Total Governmental Service</u>
Mark McLaughlin	City Manager	2 Year	31 Years
Deborah Balli	Finance Director	7 Years	31 Years
Mary Valenzuela	City Secretary	24 Years	24 Years
Courtney Alvarez	City Attorney	21 Years	22 Years <sup>(1)</sup>

<sup>(1)</sup> Includes one year with Kleberg County.

**CONSULTANTS AND ADVISORS**

Auditors .....	John Womack & Co., P.C. Kingsville, Texas
Bond Counsel .....	Winstead PC San Antonio, Texas
Financial Advisor.....	Estrada Hinojosa & Company, Inc. San Antonio, Texas



**OFFICIAL STATEMENT  
RELATING TO  
  
\$3,595,000  
CITY OF KINGSVILLE, TEXAS  
(A Home Rule Municipal Corporation located in Kleberg County)  
LIMITED TAX REFUNDING BONDS, SERIES 2021**

**INTRODUCTION**

This Official Statement, which includes Schedule I, and the Appendices hereto, provides certain information regarding the issuance of \$3,595,000 City of Kingsville, Texas Limited Tax Refunding Bonds, Series 2021 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Ordinance (defined herein) adopted on February 22, 2021, which authorized the issuance of the Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Estrada Hinojosa & Company, Inc., San Antonio and Dallas, Texas.

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

**DESCRIPTION OF THE CITY . . .** The City of Kingsville, Texas (the “City”), is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including the City's Home Rule Charter (the “City Charter”). The City was incorporated in 1911, and first adopted the City Charter in April 1916. The City operates under a commissioner/manager form of government with a City Commission comprised of the Mayor and four Commissioners. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water and sanitary sewer utilities, health and social services, culture-recreation, public improvements, planning and zoning, and general administrative services. The estimated 2021 population is 29,237.

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

On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in Texas in response to the Pandemic which has been subsequently extended and is still in effect. In addition, certain local officials, including the City and Kleberg 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 took effect on March 10, 2021, and superseded most of the executive orders relating to COVID19 and provides, generally, for the reopening of the State to 100%, ends the COVID19 mask mandate, and superseded any conflicting order issued by local officials in response to COVID-19, among other things and subject to certain limitations. Executive Order GA-34 remains in place until amended, rescinded, or superseded by the Governor. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. These negative impacts may reduce or negatively affect property values and/or the collection of sales tax revenues within the City. The Bonds are secured by an ad valorem tax (within the limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the City’s operations and maintenance expenses. Additionally, the City collects a sales and use tax on all taxable transactions within the City’s boundaries. A reduction in the collection of sales tax revenues may negatively impact the City’s operating budget and overall financial condition.

The City continues to monitor the spread of COVID-19 and is working with local, State, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition. The financial and operating data contained herein are the latest available, but, with the exception of 2020 financial information, are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the City's financial condition. There is no way to predict the short or long term impacts of these circumstances on the local, national, or global economies. Accordingly, the City cannot predict, and at this time makes no representations regarding, how long such modifications and restrictions in City operations and business and personal activities within the City and its surrounding area will remain in effect, whether additional measures may be instituted to address the COVID-19 situation, COVID-19's impact on its operations and finances, or the advisability of an investment decision regarding the Bonds. The City may provide additional filings with the MSRB through EMMA prior to the termination of the offering of the Bonds under this Official Statement. Investors are directed to EMMA for any such disclosures filings, if and when made. The statements made in any such disclosure filings are incorporated herein by reference as of the respective dates specified in such filings, if made between the date of this Official Statement and 25 days after the Delivery Date.

**INFORMATION TECHNOLOGY AND CYBERSECURITY...**The City depends upon information and computing technology to conduct general business operations. These systems may be subject to disruptions or security breaches that could materially disrupt the City's operations, cause reputational damage and/or give rise to losses or legal liability. The City continually monitors these threats, however, no assurance can be given that the City will fully prevent potential business continuity or cybersecurity risks arising from events wholly or partially beyond the City's control, including electrical telecommunications outages, natural disasters, or cyber-attacks, or larger scale political events, including terrorist attacks. Any such occurrence could materially and adversely affect the City's operations and reputation, which could lead to decreased financial performance that insurance may not cover and may require the City to expend significant resources to correct the failure or disruption.

## **PLAN OF FINANCING**

**PURPOSE . . .** Proceeds from the sale of the Bonds shall be used for: (i) refunding certain obligations of the City identified in Schedule I hereto for a debt service savings (the "Refunded Obligations"), and (ii) paying the costs of issuance of the Bonds (see "PLAN OF FINANCING").

**REFUNDED OBLIGATIONS. . .** The Refunded Obligations, and interest due thereon, are to be paid on the redemption date of such obligations from funds to be deposited with The Bank of New York Mellon Trust Company, National Association, Dallas, Texas, as escrow agent (the "Escrow Agent"), pursuant to an escrow agreement (the "Escrow Agreement") between the City and the Escrow Agent. The Bond Ordinance provides that from the proceeds of the sale of the Bonds, along with other lawfully available funds of the City, if any, the City will deposit with the Escrow Agent into an escrow fund (the "Escrow Fund") the amount necessary to accomplish the discharge and final payment of the Refunded Obligations. Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the respective Refunded Obligations and will be used to purchase certain obligation of the United States of America and obligations of agencies or instrumentalities of the United States, that are unconditionally guaranteed by the agency or instrumentality, that are noncallable and that were, on the date the Bond Ordinance was adopted, rated as to investment quality by a nationally recognized rating firm not less than "AAA" (the "Governmental Obligations").

The City will give irrevocable instructions to provide notice, if any, 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 Government Obligations and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations in accordance with terms of the resolution authorizing such Refunded Obligations and State law. In the opinion of Bond Counsel, in reliance upon the Report (described herein), provided by the Verification Agent (defined herein), firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Obligations pursuant to the Escrow Agreement, and, therefore, the Refunded Obligations will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds therefor provided in the Escrow Agreement. (See "Appendix C – Form of Bond Counsel's Opinion").

Casey, Demgen & Moore PC (the "Verification Agent"), will issue a report (the "Report") to verify at the time of the delivery of the Bonds to the Underwriter the mathematical accuracy of the schedules prepared by Estrada Hinojosa & Company, Inc., as the City's Financial Advisor that demonstrate that the Governmental Obligations to be acquired and held in the Escrow Fund will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations. (See "OTHER INFORMATION - Verification of Arithmetical and Mathematical Computations" herein). The Escrow Fund and the maturing principal of and interest on the Governmental Obligations will not be available to pay principal of or interest on the Bonds.

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 are insufficient to make such payment.

## THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds are expected for delivery through DTC on or about June 10, 2021 (the “Delivery Date”) and mature on August 1 in each of the years and in the amounts shown on the inside cover page. Interest will accrue from the Delivery Date and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 1 and February 1, commencing August 1, 2021 until maturity or prior redemption.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued pursuant to the Constitution and laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended (“Chapter 1207”), the City’s Home-Rule Charter, and the bond ordinance adopted by the City Commission of the City of Kingsville, Texas (the “City Commission”) on February 22, 2021 (the “Bond Ordinance”). In the Bond Ordinance, as permitted by Chapter 1207, the City Commission delegated the authority to certain authorized City officials to execute a “Pricing Certificate” evidencing final terms related to the issuance and sale of the Bonds. The Pricing Certificate was executed by an authorized City official on May 11, 2021. The Bond Ordinance and the Pricing Certificate are referred to as the “Ordinance” (see “THE BONDS - Authority for Issuance” herein.)

**SECURITY AND SOURCE OF PAYMENT . . .** The Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City.

**TAX RATE LIMITATION . . .** All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to cities with a population of more than 5,000, including the City, and limits the maximum ad valorem tax rate to \$2.50 per \$100 of taxable assessed valuation. The City operates under a Home Rule Charter, which authorizes the constitutional maximum tax rate. Administratively, the Attorney General of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance and based upon a 90% collection factor.

**PERFECTED SECURITY INTEREST . . .** Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the taxes granted by the City under the Ordinance and such pledge is, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the taxes granted by the City under the Ordinance is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem the Bonds maturing on or after August 1, 2031 prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000 on August 1, 2030, or any date thereafter, at a price of par value plus accrued interest on the principal amounts called for redemption from the most recent interest payment to the date fixed for redemption. If less than all the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the City. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bond or portions thereof to be redeemed will be selected by the Paying Agent/Registrar by such random method as the Paying Agent/Registrar shall deem fair and appropriate.

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Bonds, the City must cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION WILL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF WILL CEASE TO ACCRUE.

All notices of redemption must (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner.

In the Ordinance, the City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City

retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a notice of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected owners of Bonds. Any Bonds subject to conditional redemption and such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

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

**DEFEASANCE.** . . . The Ordinance provides for the defeasance of the Bonds when the payment of the principal on the Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided in any manner permitted by law including by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment and/or (2) Government Obligations (defined herein) that 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 Ordinance provides that "Government Obligations" means (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 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 have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (d) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds. City officials may restrict the use of such eligible securities as deemed appropriate.

The City has additionally reserved the right, subject to satisfying the requirements of (1) or (2) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the City money in excess of the amount required for such defeasance. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (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 will no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the 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 reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of reservation be included in any redemption notices that it authorizes.

**AMENDMENTS** . . . The City may amend the Ordinance without the consent of or notice to any registered owners in any manner required by the Ordinance, and 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 City 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) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, (2) give any preference to any Bond over any other Bond, (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver, or (4) extend any waiver of default to subsequent defaults.

**BOOK-ENTRY-ONLY SYSTEM** . . . This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The Issuer, 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 Issuer and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or the redemption price or redemption notices or other notices with respect to the Bonds, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or any redemption or other notice with respect to the Bonds, 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 Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the 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 such maturity, and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the 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 certificates 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 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 transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the security documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of the notices be provided directly to them.

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Participants.

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

DTC may discontinue providing its services as securities depository with respect to one or both series of 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, printed certificates for the Bonds are required to be furnished and delivered.

The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, printed certificates will be furnished and delivered as provided in the Ordinance. (See "THE BONDS – Transfer, Exchange and Registration" below.)

**EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM . . .** In the event that the Book-Entry-Only System is discontinued, printed Bonds will be issued to the DTC Participants or the owner, as the case may be, and such Bonds will be subject to transfer, exchange, and registration provisions as set forth in the Ordinance and summarized under "THE BONDS – Transfer, Exchange and Registration" below.

**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 Direct or Indirect Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

**PAYING AGENT/REGISTRAR...**The initial Paying Agent/Registrar is U.S. Bank N.A., Houston, Texas. In the Ordinance, the City covenants to provide a competent and legally qualified bank, trust company, financial institution, or other entity to act as and perform the services of Paying Agent/Registrar at all times until the Bonds are duly paid. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar must accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, must be a bank, trust company, financial institution, or other entity duly qualified and legally authorized to serve as a Paying Agent/Registrar for the Bonds. Upon a change in the Paying Agent/Registrar for the Bonds, the City will promptly cause written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid.

**TRANSFER, EXCHANGE, AND REGISTRATION. . .**If the Bonds are not in the Book-Entry-Only System, the Bonds may be registered, transferred, assigned, and exchanged on the Register only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration, transfer, and exchange will 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, transfer, and exchange. 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 will be delivered by the Paying Agent/Registrar in lieu of the Bond being transferred or exchanged at the designated payment 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, to the extent possible, within three 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 will be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount, series, and rate of interest as the Bonds surrendered for exchange or transfer. (See “THE BONDS – Book-Entry-Only System” herein for a description of the system to be utilized in regard to ownership and transferability of the Bonds while in the Book-Entry-Only System.)

**MUTILATED, DESTROYED, LOST, OR STOLEN BONDS...**The City has agreed to replace damaged, mutilated, destroyed, lost, or stolen Bonds upon surrender of the damaged or mutilated Bonds to the Paying Agent/Registrar or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the City and the Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The City may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

**LIMITATION ON TRANSFER...**Neither the City nor the Paying Agent/Registrar will be required to transfer or exchange any Bonds (1) during the period commencing at the close of business on the Record Date (as hereinafter defined) and ending at the opening of business on the next interest payment date and (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within thirty calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the Registered Owner of an uncalled balance of a Bond.

**RECORD DATE FOR INTEREST PAYMENT . . .** The date for determining the person to whom interest payable on the Bonds on any interest payment date means the last business day of the preceding month (the “Record 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 (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 City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date,” which must be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each 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.

**BOND OWNERS’ 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 bondholders may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City’s obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so it 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 Bondholders. The Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“*Tooke*”), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas Legislature has effectively waived the City’s sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance. Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from a suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the “Proprietary-Governmental Dichotomy”). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State’s sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of the municipality.

In *Wasson Interests, Ltd. V. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson*”), the Texas Supreme Court (the “Court”) addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’” and protecting such municipalities “via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources.” While the Court recognized that the distinction between governmental and proprietary functions is not clear, the *Wasson* opinion held that the Proprietary-Governmental Dichotomy applies in a contract-claims context. The Court reviewed *Wasson* for a second time and issued an opinion on October 5, 2018 clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

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

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the Bondholders 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. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the United States Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without bankruptcy court approval, the prosecution of any other legal action by creditors or 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 Bondholders' rights 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 and as to general principles of equity that permit the exercise of judicial discretion.

*[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]*



**USE OF BOND PROCEEDS . . .** Proceeds from the sale of the Bonds, including the City’s contribution, are expected to be expended as follows:

Sources:	
Par Amount of the Bonds	\$ 3,595,000.00
Reoffering Premium	322,305.45
Total Sources of Funds	<u>\$ 3,917,305.45</u>
Uses:	
Deposit to Escrow Fund	\$ 3,727,451.00
Underwriter's Discount	31,789.77
Costs of Issuance	158,064.68
Total Uses of Funds	<u>\$ 3,917,305.45</u>

### **BOND INSURANCE**

**BOND INSURANCE POLICY . . .** Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an exhibit to this Official Statement.

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

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

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

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

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

#### *Capitalization of BAM*

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$477.7 million, \$156.4 million and \$321.3 million, respectively.

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

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

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

#### *Additional Information Available from BAM*

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

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

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

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

### **BOND INSURANCE RISKS**

The City has qualified for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds, and intends to use a portion of the proceeds of the Bonds to purchase the bond insurance. The risk factors relating to the purchase of bond insurance are identified below.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some become due, any owner of the Bonds shall have a claim under the Bond Insurance Policy (the “Policy”) for such payments. However, in the event of any acceleration of the due date of such principal by optional redemption, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the Issuer which is recovered by the issuer from the Bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy, however, such payments will be made by the Insurer at such times and in such amounts as would have been due absent such prepayment by the Issuer unless the Bond Insurer chooses to pay such amounts at an earlier time.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the Bond Insurer (the “Bond Insurer”) without appropriate consent. The Bond Insurer may direct and must consent to any remedies 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 moneys received 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.

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 description of “- Municipal Bond Insurer above and “OTHER INFORMATION - Rating” herein.

The obligations of the Bond Insurer are contractual obligations and in an event of default by the Bond Insurer, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies. Neither the City nor the Underwriter has made independent investigation into the claims-paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the 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 the Bond Insurer, particularly over the life of the investment. See “- Municipal Bond Insurer” above and “OTHER INFORMATION - Rating” herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information regarding the Bond Insurer.

## **AD VALOREM TAXATION**

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

**VALUATION OF TAXABLE PROPERTY...**The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the collective responsibility of the Kleberg 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 (the “10% Homestead cap”). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

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 TAX PROCEDURES - 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 sixty-five 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 one hundred seventy-five 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 one hundred seventy-five days (“goods-in-transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax goods-in-transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax goods-in-transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and goods-in-transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

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

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

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

**ECONOMIC DEVELOPMENT GRANTS...**The City utilizes economic development grants pursuant to Chapter 380, Texas Local Government Code, as amended, to incentivize jobs, wages, and investment. These agreements are funded with ad valorem taxes paid to the City by developers on the value of their developments or from other revenues of the City (see “AD VALOREM TAXATION – City Application of Tax Code”).

**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. The City has established a tax abatement program to encourage economic development. The terms of all tax abatement agreements must be substantially the same. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The City’s tax abatement program does not authorize residential tax abatements, only commercial-industrial tax abatements are permitted.

**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 City and provides for taxpayer referenda that could result in the repeal of certain tax increases (see “ad valorem tax procedures - public hearing and maintenance and operation 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 City does not allow for discounts but does allow for split payment of property taxes (one-half before December 1, and the remaining one-half without penalty and interest before July 1 of the following year). The City allows for installment payments (one-fourth before February 1, one-fourth before April 1, one-fourth before June 1, and the remaining one-fourth before August 1) for homeowners who are disabled, disabled veterans, or at least 65 years of age and who qualify for the residential homestead exemption; these homeowners may also defer the collection of tax until the individual no longer owns the property. The same homeowners are offered an additional 10-month payment plan.

Payments are due at the beginning of each month, starting in October and continuing through July of the following year.

**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 OPERATION TAX RATE LIMITATIONS...**The following terms as used in this section have the meanings provided below:

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

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

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

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

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

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

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

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

As described below, the property tax code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its de minimis rate, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

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

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

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

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and tax revenues to be generated in the current tax year.

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

The State Constitution and the City Charter provide that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$2.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$2.50 rate for interest and sinking fund purposes; however, the Texas Attorney General, who must approve the issuance of the Bonds, has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections.

The following obligations, among others, may be issued by the City:

- Ad valorem tax-supported debt may be issued to finance capital improvements and to refund obligations previously issued for such purpose. A majority vote of the qualified voters is ordinarily required to authorize the issuance of ad valorem tax-supported debt, other than refunding bonds, certificates of obligation, tax anticipation notes, and public property finance contractual obligations.
- Certificates of obligation may be issued for the purpose of paying contractual obligations incurred in the construction of public works or the purchase of land, materials, and other supplies or services for the City's needs and for professional services without an election except under certain circumstances. The certificates of obligation may be refunded by ad valorem tax-supported bonds without an election. In addition, the City may issue certificates of obligation with a pledge of both tax and revenues derived from the operation of the facility to be acquired, or from any other lawful source, provided that the City otherwise has the right to pledge the revenues involved. Authority for the issuance of certificates of obligation is subject to notice by publication and right of referendum by the voters.

- Contractual obligations are generally issued to finance personal property, and tax anticipation notes may be issued for capital improvements. Both the contractual obligations and tax anticipation notes may be issued and secured by ad valorem taxes, and refunded by ad valorem tax-supported bonds, without an election. The issuance of contractual obligations and tax anticipation notes does not require publication of notice or voter approval. Contractual obligations are limited to 25 years amortization or less; tax anticipation notes are limited to seven years amortization or less.

- Revenue bonds may be issued for certain purposes which include the financing of the water, municipal drainage and sanitary sewer systems, electric and gas systems, convention centers, airports and parking systems, and other economic development projects. The revenue bond indebtedness is not considered in determining the legal debt margin on ad valorem tax-supported obligations. Revenue bond indebtedness, in certain cases, can be refunded by ad valorem tax-supported bonds without an election.

**CITY APPLICATION OF TAX CODE . . .** The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$8,400.

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

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

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt. The City does not tax nonbusiness personal property; and the Kleberg County Tax Office collects taxes for the City. The City does not permit split payments, and discounts are not allowed.

The City does tax freeport property.

The City does tax goods-in-transit.

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes (see “Table 14 – Municipal Sales Tax History”).

As of March 31, 2021, the City has entered into the following Chapter 380 agreements:

The City has entered into an agreement with a new commercial development known as Neessen Polaris of Kingsville where the City shall pay an amount no greater than half of the city sales tax generated by taxable sales for the new commercial development. Sales tax combined with ad valorem tax incentives cannot exceed \$200,000.

The City has entered into an incentive agreement for Marshalls Department Store wherein the City shall pay an amount equal to 50% of the city sales tax generated during the preceding calendar year by taxable sales from Marshalls collected in calendar years 2020, 2021 and 2022. This agreement also includes ad valorem tax incentives of 6.15% of the M&O portion of the City’s ad valorem tax levy for calendar years 2020 through 2024.

The City Commission also approved an incentive agreement with two provisions for Starbucks which opened in 2020. The first provision incentive of \$30,000 pertained to costs associated with the initial development. The second provision pertains to the M&O portion of the tax valuation not to exceed \$20,000 for a total combined incentive of \$50,000.

The City Commission approved a sales tax incentive agreement with Chick-Fil-A which recently opened in April 2021. The incentive pays 75% of the 1.5% portion of City sales tax generated by Chick-Fil-A up to a maximum amount of \$550,000.

**TABLE 1 - VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT**

2020 Market Valuation Established by Kleberg County Appraisal District		\$ 1,067,506,021
Less Exemptions/Reductions at 100% Market Value:		
Over-65 Homestead Exemption	\$ 13,070,544	
Charitable Exemption	121,550	
Abatement Exemption	5,841,910	
Disabled Veterans	13,644,986	
Personal Property Vehicle	498,160	
Productivity Loss	11,181,467	
Low Income Housing	1,134,320	
10% Residential Cap	11,578,310	
House Bill 366	11,220	
Other Exemptions	<u>97,164,978</u>	
Less: Total Exemptions/Reductions at 100% Market Value		<u>\$ 154,247,445</u>
2020 Net Taxable Assessed Valuation		<u>\$ 913,258,576</u>
Debt Payable from Ad Valorem Taxes (February 28, 2021) <sup>(1)</sup>		
Certificates of Obligation, Series 2009	\$ 55,000	
Limited Tax Refunding Bonds, Series 2013	205,000	
Certificates of Obligation, Series 2013 <sup>(1)</sup>	260,000	
Limited Tax Refunding Bonds, Series 2014	4,290,000	
Certificates of Obligation, Series 2016	5,055,000	
Limited Tax Refunding Bonds, Series 2020	5,025,000	
Tax Notes, Series 2021 <sup>(4)</sup>	1,310,000	
The Bonds	<u>3,595,000</u>	
Total Tax Debt		\$ 19,795,000 <sup>(4)</sup>
Less: Self Supported Debt <sup>(2)</sup>		
Certificates of Obligation, Series 2009 (84.169%)	\$ 46,293	
Certificates of Obligation, Series 2013 (Approximately 79%) <sup>(3)</sup>	205,000	
Limited Tax Refunding Bonds, Series 2014 (100%)	4,290,000	
Limited Tax Refunding Bonds, Series 2020 (46.1496%)	2,319,017	
Tax Notes, Series 2021 (100%) <sup>(4)</sup>	195,000	
The Bonds (Approximately 79%) <sup>(3)</sup>	<u>2,850,419</u>	
Less: Total Self-Supported Debt		<u>\$ 9,905,730</u> <sup>(4)</sup>
Net Tax Debt		<u>\$ 9,889,270</u>
General Obligation Interest and Sinking Fund as of September 30, 2020		\$ 618,428
Ratio of Tax Debt to 2020 Taxable Assessed Valuation		2.17%
	2021 Estimated Population	29,237
	Per Capita Taxable Assessed Valuation	\$ 31,236
	Per Capita Tax Debt Payable from Ad Valorem Taxes	\$ 677
	Per Capita Net Tax Debt Payable from Ad Valorem Taxes	\$ 338

<sup>(1)</sup> Includes the Bonds and excludes Refunded Obligations.

<sup>(2)</sup> Debt in the amounts shown for which repayment is provided from revenues of the Waterworks & Sewer System or the Sanitation System and Solid Waste Revenues. Percentages shown are percentages of self-supporting debt of outstanding obligations.

<sup>(3)</sup> Percentages of Self-Supporting Debt varies year to year, but is approximately 79%.

<sup>(4)</sup> Tax Notes are being supported by the Annual Appropriation Budget for FY 2021 only.



**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY**

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2021		2020		2019	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 544,029,756	50.96%	\$ 517,749,891	50.07%	\$ 492,181,759	49.71%
Real, Residential, Multi-Family	113,899,585	10.67%	109,134,620	10.55%	103,977,645	10.50%
Real, Vacant Lots/Tracts	7,209,621	0.68%	7,284,280	0.70%	7,543,569	0.76%
Real, Acreage (Land Only)	11,862,589	1.11%	11,966,719	1.16%	11,801,941	1.19%
Real, Farm and Ranch Improvements	12,574,420	1.18%	12,263,820	1.19%	10,984,940	1.11%
Real, Commercial	154,558,965	14.48%	141,783,827	13.71%	140,119,846	14.15%
Real, Industrial	1,853,540	0.17%	1,847,650	0.18%	1,913,240	0.19%
Real and Tangible Personal, Utilities	30,369,807	2.84%	48,425,476	4.68%	44,053,450	4.45%
Tangible Personal, Commercial	74,989,510	7.02%	68,280,530	6.60%	70,007,860	7.07%
Tangible Personal, Industrial	1,910,130	0.18%	2,443,210	0.24%	2,942,450	0.30%
Tangible Personal, Mobile Homes	3,080,330	0.29%	3,065,250	0.30%	2,161,370	0.22%
Residential Inventory	1,265,880	0.12%	1,283,710	0.12%	2,170,220	0.22%
Special Inventory	10,971,660	1.03%	10,650,930	1.03%	9,371,120	0.95%
Exempt	98,930,228	9.27%	97,792,627	9.46%	90,786,758	9.17%
Total Appraised Value Before Exemptions	\$ 1,067,506,021	100.00%	\$ 1,033,972,540	100.00%	\$ 990,016,168	100.00%
Less: Total Exemptions/Reductions	(154,247,445)		(151,768,518)		(135,331,673)	
Total Appraised Value After Exemptions	\$ 913,258,576		\$ 882,204,022		\$ 854,684,495	

Category	Taxable Appraised Value For Fiscal Year Ended September 30,			
	2018		2017	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 482,430,304	50.82%	\$ 465,554,665	52.23%
Real, Residential, Multi-Family	96,809,735	10.20%	88,209,395	9.90%
Real, Vacant Lots/Tracts	8,528,727	0.90%	8,618,780	0.97%
Real, Acreage (Land Only)	11,021,980	1.16%	10,851,230	1.22%
Real, Farm and Ranch Improvements	11,626,625	1.22%	11,000,065	1.23%
Real, Commercial	137,925,927	14.53%	115,174,915	12.92%
Real, Industrial	1,836,820	0.19%	1,399,720	0.16%
Real and Tangible Personal, Utilities	38,194,979	4.02%	37,665,830	4.23%
Tangible Personal, Commercial	67,408,520	7.10%	70,033,620	7.86%
Tangible Personal, Industrial	3,225,290	0.34%	3,278,190	0.37%
Tangible Personal, Mobile Homes	3,161,330	0.33%	3,511,600	0.39%
Special Inventory	2,563,670	0.27%	1,677,320	0.19%
Real Property, Inventory	9,555,420	1.01%	11,313,730	1.27%
Exempt	75,015,543	7.90%	63,024,927	7.07%
Total Appraised Value Before Exemptions	\$ 949,304,870	100.00%	\$ 891,313,987	100.00%
Less: Total Exemptions/Reductions	(116,143,804)		(101,856,827)	
Total Appraised Value After Exemptions	\$ 833,161,066		\$ 789,457,160	

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

**TABLE 3 - VALUATION AND AD VALOREM TAX DEBT HISTORY**

Fiscal Year Ended 9/30	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Funded Debt Service Outstanding at End of Year <sup>(3)</sup>	Ratio Funded	
					Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2017	26,225	\$ 789,457,160	30,103	\$ 16,522,836	2.09%	\$ 630
2018	26,177	833,161,066	31,828	15,220,168	1.83%	581
2019	25,782	854,684,495	33,150	13,842,567	1.62%	537
2020	28,948	882,204,022	30,475	12,459,590	1.41%	430
2021	29,237	913,258,576	31,236	11,609,007	1.27%	397

<sup>(1)</sup> Source: The City of Kingsville, Texas.

<sup>(2)</sup> As reported by the Kleberg County Appraisal District on the City's Certified Roll; subject to change during the ensuing year.

<sup>(3)</sup> Does not include self-supporting debt. Includes the Bonds and 2021 Tax Notes; Excludes the Refunded Obligations.

**TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY**

Fiscal Year Ending 9/30	Tax Rate	Distribution			Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund				
2017	\$ 0.84220	\$ 0.66088	\$ 0.18132	\$ 6,640,180	96.33%	98.43%	
2018	0.84220	0.69055	0.15165	6,880,532	96.59%	97.89%	
2019	0.83000	0.66488	0.16512	7,056,152	96.36%	96.36%	
2020	0.85304	0.68522	0.16782	7,473,551	96.08%	96.10%	
2021	0.85208	0.70027	0.15181	7,706,109	88.09% <sup>(1)</sup>	89.27% <sup>(1)</sup>	

<sup>(1)</sup> Collections through February 28, 2021.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2020 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
AEP Texas Inc.	Electric Utility/Power Plant	\$ 18,426,680	2.30%
KL Phase 1 Owner LTD	Apartment	13,795,990	1.72%
Rockstar Oak Tree LLC	Apartment	12,476,420	1.56%
Apexone Javelina LLC	Apartment	9,031,930	1.13%
Kingspointe-Victoria LLC	Apartment	8,685,680	1.08%
Alpha Lake LTD	Shopping Center/Mall	8,680,800	1.08%
KL Phase II Owner LTD	Apartment	8,674,190	1.08%
HEB Grocery Inc	Retail Store	8,098,300	1.01%
Wal-Mart Stores Inc #01-0442	Retail Store	6,612,750	0.82%
Wal-Mart Stores Texas, LLC US00442	Retail Store	5,791,470	0.72%
		<u>\$ 100,274,210</u>	<u>12.50%</u>

Source: City of Kingsville, Texas Annual Comprehensive Financial Report.

**TAX VALUE CONCENTRATION...**As shown in Table 5 above, the top ten taxpayers in the City currently account for approximately twelve percent (12%) of the City’s tax base. The top taxpayer alone accounts for approximately four percent (4%) of the City’s tax base. Adverse developments in economic conditions could impact these taxpayers and the tax values in the City, resulting in less local tax revenues. If any major taxpayer (and particular, the top taxpayer) were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process which can only occur annually, or, perhaps, fund debt service payments from other resources, if available. See “THE BONDS – Bond Owners’ Remedies” and “AD VALOREM TAXATION - City’s Rights in Event of Tax Delinquencies” in this Official Statement.

**TAX DEBT LIMITATION . . .** 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 debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 taxable assessed valuation for all City purposes. The City Charter adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 taxable assessed valuation. Administratively, the Texas Attorney General will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all tax debt service, including the Bonds, as calculated at the time of issuance (see “THE BONDS - Tax Rate Limitation”). Taxes for the Bonds will be within such limits.

**TABLE 6 - TAX ADEQUACY**

Principal and Interest Requirements for the Period Ended September 30, 2021	\$ 2,994,239
Less: Self-Supporting Debt Service <sup>(1)</sup>	1,663,621
Less: Transfer from Interest and Sinking Fund	-
Net Principal and Interest Requirements	\$ 1,330,618
 \$0.15181 Interest and Sinking Fund Tax Rate @ 97.5% Collections	\$ 1,351,757

<sup>(1)</sup> Self-Supporting Debt Service is subject to change annually.

**TABLE 7 - ESTIMATED OVERLAPPING TAX DEBT**

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

Taxing Jurisdiction	Tax Year 2020		Tax Debt as of 2/28/2021	Estimated %	City's Overlapping Funded Debt	Authorized but Unissued Tax Debt as of 2/28/2021
	Taxable Assessed Valuation	Tax Rate				
City of Kingsville	\$ 913,258,576	\$ 0.8521	\$ 19,795,000 <sup>(1)</sup>	100.00%	\$ 19,795,000	\$ -
Kingsville ISD	874,296,274	1.5189	56,985,000	85.69%	48,830,447	-
Kleberg Co	1,662,191,651	0.7855	6,055,000	53.69%	3,250,930	-
Ricardo ISD	180,157,675	1.0547	1,026,000	5.95%	61,047	-
South Texas Water Authority	2,328,629,161	0.0869	3,640,000	39.68%	1,444,352	-
Total Direct and Overlapping Tax Debt					\$ 73,381,775	
Ratio of Direct Overlapping Tax Debt to Taxable Assessed Valuation					8.04%	
Per Capita Overlapping Debt					\$ 2,510	

Source: The Texas Municipal Advisory Council.

<sup>(1)</sup> Includes the Bonds and 2021 Tax Notes; Excludes the Refunded Obligations.

## DEBT INFORMATION

**TABLE 8 – AD VALOREM TAX DEBT SERVICE REQUIREMENTS**

FYE 9/30	Outstanding Tax Debt Service <sup>(1)</sup>			The Bonds			Total Tax Debt Service	Less: Self-Supporting Tax Debt Service	Net Tax Debt Service Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total				
2021	\$ 2,505,000	\$ 475,398	\$ 2,980,398	\$ -	\$ 13,841	\$ 13,841	\$ 2,994,239	\$ 1,663,621	\$ 1,330,618	
2022	2,285,000	379,538	2,664,538	255,000	97,700	352,700.00	3,017,238	1,420,241	1,596,996	
2023	2,370,000	329,138	2,699,138	265,000	90,050	355,050.00	3,054,188	1,437,842	1,616,346	
2024	1,715,000	277,138	1,992,138	265,000	82,100	347,100.00	2,339,238	1,451,052	888,186	54.45%
2025	1,775,000	231,850	2,006,850	280,000	74,150	354,150.00	2,361,000	1,463,535	897,465	
2026	905,000	184,600	1,089,600	285,000	65,750	350,750.00	1,440,350	544,664	895,686	
2027	930,000	157,525	1,087,525	295,000	57,200	352,200.00	1,439,725	544,337	895,388	
2028	760,000	129,600	889,600	300,000	48,350	348,350.00	1,237,950	541,838	696,112	
2029	605,000	103,250	708,250	310,000	39,350	349,350.00	1,057,600	515,126	542,474	84.97%
2030	605,000	80,600	685,600	325,000	30,050	355,050.00	1,040,650	511,339	529,311	
2031	660,000	57,950	717,950	330,000	20,300	350,300.00	1,068,250	522,340	545,910	
2032	665,000	38,150	703,150	335,000	13,700	348,700.00	1,051,850	514,149	537,701	
2033	170,000	18,200	188,200	350,000	7,000	357,000.00	545,200	283,060	262,140	
2034	115,000	12,250	127,250	-	-	-	127,250	-	127,250	98.56%
2035	115,000	8,225	123,225	-	-	-	123,225	-	123,225	
2036	120,000	4,200	124,200	-	-	-	124,200	-	124,200	100.00%
	<u>\$ 16,300,000</u>	<u>\$ 2,487,611</u>	<u>\$ 18,787,611</u>	<u>\$ 3,595,000</u>	<u>\$ 639,541</u>	<u>\$ 4,234,541</u>	<u>\$ 23,022,152</u>	<u>\$ 11,413,145</u>	<u>\$ 11,609,007</u>	

<sup>(1)</sup> Includes the Series 2021 Tax Notes; Excludes the Refunded Obligations.

**TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION**

Principal and Interest Requirements, Fiscal Year Ending 9/30/2021		\$ 2,994,239
General Obligation Interest and Sinking Fund Balance as of 9/30/2020	\$ 618,428	
Utility Fund Interest and Sinking Fund Balance as of 9/30/3030	758,435	
FY 20-21 Budgeted Interest and Sinking Fund Tax Levy	1,380,201	
FY 20-21 Budgeted Delinquent, Penalties and Interest	68,500	
Utility Fund Transfer for Self-Supporting Debt <sup>(1)</sup>	1,663,621	
UF Transfer to BuildUp Fund Balance	195,000	
Estimated Investment Income	<u>13,000</u>	
Sources of Funds Available to Pay Debt Service		<u>4,697,185</u>
Estimated Balance as of 9/30/2021		<u>\$ 1,702,946</u>

Source: City of Kingsville, Texas Annual Comprehensive Financial Report and Fiscal year ending September 30, 2020 Budget.

<sup>(1)</sup> Self-Supporting Debt Service is subject to change annually.

**TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT**

Net Waterworks and Sewer System Revenue Available, Fiscal Year Ended 9/30/2020	\$ 4,711,380
Less: Requirements for Revenue Bonds, Fiscal Year Ended 9/30/2021	-
Plus: Transfer from Storm Water Drainage	292,800
Plus: Transfer from Utility System Fund <sup>(1)</sup>	<u>1,307,883</u>
Balance Available for Other Purposes	\$ 6,312,063
Requirements for Waterworks and Sewer System Self-Supporting Debt, Fiscal Year Ended 9/30/2021 <sup>(1)</sup>	<u>\$ 1,663,621</u>
Percentage of Self-Supporting Debt Payable from Revenue	100%

Source: City of Kingsville, Texas Annual Comprehensive Financial Report.

<sup>(1)</sup> Self-Supporting Debt Service is subject to change annually.

**TABLE 11 - AUTHORIZED BUT UNISSUED TAX DEBT**

The City does not have any unissued Tax Debt approved by the voters.

**FUTURE DEBT ISSUANCE...**The City anticipates selling its \$3,358,000 Tax and Revenue Certificates of Obligation, Series 2021 to the Texas Water Development Board at a 0% interest rate. These debt obligations will be issued as taxable debt obligations and will not affect the qualified tax-exempt obligations limitations for the 2021 calendar year.

*[THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK]*

**TABLE 12 – OTHER OBLIGATIONS****Capital Lease Obligations**

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2020, as follows:

Fiscal Year Ending September 30,	Governmental Activities	Business-Type Activities <sup>(1)</sup>
2021	\$ 212,585	\$ 302,548
2022	212,585	302,548
2023	128,282	234,141
2024	50,311	234,140
2025	49,281	234,345
2026	98,562	277,726
Total Minimum Rentals	\$ 751,606	\$ 1,585,448
Less: Amount representing interest	59,463	169,069
Present value of new minimum lease payments	<u>\$ 692,143</u>	<u>\$ 1,416,379</u>

The effective interest rate on capital leases is 2.40% to 4.40%

Source: City of Kingsville, Texas Annual Comprehensive Financial Report.

<sup>(1)</sup> This is a government fund lease, but for Government-Wide Financial Statements, it is presented as a Utility Fund lease for solid waste.

**PENSION FUND . . .** The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense (for more detailed information concerning the retirement plan, see APPENDIX B, "Excerpts from the City's Annual Financial Report" - Note #I).

**OTHER POST-EMPLOYMENT BENEFITS****Post-Employment Health Care Benefits**

The City of Kingsville (the "City") provides post-employment medical benefits on behalf of its eligible retirees, through a self-funded single-employer benefit plan. As a result, the City is required to implement the Governmental Accounting Standards Board ("GASB") Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions ("GASB 75") which replaces GASB 45. GASB 75 requires public employers to perform periodic actuarial valuations to measure and disclose their retiree healthcare liabilities for the financial statement of the employer.

GASB 75 allows an actuarial valuation date no earlier than thirty months and one day prior to the fiscal year-end reporting date and a measurement date no earlier than one year and one day prior to the fiscal year end reporting date. For the reporting year ending September 30, 2019, the City used an actuarial valuation date of October 1, 2017 and measurement date of September 30, 2019.

Note: Actuarial valuations are done every two years.

**Plan Description and Funding Policy**

Employees who retire from the City of Kingsville are eligible to continue to participate in the City's health insurance program at the employee group rate which is determined annually by the City of Kingsville and approved by the City Commission. Retirees have 31 days to elect to continue with the City's self-funded health insurance plan (City of Kingsville Benefit Plan Trust) in which they were participating at the time of retirement unless otherwise stated in the plan document or collective bargaining agreement. As of September 30, 2020, a total of 7 eligible retirees were participating in the City's group health program. The City provides one-half of the funding for retiree premiums. Retiree's dependents are excluded from the calculation and are eligible to continue health coverage at the designated COBRA rates during their eligibility period.

Eligibility for Retiree Benefits:	Retirees are eligible to continue their medical coverage until they reach age 65.  To be eligible to continue coverage, retired employees must be receiving benefits for retirement from the Texas Municipal Retirement System, actively employed at the time of retirement.  Texas Municipal Retirement System  Age 60 with 5 years of service 20 years of service
Dependent Eligibility	Spouses and children of the retiree are not eligible for the plan
Medical Benefits	Retirees can continue coverage under the self-funded medical plan
Other Post Retirement Welfare Benefits	None

Actuarial Assumptions: The Total OPEB Liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement Date:	September 30, 2019
Actuarial Valuation Date:	October 1, 2017

Inflation:	3.00%
Salary Increases, including inflation:	3.00%
Discount Rate:	2.75%
Prior Year Discount Rate:	3.83%

The discount rate was based on the 9/30/18 Fidelity General Obligation AA 20-Year Yield.

Mortality rates for active employees were based on the PubG.H-2010 (general employees) and PubS.H-2010 (public safety employees) Employee Mortality Tables, Generational with Projection Scale MP-2019 for males or females, as appropriate.

Mortality rates for retirees were based on the PubG.H-2010 (general employees) and PubS.H-2010 (public safety employees) Healthy Annuitant Mortality Tables, Generational with Projection Scale MP-2019 for males or females, as appropriate.

Inactive employees currently receiving benefits payments	7
Inactive employees entitled to but not receiving benefits payments	
Active employees	<u>254</u>
	<u>261</u>

Balance at 09/30/2018	\$ 1,352,644
Change for the year:	
Service Cost	51,950
Interest	50,802
Differences between expected and actual experience	176,817
Changes in Assumptions/inputs	190,814
Change in Benefit Terms	-
Benefit payments	(156,361)
Administration expense	-
Net Charges	<u>\$ 314,022</u>
Balance at 09/30/2019	<u>\$ 1,666,666</u>

	1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate:	\$ 1,864,229	\$ 1,666,666	\$ 1,501,215
Healthcare Cost Trend Rate:	\$ 1,439,969	\$ 1,666,666	\$ 1,955,885
OPEB Expense			
Service Cost			\$ 51,950
Interest on liabilities			50,802
Difference between actual and expected experience			-
Changes in assumptions-inputs			55,980
Change in benefit terms			63,605
			<u>-</u>
Total OPEB Expense			<u>\$ 222,337</u>

Deferred Outflows and Inflows	<u>Outflows</u>	<u>Inflows</u>
Difference between actual and expected experience	\$ 117,878	\$ 5,918
Changes of assumptions or other inputs	127,209	-
Total Deferred Outflows and Inflows	<u>\$ 245,087</u>	<u>\$ 5,918</u>

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

Year End Sept. 30:	
2020	\$ 119,584
2021	119,584
2022	-
2023	-
2024	-
Thereafter	-



## FINANCIAL INFORMATION

**TABLE 13 - CHANGES IN NET ASSETS**

	Fiscal Years Ended September 30,				
	2020	2019	2018	2017	2016
<u>Revenues:</u>					
Program Revenues:					
Charges for Services	\$ 2,994,661	\$ 3,129,133	\$ 3,964,866	\$ 3,244,598	\$ 5,008,903
Operating Grants and Contributions	2,607,026	1,379,626	1,003,090	1,192,770	1,071,004
Capital Grants and Contributions	-	-	-	-	-
General Revenues					
Property Taxes	7,651,822	7,407,799	6,983,970	6,837,284	6,525,348
Sales Tax	5,116,414	5,080,332	4,764,200	4,770,174	4,599,145
Hotel Occupancy Taxes	508,437	649,312	566,267	549,471	510,673
Franchise Taxes (Fees)	868,834	1,023,299	979,444	989,053	996,256
Bingo Taxes	2,986	3,645	2,762	1,243	4,721
Alcoholic Beverage Taxes	48,876	64,286	61,752	65,310	51,211
Investment Earnings	260,690	396,086	280,161	134,896	251,491
Insurance Settlement	-	-	-	573,250	1,605,908
Gain (Loss) on Disposal of Capital Assets	23,500	31,605	3,000	87,712	-
Miscellaneous	39,536	40,982	61,377	98,935	24,320
Total Revenue	<u>\$ 20,122,782</u>	<u>\$ 19,206,105</u>	<u>\$ 18,670,889</u>	<u>\$ 18,544,696</u>	<u>\$ 20,648,980</u>
<u>Expenditures</u>					
General Government	\$ 4,658,647	\$ 4,719,760	\$ 4,509,275	\$ 4,803,413	\$ 5,114,441
Public Safety	9,544,822	10,272,984	9,299,188	9,056,283	10,415,086
Public Works	3,053,129	3,632,080	3,382,760	3,978,987	3,321,641
City/County	2,168,364	2,337,837	2,060,985	2,116,324	2,108,847
Tourism	543,425	651,531	590,957	976,056	533,758
Interest on Long-Term Debt	266,416	279,826	337,368	362,092	415,124
Total Expenditures	<u>\$ 20,234,803</u>	<u>\$ 21,894,018</u>	<u>\$ 20,180,533</u>	<u>\$ 21,293,155</u>	<u>\$ 21,908,897</u>
Increase (Decrease) in Net Position	\$ (112,021)	\$ (2,687,913)	\$ (1,509,644)	\$ (2,748,459)	\$ (1,259,917)
Beginning Net Position	17,782,446	17,779,023	16,674,860	16,118,948	15,541,171
Prior Period Adjustment	-	-	327,533	-	-
Transfers	2,823,386	2,691,336	2,286,274	3,304,371	1,837,694
Ending Net Position	<u>\$ 20,493,811</u>	<u>\$ 17,782,446</u>	<u>\$ 17,779,023</u>	<u>\$ 16,674,860</u>	<u>\$ 16,118,948</u>

Source: City of Kingsville, Texas Annual Comprehensive Financial Report.

**TABLE 13-A - GENERAL FUND REVENUES AND EXPENDITURE HISTORY**

	Fiscal Years Ended September 30,				
	2020	2019	2018	2017	2016
<u>General Revenues:</u>					
Taxes	\$ 12,152,149	\$ 11,979,660	\$ 11,648,169	\$ 11,192,498	\$ 10,714,098
Licenses and Permits	273,086	239,639	193,757	246,379	262,275
Charges for Services	6,020,386	5,792,562	5,807,967	5,844,512	5,416,650
Fine and Forfeitures	648,971	873,082	903,853	727,346	762,077
Special Assessments	5,333	4,811	774	2,797	-
Interest and Miscellaneous	229,515	315,413	232,116	119,848	155,792
Donations	23,517	39,052	3,000	25,100	1,730
Gain or Loss on Sale of Property	23,500	45,599	-	-	-
Intergovernmental Revenue	2,033,862	585,000	550,000	550,000	550,000
Federal and State Grants	-	127,929	71,187	-	-
Total Revenues	<u>\$ 21,410,319</u>	<u>\$ 20,002,747</u>	<u>\$ 19,410,823</u>	<u>\$ 18,708,480</u>	<u>\$ 17,862,622</u>
<u>Expenditures</u>					
Current:					
General Government and Administration	\$ 4,439,395	\$ 4,437,857	\$ 4,290,941	\$ 4,350,113	\$ 6,701,486
Public Safety	9,059,459	8,824,307	8,542,401	8,162,185	7,711,182
Public Works	5,462,829	5,708,912	4,729,273	6,758,529	4,467,950
City/County	2,117,944	2,011,443	1,994,989	2,086,888	1,844,949
Other	43,000	3,893	1,065,597	325,639	-
Total Expenditures	<u>\$ 21,122,627</u>	<u>\$ 20,986,412</u>	<u>\$ 20,623,201</u>	<u>\$ 21,683,354</u>	<u>\$ 20,725,567</u>
<u>Other Financing Sources (Uses)</u>					
Bond Proceeds	\$ -	\$ -	\$ -	\$ -	\$ -
Lease Proceeds	622,780	42,166	845,105	750,879	10,396
Gain on Sale of Assets	-	-	-	105,806	-
Insurance Settlement	14,548	-	-	573,250	1,605,908
Transfers from Other Funds	1,756,006	1,884,303	1,584,365	1,516,784	1,578,138
Transfer to Other Funds	(307,469)	(149,498)	(351,759)	(1,297,043)	(405,761)
Total Other Sources (Uses)	<u>\$ 2,085,865</u>	<u>\$ 1,776,971</u>	<u>\$ 2,077,711</u>	<u>\$ 1,649,676</u>	<u>\$ 2,788,681</u>
Excess (Deficiency) of Revenues					
Other Expenditures and Other Sources (Uses)	\$ 2,373,557	\$ 793,306	\$ 865,333	\$ (1,325,198)	\$ (74,264)
Beginning Fund Balance	10,778,333	9,985,027	9,119,697 <sup>(1)</sup>	10,444,894 <sup>(1)</sup>	10,519,157
Ending Fund Balance	<u>\$ 13,151,890</u>	<u>\$ 10,778,333</u>	<u>\$ 9,985,027</u>	<u>\$ 9,119,696</u>	<u>\$ 10,444,893</u>

Source: City of Kingsville, Texas Annual Comprehensive Financial Report.

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

**TABLE 14 - MUNICIPAL SALES TAX HISTORY<sup>(1)</sup>**

The City has adopted the Municipal Sales and Use Tax Act, Texas Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City, the proceeds of which are credited to the General Fund and are not pledged to the payment of Tax Debt, including the Bonds. In addition, the City imposes an additional one-half percent (1/2%) sales tax to reduce ad valorem property taxes pursuant to authority conferred by the Tax Code and a local option election held to authorize the additional 1/2% sales tax to reduce ad valorem property taxes. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. The total City sales tax is 1.50%. Net collections on a fiscal year basis are as follows:

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Rate	Equivalent of Ad Valorem Tax Rate	Per Capita <sup>(2)</sup>
2016	\$ 4,599,145	72.42%	\$ 0.6086	\$ 175.45
2017	4,770,174	71.84%	0.6042	181.89
2018	4,764,200	67.90%	0.5718	182.00
2019	5,080,332	59.99%	0.5944	197.05
2020	5,116,414	58.21%	0.4965	176.74
2021	2,273,924 <sup>(3)</sup>	29.51%	0.2514	77.78

Source: City of Kingsville, Texas Annual Comprehensive Financial Reports.

<sup>(1)</sup> Based on 1.50% City Sales Tax. The 0.50% is for ad valorem tax reduction.

<sup>(2)</sup> Based on population estimates shown on Table 3.

<sup>(3)</sup> Collections through February 28, 2021.

## FINANCIAL POLICIES

**BASIS OF ACCOUNTING . . .** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Those revenues considered susceptible-to-accrual are property taxes, hotel occupancy taxes, special assessments, interest income, and charges for services. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented in the summary form as part of the proprietary fund financial statements. The City's internal service fund accounts for major medical activities. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when presented at the government-wide level in the Statement of Net Position. The net activity of these services is offset against the appropriate functional activity in the Statement of Activities. This complies with the City's policy of eliminating internal activity from the government-wide statements. Interfund services provided and used are not eliminated in the process of consolidation.

The City's fiduciary funds are presented in the fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (e.g., other governments or private parties) and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide statements. The City's fiduciary funds are used to account for court cash bonds held for others, and for certain funds collected and passed through to other governments.

The City reports the following major governmental funds:

**GENERAL FUND . . .** This fund is the general operating fund of the City. It is used to account for all financial resources except for those required to be accounted for in another fund.

**POLICE FORFEITURE FUND . . .** This fund is used to account for revenues from seized assets, and the related expenditures.

Source: City of Kingsville, Texas Annual Comprehensive Financial Report for the Year Ended September 30, 2020.

**DEBT SERVICE FUND . . .** This fund is used to account for funds needed to make principal and interest payments on outstanding bonds when due. The City reports this fund as major because of public interest and consistency between years.

In addition, the City reports the following major enterprise fund:

**ENTERPRISE FUND . . .** This fund is used to account for the operations of the City’s combined utilities. The fund includes the City’s water, wastewater, and stormwater systems, and the activities of the City’s landfill is included in the government-wide (business-type) presentation.

**BUDGETARY PROCEDURES . . .** State laws and the City Charter require the preparation and filing of a balanced annual operating budget. Departments are required to submit requests to the Finance Department by the last week of May for the development of the annual operating budget. Under the direction of the City Manager, the Director of Finance uses these requests to develop a proposed balanced operating budget for presentation to the City Commission by the beginning of August. Following a month of budget discussions and deliberations with City Commission, a public hearing is scheduled for the first week of September and adoption of the budget ordinance and supporting fee schedules occur no later than September 30<sup>th</sup>. The operating budget is prepared by fund, department, function, and organizational unit or project levels.

Budgetary management is delegated to department heads that may approve transfers of appropriations within their department. Budgetary control is performed by both department heads and the Finance Department. Transfer of appropriations between funds and departments requires City Commission approval.

During the months of August and September, a project team comprised of the Finance Department, Engineering Department and applicable department heads initiate a review of previously appropriated capital projects and construction in progress.

Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For governmental funds other than the general fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report. Budget-to-actual reports are prepared on a monthly and unaudited basis by the Finance Department and provided to City Commission and management for review and use in monitoring revenues and expenditures.

Source: City of Kingsville, Texas Annual Comprehensive Financial Report for the Fiscal Year Ended September 30, 2020.

## **INVESTMENTS**

**INVESTMENTS...**Available investable funds of the City are invested as authorized and required by the Texas Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (the “Investment Act”), and in accordance with an Investment Policy approved by the City Commission.

**LEGAL INVESTMENTS...**Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for City deposits, or (ii) certificates of deposit where (a) the funds are invested by the City through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the City with respect to the certificates of deposit issued for the account of the City; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City’s name and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for

termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than “A” or its equivalent, or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the City, held in the City’s name and deposited at the time the investment is made with the City or a third party designated by the City, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers’ acceptances if the bankers’ acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 365 days or less from the date of issuance, and (ii) a rating of at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies, or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the City with a prospectus and other information required by the Securities and Exchange Act of 1934, and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the City has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than “AAA” or “AAA-m” or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the City and deposited with the City or with a third party selected and approved by the City.

**INVESTMENT POLICIES...**Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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

**TABLE 15 - CURRENT INVESTMENTS**

As September 30, 2020, the City's investable funds were invested in the following categories:

Description	% of Total	Market Value
Non Investment Cash Balances	20.30%	\$ 4,855,807
Money Markets	78.23%	18,716,722
Investment Texas Class	1.47%	352,159
Certificates of Deposits	0.00%	-
Total	100%	\$ 23,924,688

As of such date, 100.00% of the City's investment portfolio will mature within one year. The market value of the investment portfolio was approximately 100.00% of its purchase price.

Source: City of Kingsville, Texas 2020 Financial Statements.

**TAX MATTERS**

**OPINION...** Bond Counsel will render its opinion that, under existing law, and assuming compliance with certain covenants and the accuracy of certain representations, discussed below, interest on the Bonds is excludable from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. (See APPENDIX C – Form of Bond Counsel's Opinion.)

Section 103 of the Internal Revenue Code of 1986, as amended (the "Code") establishes certain requirements that must be met at and subsequent to the issuance of the Bonds in order for interest on the Bonds to be and remain excludable from federal gross income. Included among these continuing requirements are certain restrictions and prohibitions on the use of bond proceeds, yield and other restrictions on the investment of gross proceeds and other amounts, and the arbitrage rebate requirement that certain earnings on gross proceeds be rebated to the federal government. Failure to comply with these continuing requirements may cause interest on the Bonds to become includable in gross income for federal income tax purposes retroactively to the date of their issuance. The City has covenanted to comply with certain procedures, and has made certain representations and certifications designed to assure compliance with these Code requirements. In rendering its opinion, Bond Counsel will rely on these covenants, on representations and certifications of the City relating to matters solely within its knowledge (which Bond Counsel has not independently verified), and will assume continuing compliance by the City.

The statutes, regulations, published rulings, and court decisions on which Bond Counsel has based its opinion are subject to change by Congress, as well as to subsequent judicial and administrative interpretation by courts and the Internal Revenue Service (the "Service"). No assurance can be given that such law or its interpretation will not change in a manner that would adversely affect the tax treatment of receipt or accrual of interest on, or the acquisition, ownership, market value, or disposition of, the Bonds. No ruling concerning the tax treatment of the Bonds has been sought from the Service, and the opinion of Bond Counsel is not binding on the Service. The Service has an ongoing audit program of tax-exempt obligations to determine whether, in the Service's view, interest on such tax-exempt obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit were to be commenced, under current procedures, the Service would treat the City as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. In this regard, in responding to or defending an audit with respect to the Bonds, the City might have different or conflicting interests from those of the owners of the Bonds.

In rendering the foregoing opinions, Bond Counsel will rely upon the Report and the representations and certifications of the City made in a certificate dated the date of 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 subsequent to the issuance of the Bonds. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds, the manner in which the proceeds of the Bonds are to be invested, the reporting of certain information to the United States Treasury, and rebating any arbitrage profits to the United States Treasury. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from date of the issuance of the Bonds.

The opinions set forth above are based on existing law and Bond Counsel's knowledge of relevant facts on the date of issuance of the Bonds. Such opinions are an expression of professional judgment and are not a guarantee of result. Except as stated above, Bond Counsel expresses no opinion regarding any other federal, state, or local tax consequences under current law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of, the Bonds. Further, Bond Counsel assumes no obligation to update or supplement its opinions to reflect any facts or circumstances that may come to its attention or any changes in law that may occur after the issuance date of the Bonds. In addition, Bond Counsel has not undertaken to advise in the future whether any events occurring after the issuance date of the Bonds may affect the tax-exempt status of interest on the Bonds.

**ORIGINAL ISSUE DISCOUNT...** Certain of the Bonds (the “Discount Bonds”) may be offered and sold to the public at an “original issue discount” (“OID”). OID is the excess of the stated redemption price at maturity (the principal amount) over the “issue price” of such Bonds. In general, the issue price of Discount Bonds is the first price at which a substantial amount of Discount Bonds of the same maturity are sold to the public (other than bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents, or wholesalers).

For federal income tax purposes, OID accrues to the owner of a Discount Bond over such Discount Bond’s period to maturity based on the constant interest rate method, compounded semiannually (or over a shorter permitted compounding interval selected by the owner). Bond Counsel is of the opinion that the portion of OID that accrues during the ownership period of a Discount Bond (i) is interest excludable from the owner’s gross income for federal income tax purposes to the same extent, and subject to the same considerations discussed above, as is other interest on the Bonds, and (ii) is added to the owner’s tax basis for purposes of determining gain or loss on the maturity, redemption, sale, or other disposition of that Discount Bond. OID may be treated as continuing to accrue even if payment of the Discount Bonds becomes doubtful in the event that the City encounters financial difficulties, and it is treated as interest earned by cash-basis owners, even though no cash corresponding to the accrual is received in the year of accrual. An owner’s adjusted basis in a Discount Bond is increased by accrued OID for purposes of determining gain or loss on sale, exchange, or other disposition of such Discount Bond.

The federal income tax consequences of the acquisition, ownership, redemption, sale, or other disposition of Discount Bonds not purchased in the initial offering at the initial offering price may be determined according to rules different from those described above. Owners of such Discount Bonds should consult their tax advisors regarding the federal, state, and local income tax treatment and consequences of acquisition, ownership, redemption, sale, or other disposition of such Discount Bonds.

**ORIGINAL ISSUE PREMIUM...** Certain maturities of the Bonds (the “Premium Bonds”) may be offered and sold to the public at prices greater than their stated redemption prices (the principal amount) payable at maturity (“Bond Premium”). In general, under section 171 of the Code, an owner of a Premium Bond must amortize the bond premium over the remaining term of the Premium Bond, based on the owner’s yield over the remaining term of the Premium Bond determined based on constant yield principles (in certain cases involving a Premium Bond callable prior to its stated maturity date, the amortization period and yield may be required to be determined on the basis of an earlier call date that results in the lowest yield on such bond). An owner of a Premium Bond must amortize the bond premium by offsetting the qualified stated interest allocable to each interest accrual period under the owner’s regular method of accounting against the bond premium allocable to that period. In the case of a tax-exempt Premium Bond, if the bond premium allocable to an accrual period exceeds the qualified stated interest allocable to that accrual period, the excess is a nondeductible loss. Under certain circumstances, the owner of a Premium Bond may realize a taxable gain upon disposition of the Premium Bond even though it is sold or redeemed for an amount less than or equal to the owner’s original acquisition cost. Owners of any Premium Bonds should consult their own tax advisors regarding the treatment of bond premium for federal income tax purposes, including various special rules relating thereto, and state and local tax consequences, in connection with the acquisition, ownership, amortization of bond premium on, sale, exchange, or other disposition of Premium Bonds.

**COLLATERAL TAX CONSEQUENCES SUMMARY...** The following discussion is a brief discussion of certain collateral federal income tax consequences resulting from the purchase, ownership, or disposition of the Bonds. It does not purport to address all aspects of federal taxation that may be relevant to a particular owner of a Bond. This discussion is based on existing statutes, regulations, published rulings, and court decisions, all of which are subject to change or modification, retroactively. Prospective investors should be aware that the ownership of such obligations may result in collateral federal income tax consequences to various categories of persons, such as corporations (including S corporations and foreign corporations), financial institutions, property and casualty and life insurance companies, individual recipients of Social Security and railroad retirement benefits, individuals otherwise eligible for the earned income tax credit, and taxpayers deemed to have incurred or continued indebtedness to purchase or carry obligations the interest on which is excluded from gross income for federal income tax purposes. Interest on the Bonds may be taken into account in determining the tax liability of foreign corporations subject to the branch profits tax imposed by section 884 of the Code.

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

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

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

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

**CHANGES IN LAW...**Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law or otherwise prevent owners of the Bonds from realizing the full current benefit of the tax status of such interest. In addition, such legislation or actions (whether currently proposed, proposed in the future, or enacted) and such decisions could affect the market price or marketability of the Bonds.

Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

**QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS...**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 interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are 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 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**

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains an “obligated person” with respect to the Bonds, within the meaning of the Securities and Exchange Commission’s Rule 15c2-12 (the “Rule”). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the “MSRB”).

**ANNUAL REPORTS . . .** The City will provide certain updated financial information and operating data to certain information vendors annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6, 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to the Municipal Securities Rulemaking Board (the “MSRB”) through the “EMMA” information system in accordance with recent amendments to the Rule promulgated by the United States Securities and Exchange Commission (the “SEC”).

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City’s current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

**MATERIAL EVENT NOTICES...**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; (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; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect Bondholders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. 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 as herein described. Neither the Bonds nor the Ordinance makes provisions for credit enhancement, liquidity enhancement, or debt service reserves.

For the purposes of this section, (a) the event identified 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 U.S. 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) in clauses (15) and (16) in the immediately preceding paragraph, the term “Financial Obligation” shall have the meaning ascribed thereto in SEC Release No. 34-83885 dated August 20, 2018.

**NOTICE OF FAILURE TO TIMELY FILE...**The City also will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the provisions described above.

**AVAILABILITY OF INFORMATION.** . . The SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, at [www.emma.msrb.org](http://www.emma.msrb.org). EMMA is the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the establishment of EMMA. All information and documentation filing required to be made by the City in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

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

**LIMITATIONS AND AMENDMENTS** . . . The City has agreed to update information and to provide notices of material 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 continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time (a) 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 so amended, would have permitted an underwriter to purchase or sell Bonds in the present offering in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to such amendment, or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the beneficial owners of the Bonds; and (b) upon repeal of the applicable provisions of the Rule, or any judgment by a court of final jurisdiction that such provisions are invalid, or in any other circumstance or manner permitted by the Rule, but in any case, only to the extent that its right to do so would not have prevented an underwriter from lawfully purchasing the Bonds in the present offering in compliance with the Rule.

If the City so amends the agreement, it has agreed to 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 financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS...** Due to an administrative oversight, an event notice was not timely filed with EMMA relating to the City's incurrence of a financial obligation through the private placement of the City's Series 2021 Tax Notes delivered on March 26, 2021. An event notice regarding this financial obligation and a notice of late filing have since been filed. Otherwise, during the last five years, the City believes it has complied in all material respects with all continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

#### **OTHER INFORMATION**

**RATING...** S&P Global Ratings, Inc. ("S&P") assigned a rating of "AA" (stable outlook) to the Bonds based upon the financial guaranty insurance policy of BAM to be issued simultaneously with the delivery of the Bonds. The presently outstanding tax supported debt of the City is rated "A+" by S&P without regard to credit enhancement (see "BOND INSURANCE" and "BOND INSURANCE RISKS" herein). Additionally, the Bonds and the presently outstanding tax supported debt of the City are rated "A+" (stable outlook) by S&P, without regard to credit enhancement.

The forgoing ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P, if, in its judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

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

**REGISTRATION AND QUALIFICATION OF BONDS FOR SALE...**The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any other jurisdiction. The City 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.

**LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS...**Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the 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 "A" or its equivalent as to investment quality by a national rating agency (see "OTHER INFORMATION - Rating" 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 capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

**LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE...**The City will furnish a complete transcript of proceedings made incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Bonds and to the effect that the Bonds are valid and legally binding obligations of the City, and, based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the City and are payable from the proceeds of an annual ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the City, except to the extent the enforceability of the Bonds 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. Though it represents the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Bonds. Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing in this Official Statement under captions or subcaptions in the Official Statement, "THE BONDS" (except for information contained in the subheadings "Use of Bond Proceeds," "Perfected Security Interest," "Book-Entry-Only System," and "Bond Owners' Remedies," as to which no opinion is expressed), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings," as to which no opinion is expressed), "OTHER INFORMATION – Registration and Qualification of Bonds for Sale," and "OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas," 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 legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is

contingent on the sale and delivery of the Bonds. Certain matters will be passed upon by Locke Lord LLP, Austin, Texas, as counsel to the Underwriter whose fee is contingent upon delivery of the Bonds.

The 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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

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

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

**VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS . . .** The arithmetical accuracy of certain computations included in the schedules provided by Estrada Hinojosa & Company, Inc. on behalf of the City was examined by Causey, Demgen & Moore PC, (the "Verification Agent"). Such computations were based solely on assumptions and information supplied by Estrada Hinojosa & Company, Inc. on behalf of the City. The Verification Agent has restricted its procedures to examining the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, have not expressed an opinion on the date used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. The Verification Agents will verify from the information provided to them the mathematical accuracy as of the date of the closing on the Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Governmental Obligations and cash deposits listed in the schedules provided by Estrada Hinojosa & Company, Inc., to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations. The report of the Verification Agent (the "Report") will be relied upon by Bond Counsel in rendering its opinion with respect to the defeasance of the Refunded Obligations.

**UNDERWRITER...**The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at an underwriting discount of \$31,789.77 from the initial public offering prices for the Bonds. The Underwriter's obligation is subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers 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 in accordance with, and as part of, its responsibility to investors under federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

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

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, the Rule.

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

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

The Ordinance approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Initial Purchaser. The Official Statement has been approved by the City Commission for distribution in accordance with provisions of the Rule.

\_\_\_\_\_  
/s/ Sam Fugate  
Mayor  
City of Kingsville, Texas

ATTEST:

\_\_\_\_\_  
/s/ Mary Valenzuela  
City Secretary  
City of Kingsville, Texas

**SCHEDULE I**

**SCHEDULE OF REFUNDED OBLIGATIONS**

**Certificates of Obligation, Series 2013**

Issue	Maturity Date	Interest Rates	Original Principal Amount	Call Date	Call Price
Certificates of Obligation, Series 2013					
	8/1/2022	2.000%	\$ 265,000	8/1/2021	100%
	8/1/2023	2.000%	270,000	8/1/2021	100%
	8/1/2024	3.000%	270,000	8/1/2021	100%
	8/1/2025	3.000%	285,000	8/1/2021	100%
	8/1/2026	3.000%	290,000	8/1/2021	100%
	8/1/2027	3.000%	300,000	8/1/2021	100%
	8/1/2028	3.000%	310,000	8/1/2021	100%
	8/1/2029	3.000%	315,000	8/1/2021	100%
	8/1/2030	3.000%	330,000	8/1/2021	100%
	8/1/2031	3.000%	335,000	8/1/2021	100%
	8/1/2032	3.000%	345,000	8/1/2021	100%
	8/1/2033	3.000%	360,000	8/1/2021	100%
Total Obligations to be Refunded			<u>\$ 3,675,000</u>		

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**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

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## LOCATION AND POPULATION

The City of Kingsville (the “City”) is the county seat of Kleberg County, Texas and principal commercial center located on U.S. Highway 77 southwest of Corpus Christi, Texas. The City is 46 miles southwest of Corpus Christi, 153 miles south of San Antonio, 231 miles southwest of Houston and two hours truck time from Nuevo Laredo and Reynosa, Mexico. The City's 2021 population is estimated to be 29,237. Texas A&M - Kingsville is located within the City limits, and the Naval Air Station-Kingsville is located less than a mile outside the City limits.

## GOVERNMENT

The City was founded in 1904, incorporated in 1911 and adopted its first charter in 1916 as a Home Rule City. The City operates under a commissioner/manager type of government, with five commissioners (including the Mayor), a city planning and zoning commission, a city master plan, plus a zoning board of adjustment.

Emergency facilities include one police station with approximately 60 full-time equivalent employees, and two fire stations with approximately 30 full-time equivalent employees.

Source: City of Kingsville, Texas and the City’s Annual Comprehensive Financial Report for the Year Ended September 30, 2020.

## ECONOMY

### Major Employers

Employer	Type of Business	Approximate Number of Employees
Naval Air Station (Military)	Military Installation	1,502
Texas A&M University - Kingsville	Education	1,050
Celanese	Petrochemical Plant	550
Kingsville ISD	Education	516
City of Kingsville	City Government	325
Wal-Mart	Retail	247
U.S. Border Patrol	Federal Government	246
HEB Grocery	Grocery	240
Christus Spohn Kleberg Hospital	Hospital	221
Kleberg County	County Government	218

Source: The Texas Municipal Advisory Council.

### Educational Facilities

The City of Kingsville is served by the Kingsville Independent School District which includes one high school (9-12), one middle school (7-8), one intermediate school (5-6), one elementary school (EE-4), three elementary schools (PK-4) and two instructional facilities, with a combined 2019-2020 enrollment of 3,102.

Source: Texas Education Agency.

### Texas A&M University-Kingsville

Texas A&M University-Kingsville grew out of the teacher college or “normal school” movement that swept Texas and the nation in the early 1900’s. Chartered in 1917 but not opened until 1925 because of America's entry into World War I, the University is the oldest continuously operating public institution of higher learning in South Texas. Shortly after beginning life as South Texas State Teachers College, its role was expanded to embrace a wider array of programs. As its mission has expanded, its name has changed to reflect its wider scope. Its first name change, to Texas College of Arts and Industries, came in 1929. In 1967 the name changed to Texas A&I University. The University became a member of the Texas A&M University System in 1989 and in 1993 changed its name to Texas A&M University-Kingsville to reflect that membership.

Most of Texas A&M-Kingsville's approximately 8,300 students come from South Texas, but there is wide diversity in the population, with students from more than 35 states and more than 43 countries. The student body is split almost equally between men (53 percent) and women (47 percent). Eighty-two percent of students are undergraduates. The main campus consists of approximately 250 acres and more than 80 buildings. The University Farm consists of 545 acres of land located near the campus.

Source: [www.tamuk.edu](http://www.tamuk.edu).

## Naval Air Station – Kingsville

The Naval Air Station (NAS) Kingsville is one of the U.S. Navy’s premier locations for jet aviation training. Located just east of Kingsville, the NAS’s primary mission is to train tactical jet pilots for the United States Navy and Marine Corps. To accomplish its mission, NAS Kingsville is home to Training Air Wing TWO and several tenant commands, military as well as civilian, with a total complement of approximately 300 officers, 200 enlisted, 350 civilian personnel, and 625 contract maintenance personnel.

The NAS Operations Department operates the airfield and provides services to support operations of activity, tenant, and transiting aircraft; provides firefighting functions, both structural and fire and rescue; provides air traffic control; operates the air terminal; schedules administrative and proficiency flights; repairs and maintains station ground electronics equipment; stores, maintains, and issues assigned ordnance and munitions; and operates firing ranges; operates aerial targets, bombing ranges, and auxiliary landing fields.

Source: [https://en.wikipedia.org/wiki/Naval\\_Air\\_Station\\_Kingsville](https://en.wikipedia.org/wiki/Naval_Air_Station_Kingsville).

## King Ranch

Founded in 1853 by Captain Richard King, the King Ranch sprawls across 825,000 acres of South Texas with land that varies from fertile black farmland, to low-lying coastal marshes, to mesquite infested pastures that mark the beginning of the great Texas brush country. Covering almost 1,300 square miles, it is larger than the entire state of Rhode Island. Captain King’s descendants continue to play an active role at the King Ranch working with professional management to build on traditions of the past and innovations for the future.

While it continues to advance cattle ranching and preserve the legacy begun by Captain King, the King Ranch is more than a cattle ranch. Today’s King Ranch has diversified and grown into a major agribusiness corporation, with interests in cattle ranching and feedlot operations, farming (cotton, grain, sugar cane, and sod), citrus groves, commodity marketing and processing, and recreational hunting. Its retail operations include luggage and leather goods, farm equipment, commercial printing, and tourism.

Source: [www.king-ranch.com](http://www.king-ranch.com).

## LABOR FORCE STATISTICS FOR CITY OF KINGSVILLE<sup>(1)</sup>

	2021 <sup>(2)(4)</sup>	2020 <sup>(3)(4)</sup>	2019 <sup>(3)</sup>	2018 <sup>(3)</sup>	2017 <sup>(3)</sup>
Civilian Labor Force	11,016	10,975	11,021	10,809	10,892
Total Employed	10,075	10,035	10,548	10,257	10,229
Total Unemployed	941	940	473	552	663
Unemployment Rate	8.5%	8.6%	4.3%	5.1%	6.1%
% Unemployed (Texas)	6.8%	8.1%	3.7%	3.9%	4.4%
% Unemployed (U.S.)	7.3%	7.6%	3.5%	3.9%	4.3%

<sup>(1)</sup> Source: Texas Employment Commission.

<sup>(2)</sup> As of January 2021.

<sup>(3)</sup> Average Annual statistics.

<sup>(4)</sup> Unemployment statistics are likely to have changed due to the impact of the COVID-19 pandemic. For the most updated data consult the Texas Workforce Commission and the U.S. Bureau of Labor and Statistics. (See “Introduction – Infectious Disease Outbreak – COVID-19”).

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## KLEBERG COUNTY

Kleberg County was created and organized in 1913 from Nueces County. The County is south of Corpus Christi on U.S. Highway 77 in the Rio Grande Plain region of South Texas. Situated on a grassy plain with elevations ranging from sea level to 150 feet, part of the County's 1,090 square miles lies on the mainland, while the remainder is on Padre Island. A number of creeks, including San Fernando, Santa Gertrudis, Escondido, and Los Olmos, flow into the Callo del Grullo and Baffin Bay in the southeastern section. The County's clay and loam soils are covered in places with such brush as huisache, mesquite, and ebony. Temperatures range from an average January minimum of 48° to an average July maximum of 96°, and the average annual rainfall is 26.5 inches. The growing season is ordinarily 314 days.

### LABOR FORCE STATISTICS FOR KLEBERG COUNTY<sup>(1)</sup>

	2021 <sup>(2) (4)</sup>	2020 <sup>(3) (4)</sup>	2019 <sup>(3)</sup>	2018 <sup>(3)</sup>	2017 <sup>(3)</sup>
Civilian Labor Force	11,016	13,402	13,484	13,310	13,396
Total Employed	10,075	12,277	12,904	12,647	12,598
Total Unemployed	941	1,125	580	663	798
Unemployment Rate	8.5%	8.4%	4.3%	5.0%	6.0%
% Unemployed (Texas)	6.8%	8.1%	3.7%	3.9%	4.4%
% Unemployed (U.S.)	7.3%	7.6%	3.5%	3.9%	4.3%

<sup>(1)</sup> Source: Texas Employment Commission.

<sup>(2)</sup> As of February 2020.

<sup>(3)</sup> Average Annual statistics.

<sup>(4)</sup> Unemployment statistics are likely to have changed due to the impact of the COVID-19 pandemic. For the most updated data consult the Texas Workforce Commission and the U.S. Bureau of Labor and Statistics. (See "Introduction – Infectious Disease Outbreak – COVID-19").

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**APPENDIX B**

EXCERPTS FROM THE  
CITY OF KINGSVILLE, TEXAS  
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2020

The information contained in this Appendix consists of excerpts from the City of Kingsville, Texas Annual Financial Report for the Year Ended September 30, 2020, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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JOHN WOMACK & CO., P.C.  
CERTIFIED PUBLIC ACCOUNTANTS

JOHN L. WOMACK, CPA  
MARGARET KELLY, CPA

P.O. BOX 1147  
KINGSVILLE, TEXAS 78364  
(361) 592-2671  
FAX (361) 592-1411

**Independent Auditor's Report**

To the Mayor and City Commission  
City of Kingsville  
P.O. Box 1458  
Kingsville, Texas 78364

**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 remaining fund information of the City of Kingsville ("the 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**

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

**Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material 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 City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



PRIVATE COMPANIES PRACTICE SECTION, AICPA DIVISION FOR CPA FIRMS

## 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 aggregate remaining fund information of City of Kingsville 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, and budgetary comparison information and schedule of the City's proportionate share of the net pension liability and schedule of City pension contributions, and schedule of the City's proportionate share of the net OPEB liability and schedule of City OPEB contributions identified as Required Supplementary Information 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 City of Kingsville's basic financial statements. The introductory section, combining and individual nonmajor fund financial statements, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

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

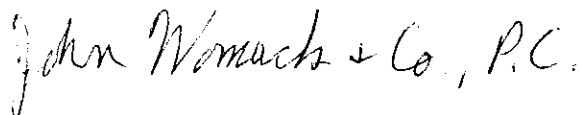
The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.



**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 9, 2021 on our consideration of City of Kingsville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Kingsville's internal control over financial reporting and compliance.

Respectfully submitted,

A handwritten signature in cursive script that reads "John Womack & Co., P.C.".

John Womack & Company, P.C.  
Kingsville, TX  
April 9, 2021

## MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City of Kingsville's (City) annual financial report presents management's discussion and analysis (MD&A) of the City's financial performance during the fiscal year ended September 30, 2020. The MD&A should be read in conjunction with the transmittal letter found in the Introductory Section of this report and the City's Financial Statements which follow this section.

### FINANCIAL HIGHLIGHTS

#### Entity Wide

- Total assets for the City were \$69.7 million compared to \$67.4 million in the prior fiscal year ended September 30, 2019.
- Total deferred outflows of resources were \$1.04 million compared to \$4.1 million in the prior fiscal year ended September 30, 2019.
- Total liabilities were \$30.4 million compared to \$37.8 million in the prior fiscal year ended September 30, 2019.
- Total deferred inflows of resources were \$3.4 million compared to \$478 thousand in the prior fiscal year ended September 30, 2019.
- Total net position was \$37.02 million compared to \$33.2 million in the prior fiscal year ended September 30, 2019.
- The assets of the City exceeded its liabilities by \$37.02 million.

#### Governmental Activities

On a government-wide basis for governmental activities:

- The City had net program expenses of \$14.6 million for the fiscal year ended September 30, 2020 compared to \$17.4 million for the prior year, representing a 15.83% decrease.
- General revenues and transfers totaled \$17.3 million for the fiscal year ended September 30, 2020, compared to the prior year's amount of \$17.4 million, representing a 0.25% decrease.
- Net position overall increased 15.25% from \$17.8 million on September 30, 2019 to \$20.5 million on September 30, 2020.

#### Business Type Activities

On a government-wide basis for business type activities:

- The City had net program revenues of \$3.9 million for the fiscal year ended September 30, 2020 compared to \$2.5 million for the prior year, representing a 52.6% increase.
- General revenues and transfers out totaled (\$2.7) million for the fiscal year ended September 30, 2019, compared to the prior year's amount of (\$2.5) million, representing a 7.28% increase.
- Net position overall increased 7.51% from \$15.4 million on September 30, 2019 to \$16.5 million on September 30, 2020.
- On September 30, 2020, business-type activities had \$15.3 million in total liabilities compared to \$16.6 million on September 30, 2019.

### **Governmental Activities vs Business-Type Activities**

- The ratio of total assets to total liabilities for governmental activities was 2.49 times; for business-type activities the ratio was 2.10 times.
- The quick ratio (current assets to current liabilities) was 4.47 times for governmental activities and 3.68 times for business-type activities.
- Total net position was \$37.02 million, which is an increase of \$3.87 million from the prior year, or about 11.66%. Governmental activities' net position increased by 15.25%, while business-type activities' net position increased by 7.51%.

### **General Fund**

- The fund balance of the General Fund increased from \$10.8 million to \$13.2 million. This represents a 22.02% increase from the prior year's fund balance, and furthermore, represents 62.26% of the \$21.1 million in expenditures. The General Fund's Unassigned Fund Balance was \$9.1 million, or 42.92% of general fund expenditures.
- General Fund revenues for the fiscal year ended September 30, 2020, of \$23.18 million were 5.71% higher than the prior year revenues of \$21.93 million. The increase is mainly due to a \$1.4 million in higher intergovernmental revenues.
- General Fund's expenditures for the fiscal year ended September 30, 2020, of \$21.43 million were 1.39% higher than the prior year expenditures of \$21.14 million. The increase is mainly due to an increase in the public safety department of 2.7%.
- General Fund 001 is part of the General Funds included in the Annual Comprehensive Financial Report. The financial policies state the City must maintain a reserve for major contingencies of at least 25% of the total General Fund 001 appropriations. General Fund 001's unassigned fund balance on September 30, 2019 was \$7.33 million, representing a 37.86% reserve, and that fund balance increased to \$8.84 million on September 30, 2020, for a 47.75% reserve.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of *management's discussion and analysis* (this section), the *basic financial statements*, and *supplementary information*. Figure A-1 demonstrates the relationships among the components of this annual report.

The basic financial statements are comprised of three components:

- The *government-wide financial statements* provide both long-term and short-term information about the City's overall financial status. These statements are presented for both *governmental activities* and *business-type activities*. They are designed to provide readers with a broad overview of the City's finances, like a private-sector business.
  - The *statement of net position* presents information on all the City's assets and liabilities, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.
  - The *statement of activities* presents information to show how the City's net position changed during the most recent fiscal year. All changes in net position

are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.

- Both government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*).
- The *fund financial statements* focus on individual parts of the City, reporting the City's operations in greater detail than the government-wide statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.
  - The *governmental funds* statements show how general government services were financed in the short-term as well as what remains for future spending. The two major governmental funds are the General Fund and the Debt Service Fund.
  - *Proprietary fund* statements offer short-term and long-term financial information about the activities the City operates like a business: *enterprise funds* and *internal service funds*. The major proprietary fund is the combined Utility System Fund.
  - *Fiduciary funds* statements provide information about the financial relationships in which the City acts solely as a *trustee* or *agent* for the benefit of others, to whom the resources belong. *Fiduciary funds* are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary fund.
- *Notes to the financial statements* provide essential additional information to provide a clear picture of the assets, liabilities, or inherent risks. The notes to the financial statements follow the basic financial statements.

The financial statements are followed by a section of *required supplementary information (RSI)* that further explains and supports the information in the financial statements. RSI information follows the notes to the financial statements.

**Figure A-1: Required Components of the City’s Annual Financial Report**

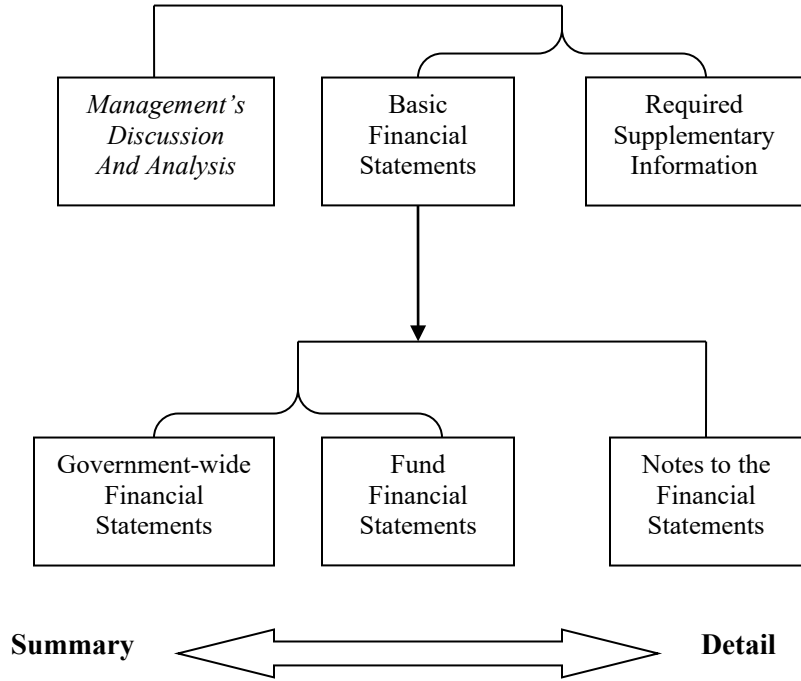


Figure A-1 shows how the required parts of this annual financial report are arranged and relate to one another. In addition to these required elements, a section with combining statements that provides details about the non-major governmental funds and internal service funds is included.

**More about the City’s Fund Financial Statements:**

*Governmental funds* are used to account for essentially the same functions reported as *governmental activities* except that the Solid Waste Activity is reported as a business-type activity in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

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

Major and non-major funds are presented separately in the governmental fund’s balance sheet and in the governmental fund’s statement of revenues, expenditures, and changes in fund balances.

The general fund and the debt service fund are presented separately along with the aggregated *other governmental funds*. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* following the presentation of the major funds. There are four non-major governmental funds.

The City adopts an annual operating budget for governmental funds. A budgetary comparison statement has been provided for these funds to demonstrate compliance with this budget.

**More about the City’s Proprietary Funds:**

Two types of *proprietary funds* are used by the City:

*Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements, excluding solid waste, which is recorded in the General Fund. The City uses enterprise funds to account for its Utility System, which provides water, sewer, and garbage services. Proprietary funds provide the same type of information as the government-wide financial statements, only in greater detail.

*Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City’s various functions. The City uses an internal service fund to account for risk management activities, including insurance for general liabilities, workers’ compensation, and health benefits. Because this coverage predominantly benefits governmental rather than business-type functions, it has been included within *governmental activities* in the government-wide financial statements.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

**Net Position**

Net position serves over time as a useful indicator of the City’s financial position. On September 30, 2020, the net position totaled \$37.02 million, \$3.87 million more than the prior year. The composition of this net position is \$20.49 million for governmental activities and \$16.52 million for business-type activities, which is comprised primarily of the Combined Utility System.

A large portion of the City’s net position is invested in capital assets (e.g., land, infrastructure, buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding and represents 49.9% of the total net position. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City’s investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The City has 2.5% of its net position set aside for the retirement of debt. Approximately 42.6% of the City’s governmental activities’ net position is unrestricted in their use for City activities.

**Table A-1: Net Position for Governmental and Business-type Activities  
September 30, 2020 and 2019  
(in thousands of dollars)**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current & other assets	\$ 18,735	\$ 16,416	\$ 10,783	\$ 10,000	\$ 29,518	\$ 26,416
Capital assets	18,841	19,558	21,379	21,410	40,220	40,968
<b>Total assets</b>	<u>37,576</u>	<u>35,974</u>	<u>32,162</u>	<u>31,410</u>	<u>69,738</u>	<u>67,384</u>
Deferred Outflows of Revenues	841	3,456	194	613	1,035	4,069
Long-term liabilities	10,906	17,088	12,370	13,794	23,276	30,882
Other liabilities	4,188	4,176	2,931	2,766	7,119	6,942
<b>Total liabilities</b>	<u>15,094</u>	<u>21,264</u>	<u>15,301</u>	<u>16,560</u>	<u>30,395</u>	<u>37,824</u>
Deferred Inflows of Revenues	2,829	384	533	94	3,362	478
Net investment in capital assets	8,733	8,388	9,726	9,265	18,459	17,653
Restricted	3,023	3,538	2,735	3,600	5,758	7,138
Unrestricted	8,738	5,856	4,061	2,504	12,799	8,360
<b>Total net position</b>	<u>\$ 20,494</u>	<u>\$ 17,782</u>	<u>\$ 16,522</u>	<u>\$ 15,369</u>	<u>\$ 37,016</u>	<u>\$ 33,151</u>

**TABLE A-1: Governmental-Type Activities**

Current & Other Assets increased \$2.3 million from \$16.4 million in FY19 to \$18.73 million in FY20, or 14.12%. Most of this increase is due to the City’s higher cash balances and amounts due from Other Governments. Capital assets, net of accumulated depreciation, decreased \$716 thousand from \$19.6 million in FY19, to \$18.8 million in FY20, or 3.66%. Long-term liabilities decreased \$6.18 million from \$17.1 million in FY19 to \$10.9 million in FY20, or 36.18%. Most of this decrease is due to decreases in contractual obligations and post-employment benefit accruals and the OPEB liability. Other liabilities increased \$13 thousand from \$4.18 million in FY19 to \$4.19 million in FY20 or, 0.30%. This was due to increases in accounts payable, accrued wages payable and amounts due to other governments.

As a result of accurately reflecting the restrictions on fund balances, Restricted Net Position decreased by \$515 thousand from \$3.54 million in FY19 to \$3.02 million in FY20, or 14.6% as follows:

(\$81,378)	decreased	Federal and State programs
\$92,840	increased	Debt Service
(\$2,136)	decreased	Capital projects
\$2,839	increased	Municipal Court Building Security funds
(\$546,241)	decreased	Law Enforcement
(\$2,477)	decreased	Municipal Court Technology fund
\$21,368	increased	Tourism funds

Unrestricted Net Position increased \$2.88million from \$5.9 million in FY19 to \$8.7 million in FY20, or 49.22%.

**TABLE A-1: Business-Type Activities**

The Combined Utility System's net position was \$16.5 million at FY20, which is 44.6% of total net position and is \$1.2 million more than the prior year. The Combined Utility System contributed all the total unrestricted business-type net position.

Current & Other Assets increased \$783 thousand from \$10.0 million in FY19 to \$10.8 million in FY20, or 7.83%. Restricted Cash is up from \$289 thousand in FY19 to \$2.14 million in FY20 due to the increase in cash balances. Capital assets, net of accumulated depreciation, decreased \$31 thousand from \$21.40 million in FY19 to \$21.38 million in FY20, or 0.14%, due to annual straight-line depreciation costs.

Long-term liabilities decreased \$1.4 million from \$13.8 million in FY19 to \$12.4 million in FY20, or 10.32% due to reductions in contractual obligations, the post-employment and accrued pension liabilities. Net investment in capital assets increased \$461 thousand from \$9.26 million in FY19 to \$9.73 million in FY20, or 4.98% due to the addition of capital projects.

Restricted net position decreased \$865 thousand from \$3.6 million in FY19 to \$2.7 million in FY20, or 24.03%. Capital projects make up all the restricted net position.

Unrestricted net position increased \$1.56 million from \$2.50 million in FY19 to \$4.06 million in FY20, or 62.17%. This increase is due to the reduction of the restricted net position (capital projects fund) and the current year's excess of revenues over expenses.

The City has sufficient funds to meet requirements for cash outlays in the next fiscal year as well as the financial capacity to meet its long-term obligations.



## Changes in Net Position

Table A-2 details the City's change in net position from the prior year.

**Table A-2: Changes in Net Position**  
**September 30, 2020 and 2019**  
**(in thousands of dollars)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Revenue:						
Program revenue:						
Charges for services	\$ 2,995	\$ 3,129	\$ 13,549	\$ 12,812	\$ 16,544	\$ 15,941
Operating grants & contributions	2,607	1,380	142	25	2,749	1,405
Capital grants & contributions						
General revenues:						
Property taxes	7,652	7,408	-	-	7,652	7,408
Sales taxes	5,116	5,080	-	-	5,116	5,080
Other taxes	1,429	1,740	-	-	1,429	1,740
Investment earnings	261	396	105	157	366	553
Insurance Settlement	-	-	-	-	-	-
Gain (loss) on disposal of capital assets	24	32	-	0	24	32
Other	40	41	-	-	40	41
Total revenues	<u>20,124</u>	<u>19,206</u>	<u>13,796</u>	<u>12,994</u>	<u>33,920</u>	<u>32,200</u>
Expenses:						
General government	4,659	4,720	-	-	4,659	4,720
Public safety	9,545	10,273	-	-	9,545	10,273
Public works	3,053	3,632	-	-	3,053	3,632
Health & other public svcs.	2,168	2,338	-	-	2,168	2,338
Tourism	544	651	-	-	544	651
Interest on long-term debt	266	280	-	-	266	280
Water, wastewater & storm water	-	-	7,085	7,334	7,085	7,334
Solid waste	-	-	2,735	2,966	2,735	2,966
Total expenses	<u>20,235</u>	<u>21,894</u>	<u>9,820</u>	<u>10,300</u>	<u>30,055</u>	<u>32,194</u>
Increase (Decrease) in net position before transfers	(111)	(2,688)	3,976	2,694	3,865	6
Transfers	<u>2,823</u>	<u>2,691</u>	<u>(2,823)</u>	<u>(2,691)</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	2,712	3	1,153	3	3,865	6
Net position, beginning	17,782	17,779	15,369	14,089	33,151	31,868
Prior period adjustment	-	0	0	1,277	0	1,277
Net position, ending	<u>\$ 20,494</u>	<u>\$ 17,782</u>	<u>\$ 16,522</u>	<u>\$ 15,369</u>	<u>\$ 37,016</u>	<u>\$ 33,151</u>

## **TABLE A-2: Governmental Activities**

As shown in Table A-2, revenues were split between governmental activities and business-type activities at 59.33% and 40.67%, respectively. Expenses for each were 67.33% and 32.67%. Net position increased 15.25% from the prior period for governmental activities, increased 7.50% for business-type activities, and increased 11.66% overall.

The cost of all *governmental* activities for the fiscal year 2020 was \$20.23 million. However, the amount that taxpayers paid for these services through City taxes and business fees was \$14.2 million.

Some of the cost was paid by:

- Those who directly benefited from the programs, or \$3.0 million, and
- Other governments and organizations that subsidized certain programs with grants and contributions was \$2.6 million.
- Charges for services comprised 13.05% of governmental activities' revenues including transfers in and 98.2% of business-type activities' revenues.
- Taxes contributed 61.87% of governmental activities' revenues including transfers.
- Investment earnings, not including transfers, generated 1.30% and 0.76% of governmental activities revenues and business-type activities, respectively.
- Public Safety (including Police, Fire, Emergency Management, Inspections and Municipal Court) expenses accounted for 47.17% of governmental activities' expenses and 15.09% of governmental activities' expenses were for Public Works.
- Public Safety required the largest net amount of public funds after deducting program revenue, grants, and contributions. The total subsidy was \$6.45 million.
- General government comprises 23.02% of all governmental activities' expenses.

Charges for services revenue decreased \$134 thousand from \$3.1 million in FY19 to \$3.0 million in FY20, or 4.28%. These revenues come from licenses and permit fees along with other miscellaneous changes. This decrease comes mainly from lesser amounts of permits and licenses being issued due to the pandemic. Sales tax revenue increased \$36 thousand from \$5.08 million in FY19 to \$5.16 million in FY20, or 0.71%. The City's sales tax held throughout the pandemic that hit most of the United States beginning in March 2020. As the City of Kingsville is not a tourist destination, sales taxes did not fluctuate as in the neighboring city of Corpus Christi. As one sector may have declined, another sector increased. In FY20, the City's one-time comptroller audit adjustments decreased overall sales tax payments by \$99,326.

Other Revenues decreased from \$41 thousand in FY19 to \$40 thousand in FY20.

General government expenses decreased \$61 thousand from \$4.72 million in FY19 to \$4.66 million in FY20, or 1.29%. Public Safety expenses decreased \$728 thousand from \$10.3 million in FY19 to \$9.5 million in FY20, or 7.09%. Public Works expenses decreased \$579 thousand from \$3.63 million in FY19 to \$3.05 million in FY20, or 15.94%. Overall expenditures went down by \$1.66 million due to concerted efforts to cut expenditures and additional funding from the CARES ACT.

The net decrease in net position before transfers changed by \$2.8 million, from a \$2.7 million decrease in FY19 to a \$111 thousand decrease in FY20. Transfers increased \$132 thousand, from \$2.7 million in FY19 to \$2.8 million in FY20, or 4.91%.

**TABLE A-2: Business-Type Activities**

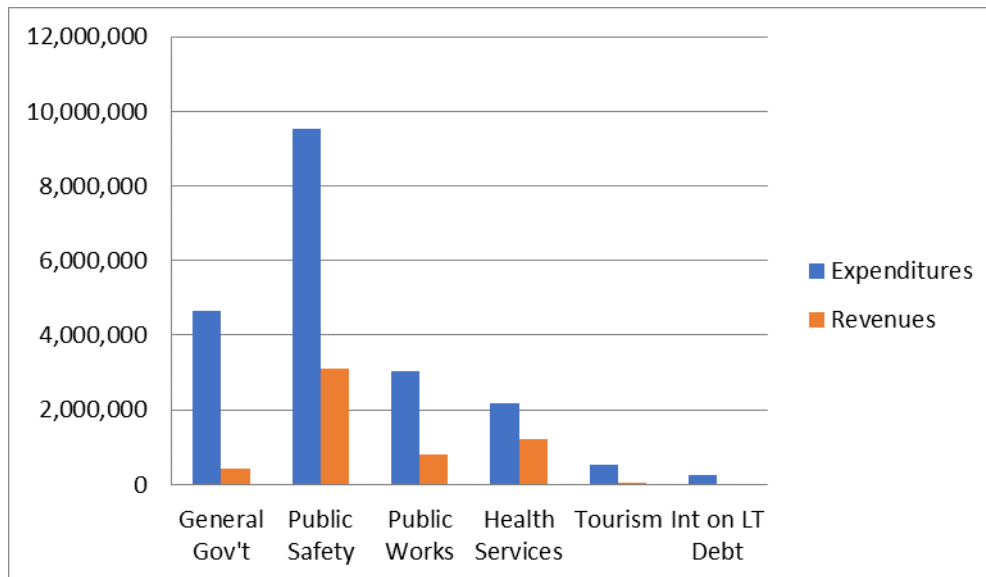
Charges for services revenue increased \$737 thousand from \$12.8 million in FY19 to \$13.5 million in FY20, or 5.75%. Wastewater rates increased 5% in FY20.

The net increase in net position before transfers was \$1.3 million, from \$2.69 million in FY19 to \$3.98 million in FY20, or 47.62%. Transfers Out increased \$132 thousand from \$2.7 million in FY19 to \$2.8 million in FY20, or 4.91%.

Solid Waste expenses decreased \$231 thousand from \$3.0 million in FY19 to \$2.7 million in FY20, or 7.79%. Water and wastewater expenses decreased \$249 thousand from \$7.33 million in FY19 to \$7.09 million in FY20, or 3.40%.

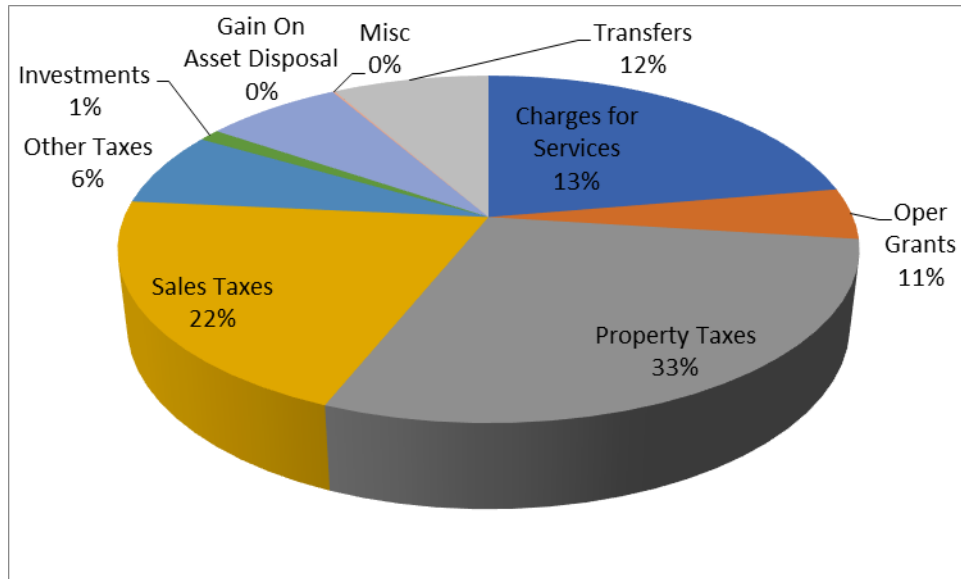
Graph 1 presents the cost of each of the City’s major governmental functions, as well as the associated program revenues.

**Graph 1: Program Revenues to Activity Expenditures**



Graph 2 indicates, in pie chart form, the sources of revenue for governmental activities. As expected in governmental activities, the subsidy required from taxpayers provides the majority support to these core services.

**Graph 2: Revenue by Source – Governmental Activities**



Revenues of the City’s business-type activities are associated with operating activities accounted for in the Enterprise Funds. Solid Waste and Storm Water activities are recorded in the General Fund but are shown in the government-wide statement as a business-type activity.

The Combined Utilities System of water, wastewater, and storm water accounted for 72.15% of the expenses generated for business-type activities, with solid waste accounting for an additional 27.85%. The Utilities System had operating revenues of \$9.03 million, up by \$414 thousand, and operating income before transfers was of \$2.09 million, an increase of \$816 thousand. The major causes of these results were:

- Water revenues were up by \$157 thousand due to increased consumption
- Wastewater revenues were up by \$341 thousand due to a rate increase
- Stormwater revenues were up by \$24 thousand
- Operating grant revenues were up by \$118 thousand
- The operating expenses decreased by \$249 thousand, primarily due to overall expenditure reductions.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

### Governmental Funds

- Total assets of the General Fund increased \$2.6 million from \$12.84 million to \$15.45 million between FY19 and FY20. Most of this overall increase in total assets is from an increase of \$2.16 million in Equity in Pooled Cash and Cash Equivalents due to funding received from the Cares Act, an increase of \$1.15 million in Due From Other Governments and a decrease of \$782 thousand from Due From Other Funds.
- Deferred Revenues for FY20 increased \$28 thousand. Total liabilities of the General Fund increased by \$203 thousand to approximately \$1.66 million or, 13.91%. Most of the increase is attributed to a \$250 increase in Due To Other Funds and others. This brings the ratio of total assets to total liabilities (including deferred revenues) to 6.73 times in 2020, up from 6.22 in 2019.
- Starting on page 87, see the Budgetary Results of the General Fund section below for more details on the General Fund revenues and expenditures resulting in General Fund excess of revenues over expenditures before other financing sources.
- Committed Fund Balance for Street Maintenance increased by \$243 thousand. The Committed Fund Balance for Landfill Closure/ Post Closure increased by \$129 thousand and increased \$109 thousand for Capital Outlay. The overall Fund Balance increased \$2.37 million from \$10.8 million in FY19 to \$13.2 million in FY20.

### Police Forfeiture Funds

- Total assets of the Police Forfeiture Fund decreased \$388 thousand from \$2.1 million to \$1.7 million between FY19 and FY20. Most of this overall decrease in total assets is from a decrease in Cash and Cash Equivalents of \$344 thousand and a decrease in Restricted Cash and Cash Equivalents of \$40 thousand as compared to FY19. There are fewer seizures occurring due to the construction work on US 77.
- Total liabilities of the Police Forfeiture Fund decreased by \$315 thousand from \$806 thousand in FY19 to approximately \$491 thousand in FY20. This brings the quick ratio (current assets to current liabilities) to 3.52 times in FY20 from 2.62 times in FY19.
- Year-end unsettled seizures remain from current City of Kingsville Police department seizures. Unsettled seizures pending were down \$43 thousand, and Due to Other Funds and Governments were down \$224 thousand on September 30, 2020, due to all payoffs not being completed before year end.
- The Police Forfeiture Fund revenues increased \$34 thousand or 38.99%, from \$88 thousand in FY19 to \$122 thousand in FY20. This amount of increase was due to an increase of awarded seizure of funds. Police Forfeiture Fund expenditures saw a decrease of \$681 thousand from \$872 thousand in FY19 to \$191 thousand in FY20. As the number of awarded seizures decrease, so too will the amount of expenditures.
- The Police Forfeiture Fund Restricted Fund Balance decreased by \$73 thousand from \$1.3 million in FY19 to \$1.2 million in FY20. The net of revenues over or under expenditures determines the change in value of the fund balance.

### Debt Service Fund

- The Debt Service Fund Balance decreased \$146 thousand from \$764 thousand in FY19 to \$618 thousand in FY20. This was a decrease of 19.09% from FY19 to FY20. The City

structures the Debt Service Fund Balance to minimize the balance being carried to no more than required for the cash flow necessary to service the City's debt.

### **Other Governmental Funds**

- Total assets of the Other Governmental Funds decreased \$744 thousand from \$1.8 million to \$1.0 million between FY19 and FY20. Equity in Pooled Cash and Cash equivalents increased \$138 thousand, while Restricted Cash and Cash equivalents decreased \$794 thousand. Accounts Receivable decreased \$24 thousand and Due From Other Funds and Governments decreased \$49 thousand between FY19 and FY20.
- Total liabilities and deferred revenues of the Other Governmental Funds decreased by \$627 thousand to approximately \$230 thousand, a 73.12% decrease. Most of the decrease is attributed to a \$564 thousand decrease in Due to Other Funds and Governments due to end of year payoffs that were completed by year end.
- Other Governmental Funds includes Federal and State grants and Capital Projects Funds. As the awarding of grants decline and capital projects are completed, these fund balances will continue to decrease due to the nature of these types of funds. The fund balance for these funds was \$930 thousand in FY19 and decreased to \$760 thousand in FY20.

### **Budgetary Results of the General Fund**

#### **Revenues**

Per page 87, General Fund taxes and business tax revenues were \$12.2 million, which was \$212 thousand, or 1.77% above the final budget. Ad Valorem Delinquent revenues were \$138 thousand, which was \$38 thousand, or 38.47% above budget. Penalty and interest were \$102 thousand, which was \$2 thousand, or 2.37%, above budget, respectively. The City usually budgets these estimated revenues low to adjust for possible anomalies that might occur in the collection process. Sales Tax Revenue was \$5.1 million, which was \$95 thousand, or 1.88% above budget. Franchise tax revenue was \$869 thousand, which was \$219 thousand or 33.67% higher than the final budget. These variances are the result of conservative budgeting and changes in the local economy. It is fortunate that the City of Kingsville practices conservative budgeting due to the pandemic that continues through today. This practice allowed actuals to come close to conservative budget estimates. Franchise taxes had the highest difference due to unknown affects on the legislative change to payers of franchise taxes.

Fines and Forfeitures revenue was less than the Final Budget for FY20 by \$173 thousand, or 21.06%. In FY20, there was \$71 thousand more budgeted for Fines revenue than in FY19. The budget was increased due to increased revenues in FY 19; however, the pandemic caused court sessions to be cancelled for many months. Smaller dockets and virtual court sessions continue. Warrants were affected as well as the County jail was not accepting new defendants due to social distancing, sanitizing requirements and the spread of COVID.

Total Charges for Sanitation Services revenues were \$4.1 million which was \$82 thousand, or 2.04% more than the final budget. Sanitation Services Garbage Fees revenue was lower than the final budget by \$66 thousand, or 1.96% of the Final Budget for FY20. The Sanitation Services Landfill Fees revenue was more than the final budget by \$161 thousand, or about 25.65% for

FY20. This increase was directly related to the acceptance of more outside haulers using the landfill. This increase helped to offset the shortage in the local shortfall in garbage revenue.

## **Expenditures**

### **City Administration Department**

The City Commission expenditures were lower than the final budget by \$40 thousand or 28.74%. Commissioners were not able to travel as conferences were cancelled and a restoration project was put on hold due to the pandemic.

The City Manager expenditures were lower than the final budget by \$56 thousand or 17.85%. The City Manager was hired in December 2020 and having an interim for the first quarter resulted in lower payroll costs. Travel expenses were less as many conferences were cancelled and services were paired down with working from home.

City Special Services expenditures were lower than the final budget by \$177 thousand, or 18.17%. This favorable budget variance was mainly the result of lower expenditures for property and liability insurance and non-expenditures for events that were cancelled.

Economic Development saw expenditures lower by \$47 thousand due to an incentive agreement payment not due in FY 20.

Overall, the City Administration Department was able to reduce expenditures by \$319 thousand or 20.20%.

### **Management Services Department**

The Personnel Division expenditures were lower than the final budget by \$18 thousand or 4.70% due to lower costs associated with a wellness initiative that was put on hold. As much of the administrative workforce worked remotely and face to face interactions with the public were reduced, expenditures associated with this division were reduced. As with other divisions, travel did not occur as conferences were cancelled.

Municipal Court expenditures were lower than the final budget by \$12 thousand or 4.01%. Expenditures for travel decreased due to conferences cancelled and services budgeted for interpreters and court notices decreased due to court dockets being cancelled or reduced due to the pandemic.

Finance expenditures were lower than the final budget by \$11 thousand or 1.71%. Expenditures for supplies decreased due to the workforce working remotely for 7 months and travel was put on hold due to the pandemic.

Facilities expenditures were lower than the final budget by \$33 thousand or 6.27%. Expenditures for building maintenance decreased due to maintenance projects that were put on hold and several buildings had less traffic requiring less on-going maintenance.

Information Technology expenditures decreased by \$39 thousand, or 6.85%. The Cares Act provided funding for technology items that would have been paid with the regular budget. As workers needed technology equipment to work from home, office equipment was used less and resulted in fewer computers needing to be replaced as planned.

Overall, the Management Services Department expenditures were lower by \$112 thousand or 4.69%.

### **Legal Department**

The Legal Department expenditures were lower by \$27 thousand, or 10.54%. Expenditures for contract attorney work decreased due to reduced Municipal Court dockets and travel did not occur due to cancelled conference and training sessions due to the pandemic.

### **Urban Development Department**

Planning expenditures were lower by \$26 thousand, or 16.42% due to vacancies in the department and most travel was put on hold due to the pandemic.

Permits and Licenses expenditures were lower by \$5 thousand, or 3.48% due to reduce travel expenditures and a change to an operating lease.

Community Appearance Services expenditures were lower than the final budget by \$94 thousand, or 26.29%. The reason for less than budgeted expenditures was mainly due to the Beautification program that was reduced, and salary savings occurred due to an employee transfer.

The Downtown Manager division expenditures were lower than the final budget by \$9 thousand, or 9.42% due to a change in personnel and travel was put on hold.

Overall, the Urban Development Department expenditures were lower by \$134 thousand or 17.47%.

### **Police Department**

Police Department total expenditures were lower than the final budget by \$426 thousand, or 6.89%. Of this lower amount, \$31 thousand is related to lower Personal Services expenditures due to vacancies. Supplies were lower by \$50 thousand due to vacancies which resulted in lower gasoline usage, guns and ammunition needs and uniforms. Services were lower by \$72 thousand due to less travel and training and less costs to house inmates at the County jail as they were not accepting any local defendants due to COVID. Equipment Maintenance was lower by \$23 thousand due to less vehicle maintenance. Building Maintenance was lower by \$18 thousand due to planned maintenance being put on hold. Lease payments were lower by \$72 thousand due to an anticipated lease payment not occurring in the initial year. Capital outlay expenditures were lower by \$159 thousand as costs came in lower than expected.

### **Fire Department**

Fire Department total expenditures were lower than the final budget by \$403 thousand, or 10.97%. Personal Services expenditures for the Fire Department were \$70 thousand below



budget due to vacancies, along with Supplies at \$22 thousand below budget due to lower costs of uniforms and personal protection items. Services were \$41 thousand below budget due to lower travel costs and Vehicle and Equipment Maintenance was \$13 thousand below budget due to planned maintenance being put on hold. Capital outlay expenditures were lower by \$256 thousand due to a planned vehicle replacement that did not occur because funding for this purchase was not received due to changes in the outside administration of this supplemental program.

### **Volunteer Fire Department**

Expenditures for the Volunteer Fire Department were \$28 thousand less than the final budget, or 45.38%. Usage of volunteers declined due to the pandemic, which in turn reduced all the associated costs.

### **Public Works Department**

Expenditures for the Public Works Administration division were \$15 thousand less than the final budget, or 4.77% due to vacancies. There was a change to software maintenance and a vehicle purchase was less costly than planned.

Garage expenditures were \$5 thousand less than the final budget, or 1.0% due to less work needed by the garage.

Sanitation expenditures were less than the final budget by \$63 thousand, or 4.75% mostly due to the initial capital lease payment budgeted that did not occur in FY 19-20.

Street total expenditures were lower than the final budget by \$353 thousand, or 14.80%. The majority of this came from lower maintenance expenditures of \$270 thousand due to delays in work and \$81 thousand due to employee vacancies.

Landfill total expenditures were lower than the final budget by \$123 thousand, or 8.07%. Lower expenditures were due to reduced overall operations due to the pandemic. Reductions in all expenditure categories occurred.

The Recycling Center total expenditures were lower than the final budget by \$8 thousand, or 16.96% due to a vacancy and less service for the compactor and bailer.

Overall, the Public Works Department expenditures were lower by \$566 thousand, or 9.33%.

### **Health Department**

Health Department expenditures were lower than the final budget by \$35 thousand, or 9.59% due to reduced operations due to the pandemic. All expenditure categories saw reductions.

### **Parks and Recreation Department**

Total expenditures for the Parks and Recreation Department were lower than the final budget by \$177 thousand, or 16.64%. This department was hard hit by the pandemic as the pool, softball, and recreation programs closed for the year due to the pandemic. Events were cancelled due to capacity limits set by the state legislators.

### **Golf Course**

Total expenditures for the Golf Course were lower than the final budget by \$159 thousand, or 20.60%. This department was like the Parks and Recreation Department in that the Golf Course was also closed for most of the fiscal year due to the pandemic. Even though the Golf Course could open limited hours towards the end of the fiscal year, this department took a hit in both expenditures and revenues.

### **Total Revenues and Expenditures**

General Fund total revenues, not including transfers-in, were \$21.4 million which is \$1.03 million, or 5.04% above the final budget. The General Fund expenditures not including transfers-out came in at \$21.1 million which is \$2.4 million or 10.17% below the final budget. Actual revenues exceeded expenditures by \$288 thousand, but it does not include Other Financing Sources of \$2.09 million.

### **Budget Amendments of the General Fund**

The General Fund revenues budget was amended by an increase of \$357 thousand to the following sources:

- General services fee budget was amended by \$52 thousand. This budget includes donations which are never budgeted prior to receiving the donation.
- Other donations received not budgeted prior to receiving totaled \$25 thousand.
- Intergovernmental revenue budget was amended by \$279,334 for the advance funding from the Care Act.

Further information on the revenue amendments is detailed on page 81-82 of the Notes to the Financial Statement.

The General Funds comparison of expenditures from the Original Budget to the Final Budget overall change of \$571 thousand from the following sources::

The City Administration Department budget increased by \$270,872. Included in this overall department is:

- City Manager budget decreased by \$8,463. Overage in the health care budget in this division was used to cover other division health care shortages.
- City Special budget changed by \$279,334 for increases in expenditures reimbursed by the Cares Act advance funding.

The Management Services Department budget changed by (\$4,824). Included in this overall department is:

- Personnel budget changed by \$3,676
- Finance budget changed by (\$26,071) due to a vacant position.
- Information Technology budget changed by (\$6,803) due to lower personnel costs.

The Legal Department budget changed by \$1,044 due to increased health care costs.

The Urban Development Department budget changed by \$21,538. Included in this overall department is:

- Planning changed by (\$21,621) due to lower personnel costs and professional services due to staffing changes.
- Permits and Licenses changed by \$31,964 due to additional inspection costs due to staffing changes.
- Community Appearance changed by \$7,625 due to sidewalk project that was needed to be completed but was unknown about to be part of the budget process.
- The Downtown Manager budget changed by \$3,571 due to additional Christmas decorations were needed for the downtown area.

The Police department budget changed by \$2,156 due to a donation received for K-9 body armor.

The Fire department changed by \$25,633 due to rolled over projects from the prior fiscal year.

The Public Works Department changed by \$6,268 due to budget cutting.

The Parks and Recreation Department budget changed by \$74,056 due to \$19,900 donations received for recreational programs, \$43,491 in roll-over projects that were not completed in the prior year and \$10,665 in additional equipment to open the new dog park.

The Golf Course Department budget changed by \$144,120 for due to emergency repairs that were needed for the fairways.

The Tourism Department budget changed by \$43,000 due to professional services billed as part of the funding commitment for the JK Northway.

Operating transfers out were changed by \$42,936 for the sidewalk project, provide additional funding for the golf course emergency repairs and a grant cash match.

Additional information on the City's Original Budget to Final Budget and Final Budget to Actual can be found on Exhibit B-1, pages 87-94 Further information on the expenditure amendments is detailed on pages 81-82 of the Notes to the Financial Statement.

### **Non-major Governmental Funds**

Four special revenue funds comprise the portion of the financial statements found on pages 101-109. Total assets for the combined funds were \$1.04 million, total liabilities were \$283 thousand, and total fund balances were \$760 thousand, with \$58 in Assigned Fund Balance, \$755 thousand in Restricted Fund Balance and \$5 thousand in Committed Fund Balance.

The Tourism Fund makes up 49.35% of the revenues of the special revenue funds. The main source of funding for the Tourism Fund is from Hotel/Motel Occupancy Taxes. Another significant portion, 50.65%, of these special funds are the Federal and State Grants. Each of the special revenue funds are maintained separately because of special provisions for the receipt and

expenditure of funds in compliance with Federal or State laws or regulations and the City’s bond ordinances, or other City Commission actions.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Table A-3: Capital Assets (net of depreciation)  
September 30, 2020 and 2019  
(In thousands of dollars)**

	Governmental Activities			Business-type Activities		
	2020	2019	% Change FY 19-20	2020	2019	% Change FY 19-20
Land	\$ 580	\$ 560	3.57%	\$ 595	\$ 595	0.00%
Building & improvements	7,739	7,962	-2.81%	15,558	15,400	1.03%
Equipment	1,150	1,689	-31.94%	2,323	2,409	-3.57%
Vehicles	3,307	3,289	0.56%	533	637	-16.35%
Road network	5,805	6,049	-4.03%	-	-	0.00%
Construction in progress	260	9	2788.89%	2,370	2,369	0.04%
Total	\$ 18,841	\$ 19,558	-3.67%	\$ 21,379	\$ 21,410	-0.15%

In the Notes to the Financial Statements located on page 68-69, the City has invested \$107.2 million (before depreciation) in a broad range of capital assets, including police and fire equipment, buildings, park facilities, roads and bridges, and its utility system.

**TABLE A-3: Governmental Activities**

Construction in progress increased \$251 thousand from \$9 thousand in FY19 to \$260 thousand in FY20 with the on-going projects funded with Certificates of Obligation. As projects are started, construction in progress will continue to increase.

**TABLE A-3: Business-type Activities**

Building and improvements net of depreciation increased \$158 thousand from \$15.4 million in FY19 to \$15.6 million in FY20, or 1.03% net of accumulated depreciation. Equipment decreased \$122 thousand from \$2.4 million in FY19 to \$2.3 million in FY20, or 4.99%. Construction in progress increased \$1 thousand from \$2.369 million in FY19 to \$2.370 million in FY20, or 0.06% indicating construction projects were put on hold due to pandemic.

Additional information on the City’s Capital Assets can be found on Note E, pages 68-69 of the Notes to the Financial Statements.

**Table A-4: Long-Term Liabilities  
September 30, 2020 and 2019  
(in thousands of dollars)**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Certificates of obligation	\$ 5,879	\$ 9,948	\$ 5,485	\$ 6,147	\$ 11,364	\$ 16,095
Limited tax refunding bonds	3,011	405	4,290	5,100	7,301	5,505
Premium on bonds payable	526	219	461	189	987	408
Capital Leases	692	597	1,416	709	2,108	1,306
Total debt	10,108	11,169	11,652	12,145	21,760	23,314
Net pension liability	949	5,525	162	944	1,111	6,469
Landfill closure cost	0	0	1,781	1,684	1,781	1,684
Compensated absences	1,125	1,050	87	77	1,212	1,127
OPEB Liability	620	1,315	163	352	783	1,667
Total long-term debt	\$ 12,802	\$ 19,059	\$ 13,845	\$ 15,202	\$ 26,647	\$ 34,261

Table A-4 indicates that total long-term debt decreased by \$7.6 million from FY19 to FY20, or 22.22%. Of that, landfill closure costs increased \$97 thousand, or 5.79%, while compensated absences increased 7.60% and other post-employment costs decreased \$885 thousand or 53.07%. Total debt outstanding at fiscal year-end was \$26.6 million, from \$34.3 million for the prior year.

In addition, there were overall reductions of \$4.7 million in certificates of obligation bonds and revenue bonds (Combined Utility System) through scheduled principal payments and a refunding. Governmental Activities' certificate of obligations had an \$4.07 debt decrease and the Business-type activities had a reduction of \$662 thousand. Additional information on the City's Long-Term Obligations can be found on Note G, Item # 1-3, and pages 71-73 of the Notes to the Financial Statements.

### **Ad Valorem Taxes**

The FY18 tax rates were \$0.68522 for the General Fund and \$0.16782 for the Debt Service Fund, totaling \$0.85304 per \$100 of assessed value. Therefore, the City's tax margin of \$1.64696 per \$100 of assessed value could increase taxes \$14.0 million on each year based on the assessed value of \$848,688,588. A brief discussion of the ad valorem tax limitations of the Constitution of the State of Texas and the City Charter are found in Note A Item #4b, page 61 of the Notes to the Financial Statements.

### **Bond Ratings**

The City's bond ratings from two rating agencies were reaffirmed or maintained in fiscal year 2019. The unenhanced bond ratings for general obligation bonds were maintained at A1 from Moody's Investors Service, Inc. (Moody's) and reaffirmed A+ from Standard & Poor's Ratings Service (S&P). The City no longer has revenue bonds outstanding, and therefore does not maintain revenue bond ratings.

## **FISCAL YEAR 2020-2021 ADOPTED OPERATING BUDGET**

The total Revenues and Expenditures adopted for the FY20-21 budget are \$44,588,817 and \$47,556,544, respectively. The \$2.97 million difference between expenditures and revenues is due mostly to drawing down fund balances to complete capital projects, the largest portion of which are for projects financed by Certificates of Obligation (C.O.'s). The operating budgets and capital project budgets are combined, and C.O. fund balances are not re-appropriated which leads to a higher difference.

### **Budget Overview**

The management practices employed, and the recommendations put forth in the Budget are intended to improve resident satisfaction with city services consistent with City commission goals. The City's General Fund is the largest and most diverse fund in terms of total budgeted dollars and scope of services to residents. The General Fund 001 budget is required to maintain reserves equal to 25% of budgeted expenditures for the subsequent year. Reserve requirements are \$5,440,468 and our ending estimated fund balance is \$7,598,693, leaving a projected operating surplus of \$2.15 million over the required minimum of \$5.44 million.

The net deficits for FY20 and FY21 are not generally attributed to the City's basic operations resulting instead from planned expenditures and draw down of bond proceeds (Certificates of Obligation) and accumulated operating surpluses from previous years.

### **General Discussion**

The city's fiscal condition is stable, due in part, to consistent growth of the City's property taxes.

Other revenues are also growing and are required to keep pace with general and specific inflation and to offset scheduled and discretionary employee compensation increases; employee professional, technical and safety training; street reconstruction and repairs; facility and office upgrades; equipment replacements; and various electronic and communication technologies. City staff must also keep a watchful eye on the cost of unfunded mandates imposed on cities by government and regulatory agencies.

### **Other Postemployment Benefits (OPEB)**

The City of Kingsville began recognizing this liability and making cash deposits in FY13 and continues to adjust the accrued liability according to the annual actuarial report. Retirees can remain on the City's health plan until they reach the age of 65. Historically, the City has had only a minimum number of retirees at any time being covered.

### **Compensation Plan and Personnel Adjustments**

FY21 expenditures for personnel services are proposed to increase \$1.37 million or 7.78% from actual expenditures of \$17,613,877 in FY20 to \$18,984,004 of budgeted expenditures in FY21. This increase is attributed to a 2% cost of living increase for all non-civil service employees, an increased longevity payment for all non-civil service employees and vacant positions that were not filled in FY20. All positions are budgeted at 100% regardless of prior year vacancies.

## Capital Outlays

City staff capital outlay requests for FY21 totaled \$7,546,923; of which \$2,011,314 was approved. The capital outlay items approved promotes employee efficiency, effectiveness, and safety and is a combination of large and small items. It includes:

- \$44,000 City records restoration and preservation project
- \$10,500 concrete pad at the Recycling Center
- \$40,000 Dr. Pepper building roof replacement
- \$28,000 Police Department fire system replacement
- \$240,000 capital lease of 4 Police vehicles
- \$38,232 capital lease payment on Police vehicles
- \$77,515 capital lease on Fire command vehicle
- \$12,348 capital lease payment on Fire command vehicle
- \$30,676 Recycling Center parking lot
- \$15,000 Scagg mower for Street Department
- \$34,000 capital lease on Golf Course backhoe
- \$5,416 capital lease payment on Golf Course backhoe
- \$11,265 North Plant lift station roof
- \$9,390 South Plant lift station blower building roof
- \$9,800 Scagg mower for Wastewater
- \$125,000 84,000 ground storage tank
- \$154,000 (2) 100 HP submersible dry pit pumps
- \$930,000 capital lease for 3 garbage trucks
- \$147,868 capital lease payment on garbage trucks
- \$13,304 John Deere mower for Parks Maintenance
- \$25,000 trail development at Dick Kleberg Park
- \$10,000 installation of playground equipment

## CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide the City Commission, citizens, taxpayers, customers, bondholders, creditors, and other governmental sectors with a general overview of the City's financial condition and to demonstrate the City's accountability for the funds it receives.

If you have any questions about this report or need additional information, contact:

The City of Kingsville  
Director of Finance  
P.O. Box 1458  
Kingsville, Texas 78364  
(361) 595-8009 (phone), (361) 595-8035 (fax)  
Or visit our web site at: [www.cityofkingsville.com](http://www.cityofkingsville.com)

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**CITY OF KINGSVILLE**  
**STATEMENT OF NET POSITION**  
**SEPTEMBER 30, 2020**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 7,380,873	\$ 1,808,404	\$ 9,189,277
Equity in pooled cash and cash equivalents	5,272,978	4,728,806	10,001,784
Receivables (net of allowances for uncollectibles):			
Taxes	1,736,357	--	1,736,357
Accounts	496,627	1,574,158	2,070,785
Internal balances	27,688	(27,688)	--
Due from other governments	1,411,330	--	1,411,330
Inventory, at cost	390,009	404,457	794,466
Restricted assets:			
Cash and cash equivalents	1,288,797	2,140,655	3,429,452
Equity in pooled cash and cash equivalents	729,516	--	729,516
Accounts receivable	--	154,626	154,626
Long-term assets:			
Land and construction in progress	840,572	2,964,863	3,805,435
Capital assets, net of related depreciation	18,000,721	18,414,131	36,414,852
Total Assets	<u>37,575,468</u>	<u>32,162,412</u>	<u>69,737,880</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred loss on Refunding	55,212	47,316	102,528
Deferred outflow related to pensions	692,145	118,232	810,377
Deferred outflow related to OPEB	93,962	28,582	122,544
Total Deferred Outflows of resources	<u>841,319</u>	<u>194,130</u>	<u>1,035,449</u>
<b>LIABILITIES</b>			
Accounts payable	1,376,991	480,216	1,857,207
Accrued wages payable	128,489	24,668	153,157
Payable from restricted assets:			
Accrued interest payable	53,184	68,064	121,248
Customer deposits	479,660	883,276	1,362,936
Due to:			
Other governments	253,094	--	253,094
Others	448	--	448
Liabilities due within one year:			
Accumulated unpaid compensated absences	576,680	38,500	615,180
Leases payable	189,865	256,104	445,969
Contractual obligations payable	1,129,870	1,180,130	2,310,000
Liabilities due beyond one year:			
Accumulated unpaid compensated absences	548,716	48,038	596,754
Leases payable	502,278	1,160,276	1,662,554
OPEB liability	619,541	162,568	782,109
Contractual obligations payable	8,286,433	9,056,085	17,342,518
Net pension liability	948,946	162,100	1,111,046
Landfill closure costs	--	1,781,054	1,781,054
Total Liabilities	<u>15,094,195</u>	<u>15,301,079</u>	<u>30,395,274</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows of resources related to pensions	2,203,294	376,373	2,579,667
Deferred inflows of resources related to OPEB	566,132	154,293	720,425
Other deferred inflows of resources	59,355	2,534	61,889
Total Deferred Inflows of Resources	<u>2,828,781</u>	<u>533,200</u>	<u>3,361,981</u>
<b>NET POSITION:</b>			
Net Investment in Capital Assets	8,732,847	9,726,399	18,459,246
Restricted For:			
Federal and State Programs	328,247	--	328,247
Debt Service	934,510	--	934,510
Capital Projects	34,326	2,734,415	2,768,741
Municipal Court Security	8,391	--	8,391
Law Enforcement	1,305,171	--	1,305,171
Municipal Court Technology	34,071	--	34,071
Tourism	378,676	--	378,676
Unrestricted	8,737,572	4,061,449	12,799,021
Total Net Position	<u>\$ 20,493,811</u>	<u>\$ 16,522,263</u>	<u>\$ 37,016,074</u>

The accompanying notes are an integral part of this statement.

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

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
<b>Primary Government</b>			
General government and administration	\$ 4,658,647	\$ 380,421	\$ 55,950
Public safety	9,544,822	1,386,835	1,711,525
Public works	3,053,129	807,064	--
City/County	2,168,364	370,251	839,551
Tourism	543,425	50,090	--
Interest on long-term debt	266,416	--	--
<b>Total Government Activities</b>	<u>20,234,803</u>	<u>2,994,661</u>	<u>2,607,026</u>
<b>Business-type Activities:</b>			
Water Improvement	4,126,370	4,886,760	142,715
Stormwater	1,261	404,887	--
Solid waste	2,735,102	4,115,973	--
Wastewater	2,957,232	4,141,620	--
<b>Total Business-type Activities</b>	<u>9,819,965</u>	<u>13,549,240</u>	<u>142,715</u>
<b>Total Primary Government</b>	<u>\$ 30,054,768</u>	<u>\$ 16,543,901</u>	<u>\$ 2,749,741</u>

General Revenues:  
 Property taxes  
 Sales taxes  
 Franchise taxes  
 Bingo taxes  
 Alcoholic beverage taxes  
 Hotel/Motel taxes  
 Unrestricted investment earnings  
 Gain (loss) on disposal of capital assets  
 Miscellaneous income  
 Transfers  
 Total General Revenues and Transfers  
 Change in Net Position  
 Net Position - Beginning  
 Net Position - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Position

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (4,222,276)		\$ (4,222,276)
(6,446,462)		(6,446,462)
(2,246,065)		(2,246,065)
(958,562)		(958,562)
(493,335)		(493,335)
(266,416)		(266,416)
<u>(14,633,116)</u>		<u>(14,633,116)</u>
--	\$ 903,105	903,105
--	403,626	403,626
--	1,380,871	1,380,871
--	1,184,388	1,184,388
--	3,871,990	3,871,990
<u>(14,633,116)</u>	<u>3,871,990</u>	<u>(10,761,126)</u>
7,651,822	--	7,651,822
5,116,414	--	5,116,414
868,834	--	868,834
2,986	--	2,986
48,876	--	48,876
508,437	--	508,437
260,690	105,101	365,791
23,500	--	23,500
39,536	--	39,536
2,823,386	(2,823,386)	--
<u>17,344,481</u>	<u>(2,718,285)</u>	<u>14,626,196</u>
2,711,365	1,153,705	3,865,070
17,782,446	15,368,558	33,151,004
<u>\$ 20,493,811</u>	<u>\$ 16,522,263</u>	<u>\$ 37,016,074</u>

**CITY OF KINGSVILLE**

BALANCE SHEET - GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2020

	General Fund	Police Forfeiture Fund
<b>ASSETS</b>		
Assets:		
Cash and cash equivalents	\$ 4,307,105	\$ 1,199,736
Equity in pooled cash and cash equivalents	6,861,452	--
Receivables (net of allowances for uncollectibles):		
Taxes	1,589,926	--
Accounts	675,021	10
Assessments	59,824	--
Due from:		
Other funds	109,296	--
Other governments	1,264,226	--
Inventory, at cost	375,987	--
Restricted assets:		
Cash and cash equivalents	41,914	491,146
Equity in pooled cash and cash equivalents	8,391	34,590
Accounts receivable	154,626	--
Total Assets	<u>\$ 15,447,768</u>	<u>\$ 1,725,482</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND EQUITY</b>		
Liabilities:		
Accounts payable	\$ 812,299	\$ 4,629
Accrued wages payable	126,604	--
Payable from restricted assets:		
Customer deposits	--	479,660
Due to:		
Other funds	469,917	6,290
Other governments	253,053	--
Others	448	--
Total Liabilities	<u>1,662,321</u>	<u>490,579</u>
Deferred Inflows of Resources:		
Deferred revenue	633,557	--
Total Deferred Inflows of Resources	<u>633,557</u>	<u>--</u>
Equity:		
Fund balances:		
Nonspendable:		
Inventory	375,986	--
Restricted:		
Debt service	--	--
Capital outlay	--	--
Municipal court building security	8,391	--
Municipal court technology	--	34,071
Law enforcement	--	1,200,832
Tourism	--	--
Federal and state programs	--	--
Committed:		
Landfill	1,618,699	--
Street maintenance	948,921	--
Park maintenance	44,089	--
JK Northway project	557,000	--
Sanitation capital outlay	531,054	--
Capital outlay	1,330	--
Assigned:		
Drug awareness	--	--
Unassigned:	9,066,420	--
Total Equity	<u>13,151,890</u>	<u>1,234,903</u>
Total Liabilities, Deferred Inflows of Resources, and Equity	<u>\$ 15,447,768</u>	<u>\$ 1,725,482</u>

The accompanying notes are an integral part of this statement.

EXHIBIT A-3

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 29,461	\$ 575	\$ 5,536,877
--	328,041	7,189,493
146,431	--	1,736,357
1,843	41,344	718,218
--	--	59,824
--	--	109,296
--	147,104	1,411,330
--	14,022	390,009
2,171	511,907	1,047,138
626,774	--	669,755
--	--	154,626
<u>\$ 806,680</u>	<u>\$ 1,042,993</u>	<u>\$ 19,022,923</u>
\$ --	\$ 122,460	\$ 939,388
--	1,885	128,489
--	--	479,660
41,821	106,028	624,056
--	41	253,094
--	--	448
<u>41,821</u>	<u>230,414</u>	<u>2,425,135</u>
146,431	52,839	832,827
<u>146,431</u>	<u>52,839</u>	<u>832,827</u>
--	--	375,986
618,428	--	618,428
--	121,478	121,478
--	--	8,391
--	--	34,071
--	--	1,200,832
--	378,676	378,676
--	254,528	254,528
--	--	1,618,699
--	--	948,921
--	5,000	49,089
--	--	557,000
--	--	531,054
--	--	1,330
--	58	58
--	--	9,066,420
<u>618,428</u>	<u>759,740</u>	<u>15,764,961</u>
<u>\$ 806,680</u>	<u>\$ 1,042,993</u>	<u>\$ 19,022,923</u>

**CITY OF KINGSVILLE**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
 TO THE STATEMENT OF NET POSITION  
 SEPTEMBER 30, 2020

Total fund balances - governmental funds balance sheet	\$ 15,764,961
Amounts reported for governmental activities in the Statement of Net Position ("SNP") are different because:	
Capital assets used in governmental activities are not reported in the funds.	18,841,293
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	671,306
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	1,219,267
Payables for bond principal which are not due in the current period are not reported in the funds.	(8,889,690)
Payables for capital leases which are not due in the current period are not reported in the funds.	(692,144)
Payables for bond interest which are not due in the current period are not reported in the funds.	(53,184)
Payables for compensated absences which are not due in the current period are not reported in the funds.	(1,125,396)
Other long-term assets are not available to pay for current period expenditures and are deferred in the funds.	55,212
Solid waste assets & liabilities are included in the general fund but are in business activities in SNP	(1,219,395)
Recognition of the City's proportionate share of the net pension liability is not reported in the funds.	(948,946)
Deferred Resource Inflows related to the pension plan are not reported in the funds.	(2,203,294)
Deferred Resource Outflows related to the pension plan are not reported in the funds.	692,145
Bond premiums are amortized in the SNA but not in the funds.	(526,613)
Recognition of the City's proportionate share of the net OPEB liability is not reported in the funds.	(619,541)
Deferred Resource Inflows related to the OPEB plan are not reported in the funds.	(566,132)
Deferred Resource Outflows related to the OPEB plan are not reported in the funds.	93,962
Net position of governmental activities - Statement of Net Position	\$ <u>20,493,811</u>

The accompanying notes are an integral part of this statement.

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**CITY OF KINGSVILLE**

*STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2020*

	General Fund	Police Forfeiture Fund
	<u>                    </u>	<u>                    </u>
Revenue:		
Taxes	\$ 12,152,149	\$ --
Licenses and permits	273,086	--
Charges for services	6,020,386	--
Fines and forfeitures	648,971	110,243
Special assessments	5,333	--
Interest and miscellaneous	229,515	11,718
Gain or loss on sale of property	23,500	--
Donations	23,517	--
Intergovernmental revenue	2,033,862	--
Federal and state grants	--	--
Total Revenues	<u>21,410,319</u>	<u>121,961</u>
Expenditures:		
Current:		
General government and administration	4,439,395	8,186
Public safety	9,059,459	182,321
Public works	5,462,829	--
City/County	2,117,944	--
Tourism	43,000	--
Debt service:		
Principal retired	--	--
Interest	--	--
Bond issuance costs	--	--
Paying agent fees	--	--
Total Expenditures	<u>21,122,627</u>	<u>190,507</u>
Excess (deficiency) of revenues (under) expenditures	287,692	(68,546)
Other Financing Sources (Uses):		
Transfers in	1,756,006	--
Transfers out	(307,469)	(4,167)
Insurance settlement	14,548	--
Payment to refunding bonds escrow agent	--	--
Bond issuance premium	--	--
Issuance of debt-refunding bonds	--	--
Lease proceeds	622,780	--
Total Other Financing Sources (Uses)	<u>2,085,865</u>	<u>(4,167)</u>
Net Change in Fund Balances	2,373,557	(72,713)
Fund Balances/Equity, October 1	10,778,333	1,307,616
Fund Balances/Equity, September 30	<u>\$ 13,151,890</u>	<u>\$ 1,234,903</u>

The accompanying notes are an integral part of this statement.



EXHIBIT A-5

Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,477,342	\$ 508,437	\$ 14,137,928
--	--	273,086
--	50,090	6,070,476
--	--	759,214
--	--	5,333
8,908	6,193	256,334
--	--	23,500
--	250	23,767
--	--	2,033,862
--	573,163	573,163
<u>1,486,250</u>	<u>1,138,133</u>	<u>24,156,663</u>
--	108,479	4,556,060
--	311,910	9,553,690
--	--	5,462,829
--	98,215	2,216,159
--	493,110	536,110
1,226,939	--	1,226,939
251,620	--	251,620
61,843	--	61,843
2,900	--	2,900
<u>1,543,302</u>	<u>1,011,714</u>	<u>23,868,150</u>
(57,052)	126,419	288,513
49,765	192,044	1,997,815
--	(489,008)	(800,644)
--	--	14,548
(3,051,000)	--	(3,051,000)
358,635	--	358,635
2,705,982	--	2,705,982
--	--	622,780
<u>63,382</u>	<u>(296,964)</u>	<u>1,848,116</u>
6,330	(170,545)	2,136,629
612,098	930,285	13,628,332
<u>\$ 618,428</u>	<u>\$ 759,740</u>	<u>\$ 15,764,961</u>

**CITY OF KINGSVILLE**

*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 - total governmental funds	\$ 2,136,629
Amounts reported for governmental activities in the Statement of Activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	781,609
The depreciation of capital assets used in governmental activities is not reported in the funds.	(1,498,065)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	59,442
Revenues in the SOA not providing current financial resources are not reported as revenues in the funds.	11,024
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	60,231
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	4,169,343
Repayment of capital lease principal is an expenditure in the funds but is not an expense in the SOA.	214,060
(Increase) decrease in accrued interest from beginning of period to end of period.	46,475
The net revenue (expense) of internal service funds is reported with governmental activities.	217,789
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	(75,658)
Solid waste activities are included in the general fund, but are included in business activities in SOA	(220,257)
Proceeds of bonds do not provide revenue in the SOA, but are reported as current resources in the funds.	(2,705,983)
Bond premiums are reported in the funds but not in the SOA.	(356,563)
Proceeds of leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(308,737)
The City's share of the unrecognized deferred inflows and outflows for the pension plan was amortized.	142,694
The City's share of the unrecognized deferred inflows and outflows for the OPEB plan was amortized.	<u>37,332</u>
Change in net position of governmental activities - Statement of Activities	\$ <u>2,711,365</u>

The accompanying notes are an integral part of this statement.

**CITY OF KINGSVILLE**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUNDS**  
**SEPTEMBER 30, 2020**

	Enterprise Fund	Nonmajor Internal Service Fund
	Utility Fund	Insurance Fund
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 1,604,994	\$ 934,612
Equity in pooled cash and cash equivalents	4,114,232	--
Receivables (net of allowances for uncollectibles):		
Accounts	1,198,778	196,130
Due from:		
Other funds	69,488	542,448
Inventory, at cost	404,457	--
Restricted assets - noncurrent:		
Cash and cash equivalents	2,252,927	--
Total current assets	<u>9,644,876</u>	<u>1,673,190</u>
Noncurrent assets:		
Capital assets:		
Land	181,743	--
Utility plant	44,141,458	--
Equipment	3,580,229	--
Vehicles	2,374,450	--
Construction in progress	215,358	--
Total capital assets	<u>50,493,238</u>	<u>--</u>
Less accumulated depreciation	<u>(34,806,185)</u>	<u>--</u>
Net capital assets	<u>15,687,053</u>	<u>--</u>
Total noncurrent assets	<u>15,687,053</u>	<u>--</u>
Total Assets	<u>25,331,929</u>	<u>1,673,190</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred outflow related to pensions	118,232	--
Deferred outflow related to OPEB	19,554	--
Deferred Loss on Refunding	47,316	--
Total Deferred Outflows of Resources	<u>\$ 185,102</u>	<u>\$ --</u>
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable	\$ 474,188	\$ 453,923
Accrued wages payable	24,668	--
Due to:		
Other funds	97,175	--
Accumulated unpaid compensated absences	38,500	--
Current liabilities payable from restricted assets:		
Accrued interest payable	53,395	--
Leases payable	68,963	--
Contractual obligations payable	1,133,837	--
Customer deposits	883,276	--
Total current liabilities	<u>2,774,002</u>	<u>453,923</u>
Long-term liabilities, net of current portion:		
Accumulated unpaid compensated absences	48,038	--
OPEB liability	117,485	--
Leases payable	467,037	--
Contractual obligations payable	9,056,082	--
Net pension liability	162,100	--
Total long-term liabilities, net of current portion	<u>9,850,742</u>	<u>--</u>
Total Liabilities	<u>12,624,744</u>	<u>453,923</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred inflow related to pensions	376,373	--
Deferred inflow related to OPEB	106,451	--
Other Deferred inflows	2,534	--
Total Deferred Inflows of Resources	<u>485,358</u>	<u>--</u>
<b>NET POSITION</b>		
Net investment in capital assets	4,961,134	--
Restricted for:		
Self insurance	--	1,219,267
Capital outlay	2,734,415	--
Unrestricted	4,711,380	--
Total Net Position	<u>\$ 12,406,929</u>	<u>\$ 1,219,267</u>

The accompanying notes are an integral part of this statement.

**CITY OF KINGSVILLE**

RECONCILIATION OF THE PROPRIETARY FUND STATEMENT OF NET POSITION  
TO THE GOVERNMENT-WIDE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2020

**EXHIBIT A-7R**

Utility Fund Net Position - Proprietary Funds Statement of Net Position	\$	12,406,929
Amounts reported for business-type activities in the statement of net position are different because:		
Solid Waste is a business-type activity that is included in the general fund. Assets and liabilities relating to Solid Waste are included in business-type activities in the government-wide statement of net position		
		4,072,132
Assets and liabilities of certain internal service funds are included in business type activities in the SNP.		
		<u>43,202</u>
Net Position of Business-type Activities - Statement of Net Position	\$	<u>16,522,263</u>

The accompanying notes are an integral part of this statement.

**CITY OF KINGSVILLE**
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
 IN FUND NET POSITION - PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Enterprise Fund	Nonmajor Internal Service Fund
	Utility Fund	Insurance Fund
OPERATING REVENUES:		
Water	\$ 4,856,480	\$ --
Other income	690	2,968
Wastewater	4,576,787	--
Insurance premiums	--	3,510,485
Intergovernmental revenue	9,705	--
Federal Revenue	133,010	--
Total Operating Revenues	<u>9,576,672</u>	<u>3,513,453</u>
OPERATING EXPENSES:		
Personal services	2,528,068	--
Supplies	558,368	--
Services	1,857,601	3,481,796
Maintenance	834,779	--
Uncollectable accounts	69,489	--
Depreciation and amortization	990,334	--
Total Operating Expenses	<u>6,838,639</u>	<u>3,481,796</u>
Operating Income (Loss)	<u>2,738,033</u>	<u>31,657</u>
NON-OPERATING REVENUES (EXPENSES):		
Interest	101,491	2,995
Interest and fiscal agent charge	(246,224)	--
Total Non-operating Revenues (Expenses)	<u>(144,733)</u>	<u>2,995</u>
Net Income (Loss) before Transfers	<u>2,593,300</u>	<u>34,652</u>
TRANSFERS IN (OUT):		
Transfers In	23,352	181,399
Transfers Out	(1,401,922)	--
Total Transfers In (Out)	<u>(1,378,570)</u>	<u>181,399</u>
Net Income (Loss)	1,214,730	216,051
Net Position, October 1	11,192,199	1,003,216
Net Position, September 30	<u>\$ 12,406,929</u>	<u>\$ 1,219,267</u>

The accompanying notes are an integral part of this statement.

**CITY OF KINGSVILLE**

**EXHIBIT A-8R**

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES,  
AND CHANGES IN FUND NET POSITION - PROPRIETARY FUNDS TO  
THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2020*

Change in net position - utility fund	\$ 1,214,730
Amounts reported for business-type activities in the statement of activities are different because:	
Solid Waste is a business-type activity that is included in the general fund. The net revenues of the Solid Waste activity are reported in the business-type activities.	<u>(61,025)</u>
Change in net position of Business-type activities - statement of activities	\$ <u><u>1,153,705</u></u>

The accompanying notes are an integral part of this statement.

**CITY OF KINGSVILLE**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

	Utility Fund	Internal Service Fund
<b>Cash Flows from Operating Activities:</b>		
Cash received from customers	\$ 9,192,062	\$ --
Cash receipts (payments) for interfund services provided and used	--	3,400,431
Cash received from other governments	142,715	
Cash payments to employees for services	(2,536,913)	--
Cash payments to other suppliers for goods and services	(2,954,357)	(3,234,968)
Net Cash Provided (Used) by Operating Activities	<u>3,843,507</u>	<u>165,463</u>
<b>Cash Flows from Non-capital Financing Activities:</b>		
Proceeds (payments) from (for) interfund borrowings	(398,332)	(285,291)
Transfers from other funds	23,352	181,399
Transfers (to) other funds	(1,401,922)	--
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(1,776,902)</u>	<u>(103,892)</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>		
Principal and interest paid	(4,031,149)	--
Proceeds from issuance of refunding bonds	2,319,017	--
Proceeds from bond premiums	307,385	--
Proceeds from capital leases	536,000	--
Acquisition or construction of capital assets	(1,015,768)	--
Net Cash Provided (Used) for Capital & Related Financing Activities	<u>(1,884,515)</u>	<u>--</u>
<b>Cash Flows from Investing Activities:</b>		
Interest and dividends on investments	109,398	3,036
Net Cash Provided (Used) for Investing Activities	<u>109,398</u>	<u>3,036</u>
Net Increase (Decrease) in Cash and Cash Equivalents	291,488	64,607
Cash and Cash Equivalents at Beginning of Year	7,680,665	870,005
Cash and Cash Equivalents at End of Year	<u>\$ 7,972,153</u>	<u>\$ 934,612</u>
<b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities:</b>		
Operating Income (Loss)	\$ 2,738,033	\$ 31,657
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities		
Depreciation	990,334	--
Provision for uncollectible accounts	69,489	--
Change in Assets and Liabilities:		
Decrease (increase) in receivables	58,105	(113,022)
Decrease (increase) in inventories	(30,927)	--
Decrease (increase) in due from other governments	18,229	--
Increase (decrease) in accounts payable	73,489	246,828
Increase (decrease) in deferred inflows	390,938	--
Increase (decrease) in accrued wages payable	13,986	--
Increase (decrease) in accrued other employment and post employment benefits	18,110	--
Increase (decrease) in net pension liability	(781,737)	--
Increase (decrease) in OPEB liability	(130,724)	--
Increase (decrease) in deferred outflow related to pension	439,730	--
Increase (decrease) in deferred loss on refunding	(51,618)	--
Increase (decrease) in accumulated compensated absences	9,922	--
Increase (decrease) in customer deposits	18,148	--
Total Adjustments	<u>1,105,474</u>	<u>133,806</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 3,843,507</u>	<u>\$ 165,463</u>

The accompanying notes are an integral part of this statement.

**CITY OF KINGSVILLE**  
 STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 SEPTEMBER 30, 2020

	Custodial Fund
	Court Cash Bond Account
<b>ASSETS</b>	
Assets:	
Cash and cash equivalents	\$ 30,956
Total Assets	<u>\$ 30,956</u>
<b>LIABILITIES AND EQUITY</b>	
Liabilities:	
<i>Payable from restricted assets:</i>	
<i>Customer deposits</i>	\$ 30,956
Total Liabilities	<u>30,956</u>
Net Position:	
Total Net Position	<u>--</u>
Total Liabilities and Net Position	<u>\$ 30,956</u>

The accompanying notes are an integral part of this statement.



## CITY OF KINGSVILLE

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020

#### A. Reporting Entity and Summary of Significant Accounting Policies

The financial statements of the City have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for governmental accounting and financial reporting. Pronouncements of the Financial Accounting Standards Board (FASB) issued after November 30, 1989 are not applied in the preparation of the financial statements of the proprietary fund types in accordance with an election made by the City under GASB Statement No. 20. The GASB periodically updates its codification of the existing Governmental Accounting and Financial Reporting Standards which, along with subsequent GASB pronouncements (Statements and Interpretations), constitutes GAAP for governmental units.

The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of these Notes. The remainder of the Notes is organized to provide explanations, including required disclosures, on the City's financial activities for the fiscal year ended September 30, 2020.

##### 1. Reporting Entity

The City of Kingsville was incorporated in 1911 and adopted its first charter in 1916 as a home rule city under the provisions of Chapter 13 of the Revised Statutes of the State of Texas. The City operates under a Commission-Manager form of government and provides the following services as authorized by its charter (last amended August 9, 1986): public safety (police and fire), streets and sidewalks, sanitation, health and social services, parks and recreation, public improvements, and general administrative services.

In evaluating how to define the City, for financial reporting purposes, management has considered all potential component units. As required by generally accepted accounting principles, these financial statements present the City and should include any entities for which the City is considered financially accountable. Blended component units, although legally separate entities in substance, are part of the City operations and data from these units should be combined with data of the City. On the other hand, a discretely presented component unit would be reported in a separate column in the combined financial statements to emphasize it is legally separate from the City.

##### a. Blended Component Units

The City did not have a Blended Component Unit at September 30, 2020.

##### b. Discretely Presented Component Unit

The City did not have a Discretely Presented Component Unit at September 30, 2020.

##### c. Related Organizations and Jointly Governed Organizations

Related organizations and jointly governed organizations provide services within the City that are administered by separate boards or commissions, but the City is not financially accountable, and such organizations are, therefore, not component units of the City, even though the City Council may appoint a voting majority of an organizations' board. Consequently, financial information for the Kingsville Housing Authority, Kingsville Industrial Foundation and the Greater Economic Development Council are not included in these financial statements.

**CITY OF KINGSVILLE**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2020*

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

**Government-wide Statements:** The statement of net position and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties. In the government-wide statement of net position, both the governmental and business-type columns are (1) presented on a consolidated basis by column, and (2) reflected on a full accrual, economic resource basis, which incorporates long-term assets and receivables as well as long-term debt and obligations.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenue.

The government-wide statement focuses on the substantiality of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The City's solid waste activity is included in the governmental funds in the fund financial statements, and as a business-type activity in the government-wide financial statements. This presentation is appropriate because the City does not have a pricing policy for solid waste designed to recover its cost.

**Fund Financial Statements:** The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

Internal service funds of a government (which traditionally provide services primarily to other funds of the government) are presented in the summary form as part of the proprietary fund financial statements. The City's internal service fund accounts for major medical activities. Since the principal users of the internal services are the City's governmental activities, financial statements of internal service funds are consolidated into the governmental column when

**CITY OF KINGSVILLE**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2020*

presented at the government-wide level in the statement of net position. The net activity of these services is offset against the appropriate functional activity in the statement of activities. This complies with the City's policy of eliminating internal activity from the government-wide statements. Interfund services provided and used are not eliminated in the process of consolidation.

The City's fiduciary funds are presented in the fund financial statements. Since, by definition, these assets are being held for the benefit of a third party (e.g., other governments or private parties) and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide statements. The City's fiduciary funds are used to account for court cash bonds held for others, and for certain funds collected and passed through to other governments, as well as the deferred compensation pension trust fund.

The City reports the following major governmental funds:

**General Fund.** This fund is the general operating fund of the City. It is used to account for all financial resources except for those required to be accounted for in another fund.

**Police Forfeiture Fund.** This fund is used to account for revenues from seized assets, and the related expenditures.

**Debt Service Fund.** This fund is used to account for funds needed to make principal and interest payments on outstanding bonds when due. The City reports this fund as major because of public interest and consistency between years.

In addition, the City reports the following major enterprise fund:

**Enterprise Fund.** This fund is used to account for the operations of the City's combined utilities. The fund includes the City's water, wastewater, and stormwater systems, and the activities of the City's landfill is included in the government-wide (business-type) presentation.

b. **Measurement Focus, Basis of Accounting**

**Government-wide Financial Statements:** These financial statements are reported using the economic resources measurement focus. They are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**Governmental Fund Financial Statements:** Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end.

Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Those revenues considered susceptible-to-accrual are property taxes, hotel occupancy taxes, special assessments, interest income, and charges for services. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as

**CITY OF KINGSVILLE**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2020*

earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the City incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the City's policy to use restricted resources first, then unrestricted resources.

3. Implementation of New Standards

The City has adopted all current GASB pronouncements that are applicable to its operations and activities. The following are new GASB Pronouncements:

GASB Statement No. 84, Fiduciary Activities, establishes criteria for identifying fiduciary activities for all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria. This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The City will implement this Statement in fiscal year 2020. (Postponed by 1 year by GASB in light of the COVID-19 pandemic)

GASB Statement No. 87, Leases, increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The City will implement this Statement in fiscal year 2021. (Postponed by 18 months by GASB in light of the COVID-19 pandemic)

GASB Statement No. 89, Accounting for Interest Cost, enhances the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The City will implement this Statement in fiscal year 2021, if applicable. (Postponed by 1 year by GASB in light of the COVID-19 pandemic)

**CITY OF KINGSVILLE**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2020*

GASB Statement No. 90, Majority Equity Interests, improves the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The City will implement this Statement in fiscal year 2020, if applicable. (Postponed by 1 year by GASB in light of the COVID-19 pandemic)

The City has not fully determined the effects that implementation of these statements will have on the City's financial statements.

4. Financial Statement Amounts

a. Equity in Pooled Cash and Cash Equivalents

Cash balances of all City funds are pooled and invested. At year-end, negative balances of individual funds which result from pooling cash, are reclassified to bank overdraft in the financial statements. Investments purchased with pooled cash consisting of certificates of deposit and obligations of the U.S. Government and its agencies or instrumentalities, are recorded at cost, which approximates estimated fair value. Cash and cash equivalents in the accompanying combined balance sheets, includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the City.

b. Real Property and Sales Taxes

Property taxes attach as an enforceable lien on property as of January 1. The City's property tax is levied each October 1 on the basis of assessed value at the date the enforceable lien attaches. Appraised values are established by the Kleberg County Appraisal Board, assessed at 100% of appraised value, approved by the Kleberg County Appraisal Review Board and certified by the Chief Appraiser. Responsibility for the billing and collection of the City's taxes has been transferred to Kleberg County as a cost-cutting measure in consolidating government functions.

Taxes are due on receipt of the tax bill and are delinquent if not paid before February of the year following the year in which imposed. Taxes become delinquent at February 1, at which time penalties and interest charges are applicable. Property tax revenues are recorded as revenues when they become available. At September 30, property tax receivables are fully deferred because collections received within the following sixty days are immaterial.

The City operates under the Laws of the State of Texas as a Home Rule City, and is limited to a total tax rate of \$2.50 per \$100 of assessed valuation. Neither the State law, nor the City Charter, limits the proportion of this total tax rate which may be applied to debt service.

In order to obtain approval of its general obligation bonds by the Attorney General of the State, a satisfactory showing of adequate taxing power must be made. As a general rule, the Attorney General will not approve new bonds if this will make the net debt exceed twenty-five percent of the assessed value. The 2019 tax rate was \$.85304, of which \$.68522 was distributed to the General Fund and \$.16782 was applied to the Debt Service Fund. Using the twenty-five percent rule, the City's legal margin is \$243,622,400.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

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The top ten taxpayers are as follows:

<u>Taxpayer Name</u>	<u>Nature of Operations</u>	<u>Assessed Valuation</u>	<u>% of Total Taxable Valuation</u>
AEP Texas Inc.	Electric Utility	18,426,680	2.30%
KL Phase 1 Owner LTD	Apartments	13,795,990	1.72%
Rockstar Oak Tree LLC	Apartments	12,476,420	1.56%
Apexone Javelina LLC	Apartments	9,031,930	1.13%
Kingspointe- Victoria LLC	Apartments	8,685,680	1.08%
Alpha Lake LTD	Apartments	8,680,800	1.08%
KL Phase II Owner LTD	Apartments	8,674,190	1.08%
HEB Grocery Inc	Retail	8,098,300	1.01%
Wal-Mart Stores Inc #01-0442	Retail	6,612,750	0.82%
Wal-Mart Stores Texas, LLC US00442	Retail	5,791,470	0.72%

c. Inventory

Inventory is valued at cost (last-in, first-out). All inventory purchases are recorded as inventory acquisitions (current assets) at the time of purchase and expensed when issued.

Inventories of governmental funds are offset by a fund balance reserve which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

d. Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

e. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at their acquisition value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

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Impairment losses related to capital assets are recognized and measured when there has been a significant, unexpected decline in the service utility of capital assets. The events or changes in circumstances which lead to impairment determinations are not considered to be normal or ordinary. The service utility of a capital asset is the usable capacity which, at acquisition, was expected to be used or provide service. Common indicators of impairment include - evidence of physical damage where the level of damage is such that restoration efforts are needed to restore service utility; enactment of laws or approval of regulations as well as changes in environmental factors; technological developments, or other evidence of obsolescence; changes in the manner of duration of use of capital assets; or construction stoppage due to lack of funding. There were no impairment charges during fiscal year 2019.

f. Receivable and Payable Balances

The City believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances. There are no significant receivables which are not scheduled for collection within one year of year-end.

g. Deferred Inflows and Outflows

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

Deferred outflows of resources in the Statement of Net Position totaled \$1,035,449, of which \$841,319 is in governmental activities and \$194,130 in business-type activities.

There were deferred inflows of resources in the Statement of Net Position of \$3,361,981 of which \$2,828,781 is in governmental activities, and \$533,200 is in business-type activities.

Additional information concerning deferred outflows of resources and deferred inflows of resources related to pensions can be found in Note 8, Pension and Retirement Plans.

h. Restricted Assets

Certain debt proceeds of the City's enterprise funds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. In addition, certain resources from fines set aside according to state law for municipal court technology and building security are classified as restricted assets. The City Commission has set aside funds for future landfill closure costs, and these funds are also classified as restricted assets.

When an expense is incurred for purposes for which both restricted and unrestricted assets are available, the City's policy is to apply restricted assets first.

i. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term debt obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as expenses in the period incurred the term of the related debt.

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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 resources 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 in the governmental funds, bond discounts and issuance costs are treated as period costs in the year issued. Bond issuance costs are shown as an "other financing use".

j. Pension Plans

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

k. Fund Equity

In the government-wide financial statements and proprietary fund financial statement, net position is classified in the following categories:

Net Invested in Capital Assets - This category represents the net carrying value of all capital assets, reduced by the outstanding balances of long-term debt that are attributable to the acquisition, construction, or improvement of these assets.

Restricted - The restricted component of net position represents restricted assets reduced by liabilities related to those assets. This category represents external restrictions imposed by creditors, grantors, contributors, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

Unrestricted - This category is the "residual" component of net position that does not meet the definition of "restricted" or "invested in capital assets".

In the governmental fund financial statements, the components of fund balances reflect policies and procedures established by actions of the City Commission and its designated officials.

Fund balances of the governmental funds are classified as follows:

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

Restricted Fund Balance - represents amounts that are constrained by external parties, constitutional provisions or enabling legislation. The enabling legislation authorizes the City to assess, levy, charge or otherwise mandate payment of resources from external resource providers; those resources can be used only for the specific purposes stipulated in the legislation.



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Committed Fund Balance - represents amounts that can only be used for a specific purpose pursuant to constraints imposed by City ordinance no later than the close of the fiscal year. Committed amounts cannot be used for any other purpose unless the Board of Commissioners removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the Board of Commissioners. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance - represents amounts which the City intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the Board of Commissioners or by an official or body to which the Board of Commissioners delegates the authority. This authority is per City Charter, Article IV, Section 10 which states "The Commission shall enact all ordinances and resolutions, and adopt all regulations and constitute the legislative and governing body of the City. The Commission shall have the power to appoint the City Judge, the City Manager, and City Attorney." Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund's primary purpose. Assignments within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the City itself.

Unassigned Fund Balance - represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

Minimum Unassigned Fund Balance - The City will maintain a minimum unassigned fund balance in its General Fund of 25% of the subsequent year's budgeted expenditures and outgoing transfers. The City will maintain a minimum unassigned fund balance in its Utility Fund of 25% of the subsequent year's budgeted expenditures and outgoing transfers. The City, as of September 30, 2020, met their minimum requirements.

Spending Prioritization in Using Available Resources:

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

**l. Accumulated Unpaid Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. These compensated absences are accrued when incurred in the government-wide and proprietary fund financial statements. Expenses are recorded in the governmental funds as employees resign or retire. Compensated absence liabilities are normally paid from the funds reporting payroll and related expenditures including the general fund and special revenue funds.

**m. Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net position.

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**B. Compliance and Accountability**

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None	N/A

2. Deficit Fund Balance or Fund Net Position of Individual Funds

The following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

**C. Deposits and Investments**

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

Cash and Investments

Texas statutes authorize the City to invest in (1) obligations of the U.S. Treasury or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties or cities rated A or better by a national investment rating firm; (5) certificates of deposit that are insured by the Federal Deposit Insurance Corporation (FDIC) or secured by obligations having a market value of at least the principal amount of the certificates; and (6) fully collateralized direct repurchase agreements.

1. Cash & Cash Equivalents

At September 30, 2020, the carrying amount of the City's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$23,380,987 and the bank balance was \$24,284,626. The City's cash deposits at September 30, 2020 and during the year ended September 30, 2020, were entirely covered by FDIC insurance or properly secured by collateral held by the City's agent in the City's name.

2. Investments

The Public Funds Investment Act ("Act") requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the City were in accordance with local policies.

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Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's fair value does not vary with market interest rate changes. Non-negotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

Public Funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 79 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to : 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and 3) maintain the fair value of its underlying investment portfolio within one-half of one percent of the value of its shares.

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 a 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities & Exchange Commission ("SEC") 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.

<u>Investment</u>	<u>Reported Amount</u>	<u>Fair Value</u>
Texas Class (Rated @ AAAM)	\$ 352,159	\$ 352,159

Analysis of Specific Deposit and Investment Risks:

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

1. Credit Risks

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

2. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At the end of the period, the City was not exposed to custodial credit risk.

3. Concentration of Risk

This risk is the risk of loss attributed to the magnitude of government's investment in a single issuer. At the end of the period, the City was not exposed to concentration of credit risk.

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4. Interest Rate Risk

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

5. Foreign Currency Risk

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

D. Receivables

	General	Debt Service	Enterprise	Enterprise Restricted	Primary Government Total
Receivables:					
Accounts	\$ 6,822,404	\$ --	\$ 2,709,777	\$ 227,577	\$ 9,759,758
Taxes - Property	848,591	244,053	--	--	1,092,644
Taxes - Franchise & Sales	1,080,772	--	--	--	1,080,772
Special Assessments	59,824	--	--	--	59,824
Gross Receivables	8,811,591	244,053	2,709,777	227,577	11,992,998
Less: Allowance for uncollectable	(6,725,039)	(97,621)	(1,135,620)	(72,951)	(8,031,231)
Net total receivable	\$ 2,086,552	\$ 146,432	\$ 1,574,157	\$ 154,626	\$ 3,961,767

The component unit has no accounts receivable at year-end.

E. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 560,053	\$ 20,346	\$ --	\$ 580,399
Construction in progress	8,627	251,545	--	260,172
Total capital assets not being depreciated	568,680	271,891	--	840,571
<i>Capital assets being depreciated:</i>				
Road network	19,285,846	--	--	19,285,846
Buildings and improvements	11,050,995	49,248	--	11,100,243
Equipment	6,880,663	91,410	--	6,972,073
Vehicles	7,568,834	369,060	--	7,937,894
Total capital assets being depreciated	44,786,338	509,718	--	45,296,056
Less accumulated depreciation for:				
Road network	(13,236,276)	(244,434)	--	(13,480,710)
Buildings and improvements	(3,088,591)	(273,021)	--	(3,361,612)
Equipment	(5,192,086)	(630,401)	--	(5,822,487)
Vehicles	(4,280,316)	(350,209)	--	(4,630,525)
Total accumulated depreciation	(25,797,269)	(1,498,065)	--	(27,295,334)
Total capital assets being depreciated, net	18,989,069	(988,347)	--	18,000,722
Governmental activities capital assets, net	\$ 19,557,749	\$ (716,456)	\$ --	\$ 18,841,293

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	Beginning Balances	Increases	Decreases	Ending Balances
<i>Business-type activities:</i>				
<i>Capital assets not being depreciated:</i>				
Land	\$ 594,943	\$ --	\$ --	\$ 594,943
Construction in progress	2,368,571	287,048	(285,699)	2,369,920
Total capital assets not being depreciated	<u>2,963,514</u>	<u>287,048</u>	<u>(285,699)</u>	<u>2,964,863</u>
<i>Capital assets being depreciated:</i>				
Buildings and improvements	45,495,549	1,009,511	--	46,505,060
Equipment	6,222,497	376,428	--	6,598,925
Vehicles	4,961,818	14,214	--	4,976,032
Total capital assets being depreciated	<u>56,679,864</u>	<u>1,400,153</u>	<u>--</u>	<u>58,080,017</u>
Less accumulated depreciation for:				
Buildings and improvements	(30,095,585)	(851,508)	--	(30,947,093)
Equipment	(3,777,120)	(498,490)	--	(4,275,610)
Vehicles	(4,361,034)	(82,149)	--	(4,443,183)
Total accumulated depreciation	<u>(38,233,739)</u>	<u>(1,432,147)</u>	<u>--</u>	<u>(39,665,886)</u>
Total capital assets being depreciated, net	<u>18,446,125</u>	<u>(31,994)</u>	<u>--</u>	<u>18,414,131</u>
Business-type activities capital assets, net	<u>\$ 21,409,639</u>	<u>\$ 255,054</u>	<u>\$ (285,699)</u>	<u>\$ 21,378,994</u>

Governmental depreciation was charged to functions as follows:

General Government	\$ 206,855
Tourism	7,891
Public Safety	685,095
Public Works	431,676
City/County	166,548
	<u>\$ 1,498,065</u>

Business-type depreciation was charged to functions as follows:

Water	\$ 366,782
Wastewater	623,552
Solid Waste	441,813
	<u>\$ 1,432,147</u>

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F. Interfund Balances and Activity

1. Due To and From Other Funds

Balances due to and due from other funds at September 30, 2020, consisted of the following:

Due To Fund	Due From Fund	Amount	Purpose
General Fund	Other Governmental Funds	\$ 103,006	Short-term loans
General Fund	Police Forfeiture Fund	6,290	Short-term loans
	Subtotal	<u>109,296</u>	
Utility Fund	Debt Service Fund	41,822	
Utility Fund	General Fund	27,666	
	Subtotal	<u>69,488</u>	
Internal Service Fund	General Fund	440,665	Short-term loans
Internal Service Fund	Utility Fund	97,175	Short-term loans
Internal Service Fund	Other Governmental Funds	4,608	Short-term loans
	Subtotal	<u>542,448</u>	
	Total	<u>\$ 721,232</u>	

All amounts due are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers to and from other funds at September 30, 2020, consisted of the following:

Transfers To	Transfers From	Amount	Reason
General Fund	Other Governmental Funds	\$ 401,839	
General Fund	Police Forfeiture Fund	4,167	Supplement other funds sources
General Fund	Utility Fund	1,350,000	Supplement other funds sources
	Subtotal:	<u>1,756,006</u>	
Debt Service Fund	Other Governmental Funds	49,765	
Other Governmental Fund	Utility Fund	--	Supplement other funds sources
Other Governmental Fund	General Fund	106,000	Supplement other funds sources
Other Governmental Fund	Other Governmental Funds	86,044	Supplement other funds sources
	Subtotal:	<u>192,044</u>	
Utility Fund	General Fund	23,352	Supplement other funds sources
Internal Service Fund	General Fund	146,352	
Internal Service Fund	Utility Fund	33,922	
Internal Service Fund	Other Governmental Fund	1,125	Supplement other funds sources
	Subtotal:	<u>181,399</u>	
	Total	<u>\$ 2,202,566</u>	

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G. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended September 30, 2020, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Governmental activities:</u>					
Certificates of obligation Limited Tax Refunding	\$ 9,948,050	\$ --	\$ 4,069,343	\$ 5,878,707	\$ 908,707
Bond	405,000	2,705,983	100,000	3,010,983	221,163
Premium on Bonds Payable	218,949	358,635	50,971	526,613	--
Total bonds payable	10,571,999	3,064,618	4,220,314	9,416,303	1,129,870
Capital leases	597,466	308,737	214,060	692,143	189,865
Total long-term debt	11,169,465	3,373,355	4,434,374	10,108,446	1,319,735
Net pension liability *	5,525,315	7,668,623	12,244,992	948,946	--
Accumulated compensated absences*	1,049,738	791,342	715,684	1,125,396	576,680
OPEB liability *	1,314,636	93,605	788,700	619,541	--
Governmental activities Total long-term debt	\$ 19,059,154	\$ 11,926,925	\$ 18,183,750	\$ 12,802,329	\$ 1,896,415

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
<u>Business-type activities:</u>					
Certificates of obligation Limited Tax Refunding Bond	\$ 6,146,950	\$ 2,319,017	\$ 2,980,657	\$ 5,485,310	\$ 355,130
Premium on Bonds Payable	5,100,000	--	810,000	4,290,000	825,000
Premium on Bonds Payable	188,635	307,349	35,079	460,905	--
Total bonds payable	11,435,585	2,626,366	3,825,736	10,236,215	1,180,130
Capital leases	709,053	850,043	142,717	1,416,379	256,103
Total long-term debt	12,144,638	3,476,409	3,968,453	11,652,594	1,436,233
Net pension liability *	943,838	1,309,957	2,091,695	162,100	--
Landfill closure cost	1,683,614	97,440	--	1,781,054	--
OPEB liability *	352,029	25,065	214,526	162,568	--
Accumulated compensated absences*	76,617	67,878	57,957	86,538	38,500
Business-type activities Long-term liabilities	\$ 15,200,736	\$ 4,976,749	\$ 6,332,631	\$ 13,844,854	\$ 1,474,733

\* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Accumulated compensated absences	Governmental activities	General
Net OPEB liability	Governmental activities	General
Net pension liability	Governmental activities	General
Accumulated compensated absences	Business-type activities	Utility
Net OPEB liability	Business-type activities	Utility
Net pension liability	Business-type activities	Utility

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Certificates of obligation payable:	<u>2020</u>	<u>2019</u>
\$10,000,000 Certificates of Obligation, Series 2011 for General Improvements; paid in annual installments of \$375,000 to \$525,000 through 8/1/2032, with interest at 2.0% to 4.6% (53.8504% General Fund and 46.1496% Utility Fund) (This bond was refunded in May 2020)	\$ --	\$ 5,925,000
\$9,040,000 Limited Tax Refunding Bonds Series 2014 due in annual installments of \$810,000 to \$895,000 through September 30, 2025, with interest at 2.0% to 2.5% (100% Utility Fund)	4,290,000	5,100,000
\$4,270,000 Certificates of Obligation Series 2009 for Capital Outlay; due in annual installments of \$110,000 to \$55,000 through February 1, 2021; interest at 3.00% to 3.85%. (General Fund 15.831%, Utility Fund 84.169%).	55,000	110,000
\$5,025,000 Limited Tax Refunding Bonds Series 2020 due to original installments of \$225,000 through August 31, 2032, interest at 4.0% to 4.6% (General Fund 53.8504% and Utility Fund 46.1496%).	5,025,000	--
\$5,230,000 Certificates of Obligation Series 2013, for Capital Outlay and General Improvements, due in annual installments of \$250,000 to \$360,000 through September 2023; interest at 2.0% to 3.0% (18.45% to General Fund and 81.55% to Utility Fund).	3,935,000	4,185,000
\$1,260,000 Limited Tax Refunding Bonds, Series 2013, for Capital Outlay and General Improvements, due in annual installments of \$100,000 to \$105,000 through September 2023; interest at 2.0% (100% General Fund)	305,000	405,000
\$6,740,000 C.O. Series 2016, for Capital Outlay and General Improvements, due in annual installments of \$115,000 to \$845,000 through August 1, 2036; interest at 2.0% to 3.5% (100% General Fund)	<u>5,055,000</u>	<u>5,875,000</u>
Total Certificates of Obligation Payable	<u>\$ 18,665,000</u>	<u>\$ 21,600,000</u>



**CITY OF KINGSVILLE**  
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**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

2. Debt Service Requirements

Debt service requirements on long-term debt at September 30, 2020, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2021	\$ 1,129,870	\$ 250,331	\$ 1,380,201
2022	1,181,551	225,158	1,406,709
2023	1,228,476	198,246	1,426,722
2024	525,402	170,957	696,358
2025	549,249	155,591	704,840
2026-2030	2,676,637	513,376	3,190,013
2031-2035	1,478,504	127,058	1,605,562
2036	120,000	4,200	124,200
Totals	\$ 8,889,690	\$ 1,644,915	\$ 10,534,605

Year Ending September 30,	Business-type Activities		
	Certificates of Obligation		Revenue Bonds
	Principal	Interest	Total
2021	\$ 1,180,130	\$ 271,832	\$ 1,451,961
2022	1,188,449	245,342	1,433,791
2023	1,231,524	218,804	1,450,328
2024	1,274,598	190,943	1,465,542
2025	1,320,751	155,234	1,475,985
2026-2030	2,293,363	432,974	2,726,337
2031-2033	1,286,496	70,867	1,357,363
Totals	\$ 9,775,310	\$ 1,585,998	\$ 11,361,308

The City also may be contingently liable for rebates to the Federal government associated with interest earned on proceeds of tax exempt bonds issued. Based on regulations of the Tax Reform Act of 1986, the rebate would not be made until five years from the bond issuance date and may be liquidated through lower interest earnings in future years. For the fiscal year ended September 30, 2020, the City has no arbitrage liability.

In May 2020, the City issued \$5,025,000 of general obligation bonds with an interest rate of 4.0% to 4.6%. These refunding bonds were issued to defease bonds issued in 2011. The refunding resulted in an economic gain of \$778,087 with a total savings of \$828,458.

3. Advance Refunding of Debt : There is \$5,550,000 of outstanding Refunded Debt as of September 30, 2020. This Debt is scheduled to be paid in full by August 31, 2032.

**CITY OF KINGSVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

4. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2020, as follows:

<u>Year Ending September 30:</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	(1)
2021	\$ 212,585	\$ 302,548	
2022	212,585	302,548	
2023	128,282	234,141	
2024	50,311	234,140	
2025	49,281	234,345	
2026	98,562	277,726	
Total Minimum Rentals	<u>751,606</u>	<u>1,585,448</u>	
Less: Amount representing interest	<u>59,463</u>	<u>169,069</u>	
Present value of net minimum lease payments	<u>\$ 692,143</u>	<u>\$ 1,416,379</u>	

The effective interest rate on capital leases is 2.400% to 4.400%.

(1) This is a governmental fund lease, but for Government-Wide Financial Statements, it is presented as a Utility Fund lease for solid waste.

H. Pension Plans

*Texas Municipal Retirement System*

1. Plan Description

The City participates as one of 860 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

2. Benefits Provided

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

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

**CITY OF KINGSVILLE**  
*NOTES TO THE FINANCIAL STATEMENTS*  
*FOR THE YEAR ENDED SEPTEMBER 30, 2020*

Employees covered by benefit terms:

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

Inactive employees or beneficiaries currently receiving benefits	187
Inactive employees entitled to but not yet receiving benefits	177
Active employees	265
Total covered employees	629

3. Contributions

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 8.80% and 8.68% in calendar years 2020 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2020 were \$1,033,057 and were equal to the required contributions.

4. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.5% to 10.5% including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

Actuarial assumptions used in the December 31, 2019, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2010 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation.

**CITY OF KINGSVILLE**  
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The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.35%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	4.15%
Real Return	10.0%	4.15%
Real Estate	10.0%	4.75%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	7.75%
Total	100.0%	

**Discount Rate**

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

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2018	\$ 63,531,959	\$ 57,062,804	\$ 6,469,155
Changes for the year			
Service cost	1,587,157	-	1,587,157
Interest	4,239,811	-	4,239,811
Change of benefit terms	-	-	--
Difference between expected and actual experience	(657,718)	-	(657,718)
Changes of assumptions	73,235	-	73,235
Contributions - employer	-	1,014,471	(1,014,471)
Contributions - employee	-	818,122	(818,122)
Net investment income	-	8,819,344	(8,819,344)
Benefit payments, including refunds of employee contributions	(3,027,032)	(3,027,032)	--
Administrative expense	-	(49,847)	49,847
Other changes	-	(1,497)	1,497
Net changes	\$ 2,215,453	\$ 7,573,561	\$ (5,358,108)
Balance at 12/31/2019	\$ 65,747,412	\$ 64,636,365	\$ 1,111,047

**CITY OF KINGSVILLE**  
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Sensitivity of the net pension liability to changes in the discount rate:

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 10,492,990	\$ 1,111,047	\$ (6,550,686)

**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](http://www.tmr.com).

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

For the year ended September 30, 2020, the City recognized pension expense of \$865,989.

Schedule of Pension Expense

Total Service Cost	\$ 1,587,157
Interest on the Total Pension Liability	4,239,811
Current Period Benefit Changes	-
Employee Contributions (Reduction of Expense)	(818,122)
Projected Earnings on Plan Investments (Reduction of Expense)	(3,851,739)
Administrative Expense	49,847
Other Changes in Fiduciary Net Position	1,497
Recognition of Current Year Outflow (Inflow) of Resources - Liabilities	(165,576)
Recognition of Current Year Outflow (Inflow) of Resources - Assets	(993,521)
Amortization of Prior Year Outflows (Inflows) of Resources - Liabilities	(284,634)
Amortization of Prior Year Outflows (Inflows) of Resources - Assets	1,101,269
Total Pension Expense	<u>\$ 865,989</u>

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual economic experience	\$ -	\$ 589,341
Changes in actuarial assumptions	52,489	-
Difference between projected and actual investment earnings	-	1,990,326
Contributions subsequent to the measurement date	757,888	-
Total	<u>\$ 810,377</u>	<u>\$ 2,579,667</u>

**CITY OF KINGSVILLE**  
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\$757,888 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ending September 30,	
2021	\$ (822,388)
2022	\$ (792,035)
2023	\$ 80,766
2024	\$ (993,521)
2025	\$ -
Thereafter	\$ -

Contributions made after the measurement date of the net pension liability, but before the end of the employer's or governmental nonemployer contributing entity's reporting period will be recognized as a reduction of the net pension in the subsequent fiscal period rather than in the current fiscal period.

*Texas Statewide Emergency Services Personnel Retirement Fund*

1. Plan Description

The Texas Emergency Services Retirement System (TESRS) administers a cost-sharing multiple employer pension system established and administered by the State of Texas to provide Pension benefits for emergency services personnel who serve without significant monetary remuneration.

The City participates in the TESRS. However, the City's participation is considered immaterial and therefore, the City has not recorded deferred inflows, deferred outflows, or net pension liability related to TESRS.

2. Annual Required Contributions-City

The employer annual pension cost of \$4,890 for fiscal year ended September 30, 2020 was equal to the required and actual contributions and the City has no future liability. Three-year information is as follows:

	2018	2019	2020
Annual Required Contribution	\$ 7,296	\$ 5,158	\$ 4,890
Percentage of Required Cost Contributed	100%	100%	100%

Financial reports that include financial statements and supplementary information for each plan are publicly available at the locations shown below.

<u>Plan</u>	<u>Address</u>
Fire Fighters' Retirement System	P.O. Box 12577 Austin, TX 78711

Deferred Compensation Plan

The City has a deferred compensation plan for its employees, created in accordance with Internal Revenue Code, Section 457. Participation in the plan is open to all regular employees and is voluntary. The City does not own or administer the amount deferred by employees and, therefore, the liability and corresponding investments are not reflected in the basic statements.

**CITY OF KINGSVILLE**  
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I. Post Retirement Benefits

1. Post-Employment Health Care Benefits

The City of Kingsville (the "City") provides post-employment medical benefits on behalf of its eligible retirees, through a self-funded single-employer benefit plan. As a result, the City is required to implement the Governmental Accounting Standards Board ("GASB") Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other than Pensions ("GASB 75") which replaces GASB 45. GASB 75 requires public employers to perform periodic actuarial valuations to measure and disclose their retiree healthcare liabilities for the financial statement of the employer.

GASB 75 allows an actuarial valuation date no earlier than thirty months and one day prior to the fiscal year-end reporting date and a measurement date no earlier than one year and one day prior to the fiscal year-end reporting date. For the reporting year ending September 30, 2020, the City used an actuarial valuation date of September 30, 2020 and measurement date of September 30, 2020.

Note: Actuarial valuations are done every two years.

Plan Description and Funding Policy

Employees who retire from the City of Kingsville are eligible to continue to participate in the City's health insurance program at the employee group rate which is determined annually by the City of Kingsville and approved by the City Commission. Retirees have 31 days to elect to continue with the City's self-funded health insurance plan (City of Kingsville Benefit Plan Trust) in which they were participating at the time of retirement unless otherwise stated in the plan document or collective bargaining agreement. As of September 30, 2020, a total of 2 eligible retirees were participating in the City's group health program. The City provides one-half of the funding for retiree premiums. Retiree's dependents are excluded from the calculation and are eligible to continue health coverage at the designated COBRA rates during their eligibility period.

Eligibility for Retiree Benefits:	Retirees are eligible to continue their medical coverage until they reach age 65.
	To be eligible to continue coverage, retired employees must be receiving benefits for retirement from the Texas Municipal Retirement System, actively employed at the time of retirement.
	Texas Municipal Retirement System
	Age 60 with 5 years of service 20 years of service
Dependent Eligibility	Spouses and children of the retiree are not eligible for the plan
Medical Benefits	Retirees can continue coverage under the self-funded medical plan
Other Post Retirement Welfare Benefits	None

Actuarial Assumptions: The Total OPEB Liability was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Measurement Date:	September 30, 2020
Actuarial Valuation Date:	September 30, 2020
Inflation:	3.00%
Salary Increases, including inflation:	3.00%
Discount Rate:	2.75%
Prior Year Discount Rate:	3.83%

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The discount rate was based on the 9/30/20 Fidelity General Obligation AA 20-Year Yield.

Mortality rates for active employees were based on the PubG.H-2010 (general employees) and PubS.H-2010 (public safety employees) Employee Mortality Tables, Generational with Projection Scale MP-2019 for males or females, as appropriate.

Mortality rates for retirees were based on the PubG.H-2010 (general employees) and PubS.H-2010 (public safety employees) Healthy Annuitant Mortality Tables, Generational with Projection Scale MP-2019 for males or females, as appropriate.

Inactive employees currently receiving benefits payments				2
Inactive employees entitled to but not yet receiving benefit payments				
Active employees				228
				<u>230</u>
Balance at 9/30/2019	\$		1,666,666	
Changes for the year:				
Service Cost			71,543	
Interest			47,127	
Differences between expected and actual experience			(508,154)	
Changes in Assumptions/Inputs			(448,465)	
Change in Benefit Terms				
Benefit payments			(46,607)	
Administrative expense				
Net Changes	\$		<u>(884,556)</u>	
Balance at 9/30/2020	\$		<u>782,110</u>	
		1% Decrease in Discount Rate	Discount Rate	1% Increase in Discount Rate
Discount Rate:	\$	878,091	\$ 782,110	\$ 697,156
Healthcare Cost Trend Rates:	\$	677,366	\$ 782,110	\$ 908,676
OPEB Expense				
Service cost			\$	71,543
Interest on liabilities				47,127
Difference between actual and expected experience				(71,058)
Changes in assumptions-inputs				(48,512)
Change in benefit terms				
Total OPEB Expense				<u>\$ (900)</u>
Deferred Outflows and Inflows			Outflows	Inflows
Differences between actual and expected experience	\$	58,939	\$	384,075
Changes of assumptions or other inputs			63,605	336,349
Total Deferred Outflows and Inflows	\$	<u>122,544</u>	\$	<u>720,424</u>



**CITY OF KINGSVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

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

Year Ended Sept. 30:		
2021	\$	(119,570)
2022		(239,155)
2023		(239,155)
2024		
2025		
Thereafter		

J. Commitments and Contingencies

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the City at September 30, 2020.

K. Budgetary Data

Budgets for the General Fund, budgeted special revenue, debt service, and budgeted capital projects funds are adopted in accordance with generally accepted accounting principles (GAAP). The City adopted budgets for the fiscal year ended September 30, 2020 for the following funds:

- General Fund
- Tourism Fund
- Police Forfeiture Fund
- Debt Service Fund
- Capital Projects Fund
- Utility Fund

General Fund budget amendments approved during the year included the following:

\$284,521 addition in revenues and other financing sources comprised of:

- \$19,500 in Parks and Recreation - Donation revenue for recreational programs
- \$32,560 in Parks and Recreation - Revenue for youth baseball and softball leagues
- \$3,900 in Parks and Recreation - Donation revenue for pony league uniforms and umpires
- \$3,716 in Downtown - Donation revenue for holiday decorations
- \$116 in Downtown - Donation revenue for welcome sign
- \$2,156 in Police Department - Donation revenue for bulletproof armor for K9s

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\$12,993 in Fire Department - Donation revenue for medical supplies

\$10,063 in Non-Departmental - For insurance claim recovery

\$199,517 in Non-Departmental - For FEMA reimbursements

\$216,523 addition to expenditures and other financing uses comprised of:

\$5,761 in Planning - For planning department rollover projects

\$3,716 in Downtown - Donations for holiday decorations

\$116 in Downtown - Donations for welcome sign

\$2,156 in Police - Donations for K9 body armor

\$12,640 in Fire Department - For rollover projects

\$12,993 in Fire Department - Donations for medical supplies

\$2,500 in Street - For rollover projects

\$1,625 in Parks and Recreation - Administration - For rollover projects

\$9,150 in Golf Course - For rollover projects

\$27,871 in Parks Maintenance - For rollover projects

\$19,500 in Parks and Recreation - Donations for recreational programs

\$4,845 in Parks and Recreation - For rollover projects

\$37,060 in Softball League - For new city youth baseball/softball league

\$3,900 in Softball League - Donations for pony league uniforms and umpires

\$5,000 in Transfers - For rollover projects

\$9,000 in Transfers - For sidewalk project at El Pastel Bakery

\$18,000 in Transfers - For engineering in-kind services

\$1,870 in Transfers - For FD 107 cash match

\$38,820 in Transfers - For emergency repairs at Golf Course

**CITY OF KINGSVILLE**  
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L. Compensated Absences

The City allows employees to accumulate an unlimited amount of unused sick leave, vacation and holidays. Upon termination, the maximum hours paid are as follows:

	<u>Vacation</u>	<u>Sick Leave</u>
Salary (after completion of probation)	120	720(1)
Hourly (after completion of probation)	120	720(2)
Police Department	240	720
Fire Department	250	1200
Fire Marshal	166	800

(1) Salaried employees may be paid up to 720 hours if these hours were earned prior to January 1, 1984. Hours earned after this date are not paid. (2) Hourly employees may be paid up to 720 hours if these hours were earned prior to January 1, 1984. After this date, hourly employees may be paid a maximum of 240 hours.

There is no limit on accumulated holiday hours to be paid at termination. As of September 30, 2020, the liability for accrued vacation leave and accrued sick leave is approximately \$1,211,934. The amount applicable to the General Fund and Enterprise Fund of \$1,125,396 and \$86,538, respectively, and have been recorded in its respective fund.

M. Contracts With South Texas Water Authority

South Texas Water Authority contract: Five-year contract with the City running from October 1, 2017 through September 30, 2022.

The South Texas Water Authority (STWA) was created in 1979 as a conservation and reclamation district to finance, construct and operate a regional water supply system which will supply treated water on a wholesale basis to the incorporated cities of Kingsville, Bishop, Driscoll, and Agua Dulce and to the unincorporated community of Banquete. Each of these cities is completely reliant on ground water from the Goliad Formation, an aquifer which underlies Nueces, Kleberg and several adjacent counties. Withdrawal of water from the Goliad Formation created numerous zones of depression or declines in the water table. Additionally, some locations in the area as well as a number of individual wells were producing water of marginal quality particularly in regard to dissolved solids and chloride levels. The Authority's system, which was completed and accepted on September 1, 1984, consists of pipeline facilities originating at the City of Corpus Christi O.N. Stevens Water Treatment Plant at Calallen, Texas, with terminal ground storage facilities located at Driscoll (150,000 gallons), Bishop (750,000), Kingsville (5,000,000), Banquete and Agua Dulce (150,000). The Authority is also authorized to contract the sale of water to non-members. Contracts have been entered into with Coastal Bend Youth City, Ricardo Water Supply Corporation and Nueces Water Supply Corporation. The Authority has the ability to levy property taxes in its district not to exceed \$.10 per \$100 assessed valuation. The Authority purchases treated water from the City of Corpus Christi and delivers it into ground storage facilities constructed by it and located at the designated delivery point in each customer city. Use and resale of such water by the customer city is subject to all of the terms, conditions, and restrictions set forth in the Authority's water supply contract with Corpus Christi. The price of water will be uniform among the STWA customer cities and will be based on water rates as discussed below.

PRICES AND TERMS

(A) Water Rate - The City shall pay for all water delivered into its system from the Authority at the water rate, which shall be the sum of two elements - a handling charge and the cost of water as described as following:

**CITY OF KINGSVILLE**  
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*FOR THE YEAR ENDED SEPTEMBER 30, 2020*

1. Handling Charge

- a. The handling charge shall be designed to cover all of the Authority's expenses other than the cost of water, including operation and maintenance expenses and amounts budgeted to be paid in the current year for capital improvements, plus an amount sufficient to accumulate and maintain a reasonably adequate reserve fund as stated in subparagraph b, less tax receipts and all other income and revenue. The handling charge, commencing on the effective date of this one-year contract extension and remaining in effect until September 30, 2020 was \$.426386 per thousand gallons of water delivered.
- b. The adjustment in the handling charge may exceed an increase of 5% in any contract year if the Authority obtains prior written approval of customers representing in the aggregate not less than 75% of the water purchased from the Authority during its preceding Fiscal Year.
- c. Notice of a change in handling charge shall be delivered to the City on or before the 10th day of August of each contract year. The notice shall state the amount of the new charge and the reason and calculations for the adjustment. The new handling charge shall be effective commencing at the beginning of the next contract year.
- d. The City may object to the handling charge for any contract year after the initial year by delivering to the Authority a notice stating the nature of the City's objection to the charge. The objection shall be resolved by following the dispute resolution procedures established in the contract. If the dispute is not resolved by the beginning of the subject contract year, the City shall pay at the new rate until the dispute is resolved. The handling charge determined through the dispute resolution procedure shall be effective as the beginning of that contract year unless otherwise agreed by the parties.
- e. Any change in the handling charge, by agreement, dispute resolution, or otherwise shall apply to all customers of the Authority, in accordance with the contract.

2. Cost of Water

The cost of water shall be defined as meaning the actual price per one thousand gallons paid by the Authority to the City of Corpus Christi for water received by the Authority under the Corpus Christi Water Supply Agreement during a service month. It is expected that the cost of water will fluctuate from month to month, resulting in a corresponding fluctuation in the water rate. The water rate ranged from \$2.509620 to \$2.556238 per thousand gallons.

(B) Water Supply Contract - The City and STWA signed a five-year contract on September 25, 2017 which is in effect until September 30, 2022.

(C) Guaranteed Purchase - The City shall purchase a minimum volume of water not to be less than \$300,000 annually unless additional purchases are necessary to supplement the City of Kingsville water requirements. The City purchased \$380,312 and \$399,947 in 2020 and 2019, respectfully.

N. Risk Management

- 1. The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City obtained general; law enforcement, error and omissions; automobile, mobile equipment, real and personal property liability coverage; workers' compensation and unemployment insurance at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State to form the Texas Municipal League Intergovernmental Risk Pool, (TML), a Self-Funded Pool currently operating as a common risk management and insurance program for approximately 1,800 members. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining

**CITY OF KINGSVILLE**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. TML's annual financial statements can be obtained at 211 East Seventh Street, Third Floor, Austin, Texas 78701.

2. Health Insurance

The City began to self-insure for health insurance due to the high cost of commercial health insurance, effective October 1, 2001. A stop loss policy which covers health claims in excess of \$75,000 per individual with a maximum lifetime coverage of \$925,000 is kept in force. In addition, the City's aggregate stop loss coverage is \$1 million and the City maintains aggregate coverage of its group health expenses at 100% of projected claims. Settlements have not exceeded insurance coverage during the past three years.

All funds of the City participate in the program and make payments to the Self-Insurance Fund based on estimates of amounts needed to pay prior and current year claims. The claims liability of \$453,923 at September 30, 2020 is based on requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements and the amount of the loss can be reasonably estimated. Changes in the fund claims liability amounts for fiscal year 2020 and 2019 were:

	Beginning-of Fiscal-Year Liability	Current-Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year-End
2019	\$ 270,323	\$ 3,157,507	\$ 3,220,735	\$ 207,095
2020	\$ 207,095	\$ 3,321,182	\$ 3,074,354	\$ 453,923

The liability at year end is equal to three months of paid claims subsequent to September 30, 2020 but that had been incurred prior to that date, and is considered a current liability for reporting purposes.

3. Litigation Tort Claims

The City is a defendant in various tort claims and lawsuits involving general liability, automobile, civil rights actions, and various contractual matters. In the opinion of the City's management and counsel, the outcome of the pending litigation will not have a material effect on the City's financial position or operation.

O. Closure and Postclosure Care Cost

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, expense provisions and related liabilities are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and postclosure costs is based on the amount of the landfill used during the year. The amount of the liability is based on what it would cost to have all such closure and postclosure care performed in the current year, and is assigned to periods based on cumulative landfill use. The estimated liability for landfill closure and postclosure care costs recorded in the business-type activities at September 30, 2020 is \$1,781,054 based on 16.485% usage (filled) of the landfill through September 30, 2020. It is estimated that an additional \$8,649,414 will be recognized as closure and postclosure care expenses between the date of the balance sheet and the date the landfill is expected to be filled to capacity in 2115. The estimated total current cost for the landfill closure and postclosure care of \$10,430,468 is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfill were acquired as of September 30, 2020. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

## **CITY OF KINGSVILLE**

### *NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2020*

P. Segment Information for Enterprise Funds

Because the utility system fund is a segment and is reported as a major fund in the fund financial statement, segment disclosures herein are not reported.

Q. Non-Budgeted Funds

Budgets are prepared for all governmental funds except the Federal and State Grant Funds. As grants are awarded, grant budgets are established through budget amendments. The budgets are prepared on a basis consistent with generally accepted accounting principles. All annual appropriations lapse at fiscal year end.

R. Subsequent Event

Management has reviewed subsequent events and transactions that occurred after the balance sheet date through April 9, 2021 (the date of the Audit Report). The financial statements include all Type I events or transactions, including estimates, required to be recognized in accordance with generally accepted accounting principles. Management and those charged with governance have determined that there are no non-recognized Type II subsequent events that require additional disclosure.



**CITY OF KINGSVILLE**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**EXHIBIT B-1**  
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	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Taxes:				
General Property Taxes:				
Current taxes	\$ 5,895,538	\$ 5,895,538	\$ 5,767,719	\$ (127,819)
Delinquent taxes	100,000	100,000	138,470	38,470
Penalty and interest	100,000	100,000	102,371	2,371
Late rendition fee	7,000	7,000	6,479	(521)
In lieu of tax payments	106,000	106,000	100,000	(6,000)
Total General Property Taxes	<u>6,208,538</u>	<u>6,208,538</u>	<u>6,115,039</u>	<u>(93,499)</u>
City Sales Tax	<u>5,021,800</u>	<u>5,021,800</u>	<u>5,116,414</u>	<u>94,614</u>
Mixed Drink Tax	<u>60,000</u>	<u>60,000</u>	<u>48,876</u>	<u>(11,124)</u>
Bingo Tax	<u>--</u>	<u>--</u>	<u>2,986</u>	<u>2,986</u>
Business Taxes:				
Electric franchise tax	500,000	500,000	688,066	188,066
Telephone franchise tax	40,000	40,000	51,916	11,916
Gas franchise tax	50,000	50,000	75,649	25,649
Cable T.V. franchise tax	60,000	60,000	53,203	(6,797)
Total Business Taxes	<u>650,000</u>	<u>650,000</u>	<u>868,834</u>	<u>218,834</u>
Total Taxes	<u>11,940,338</u>	<u>11,940,338</u>	<u>12,152,149</u>	<u>211,811</u>
Permits and Licenses:				
Plumbing permits	11,000	11,000	8,860	(2,140)
Electric permits	19,000	19,000	22,256	3,256
Building permits	51,000	51,000	76,498	25,498
Moving permits	600	600	475	(125)
Other permits	68,700	68,700	98,609	29,909
Amusement licenses	45	45	30	(15)
Beer and mixed drink licenses	7,000	7,000	4,473	(2,527)
Contractor licenses	30,000	30,000	34,835	4,835
Solicitor licenses	400	400	175	(225)
Food handler licenses	30,000	30,000	26,850	(3,150)
Other licenses	100	100	25	(75)
Total Permits and Licenses	<u>217,845</u>	<u>217,845</u>	<u>273,086</u>	<u>55,241</u>
Charges for Services:				
General Service Fees:				
Zoning fees	4,000	4,000	3,110	(890)
Platting fees	1,000	1,000	--	(1,000)
Animal control fees	--	--	9,026	9,026
Police accident reports	1,000	1,000	396	(604)
Arrest fees	15,000	15,000	8,636	(6,364)
Child safety	--	--	140	140
Ambulance service	575,000	575,000	613,256	38,256
Park and recreational fees	411,550	450,900	334,286	(116,614)
Cell tower rental	2,400	2,400	6,819	4,419
Street maintenance fees	812,000	812,000	807,064	(4,936)
Septic tank application fee	--	--	1,645	1,645
Other service fees	30,570	43,563	82,199	38,636
Total General Service Fees	<u>1,852,520</u>	<u>1,904,863</u>	<u>1,866,577</u>	<u>(38,286)</u>



**CITY OF KINGSVILLE**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**EXHIBIT B-1**  
Page 2 of 8

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
City/County Services:				
Demolition recovery revenue	30,000	30,000	21,073	(8,927)
Weed control	15,000	15,000	15,417	417
Total City/County Services	45,000	45,000	36,490	(8,510)
Sanitation Services:				
Garbage fees	3,360,000	3,360,000	3,294,041	(65,959)
Landfill fees	627,000	627,000	787,816	160,816
Miscellaneous	47,900	47,900	35,462	(12,438)
Total Sanitation Services	4,034,900	4,034,900	4,117,319	82,419
Total Charges for Services	5,932,420	5,984,763	6,020,386	35,623
Fines and Forfeits:				
Court fines	770,000	770,000	601,692	(168,308)
Minor fines	6,100	6,100	2,275	(3,825)
Collection of state taxes	22,000	22,000	17,899	(4,101)
Other court fines	24,000	24,000	27,105	3,105
Total Fines and Forfeits	822,100	822,100	648,971	(173,129)
Special Assessments	3,800	3,800	5,333	1,533
Interest and Miscellaneous:				
Interest from investments	200,000	200,000	184,230	(15,770)
Auction revenue	5,000	5,000	--	(5,000)
Sale of city publications	1,000	1,000	1,638	638
Sale of recycle item	10,000	10,000	10,417	417
Miscellaneous	59,088	59,088	33,230	(25,858)
Total Interest and Miscellaneous	275,088	275,088	229,515	(45,573)
Gain or Loss on Sale of Property	--	--	23,500	23,500
Donations	--	25,488	23,517	(1,971)
Intergovernmental Revenue	835,000	1,114,334	2,033,862	919,528
Total Revenues	20,026,591	20,383,756	21,410,319	1,026,563
Expenditures:				
<b>City Administration Department</b>				
City Commission:				
Personal services	64,372	61,102	61,102	--
Supplies	1,500	493	125	368
Services	73,115	77,393	37,820	39,573
Total City Commission	138,987	138,988	99,047	39,941

**CITY OF KINGSVILLE**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**EXHIBIT B-1**  
Page 3 of 8

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
City Manager:				
Personal services	281,278	272,815	233,859	38,956
Supplies	2,500	2,415	372	2,043
Services	34,502	34,587	20,115	14,472
Lease payments	2,172	2,172	1,968	204
Total City Manager	320,452	311,989	256,314	55,675
City Special:				
Personal services	29,000	122,698	122,698	--
Supplies	5,595	141,241	91,208	50,033
Services	641,797	641,787	526,981	114,806
Building maintenance	--	50,000	40,185	9,815
Lease payments	15,655	15,655	13,799	1,856
Total City Special	692,047	971,381	794,871	176,510
Economic Development:				
Personal services	65,000	65,000	65,000	--
Supplies	--	4	4	--
Services	91,800	91,796	45,000	46,796
Total Economic Development	156,800	156,800	110,004	46,796
Total City Administration Department	1,308,286	1,579,158	1,260,236	318,922
<b>Management Services Department</b>				
Personnel:				
Personal services	311,350	320,031	318,934	1,097
Supplies	16,561	13,541	10,602	2,939
Services	57,458	55,394	41,095	14,299
Lease payments	912	990	990	--
Total Personnel	386,281	389,957	371,621	18,336
Municipal Court:				
Personal services	276,814	276,814	273,879	2,935
Supplies	3,566	3,566	1,900	1,666
Services	9,229	9,229	2,228	7,001
Total Municipal Court	289,609	289,609	278,007	11,602
Finance:				
Personal services	533,948	536,184	535,662	522
Supplies	5,996	7,048	5,734	1,314
Services	107,412	77,246	68,403	8,843
Lease payments	1,716	2,523	2,523	--
Total Finance	649,072	623,001	612,322	10,679

**CITY OF KINGSVILLE**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**EXHIBIT B-1**  
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	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Facilities:</b>				
Personal services	133,018	134,392	134,380	12
Supplies	45,463	41,804	41,804	--
Services	160,664	157,667	157,666	1
Equipment maintenance	9,300	11,206	10,842	364
Building maintenance	146,721	174,471	142,276	32,195
<b>Total Facilities</b>	<b>495,166</b>	<b>519,540</b>	<b>486,968</b>	<b>32,572</b>
<b>Information Technology:</b>				
Personal services	171,327	166,305	164,290	2,015
Supplies	61,678	59,818	40,609	19,209
Services	312,850	312,098	294,944	17,154
Lease payments	30,215	31,047	30,422	625
<b>Total Information Technology</b>	<b>576,070</b>	<b>569,267</b>	<b>530,265</b>	<b>39,002</b>
<b>Total Management Services Department</b>	<b>2,396,198</b>	<b>2,391,374</b>	<b>2,279,183</b>	<b>112,191</b>
<b>Legal Department</b>				
Personal services	204,314	205,600	205,361	239
Supplies	700	426	400	26
Services	46,887	46,914	20,474	26,440
Lease payments	456	462	462	--
<b>Total Legal Department</b>	<b>252,357</b>	<b>253,401</b>	<b>226,697</b>	<b>26,704</b>
<b>Urban Development Department</b>				
<b>Planning:</b>				
Personal services	159,890	138,817	125,404	13,413
Supplies	1,650	1,645	750	895
Services	12,099	11,586	4,016	7,570
Equipment maintenance	2,000	1,970	--	1,970
Lease payments	1,722	1,722	--	1,722
<b>Total Planning</b>	<b>177,361</b>	<b>155,740</b>	<b>130,170</b>	<b>25,570</b>
<b>Permits and Licenses:</b>				
Personal services	105,583	112,462	112,268	194
Supplies	3,424	2,409	1,219	1,190
Services	10,786	36,886	34,250	2,636
Equipment maintenance	500	500	288	212
Lease payments	3,061	3,061	1,887	1,174
<b>Total Permits and Licenses</b>	<b>123,354</b>	<b>155,318</b>	<b>149,912</b>	<b>5,406</b>

**CITY OF KINGSVILLE**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**EXHIBIT B-1**  
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	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Community Appearance:</b>				
Personal services	198,856	199,983	197,181	2,802
Supplies	15,520	14,495	6,769	7,726
Services	65,978	63,766	47,137	16,629
Equipment maintenance	1,700	2,500	1,757	743
Building maintenance	1,447	10,382	7,670	2,712
Lease payments	2,388	2,388	2,141	247
Capital outlay	62,802	62,802	--	62,802
<b>Total Community Appearance</b>	<b>348,691</b>	<b>356,316</b>	<b>262,655</b>	<b>93,661</b>
<b>Downtown Manager:</b>				
Personal services	66,915	66,654	61,421	5,233
Supplies	1,000	1,100	1,090	10
Services	20,215	23,381	19,806	3,575
Building maintenance	8,000	8,116	7,988	128
Lease payments	--	450	--	450
<b>Total Downtown Manager</b>	<b>96,130</b>	<b>99,701</b>	<b>90,305</b>	<b>9,396</b>
<b>Total Urban Development Department</b>	<b>745,536</b>	<b>767,074</b>	<b>633,042</b>	<b>134,032</b>
<b>Police Department</b>				
Personal services	4,887,338	4,887,338	4,856,509	30,829
Supplies	189,092	189,285	139,417	49,868
Services	450,820	451,141	379,045	72,096
Equipment maintenance	90,753	90,269	67,102	23,167
Building maintenance	18,471	18,471	--	18,471
Lease payments	86,655	86,055	13,747	72,308
Capital outlay	457,937	460,663	301,474	159,189
<b>Total Police Department</b>	<b>6,181,066</b>	<b>6,183,222</b>	<b>5,757,294</b>	<b>425,928</b>
<b>Fire Department</b>				
Personal services	2,863,033	2,860,533	2,790,853	69,680
Supplies	160,896	174,703	152,215	22,488
Services	233,831	247,569	206,106	41,463
Equipment maintenance	53,932	54,520	41,473	13,047
Lease payments	77,726	77,726	77,703	23
Capital outlay	256,105	256,105	--	256,105
<b>Total Fire Department</b>	<b>3,645,523</b>	<b>3,671,156</b>	<b>3,268,350</b>	<b>402,806</b>
<b>Volunteer Fire Department</b>				
Personal services	18,895	18,895	8,699	10,196
Supplies	14,330	16,524	8,058	8,466
Services	26,679	24,485	15,361	9,124
Equipment maintenance	2,000	2,000	1,697	303
<b>Total Volunteer Fire Department</b>	<b>61,904</b>	<b>61,904</b>	<b>33,815</b>	<b>28,089</b>

**CITY OF KINGSVILLE**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**EXHIBIT B-1**  
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	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Public Works Department</b>				
Public Works Administration:				
Personal services	183,656	206,700	201,527	5,173
Supplies	4,221	3,513	2,298	1,215
Services	69,769	71,398	68,105	3,293
Equipment maintenance	1,500	804	251	553
Lease payments	6,399	6,092	5,014	1,078
Capital outlay	17,500	17,500	14,213	3,287
Total Public Works Administration	283,045	306,006	291,408	14,598
Garage:				
Personal services	435,306	435,306	435,237	69
Supplies	17,758	16,246	13,865	2,381
Services	6,808	7,820	5,707	2,113
Equipment maintenance	4,100	4,600	4,378	222
Capital outlay	14,427	14,427	14,427	--
Total Garage	478,399	478,399	473,614	4,785
Sanitation:				
Personal services	677,535	664,118	657,061	7,057
Supplies	184,600	150,651	148,919	1,732
Services	18,214	17,276	17,276	--
Equipment maintenance	232,640	248,532	245,517	3,015
Building maintenance	1,000	100	16	84
Lease payments	146,529	146,681	95,279	51,402
Capital outlay	60,000	71,691	71,691	--
Bad debt	15,000	34,583	34,583	--
Total Sanitation	1,335,518	1,333,632	1,270,342	63,290
Street:				
Personal services	963,134	955,634	874,203	81,431
Supplies	75,808	73,618	73,618	--
Services	220,248	225,672	225,672	--
Equipment maintenance	57,446	89,327	87,792	1,535
Building maintenance	956,471	912,800	643,111	269,689
Lease payments	124,557	124,557	124,498	59
Bad debt	--	1,784	1,784	--
Total Street	2,397,664	2,383,392	2,030,678	352,714

**CITY OF KINGSVILLE**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**EXHIBIT B-1**  
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	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Landfill:</b>				
Personal services	491,239	489,739	452,760	36,979
Supplies	97,091	83,231	57,888	25,343
Services	438,857	364,815	335,263	29,552
Equipment maintenance	88,500	99,291	94,362	4,929
Building maintenance	24,236	92,056	70,872	21,184
Lease payments	68,309	68,309	68,308	1
Capital outlay	318,662	318,662	314,043	4,619
Bad debt	--	3,291	3,291	--
<b>Total Landfill</b>	<b>1,526,894</b>	<b>1,519,394</b>	<b>1,396,787</b>	<b>122,607</b>
<b>Recycling Center:</b>				
Personal services	38,105	32,534	29,261	3,273
Supplies	1,150	1,170	472	698
Services	13,471	13,471	10,450	3,021
Equipment maintenance	800	780	--	780
Building maintenance	500	500	54	446
<b>Total Recycling Center</b>	<b>54,026</b>	<b>48,455</b>	<b>40,237</b>	<b>8,218</b>
<b>Total Public Works Department</b>	<b>6,075,546</b>	<b>6,069,278</b>	<b>5,503,066</b>	<b>566,212</b>
<b>Health Department</b>				
Personal services	264,610	264,610	255,444	9,166
Supplies	33,326	33,501	20,491	13,010
Services	46,805	50,954	41,385	9,569
Equipment maintenance	2,800	3,400	2,212	1,188
Building maintenance	10,000	2,990	1,865	1,125
Lease payments	--	2,086	1,319	767
Capital outlay	5,413	5,413	5,413	--
<b>Total Health Department</b>	<b>362,954</b>	<b>362,954</b>	<b>328,129</b>	<b>34,825</b>
<b>Parks and Recreation Department</b>				
Personal services	650,536	598,333	548,241	50,092
Supplies	82,445	126,388	82,630	43,758
Services	152,143	184,937	140,936	44,001
Equipment maintenance	17,000	24,968	15,401	9,567
Building maintenance	43,358	58,124	31,888	26,236
Lease payments	2,563	4,988	4,108	880
Capital outlay	43,000	67,363	64,631	2,732
<b>Total Parks and Recreation Department</b>	<b>991,045</b>	<b>1,065,101</b>	<b>887,835</b>	<b>177,266</b>

**CITY OF KINGSVILLE**  
**GENERAL FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**EXHIBIT B-1**  
Page 8 of 8

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Golf Course</b>				
Personal services	312,538	333,283	322,460	10,823
Supplies	82,923	81,241	83,035	(1,794)
Services	80,445	83,448	54,637	28,811
Equipment maintenance	7,500	3,446	2,168	1,278
Building maintenance	90,324	198,769	87,067	111,702
Lease payments	57,547	60,280	57,182	3,098
Capital outlay	--	14,930	9,150	5,780
Total Golf Course	<u>631,277</u>	<u>775,397</u>	<u>615,699</u>	<u>159,698</u>
<b>Library Department</b>				
Personal services	204,688	215,285	214,401	884
Supplies	38,910	34,571	34,571	--
Services	30,573	21,737	21,737	--
Equipment maintenance	8,460	10,172	10,172	--
Building maintenance	4,534	5,400	5,400	--
Total Library Department	<u>287,165</u>	<u>287,165</u>	<u>286,281</u>	<u>884</u>
<b>Tourism Department</b>				
Supplies	3,232	3,232	--	3,232
Services	--	43,000	43,000	--
Total Tourism Department	<u>3,232</u>	<u>46,232</u>	<u>43,000</u>	<u>3,232</u>
Total Expenditures	<u>22,942,089</u>	<u>23,513,417</u>	<u>21,122,627</u>	<u>2,390,790</u>
Excess (deficiency) of revenues (under) expenditures	(2,915,498)	(3,129,661)	287,692	3,417,353
Other Financing Sources (Uses):				
Operating transfers in	1,524,915	1,848,667	1,852,833	4,166
Operating transfers out	(440,444)	(483,380)	(404,296)	79,084
Insurance settlement	--	--	14,548	14,548
Lease proceeds	634,044	634,044	622,780	(11,264)
Total Other Financing Sources (Uses)	<u>1,718,515</u>	<u>1,999,331</u>	<u>2,085,865</u>	<u>86,534</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,196,983)	(1,130,330)	2,373,557	3,503,887
Fund Balances/Equity, October 1	10,778,333	10,778,333	10,778,333	--
Fund Balances/Equity, September 30	<u>\$ 9,581,350</u>	<u>\$ 9,648,003</u>	<u>\$ 13,151,890</u>	<u>\$ 3,503,887</u>

**CITY OF KINGSVILLE**  
**POLICE FORFEITURE FUND**  
**BUDGETARY COMPARISON SCHEDULE**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2020**

**EXHIBIT B-2**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Fines and Forfeits:				
Confiscated revenue	\$ --	\$ --	\$ 99,460	\$ 99,460
Minor fines	13,000	13,000	10,783	(2,217)
Total Fines and Forfeits	<u>13,000</u>	<u>13,000</u>	<u>110,243</u>	<u>97,243</u>
Interest and Miscellaneous:				
Interest from investments	26,100	26,100	11,718	(14,382)
Total Interest and Miscellaneous	<u>26,100</u>	<u>26,100</u>	<u>11,718</u>	<u>(14,382)</u>
Total Revenues	<u>39,100</u>	<u>39,100</u>	<u>121,961</u>	<u>82,861</u>
Expenditures:				
<b>Management Services Department</b>				
Municipal Court:				
Services	12,000	11,908	4,163	7,745
Lease payments	5,000	5,092	4,023	1,069
Total Municipal Court	<u>17,000</u>	<u>17,000</u>	<u>8,186</u>	<u>8,814</u>
Total Management Services Department	<u>17,000</u>	<u>17,000</u>	<u>8,186</u>	<u>8,814</u>
<b>Police Department</b>				
Supplies	49,180	49,165	25,424	23,741
Services	125,998	124,638	51,591	73,047
Equipment maintenance	--	1,375	968	407
Capital outlay	120,144	120,144	104,338	15,806
Total Police Department	<u>295,322</u>	<u>295,322</u>	<u>182,321</u>	<u>113,001</u>
Total Expenditures	<u>312,322</u>	<u>312,322</u>	<u>190,507</u>	<u>121,815</u>
Excess (deficiency) of revenues (under) expenditures	(273,222)	(273,222)	(68,546)	204,676
Other Financing Sources (Uses):				
Operating transfers out	--	--	(4,167)	(4,167)
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>(4,167)</u>	<u>(4,167)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(273,222)	(273,222)	(72,713)	200,509
Fund Balances/Equity, October 1	1,307,616	1,307,616	1,307,616	--
Fund Balances/Equity, September 30	<u>\$ 1,034,394</u>	<u>\$ 1,034,394</u>	<u>\$ 1,234,903</u>	<u>\$ 200,509</u>



**CITY OF KINGSVILLE**

**EXHIBIT B-3**

*SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
LAST TEN FISCAL YEARS \**

	Measurement Year Ended December 31,					
	2019	2018	2017	2016	2015	2014
Total Pension Liability						
Service cost	\$ 1,587,157	\$ 1,556,039	\$ 1,542,091	\$ 1,518,194	\$ 1,478,821	\$ 1,277,906
Interest (on the total pension liability)	4,239,811	4,062,979	3,865,404	3,724,025	3,700,688	3,516,450
Changes of benefit terms	--	--	--	--	--	--
Difference between expected and actual experience	(657,718)	(228,198)	(59,073)	(830,982)	(652,092)	37,693
Changes in assumptions	73,235	--	--	--	70,021	--
Benefit payments, including refunds of employee contributions	(3,027,032)	(2,546,244)	(2,310,479)	(2,346,871)	(2,279,840)	(2,321,247)
Net Change in Total Pension Liability	2,215,453	2,844,576	3,037,943	2,064,366	2,317,598	2,510,802
Total Pension Liability - Beginning	63,531,959	60,687,383	57,649,440	55,585,074	53,267,476	50,756,674
Total Pension Liability - Ending (A)	\$ 65,747,412	\$ 63,531,959	\$ 60,687,383	\$ 57,649,440	\$ 55,585,074	\$ 53,267,476
Plan Fiduciary Net Position						
Contributions - employer	\$ 1,014,471	\$ 1,007,184	\$ 1,044,347	\$ 1,044,455	\$ 1,067,110	\$ 1,076,141
Contributions - employee	818,122	802,082	795,478	780,276	778,913	761,677
Net investment income	8,819,344	(1,785,743)	7,318,990	3,378,510	74,370	2,755,154
Benefit payments, including refunds of employee contributions	(3,027,032)	(2,546,244)	(2,310,479)	(2,346,871)	(2,279,840)	(2,321,247)
Administrative expense	(49,847)	(34,517)	(37,934)	(38,160)	(45,302)	(28,766)
Other	(1,497)	(1,803)	(1,922)	(2,056)	(2,237)	(2,365)
Net Change in Plan Fiduciary Net Position	7,573,561	(2,559,041)	6,808,480	2,816,154	(406,986)	2,240,594
Plan Fiduciary Net Position - Beginning	57,062,804	59,621,846	52,813,366	49,997,212	50,404,198	48,163,604
Plan Fiduciary Net Position - Ending (B)	\$ 64,636,365	\$ 57,062,805	\$ 59,621,846	\$ 52,813,366	\$ 49,997,212	\$ 50,404,198
Net Pension Liability - Ending (A-B)	\$ 1,111,047	\$ 6,469,154	\$ 1,065,537	\$ 4,836,074	\$ 5,587,862	\$ 2,863,278
Plan Fiduciary Net Position as a Percentage of Total Pension Liability	98.31%	89.82%	98.24%	91.61%	89.95%	94.62%
Covered Payroll	\$ 11,687,462	\$ 11,458,315	\$ 11,363,969	\$ 11,146,799	\$ 11,127,323	\$ 10,881,102
Net Pension Liability as a Percentage of Covered Payroll	9.51%	56.46%	9.38%	43.39%	50.22%	26.31%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

**CITY OF KINGSVILLE**  
*SCHEDULE OF CITY CONTRIBUTIONS*  
*TEXAS MUNICIPAL RETIREMENT SYSTEM*  
*LAST TEN FISCAL YEARS \**

**EXHIBIT B-4**

	Fiscal Year Ended September 30,						
	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 1,033,057	\$ 1,011,365	\$ 1,023,749	\$ 1,036,718	\$ 1,056,924	\$ 1,067,110	\$ 1,076,141
Contributions in relation to the contractually required contribution	(1,033,057)	(1,011,365)	(1,023,749)	(1,036,718)	(1,056,924)	(1,067,110)	(1,076,141)
Contribution deficiency (excess)	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --	\$ --
City's covered payroll	\$ 11,782,516	\$ 11,612,444	\$ 11,503,830	\$ 11,222,189	\$ 11,208,130	\$ 11,127,323	\$ 10,881,102
Contributions as a percentage of covered payroll	8.77%	8.71%	8.90%	9.24%	9.43%	9.59%	9.89%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information for those years for which information is available.

**CITY OF KINGSVILLE***SCHEDULE OF CHANGES IN THE TOTAL  
OPEB LIABILITY AND RELATED RATIOS  
LAST TEN FISCAL YEARS \**

	Fiscal Year Ended September 30,		
	2020	2019	2018
<b>Total OPEB Liability</b>			
Service Cost	\$ 71,543	\$ 51,950	\$ 50,437
Interest	47,127	50,802	50,887
Changes of benefit terms	--	--	--
Differences between expected and actual experience	(508,154)	176,817	(11,837)
Changes in assumptions or other inputs	(448,465)	190,814	--
Benefit payments	(46,607)	(156,361)	(30,090)
<b>Net Change in Total OPEB Liability</b>	<u>(884,556)</u>	<u>314,022</u>	<u>59,397</u>
<b>Total OPEB Liability - Beginning</b>	<u>1,666,666</u>	<u>1,352,644</u>	<u>1,293,247</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 782,110</u>	<u>\$ 1,666,666</u>	<u>\$ 1,352,644</u>
Covered Payroll	\$ 9,472,505	\$ 10,029,006	\$ 9,736,899
Total OPEB Liability as a percentage of covered payroll	8.26%	16.62%	13.89%

\* This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, this schedule provides the information only for those years for which information is available.

**CITY OF KINGSVILLE**

*NOTES TO REQUIRED SUPPLEMENTARY INFORMATION  
FOR THE YEAR ENDED SEPTEMBER 30, 2020*

The basis of budgeting in the General Fund Budgetary Comparison Schedule is the same as Accounting Principles Generally Accepted in the United States of America (GAAP).

**Texas Municipal Retirement System**

Valuation Date	Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	26 years
Asset valuation method	10 Year smoothed market; 12% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 11.5%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.  Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information	There were no benefit changes during the year.

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**CITY OF KINGSVILLE**

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION (Continued)  
FOR THE YEAR ENDED SEPTEMBER 30, 2020

**City of Kingsville OPEB Plan**

Valuation Date	September 30, 2020
Actuarial cost method	Entry Age Normal
Amortization method	Level Percentage of Payroll, Closed
Remaining amortization period	4 years
Inflation	3.0%
Salary Increases	3.0%, including inflation
Discount Rate	2.41%
Retirement Age	Experience-based table based on rates that are specific to the City's plan of benefits.
Mortality	Active Employees: PubG.H-2010 (general employees) and PubS.H-2010 (public safety) Employee Mortality Tables, Generational with Projections Scale MP-2020 for males or females, as appropriate.  Retirees:: PubG.H-2010 (general employees) and PubS.H-2010 (public safety) Healthy Retiree Mortality Tables, Generational with Projections Scale MP-2020 for males or females, as appropriate.
Changes of Benefit Terms	None
Changes of Assumptions	Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period.  The following are the discount rates used in each period: 2018 - 3.83% 2019 - 2.75% 2020 - 2.41%  Mortality Rates: 2018 - RPH-2014 Healthy Annuitant Mortality Table, Generational Mortality Improvement with Projection Scale MP-2018  2019 - PubG.H-2010 (general employees) and PubS.H-2010 (public safety) Employee and Healthy Annuitant Generational with MP-2019  2020 - PubG.H-2010 (general employees) and PubS.H-2010 (public safety) Employee and Healthy Annuitant Generational with MP-2020

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**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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310 S. Saint Mary's Street 210.277.6800 OFFICE  
Suite 920 210.277.6810 FAX  
San Antonio, Texas 78205 winstead.com

June 10, 2021

**CITY OF KINGSVILLE, TEXAS  
LIMITED TAX REFUNDING BONDS, SERIES 2021  
IN THE ORIGINAL PRINCIPAL AMOUNT OF \$3,595,000**

We have acted as “Bond Counsel” to the City of Kingsville, Texas (the “City”) in connection with the issuance of the bonds described above (the “Bonds”) for the sole purpose of providing legal advice and traditional legal services to the City including rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data, or other material, but we have relied solely upon the transcript of certified proceedings, certifications, and other documents described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. We have relied solely on information and certifications furnished to us by the City with respect to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City.

In our capacity as Bond Counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds that contains certified copies of certain proceedings of the City Commission of the City (the “Commission”), including an ordinance of the Commission authorizing the Bonds adopted on February 22, 2021 together with a “Pricing Certificate” providing for the final sale terms of the Bonds executed pursuant thereto on May 11, 2021 (together, the “Ordinance”); the Purchase Contract, dated May 11, 2021, between the Underwriter named therein and the City; the “Escrow Agreement” dated as of May 1, 2021 between the City and The Bank of New York Mellon Trust Company, N. A. (the “Escrow Agent”); a special report of Causey, Demgen & Moore PC, certified public accountants relating to the accuracy of certain mathematical computations and verifying the sufficiency of the deposits made with the Escrow Agent pursuant to the Escrow Agreement for the redemption of the obligations being refunded with a portion of the proceeds of the Bonds (the “Refunded Obligations” and such special report, the “Report”); the approving opinion of the Attorney General of the State of Texas; customary certificates of officers, agents, and representatives of the City (including a “Federal Tax Certificate”), and other public officials; and other documents relating to the issuance of the Bonds. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the truth and accuracy of the statements contained in such certificates. We have also examined applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service as we have deemed relevant. We have examined executed Bond No. I-1.

Based on said examination and in accordance with customary legal opinion practice, it is our opinion that:

1. The City is a validly existing political subdivision of the State of Texas with power to adopt the Ordinance, perform its agreements therein, and issue the Bonds.

2. The Bonds have been authorized, sold, and delivered in accordance with law.

3. The Bonds constitute valid and legally binding obligations of the City enforceable in accordance with their terms except as the enforceability thereof may be limited by principles of sovereign immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation, and other similar laws now or hereafter enacted relating to creditors' rights generally.

4. Ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the City, necessary to pay the interest on and principal of the Bonds, have been pledged irrevocably to the payment of the Bonds.

5. Interest on the Bonds will be excludable from gross income for federal income tax purposes under section 103 of the Code, and the Bonds will not be treated as "private activity bonds" within the meaning of section 141 of the Code. Interest on the Bonds will not be included as an alternative minimum tax preference item.

6. The Escrow Agreement has been duly authorized, executed, and delivered by the City and, assuming the due authorization, execution, and delivery thereof by the Escrow Agent, is a valid and legally binding agreement, enforceable in accordance with its terms (except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity) and the Refunded Obligations 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 in accordance with the provisions of Chapter 1207, Texas Government Code. In rendering this opinion, we have relied upon the verification in the Report of the sufficiency of cash and investments deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the principal of and interest on the Refunded Obligations.

In rendering these opinions, we have relied upon the representations and certifications of the City, the City's financial advisor, and the underwriter of the Bonds with respect to matters solely within the knowledge of such parties, respectively, which we have not independently verified, and we assume continuing compliance by the City with covenants pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. If such representations and certifications are determined to be inaccurate or incomplete, or the City fails to comply with the foregoing covenants, interest on the Bonds could become includable in gross income retroactively to the date of issuance of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, we express no opinion as 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, ownership, or disposition of the Bonds.

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

The opinions set forth above are based on existing laws of the United States and the State of Texas, which are 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 hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based on our review of existing law, and are made in reliance on the representations and covenants referenced above that we deem relevant to such opinions.

The Service has an ongoing audit program to determine compliance with rules relating to whether interest on state or local obligations is excludable from gross income for federal income tax purposes. No assurance can be given regarding whether or not the Service will commence an audit of the Bonds. If such an audit is commenced, under current procedures, the Service would treat the City as the taxpayer, and owners of the Bonds would have no right to participate in the audit process. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that, if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

We express no opinion herein regarding the accuracy, adequacy, or completeness of the Official Statement relating to the Bonds, or the sufficiency of the security for the Bonds, or the marketability of the Bonds.

This legal opinion expresses the professional judgment of this firm as to the legal issues explicitly addressed therein and is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention, or any changes in law that may hereafter occur. In rendering a legal opinion, we do not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of our opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

Respectfully submitted,

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**APPENDIX D**

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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## MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: \_\_\_\_\_  
Authorized Officer

SPECIMEN



**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

200 Liberty Street, 27th floor  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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