# OFFICIAL STATEMENT DATED NOVEMBER 16, 2021

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

The Bonds will NOT be designated as "qualified tax-exempt obligations" for financial institutions.

**NEW ISSUE: BOOK-ENTRY-ONLY** **RATINGS: S&P Global Ratings. ................................ "AAA"**
**See "SALE AND DISTRIBUTION OF THE BONDS – Municipal Bond Ratings"**

## $5,055,000
## CITY OF DEER PARK, TEXAS
(A political subdivision of the State of Texas located within Harris County)

## LIMITED TAX REFUNDING BONDS, SERIES 2021

Dated: December 1, 2021 Due: March 15, as shown below

Principal of and interest on the $5,055,000 City of Deer Park, Texas, Limited Tax Refunding Bonds, Series 2021 (the "Bonds") are payable by The Bank of New York Mellon Trust Company, N.A, Dallas, Texas, the initial paying agent/registrar (the "Paying Agent/Registrar"). The Bonds are initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

Interest on the Bonds will accrue from the Delivery Date (defined below), and will be payable on March 15, 2022, and semiannually thereafter on each succeeding September 15 and March 15 until stated maturity or prior redemption, to the registered owners (initially Cede & Co.) appearing on the registration books of the Paying Agent/Registrar on the last business day of the month next preceding each interest payment date (the "Record Date"). See "THE BONDS - Description."

The Bonds, when issued, will constitute valid and binding obligations of the City of Deer Park, Texas (the "City") and will be payable from the proceeds of a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See "THE BONDS - Source of Payment."

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended, and an ordinance (the "Bond Ordinance") approved by the City Council on August 17, 2021, in which the City Council delegated pricing of the Bonds and certain other matters to an "Authorized Officer" who approved and executed a "Pricing Certificate," which completed the sale of the Bonds (the Bond Ordinance and Pricing Certificate are jointly referred to as the "Ordinance"). See "THE BONDS – Authorization of the Bonds."

Proceeds from the sale of the Bonds will be used for the refunding of certain outstanding obligations of the City, as more specifically described in "SCHEDULE I – SCHEDULE OF OBLIGATIONS TO BE REFUNDED" herein (the "Refunded Obligations"), and to pay the costs of issuance of the Bonds. See "THE BONDS – Use of Proceeds" and "- Sources and Uses of Funds." The refunding is being undertaken to lower the City's debt service payments and will result in a present value savings to the City.

**PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES AND PRICES**
**(Due March 15)**

***$3,850,000 Serial Bonds***

| Maturity (March 15) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Nos. 244111 (b) | Maturity (March 15) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Nos. 244111 (b) |
|---|---|---|---|---|---|---|---|---|---|
| 2023 | $265,000 | 4.00% | 0.29% | BT6 | 2028 | $460,000 | 3.00% | 1.01% | BY5 |
| 2024 | 355,000 | 4.00 | 0.39 | BU3 | 2029 | 485,000 | 4.00 | 1.13 | BZ2 |
| 2025 | 380,000 | 4.00 | 0.51 | BV1 | 2030 | 515,000 | 4.00 | 1.22 | CA6 |
| 2026 | 405,000 | 4.00 | 0.67 | BW9 | 2031 | 560,000 | 4.00 | 1.28 | CB4 |
| 2027 | 425,000 | 4.00 | 0.81 | BX7 | | | | | |

***$1,205,000 Term Bonds***

$1,205,000 Term Bonds Due March 15, 2033 (c)(d) Interest Rate 4.00% (Price $122.962) (a)(e) CUSIP Number 244111 CD0 (b)

---

(a) The initial price or yields are established by and are the sole responsibility of the Underwriter, and may subsequently be changed.
(b) CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been included solely for the convenience of the 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. Neither the City, the Financial Advisor, nor the Underwriter are responsible for the selection or correctness of the CUSIP numbers set forth herein.
(c) The Bonds maturing on March 15, 2032 and thereafter, are subject to redemption at the option of the City, in whole or from time to time in part, on March 15, 2031 or any date thereafter at par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS - Optional Redemption."
(d) Subject to mandatory redemption in the years and in the amounts set forth herein under the caption "THE BONDS - Mandatory Sinking Fund Redemption."
(e) Initial price calculated to the first optional redemption date.

The Bonds are offered when, as and if issued and accepted by the underwriter listed below (the "Underwriter"), subject to the approving opinion of the Attorney General of the State and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel for the City. See "LEGAL MATTERS." Certain legal matters will be passed upon for the Underwriter listed below by Orrick, Herrington & Sutcliffe LLP, Houston, Texas. Delivery of the Bonds through DTC is expected to be on or about December 16, 2021 (the "Delivery Date").

## SAMCO CAPITAL

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

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the City or other matters described herein since the date hereof.

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 responsibilities 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.

NEITHER THE CITY, THE FINANCIAL ADVISOR, NOR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE ATTACHED APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, IN RELIANCE UPON AN EXEMPTION CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE BONDS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAWS OF THE STATES IN WHICH THE BONDS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS. 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.

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 any purpose.

## TABLE OF CONTENTS



*The cover page hereof, the section entitled "Official Statement Summary," this Table of Contents and the Schedule and Appendices attached hereto are part of the Official Statement.*

# $5,055,000
# CITY OF DEER PARK, TEXAS
(A political subdivision of the State of Texas located within Harris County)
# LIMITED TAX REFUNDING BONDS, SERIES 2021

## INTRODUCTORY STATEMENT

Information contained in this Official Statement, including Appendices A and B, has been obtained from the City of Deer Park, Texas (the "City") in connection with the offering by the City of its $5,055,000 Limited Tax Refunding Bonds, Series 2021 (the "Bonds") identified on the cover page hereof.

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

## SALE AND DISTRIBUTION OF THE BONDS

### Underwriting

The Underwriter listed on the cover page hereof (the "Underwriter") has agreed to purchase the Bonds from the City pursuant to the terms and conditions contained in the bond purchase agreement (the "Bond Purchase Agreement") for $5,899,979.75 (being the principal amount of the Bonds, plus a premium on the Bonds of $882,386.75 and less an Underwriter's discount of $37,407.00).

### Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the City of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bondhouse, broker or similar person acting in the capacity of underwriter or wholesaler. The City has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Underwriter at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

### Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or 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 or qualification provisions in such jurisdictions.

### Municipal Bond Ratings

In connection with the sale of the Bonds, the City has made application to S&P Global Ratings ("S&P") for a rating and a rating of "AAA" has been assigned to the Bonds. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the views of S&P, and the City makes no representation as to the appropriateness of such rating.

There is no assurance that such rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

| | |
|---|---|
| The Issuer ...................................... | The City of Deer Park, Texas (the "City") was incorporated on December 10, 1948 and adopted a Home Rule Charter on December 6, 1960. The City is located in the center of the highly industrialized ship channel area just east of Houston. The City has a "Mayor-Council-Manager" form of government. The City Council consists of a Mayor and six Council members, all of whom are elected from the City at-large for two-year terms. The Mayor and three Council members are elected in odd-numbered years, and three Council members are elected in even-numbered years. For additional information regarding the City, see "Appendix A – Economic and Demographic Characteristics." |
| The Bonds...................................... | $5,055,000 Limited Tax Refunding Bonds, Series 2021 (the "Bonds"), are dated December 1, 2021. The Bonds include $3,850,000 principal amount of serial bonds maturing March 15 in each of the years 2023 through 2031, inclusive (the "Serial Bonds") and $1,205,000 principal amount of term bonds maturing March 15, 2033 (the "Term Bonds").<br><br>Interest on the Bonds will accrue from the date of initial delivery and is payable March 15, 2022 and semiannually thereafter on each succeeding September 15 and March 15 until stated maturity or prior redemption. The Bonds are issued in fully registered form in integral multiples of $5,000 of principal amount. See "THE BONDS - Description." |
| Optional Redemption...................... | The Bonds maturing on and after March 15, 2032 are subject to redemption at the option of the City, in whole or from time to time in part, on March 15, 2031 or any date thereafter at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS - Optional Redemption." The Term Bonds are subject to mandatory sinking fund redemption as described under the caption "THE BONDS - Mandatory Sinking Fund Redemption." |
| Authority........................................ | The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Chapter 1207, Texas Government Code, as amended, and an ordinance (the "Bond Ordinance") approved by the City Council on August 17, 2021, in which the City Council delegated pricing of the Bonds and certain other matters to an "Authorized Officer" who approved and executed a "Pricing Certificate," which completed the sale of the Bonds (which Bond Ordinance and Pricing Certificate are jointly referred to as the "Ordinance"). See "THE BONDS – Authorization of the Bonds." |
| Paying Agent/Registrar................... | The initial paying agent/registrar is The Bank of New York Mellon Trust Company, N.A, Dallas, Texas (the "Paying Agent/Registrar"). The City intends to use the book-entry-only system of The Depository Trust Company, New York, New York ("DTC"), but reserves the right on its behalf or on behalf of the DTC to discontinue such system. See "THE BONDS - Book-Entry-Only System." |
| Source of Payment.......................... | The Bonds, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See "THE BONDS - Source of Payment of the Bonds." |
| Use of Proceeds ............................. | Proceeds from the sale of the Bonds will be used for the refunding of certain outstanding obligations of the City as more specifically described in "SCHEDULE I – SCHEDULE OF OBLIGATIONS TO BE REFUNDED" herein (the "Refunded Obligations"), and to pay the costs of issuance of the Bonds. See "THE BONDS - Use of Proceeds" and "- Sources and Uses of Funds." The refunding is being undertaken to lower the City's debt service payments and will result in a present value savings to the City. |

| | |
|---|---|
| Ratings.......................................... | S&P Global Ratings (Unenhanced) .......................................................... "AAA" See "SALE AND DISTRIBUTION OF THE BONDS – Municipal Bond Ratings." |
| Tax Exemption .............................. | In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the federal alternative minimum tax. See "TAX MATTERS" herein. |
| Not Qualified Tax-Exempt Obligations ................................. | The Bonds will NOT be designated as "qualified tax-exempt obligations" for financial institutions. |

*[Remainder of Page Intentionally Left Blank]*

TABLE 1
- Selected Financial Information -
(Unaudited)

| | | |
|---|---|---|
| 2021 Certified Net Taxable Assessed Valuation (100% of estimated market value) | $ 3,415,419,354 | (a) |
| Direct Debt: | | |
| Outstanding Tax Supported Debt (as of September 30, 2021) | $ 110,520,000 | (b) |
| Plus: The Bonds | 5,055,000 | |
| Less: The Refunding Obligations | 5,750,000 | |
| Total Tax Supported Debt | $ 109,825,000 | |
| Estimated Overlapping Debt | $ 132,467,447 | |
| Direct and Estimated Overlapping Debt | $ 242,292,447 | |
| Debt Service Fund Balance (as of September 30, 2021) | $ 6,248,743 | (c) |

| | % of 2021 Certified Taxable Assessed Valuation | Per Capita (35,333) |
|---|---|---|
| Debt Ratios: (c)(e) | | |
| Direct Tax Supported Debt | 3.22% | $3,108 |
| Direct Tax Supported and Estimated Overlapping Debt | 7.09% | $6,857 |

| | |
|---|---|
| 2021 Tax Rate (per $100 of Assessed Valuation) | |
| Maintenance and Operation | $ 0.559216 |
| Debt Service | 0.160784 |
| Total | $ 0.720000 |
| Annual Debt Service Requirements: (b)(d) | |
| Average (Fiscal Years 2022-2046) | $ 5,825,300 |
| Maximum (2023) | $ 11,286,203 |
| Tax Collections: | |
| Arithmetic Average, Tax Years (2016-2020) - Current Year Collections | 98.43% |
| - Total Collections | 99.03% |

---

(a) Certified by the Harris County Appraisal District (the "Appraisal District") and net of exemptions. Such value is further subject to change as additions, corrections and deletions are made to the tax roll.

(b) Includes ad valorem tax debt that the City treats as self-supporting debt payable from revenue of the System or payments received from the Deer Park Community Development Corporation (the "Deer Park CDC") pursuant to a policy determination by City Council, which is subject to change. If payments were not made from such sources in the future, the difference would be paid from ad valorem taxes.

(c) Unaudited. The unaudited information has not been prepared or reviewed by the City's independent auditor. The information is subject to change upon completion of the City's annual audit.

(d) Includes the Bonds and excludes the Refunded Obligations.

## INTRODUCTION

This Official Statement and Appendices A and B hereto provide certain information with respect to the issuance by the City of Deer Park, Texas (the "City") in connection with the offering by the City of its $5,055,000 Limited Tax Refunding Bonds, Series 2021 (the "Bonds").

The Bonds, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See "THE BONDS - Source of Payment of the Bonds."

There follows in this Official Statement descriptions of the Bonds, the plan of financing, and certain information about 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 upon request. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the sale and issuance of the Bonds approved by the City Council on August 17, 2021, in which the City Council delegated pricing of the Bonds and certain other matters to an "Authorized Officer" who approved and executed a "Pricing Certificate," which completed the sale of the Bonds (which Bond Ordinance and Pricing Certificate are jointly referred to as the "Ordinance"), except as otherwise indicated herein.

## THE BONDS

### Description

The Bonds are dated December 1, 2021 and bear interest from the date of initial delivery (the “Delivery Date”) to the underwriter listed on the cover page hereof (the "Underwriter") at the stated interest rates indicated on the cover page of this Official Statement, which interest is payable initially on March 15, 2022 and each September 15 and March 15 thereafter until the earlier of stated maturity or prior redemption.

The Bonds are issued in fully registered form in integral multiples of $5,000 of principal amount. Principal of the Bonds is payable at the principal payment office of The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date or by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear all risk and expense of such other customary banking arrangements. The record date (the "Record Date") for the interest payable on any interest payment date means the last business day of the month next preceding such interest payment date. The Bonds initially will be registered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book- Entry-Only System described below.

In the event the Book-Entry-Only-System is discontinued, the Bonds may be transferred and exchanged on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity in any authorized denomination upon surrender of the Bonds to be exchanged at the principal payment office of the Paying Agent/Registrar. No service charge will be made for any transfer, but the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

### Optional Redemption

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after March 15, 2032, in whole or from time to time in part, in principal amounts of $5,000 or any integral multiple thereof, on March 15, 2031 or any date thereafter at par, plus accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds (or mandatory sinking fund redemption amounts with respect to the Term Bonds) to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or a portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**Mandatory Sinking Fund Redemption**

The Bonds maturing March 15, 2033 (the "Term Bonds") are subject to scheduled mandatory redemption and will be redeemed by the City, in part at a price equal to the principal amount thereof, without premium, plus accrued interest to the redemption date, out of moneys available for such purpose in the Debt Service Fund, on the dates and in the respective principal amounts as set forth below:

**Term Bonds Maturing March 15, 2033**

| Mandatory Redemption Dates | Mandatory Sinking Fund Payment |
|---|---|
| March 15, 2032 | $590,000 |
| March 15, 2033 (Stated Maturity) | 615,000 |

Prior to each scheduled mandatory redemption date, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Bonds equal to the aggregate principal amount of such Term Bonds to be redeemed, shall call such Term Bonds for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided below. The principal amount of the Term Bonds required to be redeemed on any redemption date pursuant to the mandatory redemption provisions shall be reduced, at the option of the City, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

**Notice of Redemption**

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

The City reserves the right 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 certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any 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.

**Book-Entry-Only System**

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

*The City, the Financial Advisor and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 each such maturity, and will be deposited with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. 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).

Redemption proceeds and 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 dates 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 in 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 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 to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the Direct Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with an optional tender or a mandatory purchase will be deemed satisfied when the ownership rights in the Bonds are transferred by Direct Participants on DTC's records and followed by a book-entry credit of tendered Bonds to the Tender Agent's DTC account.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

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

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

**Successor Paying Agent/Registrar**

Provision is made in the Ordinance for replacing the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor paying agent/registrar (the "Successor Paying Agent/Registrar"), and the Successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any Successor Paying Agent/Registrar selected by the City shall be a commercial bank or trust company organized under the laws of the State of Texas (the "State"), or any other entity duly qualified and legally authorized to serve as and perform the duties and service of paying agent/registrar for the Bonds.

**Source of Payment of the Bonds**

The Bonds, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See "TAX DATA – Debt Tax Rate Limitations" and "THE BONDS – Remedies in the Event of Default."

**Authorization of the Bonds**

The Bonds are issued pursuant to applicable provisions of the Constitution and laws of the State, including particularly Chapter 1207, Texas Government Code, and the Ordinance.

**Use of Proceeds**

Proceeds from the sale of the Bonds will be used for the refunding of certain outstanding obligations of the City, as more specifically described in "SCHEDULE I – SCHEDULE OF OBLIGATIONS TO BE REFUNDED" herein (the "Refunded Obligations"), and to pay the costs of issuance of the Bonds. See "THE BONDS - Sources and Uses of Funds." The refunding is being undertaken to lower the City's debt service payments and will result in a present value savings to the City.

### Refunded Obligations

The Ordinance provides that from the proceeds of the sale of the Bonds to the Underwriter the City will deposit with the Escrow Agent (defined below) an amount, together with other lawfully available funds of the City, if any, which will be sufficient to accomplish the discharge and final payment of the Refunded Obligations. Such funds will be held uninvested by BOKF, NA, Dallas, Texas (the "Escrow Agent"), in an escrow account (the "Escrow Fund"). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Obligations.

Robert Thomas CPA, LLC, certified public accountants (the "Verification Agent") will verify at the time of delivery of the Bonds to the Underwriters, that the funds deposited under the Escrow Agreement will be sufficient to pay, when due, the principal of and interest on the Refunded Obligations on their respective scheduled redemption dates. The funds on deposit in the Escrow Fund will not be available to pay the debt service on the Bonds. See "VERIFICATION OF ARITHMETICAL COMPUTATIONS."

By the deposit of the funds with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of the Refunded Obligations pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the ordinance authorizing the issuance of the Refunded Obligations. As a result of such defeasance, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Escrowed Securities and/or cash held for such purpose by the Escrow Agent, and the Refunded Obligations will not be deemed as being outstanding obligations of the City.

It is the opinion of Bond Counsel that as a result of such deposit and in reliance upon the report of Verification Agent, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Obligations, and such Refunded Obligations will be deemed to be fully paid and no longer outstanding except for the purpose of being paid from funds provided therefor, in the Escrow Agreement.

### Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

| | | |
|---|---|---|
| SOURCES OF FUNDS: | | |
| Principal Amount of the Bonds | $ | 5,055,000.00 |
| Premium on the Bonds | | 882,386.75 |
| City Contribution | | 43,399.00 |
| Total Sources of Funds | $ | 5,980,785.75 |
| | | |
| USES OF FUNDS | | |
| Deposit to Escrow Fund | $ | 5,845,525.00 |
| Expenses: | | |
| Underwriter's Discount | | 37,407.00 |
| Other Issuance Expenses (a) | | 97,853.75 |
| Total Uses of Funds | $ | 5,980,785.75 |

(a) Includes legal fees of the City, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, fees of the Escrow Agent, and other costs of issuance including contingency.

### Future Debt

The City has $41,300,000 of authorized but unissued bonds remaining from its May 1, 2021 bond election. The City may also issue obligations such as tax notes and certificates of obligation for City projects without an election. Depending on the rate of development within the City, changes in assessed valuation, and the amounts, interest rates, maturities and time of issuance of additional certificates of obligation or bonds, increases in the City's annual ad valorem tax rate may be required to provide for the payment of the principal of and interest on the City's outstanding bonds, obligations, and future obligations secured by ad valorem taxes. The City has plans to issue approximately $15,280,000 in additional tax supported debt over the next twelve months.

The following table illustrates the bonds authorized, issued and remaining authorized but unissued by proposition.

TABLE 2

- Authorized But Unissued Bonds -

| Date Authorized | Purpose | Amount Authorized | Issued To Date | Remaining Authorized But Unissued |
|---|---|---|---|---|
| 5/1/2021 | Drainage | $19,500,000 | $ 9,800,000 | $ 9,700,000 |
| 5/1/2021 | Fire Improvements | 16,900,000 | 10,800,000 | 6,100,000 |
| 5/1/2021 | Streets & Sidewalks | 7,200,000 | 4,000,000 | 3,200,000 |
| 5/1/2021 | Community Center | 22,300,000 | -0- | 22,300,000 |
| | Grand Totals | $65,900,000 | $24,600,000 | $41,300,000 |

**Remedies in the Event of Default**

The Ordinance does not provide any remedies to a registered owner if the City defaults on the payment of the principal of or interest on the Bonds. If a registered owner of an Bond does not receive payment of principal of or interest on the Bonds when due, the registered owner may seek a writ of mandamus from a court of competent jurisdiction. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance under the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition, and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of governmental 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 governmental immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Bonds or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to restrict the waiver of immunity when a city performs a proprietary function. The Court remanded the case so that the appellate court could rule on whether the contract at issue was proprietary or governmental. *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018). On remand, the appellate court found for the City of Jacksonville by holding the contract claim arose from the city's performance of a governmental function, and thus the claim was barred by immunity. After granting Wasson's petition for review of the appellate decision, the Court held that to determine if the City was engaged in a proprietary or governmental function, the focus of the inquiry is on the nature of the contract at the time of execution, not the nature of the breach at the time of the breach.

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of bond counsel will note that all opinions with respect to the rights of the registered owners of the Bonds are subject to the applicable provisions of federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

## INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY

The City may invest its investable funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the City or obligations under a lease, installment sale, or other agreement of the City) in investments authorized by State law in accordance with investment policies approved by the Mayor and City Council of the City. Both State law and the City's investment policies are subject to change.

### Legal Investments

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

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service if the governing body of the City authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

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

**Investment Policies**

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

The City's policies require investments in accordance with applicable State law. The City's Investment Policy excludes certain investments allowable under State law described above under "Legal Investments." Investments specifically prohibited by the City's Investment Policy include (1) obligations for which the payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (interest only bonds); (2) obligations for which the payment represents the principal stream of cash flow from the underlying mortgage-backed security collateral and bears no interest (principal only bond); (3) collateralized mortgage obligations that have a stated final maturity date of greater than 10 years; (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index (inverse floaters); (5) certain securities lending programs of the nature permitted by Section 2256.0115 of the Public Funds Investment Act; and (6) commercial paper, including investment pools which invest in commercial paper.

**Additional Provisions**

Under State law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the governing body of the City; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) 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 repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

### Current Investments

The City's Investment Policy authorizes the City to invest in direct obligations of the U.S. Treasury with maturity dates of five years or less, obligations of agencies of the U.S. Government with maturity dates of five years or less, and certain investment pools. The City's unaudited investment balances on September 30, 2021 were as follows:

TABLE 3
- Current Investments -

| | Book Value | Market Value |
|---|---|---|
| Cash | $ 22,609,541 | $ 22,609,541 |
| TexPool | 49,193,813 | 49,193,813 |
| TexStar | 3,884,991 | 3,884,991 |
| Texas CLASS | 27,888,429 | 27,888,429 |
| Certificates of Deposit | 61,320,755 | 61,320,755 |
| Total Portfolio | $164,897,529 | $164,897,529 |

## CITY TAX DEBT

### Tax Supported Debt Statement

The following tables and calculations relate to the Bonds and to all other tax supported debt of the City. The City and various other political subdivisions of government which overlap all or a portion of the City are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of property within the City.

### Bonded Indebtedness Payable from Ad Valorem Taxes

| | | |
|---|---|---|
| 2021 Certified Net Taxable Assessed Valuation (100% of estimated market value) | $ 3,415,419,354 | (a) |
| Direct Debt: | | |
| Outstanding Tax Supported Debt (as of September 30, 2021) | $ 110,520,000 | (b) |
| Plus: The Bonds | 5,055,000 | |
| Less: The Refunded Obligations | 5,750,000 | |
| Total Direct Debt | $ 109,825,000 | |
| Debt Service Fund Balance (as of September 30, 2021) | $ 6,248,743 | (c) |

______________________________

(a) Certified by the Harris County Appraisal District (the "Appraisal District") and net of exemptions. Such value is further subject to change as additions, corrections and deletions are made to the tax roll.

(b) Includes ad valorem tax debt that the City treats as self-supporting debt payable from revenue of the System or payments received from the Deer Park CDC pursuant to a policy determination by City Council, which is subject to change. If payments were not made from such sources in the future, the difference would be paid from ad valorem taxes.

(c) Unaudited. The unaudited information has not been prepared or reviewed by the City's independent auditor. The information is subject to change upon completion of the City's annual audit.

**Tax Supported Debt Service Schedule**

The following sets forth the principal and interest on the City's Outstanding Tax Supported Debt, plus the principal and interest on the Bonds.

TABLE 4
- Tax Supported Debt Service Schedule -

| Fiscal Year Ending 9/30 | Current Total Debt Service (a) | Less: Debt Service on the Refunded Bonds | Plus: The Bonds Principal | Plus: The Bonds Interest | Total Debt Service (b) |
|---|---|---|---|---|---|
| 2022 | $ 10,973,332 | $ 191,050 | | $ 147,651 | $ 10,929,933 |
| 2023 | 11,345,003 | 516,100 | $ 265,000 | 192,300 | 11,286,203 |
| 2024 | 10,724,467 | 594,325 | 355,000 | 179,900 | 10,665,042 |
| 2025 | 9,732,371 | 605,046 | 380,000 | 165,200 | 9,672,525 |
| 2026 | 9,141,354 | 614,720 | 405,000 | 149,500 | 9,081,134 |
| 2027 | 8,716,329 | 613,724 | 425,000 | 132,900 | 8,660,505 |
| 2028 | 7,732,299 | 636,806 | 460,000 | 117,500 | 7,672,993 |
| 2029 | 7,727,243 | 643,800 | 485,000 | 100,900 | 7,669,343 |
| 2030 | 7,727,409 | 654,873 | 515,000 | 80,900 | 7,668,436 |
| 2031 | 7,236,353 | 674,773 | 560,000 | 59,400 | 7,180,980 |
| 2032 | 7,234,710 | 683,500 | 590,000 | 36,400 | 7,177,610 |
| 2033 | 6,709,269 | 686,306 | 615,000 | 12,300 | 6,650,263 |
| 2034 | 6,023,080 | | | | 6,023,080 |
| 2035 | 5,497,323 | | | | 5,497,323 |
| 2036 | 4,905,210 | | | | 4,905,210 |
| 2037 | 4,381,415 | | | | 4,381,415 |
| 2038 | 4,033,090 | | | | 4,033,090 |
| 2039 | 3,505,575 | | | | 3,505,575 |
| 2040 | 3,209,950 | | | | 3,209,950 |
| 2041 | 2,859,600 | | | | 2,859,600 |
| 2042 | 1,379,225 | | | | 1,379,225 |
| 2043 | 1,382,475 | | | | 1,382,475 |
| 2044 | 1,379,600 | | | | 1,379,600 |
| 2045 | 1,380,600 | | | | 1,380,600 |
| 2046 | 1,380,400 | | | | 1,380,400 |
| Totals | $146,317,679 | $7,115,023 | $5,055,000 | $1,374,851 | $145,632,507 |

| | |
|---|---|
| Average Annual Requirements (2022-2046) .......... | $ 5,825,300 |
| Maximum Annual Requirement (2023) .......... | $11,286,203 |

(a) Includes ad valorem tax debt that the City treats as self-supporting debt payable from revenue of the System or payments received from the Deer Park CDC pursuant to a policy determination by City Council, which is subject to change. If payments were not made from such sources in the future, the difference would be paid from ad valorem taxes.

(b) Totals may not tie due to rounding.

**Estimated Overlapping Debt**

The following table indicates the indebtedness, defined as outstanding obligations payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes. The City has not independently verified the accuracy or completeness of the information shown below except for amounts related to the City.

TABLE 5
- Estimated Overlapping Debt -

| Taxing Jurisdiction | Debt as of September 30, 2021 | Overlapping Percent | Overlapping Amount |
|---|---|---|---|
| Deer Park Independent School District | $ 278,495,000 | 18.73% | $ 52,162,114 |
| Harris County | 1,723,192,125 | 0.61 | 10,511,472 |
| Harris County Department of Education | 20,185,000 | 0.61 | 123,129 |
| Harris County Flood Control District | 590,725,000 | 0.61 | 3,603,423 |
| Harris County Hospital District | 81,540,000 | 0.61 | 497,394 |
| La Porte Independent School District | 315,810,000 | 11.58 | 36,570,798 |
| Port of Houston Authority | 492,439,397 | 0.61 | 3,003,880 |
| San Jacinto Community College District | 529,434,594 | 4.91 | 25,995,239 |
| TOTAL ESTIMATED OVERLAPPING | | | $132,467,447 |
| The City | | | 109,825,000(a)(b) |
| Total Direct and Estimated Overlapping Debt | | | $242,292,447 |

(a) Includes the Bonds and excludes the Refunded Obligations.
(b) Includes ad valorem tax debt that the City treats as self-supporting debt payable from revenue of the System or payments received from the Deer Park CDC pursuant to a policy determination by City Council, which is subject to change. If payments were not made from such sources in the future, the difference would be paid from ad valorem taxes.

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

**Debt Ratios**

| | Direct Debt (a)(b) | Direct and Overlapping Debt (a)(b) |
|---|---|---|
| Per 2021 Certified Net Taxable Assessed Valuation ($3,415,419,354) | 3.22% | 7.09% |
| Per Capita (35,333) | $3,108 | $6,857 |

(a) Includes the Bonds and excludes the Refunded Obligations.
(b) Includes ad valorem tax debt that the City treats as self-supporting debt payable from revenue of the System or payments received from the Deer Park CDC pursuant to a policy determination by City Council, which is subject to change. If payments were not made from such sources in the future, the difference would be paid from ad valorem taxes.

## TAX DATA

**Ad Valorem Property Taxation**

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to 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 ("Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of Harris County Appraisal District (the "Appraisal District"). Except as described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (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 ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "TAX DATA – City's Rights in the Event of Tax Delinquencies."

<u>Issuer and Taxpayer Remedies</u>. Under certain circumstances, the City and its taxpayers 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 of at least $50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

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 "– Public Hearing and Maintenance and Operation Tax Rate Limitations". The Property Tax Code also establishes a procedure for 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.

<u>State Mandated Homestead Exemptions</u>. 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.

<u>Local Option Homestead Exemptions</u>. 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 market value of all homesteads (but not less than $5,000) and (2) an additional exemption of the market value of the homesteads of persons 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 City granted an additional homestead exemption for the 2021 tax year in the amount of 20% of market value of the homestead with a minimum of $5,000.

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

<u>Personal Property</u>. 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 Exemptions. Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1,1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. The City has taken official action and determined not to grant a Goods-in-Transit exemption.

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

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

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

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

**Public Hearing and Maintenance and Operation Tax Rate Limitations**

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

> "adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.
>
> "de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional $500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

**Debt Tax Rate Limitations**

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

**City's Rights in the Event of Tax Delinquencies**

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. 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 the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. 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, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. 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.

**Historical Analysis of Tax Collection**

TABLE 6
- Collection Ratios -

| Tax Year | Net Assessed Valuation | Tax Rate Per $100 of Assessed Valuation | Adjusted Tax Levy (a) | % of Collections: Current Year Collection | % of Collections: Total Collections | Fiscal Year Ending 9/30 |
|---|---|---|---|---|---|---|
| 2011 | $1,807,994,850 | $0.720000 | $13,043,054 | 98.45% | 99.79% | 2012 |
| 2012 | 1,824,438,772 | 0.720000 | 13,019,648 | 98.60 | 99.77 | 2013 |
| 2013 | 1,964,542,521 | 0.720000 | 14,063,714 | 98.58 | 99.67 | 2014 |
| 2014 | 2,121,296,775 | 0.720000 | 14,991,306 | 99.12 | 99.61 | 2015 |
| 2015 | 2,345,344,230 | 0.714352 | 16,363,090 | 98.00 | 99.57 | 2016 |
| 2016 | 2,570,626,822 | 0.720000 | 17,598,722 | 99.12 | 99.41 | 2017 |
| 2017 | 2,680,071,926 | 0.720000 | 18,401,462 | 98.47 | 99.09 | 2018 |
| 2018 | 2,784,337,645 | 0.720000 | 19,298,489 | 98.82 | 98.70 | 2019 |
| 2019 | 3,026,001,105 | 0.720000 | 20,780,196 | 98.54 | 98.54 | 2020 |
| 2020 | 3,244,242,436 | 0.720000 | 23,358,546 | 97.20(b) | 99.41(b) | 2021 |

(a) After exemption and abatements.
(b) Represents unaudited collections as of September 30, 2021.

TABLE 7
- Tax Rate Distribution -

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Maintenance | $0.559216 | $0.568794 | $0.561659 | $0.549389 | $0.533514 |
| Debt Service | 0.160784 | 0.151206 | 0.158341 | 0.170611 | 0.186486 |
| Total | $0.720000 | $0.720000 | $0.720000 | $0.720000 | $0.720000 |

- Delinquent Tax Collection Procedures -

In addition to the legal procedures and penalties described under "City's Rights in the Event of Tax Delinquencies," the City has retained a delinquent tax attorney on a contract basis to file suit to collect delinquent taxes due the City. The fees due such attorney for acting as delinquent tax attorney are payable from an additional penalty imposed upon the delinquent taxpayer, not to exceed 20% of the tax due.

**Analysis of Tax Base**

TABLE 8
- Tax Base Distribution -

| | 2021 Tax Roll (a)(b) | | 2020 Tax Roll (a) | |
|---|---|---|---|---|
| Type of Property | Amount | % | Amount | % |
| Residential | $2,313,081,464 | 53.77% | $2,181,489,811 | 53.26% |
| Vacant Lots/Tracts (c) | 49,162,247 | 1.14 | 49,583,058 | 1.21 |
| Commercial/Industrial | 1,537,203,601 | 35.74 | 1,466,485,674 | 35.80 |
| Utilities | 56,093,574 | 1.30 | 55,551,779 | 1.36 |
| Other | 346,111,964 | 8.05 | 343,027,506 | 8.37 |
| Total Market Value | $4,301,652,850 | 100.00% | $4,096,137,828 | 100.00% |
| Less: Exemption | (886,233,496) | | (851,895,392) | |
| Total Taxable Value | $3,415,419,354 | | $3,244,242,436 | |

| | 2019 Tax Roll (a) | | 2018 Tax Roll (a) | |
|---|---|---|---|---|
| Type of Property | Amount | % | Amount | % |
| Residential | $2,047,423,580 | 53.24% | $1,901,613,776 | 53.46% |
| Vacant Lots/Tracts (c) | 56,215,746 | 1.46 | 58,361,704 | 1.64 |
| Commercial/Industrial | 1,349,448,379 | 35.09 | 1,222,380,268 | 34.36 |
| Utilities | 51,970,092 | 1.35 | 48,799,577 | 1.37 |
| Other | 340,264,967 | 8.85 | 326,335,822 | 9.17 |
| Total Market Value | $3,845,322,764 | 100.00% | $3,557,491,147 | 100.00% |
| Less: Exemption | (819,321,659) | | (773,153,502) | |
| Total Taxable Value | $3,026,001,105 | | $2,784,337,645 | |

Source: The Appraisal District.

(a) Values may differ from those shown in the City's financial statement and elsewhere in this Official Statement due to subsequent adjustments.

(b) Certified by the Appraisal District. Such value is further subject to change as additions, corrections and deletions are made to the tax roll.

(c) Includes productivity values for real acreage ranchland and real acreage farmland.

TABLE 9
- Principal Taxpayers -

| Principal Taxpayer | Type of Property | 2021 Taxable Assessed Valuation | 2020 Taxable Assessed Valuation |
|---|---|---|---|
| 739 Independence LLC | Warehouses | $42,709,000 | (a) |
| Quarter Turn Resources Inc. | General Industrial | 38,782,550 | $ 38,922,011 |
| BFT Parktown LLC Et Al | Apartments | 33,432,633 | 35,674,367 |
| LEX Houston 4600 LP | Warehouses | 33,301,397 | (a) |
| CH AZ Victory LP | Warehouses | 26,901,248 | (a) |
| Dresser LLC | Inventory | 26,595,333 | 26,202,717 |
| CenterPoint Energy, Inc. | Utility | 26,583,564 | 26,171,406 |
| GSL Constructors Ltd. | Industrial/Warehouses | 25,995,357 | 25,626,689 |
| Deer Park Apartments LLC | Apartments | 21,855,575 | 21,444,707 |
| Wal-Mart | Retail | 21,136,848 | (a) |
| CRP/TREP Underwood Owner LP | Warehouses | (a) | 28,164,680 |
| Enterprise FM Trust | Vehicles | (a) | 24,046,596 |
| Victory Park Industrial LLC | Warehouses | (a) | 22,925,344 |
| Arlanxeo USA LLC | Inventory | (a) | 21,179,159 |
| Total Top Ten Principal Taxpayers | | $297,293,505 | $270,357,676 |
| Percentage Top Ten Principal Taxpayers Comprise of Tax Roll | | 8.70% | 8.33% |

(a) Not a principal taxpayer in such tax year.
Source: Harris County Appraisal District.

TABLE 10
- Tax Adequacy -

| | |
|---|---|
| Average Annual Debt Service Requirements (2022-2046) ................................................ | $ 5,825,300 (a)(b) |
| Tax Rate of $0.180 per $100 assessed valuation against the 2021 Certified Assessed Valuation at 95% collection produces............................................. | $ 5,840,367 |
| Maximum Annual Tax Debt Service Requirements (in the year 2023).............................. | $11,286,203 (a)(b) |
| Tax Rate of $0.348 per $100 assessed valuation against the 2021 Certified Assessed Valuation at 95% collection produces............................................. | $11,291,376 |

(a) Includes the Bonds and excludes the Refunded Obligations.
(b) Includes ad valorem tax debt that the City treats as self-supporting debt payable from revenue of the System or payments received from the Deer Park CDC pursuant to a policy determination by City Council, which is subject to change. If payments were not made from such sources in the future, the difference would be paid from ad valorem taxes.

**Sales Tax**

The City levies a 1% sales tax pursuant to the provisions of Chapter 321, Texas Tax Code, for general fund purposes. Sales tax revenues are not pledged to the payment of the Bonds.

TABLE 11
- Sales Tax -

| Fiscal Year | Sales Tax Collected | Fiscal Year | Sales Tax Collected |
|---|---|---|---|
| 2011 | $4,221,452 | 2017 | $6,425,345 |
| 2012 | 4,746,096 | 2018 | 6,639,058 |
| 2013 | 5,037,072 | 2019 | 7,243,047 |
| 2014 | 5,201,364 | 2020(a) | 7,086,318 |
| 2015 | 6,246,868 | 2021(a)(b) | 6,446,836 |
| 2016 | 6,553,553 | | |

(a) See "INFECTIOUS DISEASE OUTBREAK – COVID-19" for a discussion on the Pandemic's potential impact to the City's finances.
(b) Unaudited. As of August 31, 2021. The unaudited information has not been prepared or reviewed by the City's independent auditor. The information is subject to change upon completion of the City's annual audit.

**Deer Park Community Development Corporation**

At an election held within the City on May 9, 2015 (the "2015 CDC Election"), the voters approved a proposition authorizing the levy and collection of a sales and use tax within the City at the rate of one half of one percent as authorized by Chapters 501 and 505, Texas Local Government Code (the "CDC Act") for the benefit of the Deer Park Community Development Corporation (the "Deer Park CDC") for economic development purposes focused on parks and recreational facilities. At an election held on May 1, 2021, (the "2021 CDC Election" and together with the 2015 CDC Election, the "CDC Election") the voters added an additional parks and recreation purpose as an authorized purpose of the Deer Park CDC. The Deer Park CDC was formed as a Type B Corporation for the purpose of financing and constructing public park facilities as authorized by the CDC Act and the CDC Election. The Deer Park CDC has entered into contracts with the City pursuant to which the City undertakes the construction of the authorized park facilities in return for payment from the Deer Park CDC.

**Industrial District Contracts**

A significant portion of the City's revenue is derived from contractual agreements with 21 separate industrial companies located within the City's extraterritorial jurisdiction. In 2014, the City and the industries located in the Industrial Zone agreed to new contracts extending to December 31, 2026. These contracts call for each industry to annually render to the City a written description of its land, improvements, and tangible personal property as of the immediately preceding January 1 (based on the opinion of the legal counsel for the Appraisal District that the value of land and improvements that were not physically located within the corporate area of the City could not be included in the City's tax roll). Under the contract, the companies have agreed to pay an amount "in lieu" of taxes in the unannexed area of an amount equal to the sum of 63% of the amount of ad valorem taxes that would be payable to the City if all of the company's land and improvements that existed on January 1, 2015, 2016, 2017, and 2018 had been within the corporate limits of the City; 64% of the amount of ad valorem taxes that would be payable to the City if all of the company's land and improvements that existed on January 1, 2019, 2020, 2021, and 2022 had been within the corporate limits of the City; and 65% of the amount of ad valorem taxes that would be payable to the City if all of the company's land and improvements that existed on January 1, 2023, 2024, 2025, and 2026 had been within the corporate limits of the City. Payments in lieu of taxes on new construction will be based on percentages of new value as described in the contract as 10% the first year, 20% the second year, 30% the third year, 40% the fourth year, 50% the fifth year, and 100% after the fifth year of operations. For new construction in excess of $100,000,000, the contract allows for each industry to negotiate these payment percentages. If those particular negotiations are not completed by January 1, the stated contract rates will apply to the new construction value.

TABLE 12
- Industrial District Contracts -

| | 2021 (a) | 2020 | 2019 |
|---|---|---|---|
| Total City Ad Valorem Tax Revenues (b) | $21,607,195 | $20,526,149 | $19,387,891 |
| "In Lieu" Payments Under Industrial District Contracts | 12,651,737 | 12,660,382 | 11,954,014 |
| Total | $34,258,932 | $33,186,531 | $31,341,905 |

| | 2018 | 2017 | 2016 |
|---|---|---|---|
| Total City Ad Valorem Tax Revenues (b) | $18,140,968 | $17,442,942 | $16,338,414 |
| "In Lieu" Payments Under Industrial District Contracts | 11,316,198 | 11,276,927 | 13,058,596 |
| Total | $29,457,166 | $28,719,869 | $29,397,010 |

(a) Unaudited. As of September 30, 2021. The unaudited information has not been prepared or reviewed by the City's independent auditor. The information is subject to change upon completion of the City's annual audit.
(b) Total ad valorem tax revenues in the City's general fund and debt service fund.

**Capital Leases**

The City has entered into lease agreements as lessee for financing the acquisition of vehicles and equipment. These leases qualify as capital leases for accounting purposes (title transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Approximately $2.8 million of equipment remains leased under these agreements as of August 31, 2021. Capital leases bear interest ranging from 1.39% to 5.13% and have maturity dates ranging from 2022 to 2028. Annual requirements to satisfy these obligations are as follows:

TABLE 13
- Capital Leases -

| Fiscal Year Ending 30-Sep | Principal | Interest | Total |
|---|---|---|---|
| 2022 | $ 458,427 | $34,234 | $ 492,661 |
| 2023 | 446,660 | 23,825 | 470,485 |
| 2024 | 321,640 | 14,950 | 336,590 |
| 2025 | 299,124 | 9,569 | 308,693 |
| 2026 | 172,030 | 5,383 | 177,413 |
| 2027 | 147,910 | 3,247 | 151,157 |
| 2028 | 150,009 | 1,148 | 151,157 |
| Total | $1,995,800 | $92,356 | $2,088,156 |

*[Remainder of Page Intentionally Left Blank]*

## SELECTED FINANCIAL DATA

### Historical Operations of the City's General Fund

The following is a condensed statement of revenues and expenses of the City's General Fund for the past five fiscal years. The inclusion of the following table is not intended to imply that any revenues of the City, other than the revenues described in the respective Ordinance, are pledged to pay principal and interest on the Bonds and the City's Outstanding Tax Supported Debt.

TABLE 14
- Selected Financial Data -

| | Fiscal Year Ended September 30, | | | | |
|---|---|---|---|---|---|
| | 2021 (a)(b) | 2020 (b) | 2019 | 2018 | 2017 |
| Revenues: | | | | | |
| Property Taxes | $17,558,427 | $16,040,772 | $14,830,188 | $13,661,972 | $12,965,747 |
| Industrial District Revenues | 12,651,720 | 12,660,382 | 11,954,014 | 11,316,198 | 11,276,238 |
| Sales and Use Tax | 5,317,267 | 7,086,318 | 7,243,047 | 6,639,058 | 6,425,345 |
| Franchise Tax | 1,585,547 | 1,884,424 | 2,089,400 | 2,093,316 | 2,095,518 |
| Fines and Forfeitures | 928,514 | 1,024,971 | 1,313,432 | 1,422,619 | 1,658,342 |
| User Fees | 3,909,983 | 4,021,370 | 4,657,451 | 4,489,755 | 4,463,287 |
| Investment Earnings | 484,041 | 1,347,287 | 1,570,444 | 916,088 | 426,869 |
| Other Revenue | 247,841 | 2,109,980 | 992,076 | 441,700 | 315,175 |
| Total Revenues | $42,683,340 | $46,175,504 | $44,650,052 | $40,980,706 | $39,626,521 |
| Expenditures: | | | | | |
| General Government | $ 6,194,167 | $ 7,683,622 | $ 7,648,276 | $ 7,540,076 | $ 7,661,831 |
| Community Development | 6,636,348 | 7,481,122 | 8,358,912 | 8,032,448 | 7,970,793 |
| Public Safety | 7,036,806 | 7,740,277 | 6,998,072 | 11,936,825 | 11,107,305 |
| Public Works | 11,334,851 | 484,251 | 58,989 | 6,317,066 | 6,159,421 |
| Parks and Recreation | 147,414 | 13,545,041 | 12,863,609 | 63,211 | 55,861 |
| Capital Outlay | 1,459,222 | 2,669,218 | 1,483,612 | 1,317,876 | 2,275,771 |
| Debt Service | 415,566 | 319,538 | 414,951 | 403,973 | 366,295 |
| Total | $33,224,374 | $39,923,069 | $37,826,421 | $35,611,475 | $35,597,277 |
| Excess (Deficiency) Revenues Over Expenditures | $ 9,458,966 | $ 6,252,435 | $ 6,823,631 | $ 5,369,231 | $ 4,029,244 |
| Proceeds from Other Sources | $ 0 | $ 0 | $ 18,896 | $ 105,732 | $ 77,644 |
| Operating Transfers In (c) | 0 | 414,992 | 529,116 | 415,089 | 1,244,048 |
| Operating Transfers (Out) | 0 | (3,117,744) | (4,047,068) | (4,482,244) | (7,806,402) |
| Sale of Capital Assets | 0 | 81,830 | 52,184 | 0 | 0 |
| Capital Lease Proceeds | 0 | 1,436,693 | 0 | 418,825 | 471,411 |
| Revenues and Other Sources Over (Under) Expenditures and Other Uses | $ 9,458,966 | $ 5,068,206 | $ 3,376,759 | $ 1,826,633 | $ (1,984,055) |
| Beginning Fund Balance (Restated) | $46,974,831 | $41,906,625 | $38,529,866 | $36,520,799 | $38,504,854 |
| Ending General Fund Balance | $56,433,797 (d) | $46,974,831 | $41,906,625 | $38,347,432 | $36,520,799 |

Source: For the fiscal years ending September 30, 2017 through 2020, Comprehensive Annual Financial Reports of the City of Deer Park.

(a) Unaudited. For the eleven month period ended as of August 31, 2021. The unaudited information has not been prepared or reviewed by the City's independent auditor. The information is subject to change upon completion of the City's annual audit.

(b) See "INFECTIOUS DISEASE OUTBREAK – COVID-19" for a discussion on the Pandemic's potential impact to the City's finances.

(c) Transfers from the Water/Sewer Fund.

(d) The City currently estimates the September 30, 2021 ending fund balance to be approximately $49,135,579. The estimated fund balance is unaudited information that has not been prepared or reviewed by the City's independent auditor. The information is based on book balances of the City as calculated by City staff. The information is subject to change upon completion of the City's annual audit.

**Pension Fund**

The City participates in the Texas Municipal Retirement System ("TMRS"), an agency operated by the State. The City adopted plan provisions within the options available in the governing state statutes of TMRS. Employees of the City who participate in TMRS contribute a fixed percentage, currently 7%, of their gross pay. The City matches employee contributions at a ratio of 2 to 1, but the City's actual cost is calculated at an actuarially determined rate. For fiscal year end 2020, the City's annual pension cost was $2,998,530. See "APPENDIX B – Note IV.C." for additional information regarding the City's employee retirement system.

**Other Postemployment Benefits**

The City's annual other postemployment benefit ("OPEB") cost is calculated based on the annual required contribution ("ARC") of the employer, an amount actuarially determined in accordance with the parameters of Governmental Accounting Standards Board ("GASB") Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The City's total OPEB liability of $26,001,292 for the primary government and $783,967 for the component units were determined by an actuarial valuation as of December 31, 2018, rolled forward to measure as of September 30, 2020. See "APPENDIX B – Note IV.D." for additional information regarding the City's OPEB liability.

**Financial Statements**

A copy of the City's Financial Statements for the fiscal year ended September 30, 2020, is attached hereto as APPENDIX B. Copies of such statements for preceding years are available, for a fee, upon request.

## SEVERE WEATHER EVENTS

The City is located near the Texas Gulf Coast approximately 45 miles inland. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. Since 2015, the greater Houston area, including the City, has experienced approximately four storms exceeding a 0.2% probability (i.e., "500-year flood" event). Several of these storms, including Hurricane Harvey, resulted in damages to City facilities, and also resulted in damages to residential and commercial properties in the City which comprise the City's ad valorem tax base. From February 12-19, 2021, the State experienced a severe winter storm ("Winter Storm Uri") which included prolonged freezing temperatures, heavy snow and freezing rains statewide. Winter Storm Uri led to power outages and potable and non-potable water shortages in many areas of the State, including the City. The federal government issued a Major Disaster Declaration for the State and has included federal funding for emergency protective measures. The City did not sustain material damage to its infrastructure during Winter Storm Uri, but the City cannot predict the impact of future winter weather events. If a future weather event significantly damaged all or part of the properties comprising the tax base within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the City's tax rate. There can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the City could be adversely affected.

## INFECTIOUS DISEASE OUTBREAK – COVID-19

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and the State. 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 the State in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting State business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The

Governor has since issued a number of executive orders relating to COVID-19 preparedness, mitigation, and phased reopening of the State. Under executive orders in effect as of the date of the Official Statement, there are no COVID-19 related operating limits for any business or other establishment. The Governor retains the right to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally and is widely expected to continue negatively affecting economic growth and financial markets worldwide. To date, the City has not experienced material decreases in its ad valorem tax base or other revenues as a result of the Pandemic. See "Table B – Tax Base Distribution," "Table 11 – Sales Tax," and "Table 12 – Industrial District Contracts." The City had year over year increases in its ad valorem tax base between its fiscal years ended September 30, 2020 and September 30, 2021. Similarly, the City currently expects year over year increases in its Industrial District Contract revenues between its fiscal years ended September 30, 2020 and September 30, 2021. The City does not have final sales tax numbers for the fiscal year ended September 30, 2021. The City continues to monitor the Pandemic and work with local, state and national agencies to address its potential impact on the City. The impact of COVID-19 is expected to have a negative financial impact on local, state and national economies, the severity of which is unknown at this time, in a manner that could adversely affect the amount of property and sales and use taxes, franchise charges and fees, and other general revenues received by the City. See "APPENDIX A – GENERAL INFORMATION REGARDING THE CITY OF DEER PARK – Employment Statistics." The City expects to receive approximately $8.294 million under the American Rescue Plan Act of 2021. The City currently plans to use such funds on eligible non-recurring expenditures.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area resulting in reduced property values and tax revenues.

Certain financial and operating data contained herein is as of dates and for the periods noted. Some of such information addresses time periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, such information may not be indicative of the economic impact of the Pandemic on the City's financial condition.

## 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 cyberattacks, 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.

## EXPOSURE TO OIL AND GAS INDUSTRY

Declines in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. In the past, the greater Houston area has been affected by adverse conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the City, resulting in a reduction in property tax revenue. The Bonds are secured by an ad valorem tax, 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 share of operations and maintenance expenses payable from ad valorem taxes.

*[Remainder of Page Intentionally Left Blank]*

## ADMINISTRATION OF THE CITY

**Mayor and City Council**

Policy-making functions are the responsibility of and are vested in the Mayor and City Council (the "Council") of the City, under provisions of the "Home Rule Charter of the City of Deer Park" (the "Charter") adopted on December 6, 1960. The Mayor and three Council members are elected in odd-numbered years, and three Council members are elected in even-numbered years. The Mayor is entitled to vote on all issues and has no power to veto Council action. Members of the Council are described below:

| Council Members | District | Position | Term Expires (May) | Occupation |
|---|---|---|---|---|
| Jerry Mouton, Jr. | At Large | Mayor | 2023 | President of Texas Lawn Sprinkler Company |
| Sherry Garrison | Position 1 | Council Member | 2023 | Retired |
| TJ Haight | Position 2 | Council Member | 2023 | Site Safety Manager for Austin Industrial at Lyondell |
| Tommy Ginn | Position 3 | Council Member | 2023 | Retired |
| Bill Patterson | Position 4 | Council Member | 2022 | Retired |
| Ron Martin | Position 5 | Council Member | 2022 | Director of Commercial Development, North America Air Liquide Healthcare |
| Rae A. Sinor | Position 6 | Council Member | 2022 | President MSJ Outdoors |

**Administration**

Under provisions of the Charter, the Council enacts local legislation, adopts budgets, determines policies and appoints the City Manager, who is charged with the duties of executing the laws and administering the government of the City. As the chief executive officer and head of the administrative branch of the City government, the City Manager is given the power and duties to:

(1) Appoint and remove all department heads and all other employees in the administrative service of the City and may authorize the head of a department to appoint and remove subordinates in his respective department;

(2) Prepare the budget annually, submit it to Council, and be responsible for its administration;

(3) Prepare and submit to Council a complete report on the finances and administrative activities of the City;

(4) Keep Council advised of the financial condition and future needs of the City and make appropriate recommendations; and

(5) Perform such other necessary duties as prescribed by the Charter or required by the Council.

## CERTAIN APPOINTED OFFICIALS

| Name | Position | Length with the City |
|---|---|---|
| Jay Stokes | City Manager | 11 Years |
| Gary Jackson | Assistant City Manager | 14 Years |
| Shannon Bennett | City Secretary | 20 Years |
| Donna Todd | Director of Finance | 9 Years |
| W.R. ("Bill") Pedersen | Director of Public Works | 12 Years |

### Consultants

The City has retained several consultants to perform professional services in connection with the independent auditing of its books and records, the sale of the Bonds and other City activities. Several of these consultants are identified below:

| | |
|---|---|
| Bond Counsel | Bracewell LLP<br>Houston, Texas |
| Auditor | Belt Harris Pechacek, LLLP<br>Houston, Texas |
| Financial Advisor | BOK Financial Securities, Inc.<br>Houston, Texas |

## LEGAL MATTERS

### Legal Opinions

The delivery of the Bonds is subject to the approving opinion of the Attorney General of the State to the effect that the Bonds are valid and legally binding obligations of the City and the approving legal opinion of Bracewell LLP, Bond Counsel to the City ("Bond Counsel"), in substantially the form attached as APPENDIX C.

Bond Counsel was not requested to participate, and 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 in this Official Statement appearing under the captions and subcaptions "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only System," "Sources and Uses of Funds," "Future Debt" and "Remedies in the Event of Default"), and "CONTINUING DISCLOSURE OF INFORMATION" and Bond Counsel is of the opinion that the information contained therein conforms to the provisions of the Ordinance; further, such firm has reviewed the information in this Official Statement appearing under the captions and subcaptions "TAX MATTERS," "SALE AND DISTRIBUTION OF THE BONDS – Securities Laws," "LEGAL MATTERS – Legal Opinions" (excluding the last sentence of the second paragraph thereof), "LEGAL MATTERS - Legal Investments in Texas," and such firm is of the opinion that the information contained under such captions and subcaptions is an accurate description of the laws and legal issues addressed therein. 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 legal matters will be passed upon for the Underwriter by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Counsel to the Underwriter.

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

### Legal Investments in Texas

Pursuant to the Texas Public Securities Procedures Act, Chapter 1201, Texas Government Code, as amended, the Bonds, whether rated or unrated, are (a) legal investments for insurance companies, fiduciaries and trustees and (b) legal investments for the sinking funds of political subdivisions or public agencies of the State. Most political subdivisions in the State are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. See "SALE AND DISTRIBUTION OF THE BONDS - Municipal Bond Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations.

The City has not made any investigations of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Bonds.

## Litigation

The City is exposed to various risks of losses related to torts, theft of, damage to and destruction of fixed assets; error and omissions; injuries to employees; and natural disasters. The City has obtained commercial insurance coverage for some of these risks, self-insured for some of these risks, and provided various employee education and prevention programs. Various claims and lawsuits may be pending against the City at any given time. However, in the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially adversely affect the City's financial position.

# TAX MATTERS

**The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.**

## Tax Exemption

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

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

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

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

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

**Additional Federal Income Tax Considerations**

*- Collateral Tax Consequences -*

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

*- Tax Accounting Treatment of Original Issue Premium -*

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

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

*- Tax Legislative Changes -*

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

## 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 (the "SEC") 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 events, to the Municipal Securities Rulemaking Board (the "MSRB").

**Annual Reports**

The City will provide certain updated financial information and operating data to the MSRB. The information to be updated includes (i) all quantitative financial information and operating data with respect to the City of the general type included in Tables numbered 1 through 4 and 6 through 14 and in APPENDIX B and (ii) if not provided as part of such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements so to be provided shall be (a) prepared in accordance with the accounting principles described in the rules to the financial statements for the most recently concluded fiscal year, or such other accounting principles as the City may be required to employ, from time to time, by State law or regulation, and (b) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such financial statements becomes available.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's website or filed with the "SEC", as permitted by the Rule.

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.

**Notice of Certain Events**

The City will also provide the following to the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, notice of any of the following events with respect to the Bonds: (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; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material, (15) incurrence of a financial obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties.

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

The City will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide the required annual financial information described above under "- ANNUAL REPORTS" in accordance with the Ordinance by the time required.

**Limitations and Amendments**

The City has agreed to update information and to provide notices of certain specified events only as described above. The City shall be obligated to observe and perform such obligations for so long as, but only for so long as, the City remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the City in any event will give notice of any bond calls and any defeasances that cause the City to be no longer an "obligated person."

The provisions of the City's continuing disclosure undertaking are for the sole benefit of the Owners and beneficial owners of the Bonds, and nothing in the City's continuing disclosure undertaking, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City has undertaken to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide as described above and has not undertaken to provide any other information that may be relevant or material to a complete presentation of the City's financial results, condition, or prospects or undertaken to update any information provided, except as expressly provided herein. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell the Bonds at any future date.

Under no circumstances shall the City be liable to the owner or beneficial owner of any Bond or any other person, in contract or tort, for damages resulting in whole or in part from any breach by the City, whether negligent or with or without fault on its part, of any covenant specified in its undertaking, and any right and remedy of any such person, in contract or tort, for or on account of any such breach shall be limited to an action for mandamus or specific performance. No default by the City in observing or performing its obligations under its continuing disclosure undertaking shall constitute a breach of or default under the Ordinance for purposes of any other provisions of the Ordinance. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws.

The City may amend its continuing disclosure undertaking from time to time 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, but only if (i) the provisions of undertaking, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (A) the Owners of a majority in aggregate principal amount of the outstanding Bonds consent to such amendment or (B) an entity or individual person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Bonds. The provisions of the City's undertaking may also be amended from time to time or repealed by the City if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but only if and to the extent that reservation of the City's right to do so would not prevent underwriters of the initial public offering of the Bonds from lawfully purchasing or selling Bonds in such offering. If the City so amends the provisions of its undertaking, it shall include with any amended financial information or operating data next provided as described in Annual Reports, above, an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

**Compliance with Prior Undertakings**

During the past five years, the City has not failed to comply in any material respects with the continuing disclosure agreements made by it in accordance with Rule 15c2-12.

## VERIFICATION OF ARITHMETICAL COMPUTATIONS

Robert Thomas CPA, LLC, certified public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants ("AICPA"), the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

Robert Thomas CPA, LLC will rely on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Robert Thomas CPA, LLC will rely on any information provided to it by the City's retained advisors, consultants or legal counsel. Robert Thomas CPA, LLC was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

## FINANCIAL ADVISOR

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

## AUDITED FINANCIAL STATEMENTS

Belt Harris Pechacek, LLLP, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Belt Harris Pechacek, LLLP relating to the City's financial statements for the fiscal year ended September 30, 2020 is included in this Official Statement in APPENDIX B; however, Belt Harris Pechacek, LLLP, has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

## GENERAL CONSIDERATIONS

### Sources and Compilation of Information

The information contained in this Official Statement has been obtained primarily from the City and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the City. The summaries of the statutes, orders, ordinances and other related documents are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The information contained in this Official Statement in the section entitled "APPENDIX B - Audited Financial Statements of the City" has been provided by Belt Harris Pechacek, LLLP, Houston, Texas and has been included herein in reliance upon their authority as an expert in the fields of auditing and accounting.

Neither this Official Statement nor any statement that may have been made orally or in writing is to be constructed as or as part of a contract with the original purchasers or subsequent owners of the Bonds.

### Forward Looking Statements

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

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

### Official Statement

The City Council has delegated to an authorized officer of the City the authority to deem the Official Statement final as of its date. In connection with the approval of the sale of the Bonds the final Official Statement will be authorized and approved by the City Council of the City as of its date.

## SCHEDULE I

## SCHEDULE OF OBLIGATIONS TO BE REFUNDED

| Series | Original Maturity | Principal Amount | Call Date/Price | Remaining Outstanding |
|---|---|---|---|---|
| Certificates of Obligation. | 03/15/2023 | $ 330,000 | 03/15/2022 @ 100 | -0- |
| Series 2013 | 03/15/2024 | 420,000 | 03/15/2022 @ 100 | -0- |
| | **** | *** | *** | *** |
| | 03/15/2033(a) | 5,000,000 | 03/15/2022 @ 100 | -0- |
| Totals | | $5,750,000 | | |

(a) Represents a Term Bond.

## APPENDIX A

## GENERAL INFORMATION REGARDING THE CITY OF DEER PARK, TEXAS

The following information has been derived from various sources, including the U.S. Census data, Texas Workforce Commission, and City of Deer Park, Texas officials. While such sources are believed to be reliable, no representation is made as to the accuracy thereof.

### ECONOMIC BACKGROUND

The City of Deer Park (the "City") is located in southeastern Harris County, about 25 miles from downtown Houston, and is situated centrally to the industrial facilities located along the Houston Ship Channel. The City is bounded on its south and west side by the City of Pasadena, on the east by the City of La Porte, and on the north by the Houston Ship Channel. The population according to the 2020 Census was 34,495, an increase of 7.76% since 2010. The City has a "Mayor-Council-Manager" form of government. The City Council consists of a Mayor and six Council members, all of whom are elected from the City at large for two year terms. The Mayor and three Council members are elected in odd-numbered years, and three Council members are elected in even-numbered years.

The Deer Park City Council, working in conjunction with the administrative staff, has developed and enforced detailed and comprehensive zoning and building requirements, thereby achieving orderly and uniform development within the City.

There are three major areas of development within the City: the "Industrial Zone", located north of Highway 225; the "Business District", just south of Highway 225; and "Residential Development" in the southern part of the City.

- Industrial Zone -

The industrial area comprises approximately 3,200 acres which will continue to develop as heavy industry. To the north of Highway 225 is the 2,700 acre Industrial Zone, which includes facilities of major oil, chemical and other manufacturing companies. These industries supply and receive goods by rail, truck, as well as water borne barges or ocean going vessel, via the Houston Ship Channel, to and from ports all over the world.

- Business District -

The principal business district lies immediately south of Highway 225 and covers a two mile area. There are approximately 325 Dun & Bradstreet rated businesses located in the City. Shell owns a 376 acre tract in this area, which is being developed as an industrial park for light industrial and commercial use.

- Residential Development -

The southern segment of the City is dedicated primarily to residential development, with homes principally in the upper middle class. Residential development continues at a moderate pace, with the major part of the new construction being in the $150,000 to $750,000 price range.

### ECONOMIC AND GROWTH INDICATORS

**U.S. Census of Population**

| | City of Deer Park | | City of Houston | | Harris County | |
|---|---|---|---|---|---|---|
| | Number | % Change | Number | % Change | Number | % Change |
| 1970 | 12,773 | --- | 1,232,802 | +31.40 | 1,741,912 | +40.12 |
| 1980 | 22,648 | +77.31% | 1,573,630 | +27.70 | 2,409,544 | +38.33 |
| 1990 | 27,424 | +21.09 | 1,630,553 | +3.62 | 2,818,199 | +16.96 |
| 2000 | 28,520 | +4.00 | 1,953,631 | +19.28 | 3,400,578 | +20.66 |
| 2010 | 32,010 | +12.24 | 2,099,451 | +7.46 | 4,092,459 | +20.35 |
| 2020 | 34,495 | +7.76 | 2,304,580 | +9.77 | 4,731,145 | +15.61 |

(a) Source: U.S. Census Bureau.

History and Location

Harris County is the third largest county in the United States with a population of over 4.5 million people and is 1,788 square miles in area.

The Port of Houston Authority

The Port of Houston, one of the world's largest ports, is a 52-mile long complex of diversified public and private facilities just a few hours' sailing time from the Gulf of Mexico. The Port of Houston's location makes it an ideal gateway between interior U.S. markets and foreign countries throughout the world. The port ranks first in the United States in foreign waterborne commerce and second in total tonnage.

The Port of Houston Authority owns and operates the public facilities along the Houston Ship Channel and is the channel's official sponsor. The Port of Houston Authority is an autonomous political subdivision of the State of Texas and is governed by a board of seven commissioners.

As one of the world's busiest ports, the Port of Houston is a large and vibrant component of the regional economy. In a 2018 study, it was reported the ship channel-related businesses contributed to 1,350,695 jobs throughout Texas. The activity generated more than $339 billion in economic impact statewide. Additionally, the ship channel generated more than $5.7 billion in state and local tax revenue.

**Employment Statistics**

**Harris County, Texas**

| | 2021 (a)(b) | 2020 (a) | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Labor Force | 2,312,566 | 2,292,759 | 2,301,343 | 2,285,799 | 2,265,507 |
| Employed | 2,183,936 | 2,088,449 | 2,212,656 | 2,184,644 | 2,149,903 |
| Unemployed | 128,630 | 204,310 | 88,687 | 101,155 | 115,604 |
| Rate | 5.6% | 8.9% | 3.9% | 4.4% | 5.1% |

**City of Deer Park, Texas**

| | 2021 (a)(b) | 2020 (a) | 2019 | 2018 | 2017 |
|---|---|---|---|---|---|
| Labor Force | 16,550 | 16,387 | 16,509 | 16,662 | 16,764 |
| Employed | 15,594 | 14,912 | 15,799 | 15,862 | 15,744 |
| Unemployed | 956 | 1,475 | 710 | 800 | 1,020 |
| Rate | 5.8% | 9.0% | 4.3% | 4.8% | 6.1% |

Source: Texas Workforce Commission.

(a) As of September 30, 2021.

(b) See "INFECTIOUS DISEASE OUTBREAK – COVID-19" for a discussion on the Pandemic's potential impact to the City's labor statistics in the City of Deer Park and Harris County.

# APPENDIX B

## AUDITED FINANCIAL STATEMENTS OF THE CITY

The information contained in this Appendix consists of excerpts from the Annual Financial Report of the City of Deer Park, Texas 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.

The City has not requested Belt Harris Pechacek, LLLP, to reissue its audited financial statements and Belt Harris Pechacek, LLLP, has not performed any procedures in connection with the Official Statement.

# 2020



# Comprehensive Annual Financial Report
# City of Deer Park, Texas
# Fiscal Year Ended September 30, 2020

*COMPREHENSIVE*
*ANNUAL FINANCIAL REPORT*

**of the**

# CITY OF DEER PARK, TEXAS

**For the Year Ended**
**September 30, 2020**

**Prepared by**
**Finance Department**

**Donna Todd**
**Director of Finance**

(This page intentionally left blank.)

# *INTRODUCTORY SECTION*

(This page intentionally left blank.)

DONNA TODD
Director of Finance

CITY OF DEER PARK Birthplace of Texas EST. 1892
710 E. San Augustine • P. O. Box 700 • Deer Park, Texas 77536 • (281) 478-7225 • Fax: (281) 478-4029
E-Mail: dtodd@deerparktx.org

March 26, 2021

To the Honorable Mayor, Members of the City Council, and Citizens of the
City of Deer Park, Texas:

Texas law and the City charter require that the City of Deer Park (the "City") publish a complete set of financial statements presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to that requirement, I am pleased to submit the Comprehensive Annual Financial Report of the City for the fiscal year ended September 30, 2020. This report is published to provide the citizens, City Council, City management and staff, bondholders and other interested parties detailed information concerning the financial condition of the City. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To provide a reasonable basis for making these representations, the City has established a comprehensive internal control framework designed to protect the City's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City's financial statements. I believe the data, as presented, is accurate in all material respects and that it is reported in a manner that fairly presents the financial position and results of operations of the City as measured by the financial activity of the various funds and account groups. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activities have been included.

**The Report**

In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements – And Management's Discussion and Analysis – For State and Local Governments*, this report includes a Management's Discussion and Analysis (MD&A) which provides a narrative introduction, overview, and analysis to accompany the basic financial statements. The MD&A is located immediately following the Independent Auditors' Report. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

**City Profile**

The City of Deer Park, incorporated in 1948, is located in the center of the highly industrialized ship channel area just east of Houston. The City currently occupies a land area of 15 square miles and serves a population of approximately 35,297. The City is empowered to levy an ad valorem tax on both real and personal property located within its boundaries. Further, the City is empowered to extend its corporate limits by annexation. The City receives annual "in-lieu-of-tax" payments from industries located within its extraterritorial jurisdiction. This "industrial district" includes the operations of 24 companies that contract with the City. The current contract, which was modified and renewed effective January 1, 2015, has a 12-year term and will expire on December 31, 2026.

The City operates under a home rule, council-manager form of government. Policy-making and legislative authority are vested in a City Council consisting of the mayor and six other members. The City Council is responsible for passing ordinances, adopting the budget, appointing committees, and hiring the City Manager and City Attorney. Council members are elected on a non-partisan basis and serve two-year staggered terms. The Mayor and three Council members are elected in odd numbered years and the three remaining Council members are elected in even numbered years. The City Manager is responsible for the execution of City policies and ordinances, oversight of the daily operations of the City, and appointment of department heads.

The City provides a full range of services, including police and fire protection; the construction and maintenance of streets and other infrastructure; sanitation, water, and sewer services; library services; recreational and cultural opportunities; and general administrative services. In fiscal year 2012, following a special election for each, the City added two component units to be funded by sales and use taxes: the Crime Control and Prevention District and the Fire Control, Prevention, and Emergency Medical Services District. Each district was approved for a period of five years. In May 2016, voters authorized continuation of both the Crime Control and Prevention and District and the Fire Control, Prevention, and Emergency Medical Services District for a period of 10 years, including the continuation of the dedicated sales and use tax for each.

**Annual Budget**

The annual budget serves as the foundation for the City's financial planning and control. All departments of the City are required to submit requests for appropriation to the City Manager by May of each year. The City Manager uses these requests as the starting point for developing a proposed budget, which is presented to the City Council for review at least 45 days prior to the last regular meeting in September. The appropriated budget is prepared by fund, function (e.g., public safety), and department (e.g., police), and appropriations are approved at the departmental level. Department heads may make appropriation transfers within a department with approval of the City Manager. Appropriation transfers outside of the department require approval of the City Council. The budget report includes a comparison of the actual results to the budget for each individual governmental fund for which an appropriated annual budget has been adopted.

**Factors Affecting Financial Condition**

The information presented in the financial statements is best understood when it is considered from the broader perspective of the specific environment within which the City operates.

**Local economy.** Deer Park lies directly adjacent to Port Houston, which is a 25-mile-long complex of diversified public and private facilities located just a few hours by ship from the Gulf of Mexico. The Port is consistently ranked 1st in the United States in foreign waterborne tonnage; 1st in U.S. imports; 1st in U.S. export tonnage; and 2nd in the U.S. in total tonnage. Additionally, Port Houston is the nation's leading breakbulk post, handling 65 percent of all major U.S. project cargo. The Port's container ship traffic is expected to grow significantly over the next 10 years because of the Panama Canal widening project and the deepening of Houston's ship channel. In anticipation of this growth, large office/warehouse projects are now being constructed or have recently been completed within the Deer Park city limits.

Victory Commerce Center, a 350,000 square foot distribution center in Deer Park, was 100 percent leased in 2020 to a large sugar distributor/exporter.

Underwood Port Logistics Center, a 404,000 square foot development, was leased 100 percent in 2020 to a third-party logistics company.

Another large office/warehouse project, Monument Business Park Phase 1, was recently completed. The developer has leased over half of the building to a third-party logistics company. Phase 2 of this project is an adjacent 180,000 square foot warehouse with rail access and is expected to break ground in April 2021.

Deerwood Glen Business Park, owned by Clay Development & Construction, Inc., is Deer Park's 150-acre light industrial business park. Over the past 10 years, Deerwood Glen has seen an exciting influx of build-to-suit tenants and has now reached the ultimate point of final build-out. John Crane Power Transmission was Deerwood Glen's first tenant in 2009, followed by Mustang Engineering, Code Red Safety, Abrasive Products and Equipment, Core Laboratories, the Houston Pilots' Association, Siemens, and many others. The last parcel, a 300,000 square foot distribution warehouse, was leased in 2020 to a third-party logistics company for CAP Barbell.

The City has a Chapter 380 Economic Development Program Agreement with NEC Spencer Highway and East Boulevard Phase 1, LTD, which is a development of a mixed use/retail complex next to the City's HEB grocery store that opened in November 2015. The developer has received a key Letter-of-Intent from two retailers, but the project is currently on hold due to the pandemic. Once completed, this would provide an additional 300,000 square feet of retail space and generate nearly $40 million in combined property and sales taxes for the City.

Shell Federal Credit Union is the 18th largest credit union in Texas and headquartered in the City of Deer Park. They are currently undergoing construction for a 100,000 square foot expansion project, which also includes a three-story parking garage.

**Accounting and budgetary controls**. The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues recorded when available and measurable, and expenditures recorded when the liability is incurred. Proprietary operations are maintained on a full accrual basis.

During the course of the fiscal year, each department head monitors expenditure controls with overall review exercised by the Director of Finance and the City Manager. Monthly expenditure reports provide information to department heads for decision making and, if necessary, timely corrective action to ensure the integrity of the adopted budget. Changes to approved expenditures are incorporated into the current year budget throughout the year in the form of budget amendments approved by City Council.

Management of the City is responsible for establishing and maintaining an internal control system designed to ensure that the City's assets are protected from loss, theft, or misuse and to ensure that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. The internal control system is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and that the valuation of costs and benefits require estimates and judgments by management. Internal controls are subject to periodic evaluation by management and independent auditors. I believe the City's accounting controls provide reasonable assurance that employees in the normal course of business will detect and/or prevent errors or irregularities that could be material to the financial statements.

**Long-term financial planning.** The City continues to evaluate opportunities to improve operational efficiency and generate cost savings. The City maintains a Capital Improvement Plan for drainage projects and infrastructure needs throughout the City.

In order to remain financially strong and provide a framework for prudent financial management, the following financial controls are monitored annually:

- A multi-year financial forecast is updated projecting revenues and expenditures for all operating funds.

- Rates, fees, and charges for services are reviewed and adjusted as necessary to respond to changing financial circumstances.

- Insurance coverage is examined to ensure that policy limits are adequate and in compliance with revenue bond covenants.

- Bonds are issued as part of a planned debt issuance program to finance long-term capital projects.

**Independent Audit**

The City Charter requires an annual audit of all accounts of the City by an independent certified public accountant. The independent auditors' report prepared by Belt Harris Pechacek, LLLP is presented as the first component of the financial section of this report.

**Awards**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Deer Park for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2019. This was the 33rd consecutive year that the City has received this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. I believe the current Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and I will be submitting it to the GFOA to determine its eligibility for another certificate.

**Acknowledgements**

The preparation of this report would not have been possible without the capable and dedicated services of the entire staff of the finance department and the cooperation of all other City departments. I would like to express my appreciation to all members of the finance department and all other City staff who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor, City Council, City Manager, and Assistant City Manager for their continued interest and support in planning and conducting the financial operations of the City in a responsible and professional manner.

Respectfully submitted,

*Donna Todd*

Donna Todd
Director of Finance

Government Finance Officers Association

## Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Deer Park**
**Texas**

For its Comprehensive Annual Financial Report For the Fiscal Year Ended

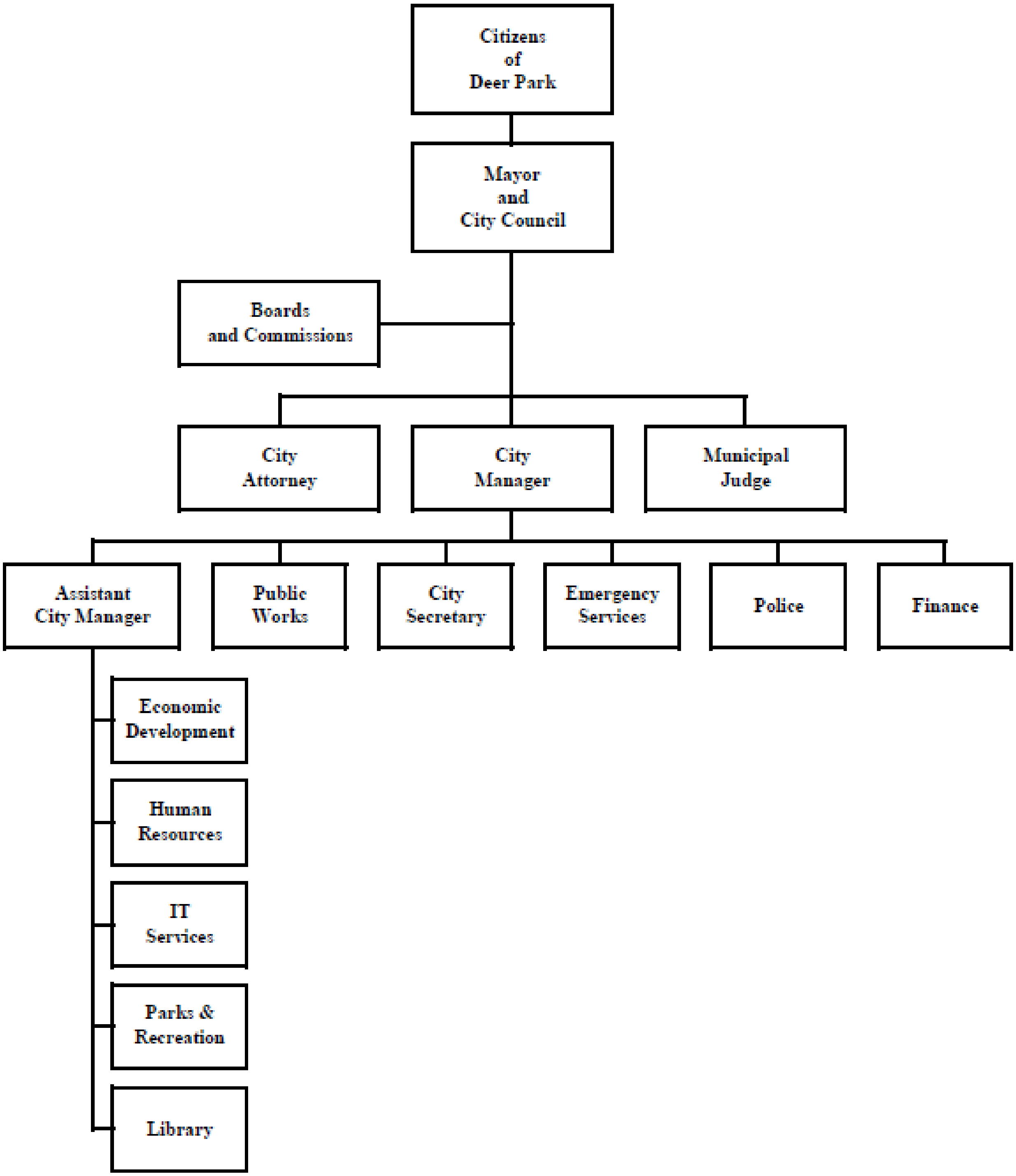
September 30, 2019

Christopher P. Morrill
Executive Director/CEO

# City of Deer Park, Texas

*ORGANIZATIONAL CHART*

**September 30, 2020**



# City of Deer Park, Texas

***PRINCIPAL OFFICIALS***

**September 30, 2020**

| City Officials | Elective Position |
|---|---|
| Jerry Mouton, Jr. | Mayor |
| Sherry Garrison | Council Member |
| TJ Haight | Council Member |
| Tommy Ginn | Council Member |
| Bill Patterson | Council Member |
| Ron Martin | Council Member |
| Rae A. Sinor | Council Member |

| Key Staff | Position |
|---|---|
| James Stokes | City Manager |
| Gary Jackson | Assistant City Manager |
| Shannon Bennett | City Secretary |
| Jim Fox | City Attorney |
| Donna Todd | Director of Finance |
| Bill Pedersen | Director of Public Works |
| Greg Grigg | Chief of Police |
| Charlie Sandberg | Director of Parks and Recreation |
| Bill Philbert | Director of Human Resources |
| Robert Hemminger | Emergency Services Director |
| Rebecca Pool | Director of Library Services |
| James Lewis | Director of Information Technology |

(This page intentionally left blank.)

## ***FINANCIAL SECTION***

(This page intentionally left blank.)

BELT HARRIS PECHACEK
CERTIFIED PUBLIC ACCOUNTANTS
www.texasauditors.com



## *INDEPENDENT AUDITORS' REPORT*

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

**Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Deer Park, Texas (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.

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Houston · Austin · Bellville · Woodville
3210 Bingle Rd., Ste. 300, Houston, TX 77055 // P: 713.263.1123 // info@txauditors.com // www.texasauditors.com

**Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2020, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

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

*Other Information*

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2021 on our consideration of the City'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 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 the City's internal control over financial reporting and compliance.

Belt Harris Pechacek, LLLP

Belt Harris Pechacek, LLLP
*Certified Public Accountants*
Houston, Texas
March 26, 2021

(This page intentionally left blank.)

## *MANAGEMENT'S DISCUSSION AND ANALYSIS*

(This page intentionally left blank.)

# CITY OF DEER PARK, TEXAS

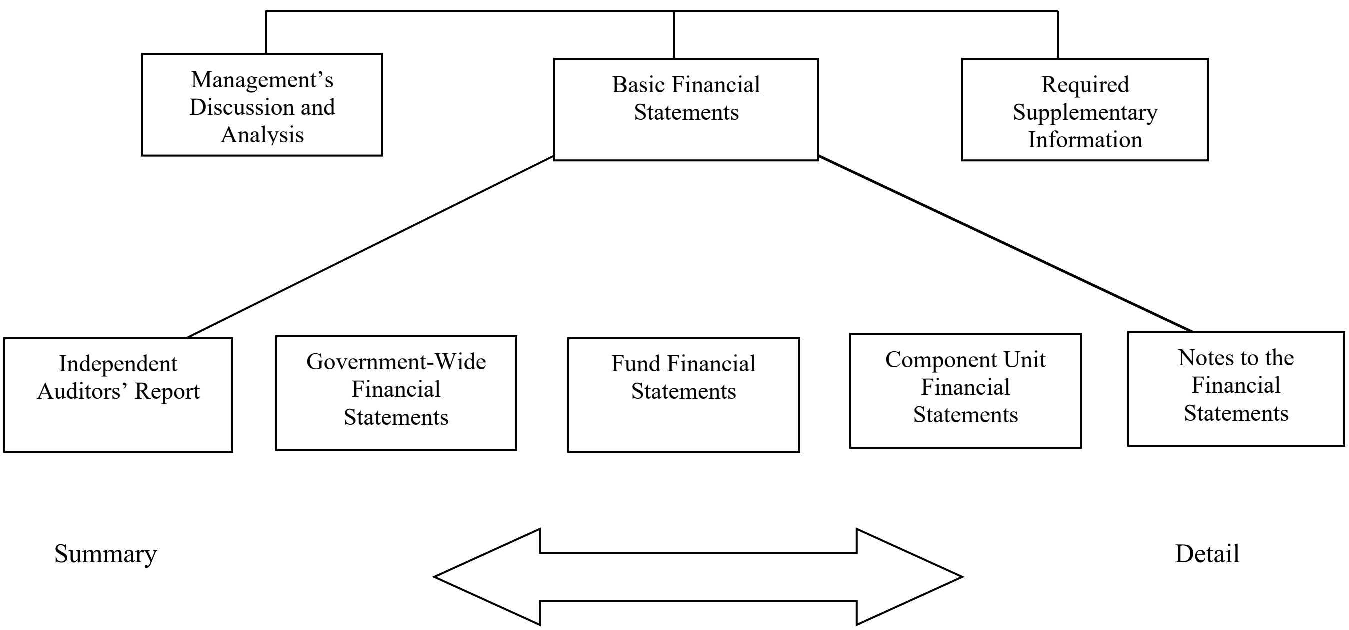
***MANAGEMENT'S DISCUSSION AND ANALYSIS***

**For the Year Ended September 30, 2020**

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of Deer Park, Texas (the "City") for the year ending September 30, 2020. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

## THE STRUCTURE OF OUR ANNUAL REPORT

**Components of the Financial Section**




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

## Government-Wide Statements

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

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

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

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

1. *Governmental Activities* – Most of the City's basic services are reported here including general government, public safety, public works, parks and recreation, and community development. Interest payments on the City's tax-supported debt are also reported here. Sales tax, property tax, franchise fees, municipal court fines, and permit fees finance most of these activities.

2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water and sewer services, as well as storm water utility services.

The government-wide financial statements include not only the City itself (known as the primary government), but also three legally separate discretely presented component units, the Crime Control and Prevention District; the Fire Control, Prevention, and Emergency Medical Services District; and the Deer Park Community Development Corporation, for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

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

**FUND FINANCIAL STATEMENTS**

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

**Governmental Funds**

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

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

The City maintains 13 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and the capital improvement fund, which are considered to be major funds for reporting purposes.

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

### Proprietary Funds

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

### Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reported in the government-wide financial statements because 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 funds. The City maintains one fiduciary fund, the senior citizens trust fund. The City's fiduciary activities are reported in a separate statement of net position and statement of changes in net position.

### Notes to Financial Statements

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

### Other Information

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows by $141,448,170 as of September 30, 2020. This compares with $132,468,447 from the prior fiscal year. The largest portion of the City's net position, 66.96 percent, reflects its investments in capital assets (e.g., land, buildings, equipment, improvements, construction in progress, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

### Statement of Net Position

The following table reflects the condensed Statement of Net Position:

| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | **2020** | **2019** | **2020** | **2019** | **2020** | **2019** |
| Current and other assets | $ 68,302,148 | $ 63,496,345 | $ 25,793,502 | $ 27,565,389 | $ 94,095,650 | $ 91,061,734 |
| Capital assets, net | 102,557,660 | 100,368,116 | 59,754,735 | 54,171,372 | 162,312,395 | 154,539,488 |
| **Total Assets** | 170,859,808 | 163,864,461 | 85,548,237 | 81,736,761 | 256,408,045 | 245,601,222 |
| Deferred loss on refunding | 204,892 | 262,597 | 30,468 | 44,340 | 235,360 | 306,937 |
| Deferred outflows - pensions | 2,566,040 | 7,686,315 | 329,802 | 1,067,927 | 2,895,842 | 8,754,242 |
| Deferred outflows - OPEB | 5,336,034 | 4,805,468 | 762,420 | 694,670 | 6,098,454 | 5,500,138 |
| **Total Deferred Outflows of Resources** | 8,106,966 | 12,754,380 | 1,122,690 | 1,806,937 | 9,229,656 | 14,561,317 |
| Long-term liabilities | 57,276,225 | 66,475,022 | 53,089,091 | 51,816,005 | 110,365,316 | 118,291,027 |
| Other liabilities | 3,545,144 | 4,217,986 | 4,097,719 | 3,679,849 | 7,642,863 | 7,897,835 |
| **Total Liabilities** | 60,821,369 | 70,693,008 | 57,186,810 | 55,495,854 | 118,008,179 | 126,188,862 |
| Deferred gain on refunding | 90,396 | - | - | - | 90,396 | - |
| Deferred inflows - pensions | 5,105,561 | 1,275,951 | 694,124 | 173,363 | 5,799,685 | 1,449,314 |
| Deferred inflows - OPEB | 282,183 | 55,916 | 9,088 | - | 291,271 | 55,916 |
| **Total Deferred Inflows of Resources** | 5,478,140 | 1,331,867 | 703,212 | 173,363 | 6,181,352 | 1,505,230 |
| **Net Position:** | | | | | | |
| Net investment in capital assets | 77,907,555 | 74,104,011 | 16,818,608 | 19,598,349 | 94,726,163 | 93,702,360 |
| Restricted | 7,237,870 | 6,873,691 | - | - | 7,237,870 | 6,873,691 |
| Unrestricted | 27,521,840 | 23,616,264 | 11,962,297 | 8,276,132 | 39,484,137 | 31,892,396 |
| **Total Net Position** | $ 112,667,265 | $ 104,593,966 | $ 28,780,905 | $ 27,874,481 | $ 141,448,170 | $ 132,468,447 |

A portion of the City's net position, $7,237,870 or 5.13 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, $39,484,137 or 27.91 percent, may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net position increased by $8,979,723 during the current fiscal year, an increase of 6.78 percent in comparison to the prior year net position. Compared to the prior year, total assets increased $10,806,823 largely due to the current year operating surplus, an increase in receivables for the Coronavirus Relief Fund grant, and an increase in capital assets largely attributable to construction projects. Deferred outflows of resources decreased $5,331,661 while deferred inflows of resources increased $4,676,122 from the prior year mainly due to the net difference between projected and actual investment earnings on pension plan assets. Long-term liabilities decreased $7,925,711 compared to the prior year due to current year principal payments and a decrease in the net pension liability. This decrease was partially offset by the issuance of Certificates of Obligation, Series 2019. Other liabilities decreased $254,972 largely due to less payables related to various construction projects.

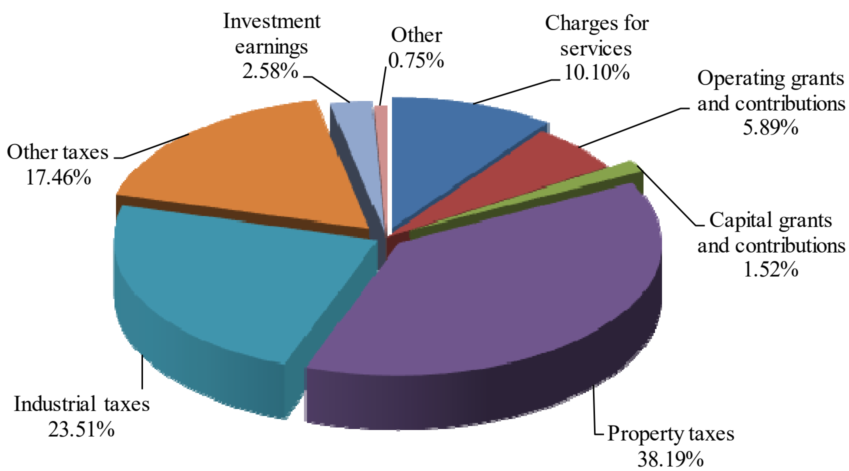
**Statement of Activities**

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

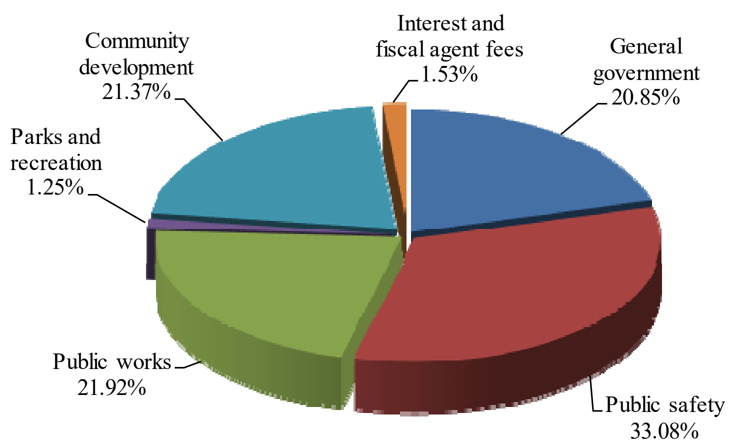
| | Governmental Activities | | Business-Type Activities | | Total Primary Government | |
|---|---|---|---|---|---|---|
| | 2020 | 2019 | 2020 | 2019 | 2020 | 2019 |
| **Revenues** | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | $ 5,435,523 | $ 6,491,414 | $ 11,967,615 | $ 11,085,567 | $ 17,403,138 | $ 17,576,981 |
| Operating grants and contributions | 3,170,272 | 1,881,692 | - | - | 3,170,272 | 1,881,692 |
| Capital grants and contributions | 820,560 | 3,102,292 | - | - | 820,560 | 3,102,292 |
| General revenues: | | | | | | |
| Property taxes | 20,553,900 | 19,370,741 | - | - | 20,553,900 | 19,370,741 |
| Industrial taxes | 12,660,382 | 11,954,014 | - | - | 12,660,382 | 11,954,014 |
| Other taxes and fees | 9,401,459 | 9,962,243 | - | - | 9,401,459 | 9,962,243 |
| Investment earnings | 1,391,662 | 1,805,996 | 170,480 | 495,704 | 1,562,142 | 2,301,700 |
| Other | 406,401 | 504,981 | 172,520 | - | 578,921 | 504,981 |
| **Total Revenues** | 53,840,159 | 55,073,373 | 12,310,615 | 11,581,271 | 66,150,774 | 66,654,644 |
| **Expenses** | | | | | | |
| General government | 9,425,200 | 9,553,465 | - | - | 9,425,200 | 9,553,465 |
| Public safety | 14,957,915 | 14,483,273 | - | - | 14,957,915 | 14,483,273 |
| Public works | 9,909,662 | 9,063,522 | - | - | 9,909,662 | 9,063,522 |
| Parks and recreation | 563,216 | 440,036 | - | - | 563,216 | 440,036 |
| Community development | 9,663,784 | 11,370,036 | - | - | 9,663,784 | 11,370,036 |
| Interest on long-term debt | 692,088 | 772,988 | - | - | 692,088 | 772,988 |
| Water and sewer | - | - | 11,491,912 | 10,653,981 | 11,491,912 | 10,653,981 |
| Storm water utility | - | - | 467,274 | 167,096 | 467,274 | 167,096 |
| **Total Expenses** | 45,211,865 | 45,683,320 | 11,959,186 | 10,821,077 | 57,171,051 | 56,504,397 |
| **Increase in Net Position Before Transfers** | 8,628,294 | 9,390,053 | 351,429 | 760,194 | 8,979,723 | 10,150,247 |
| Transfers in (out) | (554,995) | (701,947) | 554,995 | 701,947 | - | - |
| **Change in Net Position** | 8,073,299 | 8,688,106 | 906,424 | 1,462,141 | 8,979,723 | 10,150,247 |
| Beginning net position | 104,593,966 | 95,905,860 | 27,874,481 | 26,412,340 | 132,468,447 | 122,318,200 |
| **Ending Net Position** | $ 112,667,265 | $ 104,593,966 | $ 28,780,905 | $ 27,874,481 | $ 141,448,170 | $ 132,468,447 |

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

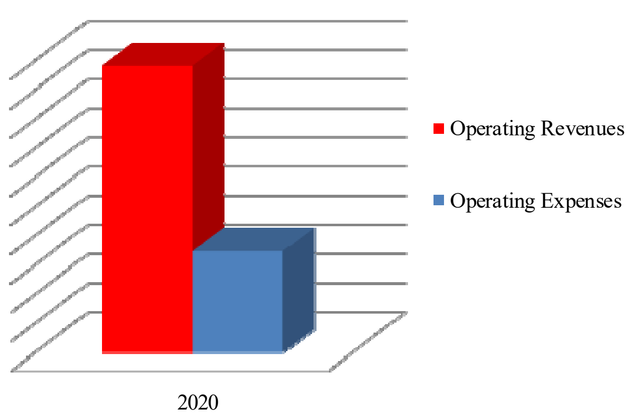
**Governmental Revenues**




**Governmental Expenses**




**Business-Type Activities**



For the year ended September 30, 2020, revenues from governmental activities totaled $53,840,159, a decrease of $1,233,214 compared to the prior year. Capital grants and contributions decreased compared to prior year due to less contributions received from the Deer Park Fire Control, Prevention, and Emergency Medical Services District for construction projects. Charges for services decreased compared to prior year mainly due to fewer permits issued for building projects and citations issued for traffic violations. Other taxes and fees decreased largely due to less revenue collected for franchise fees and sales tax due to a decline in economic activity within the City. Investment earnings decreased due to a decrease in interest rates. These decreases in the current year were partially offset by increases in property and industrial tax revenue due to an increase in assessed values of properties and an increase in operating grants and contributions from the Coronavirus Relief Fund grant.

For the year ended September 30, 2020, expenses for governmental activities totaled $45,211,865, a decrease of $471,455. This decrease is mainly due to the decrease in net pension liability. This decrease was partially offset by an increase in personnel-related expenses.

Total revenues for business-type activities increased by a total of $729,344 compared to the prior year. This was due to an increase and water and sewer rates. Total expenses for business-type activities increased by $1,138,109. This increase is largely due to increases in expenses related to a sludge removal project.

## FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of $63,342,713. Of this, $117,676 is nonspendable, $8,479,899 is restricted, $9,025,740 is assigned, and $45,719,398 is unassigned.

There was an increase in the combined fund balance of $5,313,644 compared to the prior year. Compared to the prior year change in fund balance, the current year change in fund balance increased $7,708,762. This is largely attributable to an increase in property tax revenues, industrial tax revenues, and intergovernmental revenue and a decrease in capital outlay expenditures.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was $45,719,398, while total fund balance reached $46,974,831. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 114.52 percent of total general fund expenditures, while total fund balance represents 117.66 percent of the total general fund expenditures. The general fund demonstrated an overall increase in fund balance of $5,068,206. Revenues increased $1,525,452 compared to the prior year as a result of increases in property tax, industrial tax revenues, and intergovernmental revenue. Property and industrial tax revenue increased due to increases in the assessed value of properties. Intergovernmental revenue increased due to a Coronavirus Relief Fund grant. Expenditures increased $2,096,648 compared to the prior year primarily due to increases in public safety, public works, parks and recreation, and capital outlay expenditures. Public safety and public works expenditures largely increased due to personnel-related expenditures. Parks and recreation expenditures increased mainly due to an increase in capital purchases and repairs for the City's municipal golf course. Capital outlay largely increased due to the purchase of a fire truck and miscellaneous capital projects.

The debt service fund has a total fund balance of $6,158,254, all of which is restricted for the payment of debt service. Revenues decreased due to the City lowering the debt service property tax rate and less investment earnings received due to a decrease in interest rates. The debt service fund transferred $770,982 to the water and sewer fund for debt service payments.

The capital improvement fund had an increase in fund balance of $1,133,765 due to transfers in from the general fund.

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

## GENERAL FUND BUDGETARY HIGHLIGHTS

The City budgeted for the use of fund balance of $380,650 in the general fund. However, the net change in fund balance increased by $5,068,206, resulting in a positive variance of $5,448,856.

Actual general fund revenues were greater than the amended budgeted revenues by $1,921,919 during the fiscal year. The largest positive variances were from industrial taxes, sales taxes, intergovernmental revenue, and investment earnings.

Actual expenditures were less than budgeted amounts in total by $5,028,013 for the fiscal year. The largest positive variances were in general government, recreation, athletics and aquatics, senior services, street maintenance, humane division, police, and fire department.

## CAPITAL ASSETS

At the end of the fiscal year, the City's governmental and business-type activities had invested $162,312,395 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of $7,772,907.

Major capital asset events during the year included the following:

- Firearms Training Facility Improvements $769,711
- Drainage Rehabilitation – Jefferson Avenue $656,722
- Pumper Truck $1,142,914
- Sanitary Sewer Rehabilitation – Regency Park $345,276
- Air Street Sweeper $270,901
- Construction in progress additions:
    - Street Replacement Project $675,748
    - Wastewater Treatment Plant Expansion $3,079,930
    - Irrigation Improvements to Golf Course $286,085
    - Sanitary Sewer Rehabilitation – Park Meadows $765,421
    - 2020 Waterline Project $656,224
    - Sanitary Sewer Rehabilitation – X Street and Maxwell $269,599

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

**LONG-TERM DEBT**

At the end of the current year, the City had total bonds and certificates of obligation outstanding of $70,005,023. Of this amount, $15,040,023 was general obligation debt and certificates of obligation accounted for $54,965,000.

During the year, the City had a net decrease in bonds and certificates of obligation of $2,560,001 as the result of current year principal payments. This decrease is partially offset by the issuance of Certificates of Obligations, Series 2019.

State statutes limit the amount of general obligation debt a governmental entity may issue to ten percent of its total assessed valuation. The current debt limitation for the City is $296,977,123, which is well above the City's total general obligation debt outstanding.

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

Current underlying ratings on debt issues are as follows:

| | Moody's Investors Service | Standard and Poor's |
|---|---|---|
| General Obligation Bonds | Aa1 | AAA |
| Certificates of Obligation | N/A | AAA |

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City budgeted for an increase in property tax revenues of $542,846, which is a 2.68 percent increase from last year's budget. This increase is the result of new properties being added to the tax roll and increases in property values.

For the 2021 fiscal year budget, the City adopted a total tax rate of $0.720 per $100 of assessed value which is the same as the prior year rate. Compared to the prior year adopted budget, the City budgeted for a decrease in total general fund revenues/expenditures and other resources of approximately $896,900.

City Council approved a current year budget decrease in revenues of $787,826 and a decrease in expenses of $1,451,924 compared to the prior year adopted budget for the water and sewer fund.

## CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to the City of Deer Park, Director of Finance, 710 E. San Augustine, Deer Park, Texas 77536.

(This page intentionally left blank.)

***BASIC FINANCIAL STATEMENTS***

(This page intentionally left blank.)

# CITY OF DEER PARK, TEXAS

## *STATEMENT OF NET POSITION*

**September 30, 2020**

| | Primary Government | | | |
|---|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total | Component Units |
| **Assets** | | | | |
| Cash and cash equivalents | $ 62,859,271 | $ 11,649,235 | $ 74,508,506 | $ 10,613,186 |
| Restricted cash and cash equivalents | - | 12,919,499 | 12,919,499 | - |
| Receivables, net of allowances | 5,321,823 | 1,224,768 | 6,546,591 | 1,129,432 |
| Due from component units | 3,378 | - | 3,378 | - |
| Due from primary government | - | - | - | 114,452 |
| Due from other governments | - | - | - | - |
| Inventories | 108,411 | - | 108,411 | - |
| Prepaid items | 9,265 | - | 9,265 | - |
| Capital assets: | | | | |
| Nondepreciable capital assets | 28,922,097 | 27,350,209 | 56,272,306 | - |
| Depreciable capital assets, net | 73,635,563 | 32,404,526 | 106,040,089 | 5,268,859 |
| **Total Assets** | 170,859,808 | 85,548,237 | 256,408,045 | 17,125,929 |
| **Deferred Outflows of Resources** | | | | |
| Deferred loss on refunding | 204,892 | 30,468 | 235,360 | - |
| Deferred outflows of resources - pensions (TMRS) | 2,350,724 | 329,802 | 2,680,526 | 73,482 |
| Deferred outflows of resources - pensions (TESRS) | 215,316 | - | 215,316 | - |
| Deferred outflows of resources - OPEB (SDBF) | 270,584 | - | 270,584 | - |
| Deferred outflows of resources - OPEB (Health) | 5,065,450 | 762,420 | 5,827,870 | 171,047 |
| **Total Deferred Outflows of Resources** | 8,106,966 | 1,122,690 | 9,229,656 | 244,529 |
| **Liabilities** | | | | |
| Accounts payable | 1,828,239 | 1,612,363 | 3,440,602 | 176,483 |
| Accrued liabilities | 1,018,379 | 150,897 | 1,169,276 | 54,999 |
| Customer deposits | 13,990 | 839,888 | 853,878 | - |
| Due to component units | 114,452 | - | 114,452 | - |
| Due to primary government | - | - | - | 3,378 |
| Other payables | 433,547 | 1,494,571 | 1,928,118 | - |
| Unearned revenue | 136,537 | - | 136,537 | - |
| Noncurrent liabilities: | | | | |
| Due within one year | 5,401,944 | 2,693,196 | 8,095,140 | 143,392 |
| Due in more than one year | 51,874,281 | 50,395,895 | 102,270,176 | 1,523,781 |
| **Total Liabilities** | 60,821,369 | 57,186,810 | 118,008,179 | 1,902,033 |
| **Deferred Inflows of Resources** | | | | |
| Deferred gain on refunding | 90,396 | - | 90,396 | - |
| Deferred inflows of resources - pensions (TMRS) | 5,104,616 | 694,124 | 5,798,740 | 187,253 |
| Deferred inflows of resources - pensions (TESRS) | 945 | - | 945 | - |
| Deferred inflows of resources - OPEB (SDBF) | 226,870 | - | 226,870 | - |
| Deferred inflows of resources - OPEB (Health) | 55,313 | 9,088 | 64,401 | 2,852 |
| **Total Deferred Inflows of Resources** | 5,478,140 | 703,212 | 6,181,352 | 190,105 |
| **Net Position** | | | | |
| Net investment in capital assets | 77,907,555 | 16,818,608 | 94,726,163 | 4,496,174 |
| Restricted for: | | | | |
| Debt service | 6,158,254 | - | 6,158,254 | - |
| Enabling legislation: | | | | |
| Hotel/motel occupancy tax | 580,518 | - | 580,518 | - |
| Police forfeiture | 71,589 | - | 71,589 | - |
| Municipal court | 90,151 | - | 90,151 | - |
| Special projects - restricted contributions | 238,424 | - | 238,424 | 10,782,146 |
| Capital projects | 98,934 | - | 98,934 | - |
| Unrestricted | 27,521,840 | 11,962,297 | 39,484,137 | - |
| **Total Net Position** | $ 112,667,265 | $ 28,780,905 | $ 141,448,170 | $ 15,278,320 |

See Notes to Financial Statements.

# City of Deer Park, Texas

*STATEMENT OF ACTIVITIES*

**For the Year Ended September 30, 2020**

| | | Program Revenues | | |
|---|---|---|---|---|
| **Functions/Programs** | **Expenses** | **Charges for Services** | **Operating Grants and Contributions** | **Capital Grants and Contributions** |
| **Primary Government** | | | | |
| **Governmental Activities** | | | | |
| General government | $ 9,425,200 | $ 285,776 | $ - | $ - |
| Public safety | 14,957,915 | 2,834,040 | 1,921,134 | 31,344 |
| Public works | 9,909,662 | 1,616,954 | - | 789,216 |
| Parks and recreation | 563,216 | 34,868 | - | - |
| Community development | 9,663,784 | 663,885 | 1,249,138 | - |
| Interest on long-term debt | 692,088 | - | - | - |
| **Total Governmental Activities** | 45,211,865 | 5,435,523 | 3,170,272 | 820,560 |
| **Business-Type Activities** | | | | |
| Water and sewer | 11,491,912 | 11,606,282 | - | - |
| Storm water utility | 467,274 | 361,333 | - | - |
| **Total Business-Type Activities** | 11,959,186 | 11,967,615 | - | - |
| **Total Primary Government** | $ 57,171,051 | $ 17,403,138 | $ 3,170,272 | $ 820,560 |
| **Component Units** | | | | |
| Governmental | $ 4,509,852 | $ - | $ - | $ - |
| **Total Component Units** | $ 4,509,852 | $ - | $ - | $ - |

**General Revenues:**

Property taxes

Industrial district taxes

Franchise fees

Sales and use taxes

Hotel occupancy taxes

Investment earnings

Miscellaneous

Transfers

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

| Net Revenue (Expense) and Changes in Net Position | | | |
|---|---|---|---|
| Primary Government | | | |
| Governmental Activities | Business-Type Activities | Total | Component Units |
| $ (9,139,424) | $ - | $ (9,139,424) | $ - |
| (10,171,397) | - | (10,171,397) | - |
| (7,503,492) | - | (7,503,492) | - |
| (528,348) | - | (528,348) | - |
| (7,750,761) | - | (7,750,761) | - |
| (692,088) | - | (692,088) | - |
| (35,785,510) | - | (35,785,510) | - |
| - | 114,370 | 114,370 | - |
| - | (105,941) | (105,941) | - |
| - | 8,429 | 8,429 | - |
| (35,785,510) | 8,429 | (35,777,081) | - |
| - | - | - | (4,509,852) |
| - | - | - | (4,509,852) |
| 20,553,900 | - | 20,553,900 | - |
| 12,660,382 | - | 12,660,382 | - |
| 1,884,424 | - | 1,884,424 | - |
| 7,086,318 | - | 7,086,318 | 7,039,207 |
| 430,717 | - | 430,717 | - |
| 1,391,662 | 170,480 | 1,562,142 | 7,884 |
| 406,401 | 172,520 | 578,921 | 153,081 |
| (554,995) | 554,995 | - | - |
| 43,858,809 | 897,995 | 44,756,804 | 7,200,172 |
| 8,073,299 | 906,424 | 8,979,723 | 2,690,320 |
| 104,593,966 | 27,874,481 | 132,468,447 | 12,588,000 |
| $ 112,667,265 | $ 28,780,905 | $ 141,448,170 | $ 15,278,320 |

# City of Deer Park, Texas

*BALANCE SHEET*

*GOVERNMENTAL FUNDS*

**September 30, 2020**

| | General | Debt Service | Capital Improvement | Nonmajor Governmental |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | $ 46,514,410 | $ 6,160,197 | $ 8,068,710 | $ 2,115,954 |
| Receivables, net | 4,747,441 | 82,232 | 201,239 | 290,911 |
| Due from other funds | 5,866 | - | - | - |
| Due from component units | 3,378 | - | - | - |
| Inventories | 108,411 | - | - | - |
| Prepaid items | 9,265 | - | - | - |
| **Total Assets** | $ 51,388,771 | $ 6,242,429 | $ 8,269,949 | $ 2,406,865 |
| **Liabilities** | | | | |
| Accounts payable | $ 1,526,088 | $ 1,913 | $ 226,182 | $ 74,056 |
| Accrued liabilities | 1,013,081 | - | - | 5,298 |
| Due to other funds | - | - | - | 5,866 |
| Due to component units | 114,422 | 30 | - | - |
| Customer deposits | 13,990 | - | - | - |
| Other payables | 411,002 | - | 22,545 | - |
| Unearned revenue | 3,298 | - | 133,239 | - |
| **Total Liabilities** | 3,081,881 | 1,943 | 381,966 | 85,220 |
| **Deferred Inflows of Resources** | | | | |
| Unavailable revenue - court fines and warrants | 245,228 | - | - | - |
| Unavailable revenue - ambulance | 847,823 | - | - | - |
| Unavailable revenue - industrial district taxes | 78 | - | - | - |
| Unavailable revenue - property taxes | 238,930 | 82,232 | - | - |
| **Total Deferred Inflows of Resources** | 1,332,059 | 82,232 | - | - |
| **Fund Balances** | | | | |
| Nonspendable: | | | | |
| Inventories | 108,411 | - | - | - |
| Prepaid items | 9,265 | - | - | - |
| Restricted for: | | | | |
| Debt service | - | 6,158,254 | - | - |
| Enabling legislation | - | - | - | 742,258 |
| Special projects | - | - | - | 238,424 |
| Capital projects | - | - | - | 1,340,963 |
| Assigned: | | | | |
| Disaster response/repair | 771,410 | - | - | - |
| Park maintenance | 145,397 | - | - | - |
| General government | 133,750 | - | - | - |
| Capital projects | 87,200 | - | 7,887,983 | - |
| Unassigned | 45,719,398 | - | - | - |
| **Total Fund Balances** | 46,974,831 | 6,158,254 | 7,887,983 | 2,321,645 |
| **Total Liabilities, Deferred Inflows of Resources, and Fund Balances** | $ 51,388,771 | $ 6,242,429 | $ 8,269,949 | $ 2,406,865 |

See Notes to Financial Statements.

| Total Governmental Funds |
| --- |
| $ 62,859,271 |
| 5,321,823 |
| 5,866 |
| 3,378 |
| 108,411 |
| 9,265 |
| $ 68,308,014 |
| |
| $ 1,828,239 |
| 1,018,379 |
| 5,866 |
| 114,452 |
| 13,990 |
| 433,547 |
| 136,537 |
| 3,551,010 |
| |
| 245,228 |
| 847,823 |
| 78 |
| 321,162 |
| 1,414,291 |
| |
| 108,411 |
| 9,265 |
| |
| 6,158,254 |
| 742,258 |
| 238,424 |
| 1,340,963 |
| |
| 771,410 |
| 145,397 |
| 133,750 |
| 7,975,183 |
| 45,719,398 |
| 63,342,713 |
| |
| $ 68,308,014 |

(This page intentionally left blank.)

# CITY OF DEER PARK, TEXAS

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

**September 30, 2020**

| | | |
|---|---|---|
| Total fund balances for governmental funds | | $ 63,342,713 |
| Amounts reported for governmental activities in the Statement of Net Position are different because: | | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | | |
| Capital assets, nondepreciable | 28,922,097 | |
| Capital assets, net depreciable | 73,635,563 | |
| | | 102,557,660 |
| Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. | | 1,414,291 |
| Long-term liabilities and deferred outflows and deferred inflows related to pensions and other postemployment benefits (OPEB) are not due and payable in the current period and, therefore, are not reported in the funds. | | |
| Deferred loss on refunding | 204,892 | |
| Deferred gain on refunding | (90,396) | |
| Deferred outflows - pensions (TMRS) | 2,350,724 | |
| Deferred outflows - pensions (TESRS) | 215,316 | |
| Deferred outflows - OPEB (SDBF) | 270,584 | |
| Deferred outflows OPEB (Health) | 5,065,450 | |
| Deferred inflows - pensions (TMRS) | (5,104,616) | |
| Deferred inflows pensions (TESRS) | (945) | |
| Deferred inflows OPEB (SDBF) | (226,870) | |
| Deferred inflows OPEB (Health) | (55,313) | |
| Noncurrent liabilities due in one year | (5,401,944) | |
| Noncurrent liabilities due in more than one year | (51,874,281) | |
| | | (54,647,399) |
| **Net Position of Governmental Activities** | | $ 112,667,265 |

See Notes to Financial Statements.

# City of Deer Park, Texas

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

**For the Year Ended September 30, 2020**

| | General | Debt Service | Capital Improvement | Nonmajor Governmental |
|---|---|---|---|---|
| **Revenues** | | | | |
| Property taxes | $ 16,040,772 | $ 4,485,377 | $ - | $ - |
| Industrial district taxes | 12,660,382 | - | - | - |
| Sales taxes | 7,086,318 | - | - | - |
| Franchise fees | 1,884,424 | - | - | - |
| Hotel/motel occupancy taxes | - | - | - | 430,717 |
| Fees and fines | 1,024,971 | - | - | 152,376 |
| Licenses and permits | 414,973 | - | - | - |
| Intergovernmental | 1,898,546 | 1,216,797 | - | 789,216 |
| Charges for services | 3,606,397 | - | - | 99,556 |
| Investment earnings | 1,347,287 | 18,142 | 1,307 | 24,926 |
| Miscellaneous | 211,434 | - | 68,001 | 126,966 |
| **Total Revenues** | 46,175,504 | 5,720,316 | 69,308 | 1,623,757 |
| **Expenditures** | | | | |
| **Current:** | | | | |
| General government | 7,683,622 | - | - | 55,950 |
| Community development | 7,481,122 | - | - | 350,529 |
| Public works | 7,740,277 | - | - | - |
| Parks and recreation | 484,251 | - | - | - |
| Public safety | 13,545,041 | - | - | 910,295 |
| **Capital outlay** | 2,669,218 | - | 1,893,990 | 1,252,342 |
| **Debt service:** | | | | |
| Principal | 309,749 | 3,809,954 | - | - |
| Interest and other charges | 9,789 | 826,859 | - | 2,650 |
| **Total Expenditures** | 39,923,069 | 4,636,813 | 1,893,990 | 2,571,766 |
| **Excess (Deficiency) of Revenues Over (Under) Expenditures** | 6,252,435 | 1,083,503 | (1,824,682) | (948,009) |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | 414,992 | 21,377 | 2,958,447 | - |
| Transfers (out) | (3,117,744) | (770,982) | - | (331,986) |
| Proceeds from sale of capital assets | 81,830 | - | - | - |
| Debt issued | - | 4,240,000 | - | - |
| Premium on debt issued | - | 731,083 | - | - |
| Payment to refunding bond escrow agent | - | (4,913,313) | - | - |
| Capital leases | 1,436,693 | - | - | - |
| **Total Other Financing Sources (Uses)** | (1,184,229) | (691,835) | 2,958,447 | (331,986) |
| **Net Change in Fund Balances** | 5,068,206 | 391,668 | 1,133,765 | (1,279,995) |
| Beginning fund balances | 41,906,625 | 5,766,586 | 6,754,218 | 3,601,640 |
| **Ending Fund Balances** | $ 46,974,831 | $ 6,158,254 | $ 7,887,983 | $ 2,321,645 |

See Notes to Financial Statements.

| Total Governmental Funds |
|---|
| |
| $ 20,526,149 |
| 12,660,382 |
| 7,086,318 |
| 1,884,424 |
| 430,717 |
| 1,177,347 |
| 414,973 |
| 3,904,559 |
| 3,705,953 |
| 1,391,662 |
| 406,401 |
| 53,588,885 |
| |
| 7,739,572 |
| 7,831,651 |
| 7,740,277 |
| 484,251 |
| 14,455,336 |
| 5,815,550 |
| |
| 4,119,703 |
| 839,298 |
| 49,025,638 |
| |
| 4,563,247 |
| |
| 3,394,816 |
| (4,220,712) |
| 81,830 |
| 4,240,000 |
| 731,083 |
| (4,913,313) |
| 1,436,693 |
| |
| 750,397 |
| 5,313,644 |
| 58,029,069 |
| $ 63,342,713 |

(This page intentionally left blank.)

# City of Deer Park, Texas

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

**For the Year Ended September 30, 2020**

| | |
|---|---|
| Net changes in fund balances - total governmental funds | $ 5,313,644 |
| | |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. | |
| Capital asset expenditures | 7,235,643 |
| Depreciation expense | (4,904,372) |
| Disposals, net | (173,071) |
| Capital contributions | 31,344 |
| | |
| The issuance of long-term debt (e.g., bonds and certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. In addition, pension and other postemployment benefits (OPEB) expenses and the amortization of deferred items are accounted for in the Statement of Activities. | |
| Principal payments | 4,119,703 |
| Amortization of deferred loss on refunding | (57,705) |
| Amortization of deferred gain on refunding | 9,040 |
| Amortization of premiums on bonds | 195,875 |
| Amortization of deferred outflows - pensions (TMRS) | (5,194,294) |
| Amortization of deferred outflows - pensions (TESRS) | 74,019 |
| Amortization of deferred outflows - OPEB (SDBF) | 118,224 |
| Amortization of deferred outflows - OPEB (Health) | 412,342 |
| Amortization of deferred inflows - pensions (TMRS) | (3,855,632) |
| Amortization of deferred inflows - pensions (TESRS) | 26,022 |
| Amortization of deferred inflows - OPEB (SDBF) | (170,954) |
| Amortization of deferred inflows - OPEB (Health) | (55,313) |
| Compensated absences | (225,324) |
| Bonds issued | (4,240,000) |
| Capital lease activity | (1,342,637) |
| Premium on bonds issued | (731,083) |
| Closure costs | (643) |
| Net pension liability - TMRS | 8,908,221 |
| Net pension liability - TESRS | (317,734) |
| Total OPEB liability - Health | (2,158,409) |
| Total OPEB liability - SDBF | (21,921) |
| Payment to refunding bond escrow agent | 4,913,313 |
| | |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | 165,001 |
| **Change in Net Position of Governmental Activities** | $ 8,073,299 |

See Notes to Financial Statements.

(This page intentionally left blank.)

# City of Deer Park, Texas

## *STATEMENT OF NET POSITION*

## *PROPRIETARY FUNDS*

**September 30, 2020**

| | Business-Type Activities | | |
|---|---|---|---|
| | Water and Sewer | Storm Water Utility | Total |
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | $ 10,996,079 | $ 653,156 | $ 11,649,235 |
| Restricted cash and cash equivalents | 12,919,499 | - | 12,919,499 |
| Accounts receivable, net | 1,184,856 | 39,912 | 1,224,768 |
| **Total Current Assets** | 25,100,434 | 693,068 | 25,793,502 |
| Noncurrent assets: | | | |
| Capital assets: | | | |
| Land | 591,397 | - | 591,397 |
| Buildings | 4,795,184 | - | 4,795,184 |
| Utility system | 63,640,194 | - | 63,640,194 |
| Machinery and equipment | 4,972,615 | - | 4,972,615 |
| Construction in progress | 26,758,812 | - | 26,758,812 |
| Less: accumulated depreciation | (41,003,467) | - | (41,003,467) |
| **Total Noncurrent Assets** | 59,754,735 | - | 59,754,735 |
| **Total Assets** | 84,855,169 | 693,068 | 85,548,237 |
| **Deferred Outflows of Resources** | | | |
| Deferred charge on refunding | 30,468 | - | 30,468 |
| Deferred outflows of resources - pensions (TMRS) | 319,132 | 10,670 | 329,802 |
| Deferred outflows of resources - OPEB (Health) | 736,369 | 26,051 | 762,420 |
| **Total Deferred Outflows of Resources** | 1,085,969 | 36,721 | 1,122,690 |
| **Liabilities** | | | |
| Current liabilities: | | | |
| Accounts payable | 1,609,218 | 3,145 | 1,612,363 |
| Accrued liabilities | 146,241 | 4,656 | 150,897 |
| Customer deposits | 839,888 | - | 839,888 |
| Other payables | 1,494,571 | - | 1,494,571 |
| Compensated absences | 162,834 | 2,326 | 165,160 |
| Bonds payable - current | 2,505,329 | - | 2,505,329 |
| Capital leases payable | - | 22,707 | 22,707 |
| **Total Current Liabilities** | 6,758,081 | 32,834 | 6,790,915 |
| Noncurrent liabilities: | | | |
| Net pension liability - TMRS | 758,101 | 13,576 | 771,677 |
| Total OPEB liability - Health | 3,321,221 | 59,957 | 3,381,178 |
| Compensated absences | 18,092 | 259 | 18,351 |
| Bonds payable, net of deferred charges | 46,224,689 | - | 46,224,689 |
| **Total Noncurrent Liabilities** | 50,322,103 | 73,792 | 50,395,895 |
| **Total Liabilities** | 57,080,184 | 106,626 | 57,186,810 |
| **Deferred Inflows of Resources** | | | |
| Deferred inflows of resources - pensions (TMRS) | 670,091 | 24,033 | 694,124 |
| Deferred inflows of resources - OPEB (Health) | 8,706 | 382 | 9,088 |
| **Total Deferred Inflows of Resources** | 678,797 | 24,415 | 703,212 |
| **Net Position** | | | |
| Net investment in capital assets | 16,818,608 | - | 16,818,608 |
| Unrestricted | 11,363,549 | 598,748 | 11,962,297 |
| **Total Net Position** | $ 28,182,157 | $ 598,748 | $ 28,780,905 |

See Notes to Financial Statements.

(This page intentionally left blank.)

# City of Deer Park, Texas

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

**For the Year Ended September 30, 2020**

| | Business-Type Activities | | |
|---|---|---|---|
| | **Water and Sewer** | **Storm Water Utility** | **Total** |
| **Operating Revenues** | | | |
| Charges for services | $ 11,606,282 | $ 361,333 | $ 11,967,615 |
| **Total Operating Revenues** | 11,606,282 | 361,333 | 11,967,615 |
| **Operating Expenses** | | | |
| Personnel services | 3,794,765 | 180,295 | 3,975,060 |
| Contractual services | 1,111,066 | 5,371 | 1,116,437 |
| Repairs and maintenance | 1,381,136 | 276,165 | 1,657,301 |
| Other supplies and expenses | 1,957,421 | 5,443 | 1,962,864 |
| Depreciation | 1,983,754 | - | 1,983,754 |
| **Total Operating Expenses** | 10,228,142 | 467,274 | 10,695,416 |
| **Operating Income (Loss)** | 1,378,140 | (105,941) | 1,272,199 |
| **Nonoperating Revenues (Expenses)** | | | |
| Investment earnings | 170,480 | - | 170,480 |
| Interest and fiscal agent fees | (1,534,671) | - | (1,534,671) |
| Intergovernmental revenue | 161,143 | 11,377 | 172,520 |
| **Total Nonoperating Revenue (Expenses)** | (1,203,048) | 11,377 | (1,191,671) |
| **Income (Loss) Before Transfers** | 175,092 | (94,564) | 80,528 |
| **Transfers** | | | |
| Transfers in | 770,982 | 198,594 | 969,576 |
| Transfers (out) | (143,680) | - | (143,680) |
| **Total Transfers** | 627,302 | 198,594 | 825,896 |
| **Change in Net Position** | 802,394 | 104,030 | 906,424 |
| Beginning net position | 27,379,763 | 494,718 | 27,874,481 |
| **Ending Net Position** | $ 28,182,157 | $ 598,748 | $ 28,780,905 |

See Notes to Financial Statements.

# CITY OF DEER PARK, TEXAS

***STATEMENT OF CASH FLOWS***

***PROPRIETARY FUNDS (Page 1 of 2)***

**For the Year Ended September 30, 2020**

| | Business-Type Activities | | |
|---|---|---|---|
| | Water and Sewer | Storm Water Utility | Total |
| **Cash Flows from Operating Activities** | | | |
| Receipts from customers and users | $ 11,422,284 | $ 351,857 | $ 11,774,141 |
| Payments to suppliers for goods and services | (4,002,546) | (281,439) | (4,283,985) |
| Payments to employees for services | (3,443,863) | (166,677) | (3,610,540) |
| **Net Cash Provided (Used) by Operating Activities** | 3,975,875 | (96,259) | 3,879,616 |
| **Cash Flows from Noncapital Financing Activities** | | | |
| Intergovernmental grant | 161,143 | 11,377 | 172,520 |
| Transfer from other funds | 770,982 | 198,594 | 969,576 |
| Transfer to other funds | (143,680) | - | (143,680) |
| **Net Cash Provided by Noncapital Financing Activities** | 788,445 | 209,971 | 998,416 |
| **Cash Flows from Capital and Related Financing Activities** | | | |
| Acquisition and construction of capital assets | (7,567,117) | - | (7,567,117) |
| Proceeds from debt issuance | 4,711,604 | - | 4,711,604 |
| Principal paid on capital debt | (2,350,047) | (89,811) | (2,439,858) |
| Interest and fiscal agent fees paid | (1,683,755) | - | (1,683,755) |
| **Net Cash (Used) by Capital and Related Financing Activities** | (6,889,315) | (89,811) | (6,979,126) |
| **Cash Flows from Investing Activities** | | | |
| Earnings on investments | 170,480 | - | 170,480 |
| **Net Cash Provided by Investing Activities** | 170,480 | - | 170,480 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (1,954,515) | 23,901 | (1,930,614) |
| Beginning cash and cash equivalents | 25,870,093 | 629,255 | 26,499,348 |
| **Ending Cash and Cash Equivalents** | $ 23,915,578 | $ 653,156 | $ 24,568,734 |
| **Ending Cash and Cash Equivalents** | | | |
| Unrestricted cash and cash equivalents | $ 10,996,079 | $ 653,156 | $ 11,649,235 |
| Restricted cash and cash equivalents | 12,919,499 | - | 12,919,499 |
| | $ 23,915,578 | $ 653,156 | $ 24,568,734 |

See Notes to Financial Statements.

# City of Deer Park, Texas

## *STATEMENT OF CASH FLOWS*
## *PROPRIETARY FUNDS (Page 2 of 2)*

**For the Year Ended September 30, 2020**

| | Business-Type Activities | | |
|---|---|---|---|
| | Water and Sewer | Storm Water Utility | Total |
| **Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities** | | | |
| Operating income (loss) | $ 1,378,140 | $ (105,941) | $ 1,272,199 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | |
| Depreciation | 1,983,754 | - | 1,983,754 |
| **Changes in Operating Assets and Liabilities:** | | | |
| **(Increase) Decrease in Assets:** | | | |
| Accounts receivable | (200,796) | (9,476) | (210,272) |
| Prepaids | 48,744 | 2,801 | 51,545 |
| Deferred outflows of resources | 665,462 | 18,785 | 684,247 |
| **Increase (Decrease) in Liabilities:** | | | |
| Accounts payable | 222,834 | 1,355 | 224,189 |
| Accrued liabilities | 32,510 | 1,384 | 33,894 |
| Other payables | 142,989 | - | 142,989 |
| Compensated absences payable | 34,467 | 543 | 35,010 |
| Net pension liability | (1,198,790) | (40,433) | (1,239,223) |
| Deferred inflows of resources | 510,024 | 19,825 | 529,849 |
| Total OPEB liability | 339,739 | 14,898 | 354,637 |
| Customer deposits | 16,798 | - | 16,798 |
| **Net Cash Provided (Used) by Operating Activities** | $ 3,975,875 | $ (96,259) | $ 3,879,616 |

See Notes to Financial Statements.

# CITY OF DEER PARK, TEXAS

***STATEMENT OF NET POSITION***

***FIDUCIARY FUND***

**September 30, 2020**

| | Senior Citizens Trust |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 118,574 |
| **Total Assets** | $ 118,574 |
| **Net Position** | |
| Restricted | $ 118,574 |
| **Total Net Position** | $ 118,574 |

See Notes to Financial Statements.

# City of Deer Park, Texas

## *STATEMENT OF CHANGES IN NET POSITION*

## *FIDUCIARY FUND*

**For the Year Ended September 30, 2020**

| | Senior Citizens Trust |
|---|---|
| **Additions** | |
| Investment earnings | $ 1,064 |
| **Total Additions** | 1,064 |
| **Change in Net Position** | 1,064 |
| Beginning net position | 117,510 |
| **Ending Net Position** | $ 118,574 |

See Notes to Financial Statements.

(This page intentionally left blank.)

## I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. Reporting Entity

The City of Deer Park, Texas (the "City") was incorporated under the laws of the State of Texas (the "State") in 1948 and adopted a home-rule charter in December 1960. The charter provides for a "mayor council-manager" form of government with the elective body empowered to enact local legislation, adopt budgets, and determine policies. A mayor and six council members are elected to "at large" positions for two-year terms. The City Manager is appointed by the elective body and is responsible for the administrative affairs of the City.

The City provides for the following services: police, fire and emergency medical, water and sewer, street maintenance, sanitation, planning, parks and recreation, library, and general and administrative.

The City is an independent political subdivision of the State governed by an elected six-member council and a mayor and is considered a primary government. As required by generally accepted accounting principles, these basic financial statements present the activities of the City (primary government) and its component units. Component units are legally separate organizations for which the City is financially accountable or other organizations whose nature and significant relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the City's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the City.

The basic financial statements contain discretely presented component units. Discretely presented component units are reported in an aggregate column in the government-wide financial statements to emphasize that it is legally separate from the government.

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

**Discretely Presented Component Units**

**Deer Park Crime Control and Prevention District**

The Deer Park Crime Control and Prevention District (CCPD) is reported in the basic financial statements as a discretely presented component unit, which emphasizes that the CCPD is legally separate from the City. The authority for the CCPD is provided by Texas Local Government Code, Chapter 363. It was established to enhance public safety throughout the City and is funded by a dedicated one-fourth of one percent sales and use tax approved by the voters in May 2011 and effective on October 1, 2011 for a period of five years from the date it began to levy taxes. In May 2016, the voters approved the continuation of the CCPD for a period of 10 years. In the event of dissolution, the net position of the CCPD shall be conveyed to the City.

The CCPD is governed by a seven-member board of directors appointed by the City Council. The City has the ability to impose its will on the CCPD because it may remove appointed members at will, and it must approve the CCPD budget and any necessary budget amendments. Separate financial statements are not available for the CCPD.

**Deer Park Fire Control, Prevention, and Emergency Medical Services District**

The Deer Park Fire Control, Prevention, and Emergency Medical Services District (FCPEMSD) is reported in the basic financial statements as a discretely presented component unit, which emphasizes that the FCPEMSD is legally separate from the City. The authority for the FCPEMSD is provided by Texas Local Government Code, Chapter 344. It was established to enhance fire control and prevention and emergency medical services programs in the City and is funded by a dedicated one-fourth of one percent sales and use tax approved by the voters in May 2011 and effective on October 1, 2011 for a period of five years from the date it began to levy taxes. In May 2016, the voters approved the continuation of the FCPEMSD for a period of 10 years. In the event of dissolution, the net position of the FCPEMSD shall be conveyed to the City.

The FCPEMSD is governed by a seven-member board of directors appointed by the City Council. The City has the ability to impose its will on the FCPEMSD because it may remove appointed members at will, and it must approve the FCPEMSD budget and any necessary budget amendments. Separate financial statements are not available for the FCPEMSD.

**Deer Park Community Development Corporation**

The Deer Park Community Development Corporation (the "Corporation") is reported in the basic financial statements as a discretely presented component unit, which emphasizes that the Corporation is legally separate from the City. The Corporation was established by a dedicated one-half of one percent sales and use tax approved by the voters in May 2015 for economic development purposes. The authority for the Corporation is provided by Texas Local Government Code, Chapter 505, Type B Corporations. The Corporation was formed for the purpose of financing various public park projects as authorized by Chapter 505 and the election. The dedicated one-half of one percent sales and use tax became effective on October 1, 2015 and the first sales tax receipts for the Corporation were received in December 2015.

The Corporation is governed by a seven-member board of directors appointed by the City Council. The City has the ability to impose its will on the Corporation because it may remove appointed members at will, and it must approve the Corporation budget and any necessary budget amendments. Separate financial statements are not available for the Corporation.

### B. Government-Wide Financial Statements

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

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

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

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

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

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

The City reports the following governmental funds:

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

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

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

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

The City reports the following enterprise funds:

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

Additionally, the City reports the following fiduciary fund type:

The *private-purpose trust fund* is used to account for disbursements made from investment earnings from an initial $100,000 corpus established as a trust fund to benefit citizens age 55 and older. All disbursements of the senior citizens trust fund must be approved by the City of Deer Park Senior Citizen's Foundation Trust Committee. Activities are not budgeted and are controlled on an event-by-event basis.

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

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

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

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

The government-wide, proprietary, and fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied.

Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

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

### 1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and balances in statewide investment pools. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with a maturity date of three months or less when purchased to be cash equivalents.

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and equity in pooled cash."

### 2. Investments

Investments are stated at fair value, except for investment pools, which are stated at either amortized costs or net asset value. Investment income from the pools are allocated back to the respective funds based on each fund's equity in the pool. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

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

- Direct obligations of the U.S. government
- Direct obligations of the State
- Statewide investment pools
- Certificates of deposit that meet certain criteria

### 3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

### 4. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the enterprise fund are restricted by bond covenants for repayment of debt and to finance construction projects.

### 5. Capital Assets

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

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

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

| Asset Description | Estimated Useful Life |
| --- | --- |
| Infrastructure | 20 to 40 years |
| Buildings and Improvements | 10 to 40 years |
| Vehicles and Equipment | 5 to 20 years |
| Furniture and Fixtures | 5 to 10 years |

### 6. Deferred Outflows/Inflows of Resources

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

Deferred outflows/inflows of resources are amortized as follows:

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

At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, that qualifies for reporting in this category. Accordingly, the item, *unavailable revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from court fines and warrants, ambulance fees, and industrial district and property taxes. These amounts are deferred and recognized as inflows of resources in the period that the amounts become available.

### 7. Compensated Absences

Employees earn vacation based on years of service with the City within certain limits. Only accumulated vacation and earned compensatory time are paid upon termination of employment. Vacation pay is accrued when incurred in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

### 8. Long-Term Obligations

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

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

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

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

### 9. Net Position Flow Assumption

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

### 10. Fund Balance Flow Assumptions

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

### 11. Fund Balance Policies

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

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

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

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

In accordance with the City's fund balance policy, City Council, by resolution, has authorized the City Manager as the official authorized to assign fund balance to a specific purpose. Assignments of fund balance by the City Manager do not require formal action by the City Council.

The City has established a target level of unassigned fund balance to alleviate revenue shortfalls and/or unanticipated expenditures to ensure the orderly and continued provision of services. The City shall strive to maintain an unassigned fund balance in the general fund equal to at least 25 percent of normal recurring operating costs, based on the current year's budgeted operating expenditures. Should unassigned fund balance fall below the goal or have a deficiency, the City will seek to reduce expenditures prior to increasing revenues to replenish fund balance within a reasonable timeframe.

**12. Estimates**

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

**13. Pensions**

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

### 14. Other Postemployment Benefits

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

The City also provides medical benefits to eligible retirees through a single-employer defined benefit plan (the "Plan"). This Plan is an unfunded, pay-as-you-go plan. Information about the City's total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by the City's consulting actuary.

## G. Revenues and Expenditures/Expenses

### 1. Program Revenues

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

### 2. Property Taxes

All taxes due to the City on real or personal property are payable at the Office of the City Tax Assessor-Collector and may be paid at any time after the tax rolls for the year have been completed and approved, which is October 1, or as soon thereafter as practicable. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest established by State law.

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

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

## II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except the capital projects funds, which adopt project length budgets. The original budget is adopted by the City Council prior to the beginning of the fiscal year. The legal level of budgetary control, as defined by the charter, is the department level. The City Manager may transfer appropriations within a department without seeking the approval of City Council. The City Council may transfer any unencumbered funds from one department to another. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2020.

## III. DETAILED NOTES ON ALL FUNDS

### A. Deposits and Investments

As of September 30, 2020, the City had the following investments:

| Investment Type | | Fair Value | Weighted Average Maturity (Years) |
|---|---|---|---|
| TexSTAR | $ | 7,377,702 | 0.06 |
| TexPool | | 19,096,440 | 0.09 |
| Texas CLASS | | 7,684,448 | 0.14 |
| Certificates of deposit | | 53,038,599 | 0.64 |
| **Total Fair Value** | $ | 87,197,189 | |
| Portfolio weighted average maturity | | | 0.42 |

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

*Credit risk.* The City's investment policy limits investments in public fund investment pools rated as to investment quality not less than 'AAA' or 'AAAm', or at an equivalent rating by at least one nationally recognized rating service. As of September 30, 2020, the City's investments in investment pools were rated 'AAAm' by Standard & Poor's.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2020, the combined balances of FDIC insurance, collateral pledged, and letters of credit exceeded the City's bank balances. As of September 30, 2020, the discretely presented component units' bank balances were collateralized with securities held by the pledging financial institution or covered by FDIC insurance.

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

**TexPool**

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

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

**TexSTAR**

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

TexSTAR is measured at amortized cost. TexSTAR's strategy is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The City has no unfunded commitments related to TexSTAR. TexSTAR has a redemption notice period of one day and may redeem daily. TexSTAR's authorities may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national or state emergency that affects TexSTAR's liquidity.

**Texas CLASS**

The Texas Cooperative Liquid Assets Securities System Trust (CLASS) is a public funds investment pool under Section 2256.016 of the Public Funds Investment Act, Texas Government Code, as amended. CLASS is created under an amended and restated trust agreement, dated as of December 14, 2011 (the "Agreement"), among certain Texas governmental entities investing in CLASS (the

"Participants"), with Cutwater Investor Services Corporation as program administrator and Wells Fargo Bank Texas, NA as custodian. CLASS is not SEC registered and is not subject to regulation by the State. Under the Agreement, however, CLASS is administered and supervised by a seven-member board of trustees (the "Board"), whose members are investment officers of the Participants, elected by the Participants for overlapping two-year terms. In the Agreement and by resolution of the Board, CLASS has contracted with Cutwater Investors Service Corporation to provide for the investment and management of the public funds of CLASS. Separate financial statements for CLASS may be obtained from CLASS' website at www.texasclass.com.

### B. Receivables

Amounts recorded as receivable as of September 30, 2020 for the City's individual major and nonmajor funds, including the applicable allowances for uncollectible accounts, are as follows:

| | General | Debt Service | Capital Improvement | Nonmajor Governmental | Water and Sewer | Storm Water Utility | Component Units |
|---|---|---|---|---|---|---|---|
| Taxes | $ 955,929 | $ 328,928 | $ - | $ - | $ - | $ - | $ 1,129,432 |
| Accounts | 2,738,121 | - | 201,239 | 205,281 | 1,531,671 | 40,854 | - |
| Ambulance | 2,655,227 | - | - | - | - | - | - |
| Grants | 1,693,684 | - | - | 85,630 | 161,143 | 11,377 | - |
| Less allowance | (3,295,520) | (246,696) | - | - | (507,958) | (12,319) | - |
| **Total** | $ 4,747,441 | $ 82,232 | $ 201,239 | $ 290,911 | $ 1,184,856 | $ 39,912 | $ 1,129,432 |

### C. Restricted Assets

The balances of the restricted cash and cash equivalents accounts recognized by the City are as follows:

| | Water and Sewer |
|---|---|
| Restricted for: | |
| Customer deposits | $ 839,888 |
| Bond funded capital projects | 12,079,611 |
| **Total Restricted Assets** | $ 12,919,499 |

### D. Capital Assets

The following is a summary of changes in capital assets for governmental activities for the year end:

| | Primary Government | | | |
|---|---|---|---|---|
| | Beginning Balance | Increases | (Decreases)/ Reclassifications | Ending Balance |
| **Governmental Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 26,687,306 | $ 6,793 | $ - | $ 26,694,099 |
| Construction in progress | 10,072,654 | 2,290,808 | (10,135,464) | 2,227,998 |
| **Total capital assets not being depreciated** | 36,759,960 | 2,297,601 | (10,135,464) | 28,922,097 |
| Other capital assets: | | | | |
| Buildings | 43,715,388 | 3,994,315 | - | 47,709,703 |
| Improvements | 73,210,268 | 8,667,917 | - | 81,878,185 |
| Machinery and equipment | 21,414,246 | 2,442,618 | (1,217,501) | 22,639,363 |
| **Total other capital assets** | 138,339,902 | 15,104,850 | (1,217,501) | 152,227,251 |
| Less accumulated depreciation for: | | | | |
| Buildings | (13,489,773) | (1,308,829) | - | (14,798,602) |
| Improvements | (44,791,452) | (2,102,715) | - | (46,894,167) |
| Machinery and equipment | (16,450,521) | (1,492,828) | 1,044,430 | (16,898,919) |
| **Total accumulated depreciation** | (74,731,746) | (4,904,372) | 1,044,430 | (78,591,688) |
| **Other capital assets, net** | 63,608,156 | 10,200,478 | (173,071) | 73,635,563 |
| **Governmental Activities Capital Assets, Net** | $ 100,368,116 | $ 12,498,079 | $ (10,308,535) | 102,557,660 |
| | | | Less associated debt | (26,006,630) |
| | | | Plus net deferred charge on refunding | 114,496 |
| | | | Plus unspent bond proceeds | 1,242,029 |
| | | | **Net Investment in Capital Assets** | $ 77,907,555 |

Depreciation was charged to governmental functions as follows:

| | |
|---|---|
| General government | $ 592,608 |
| Public safety | 660,466 |
| Public works | 1,773,655 |
| Parks and recreation | 443,619 |
| Community development | 1,434,024 |
| **Total Governmental Activities Depreciation Expense** | $ 4,904,372 |

Construction in progress and remaining commitments under related construction contracts for governmental fund projects at year end are as follows:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Contract |
|---|---|---|---|
| Nature Preserve | $ 691,809 | $ 223,778 | $ 468,031 |
| Outfall - Hurricane Harvey | 90,161 | 88,395 | 1,766 |
| McDermott Shared Use Path | 15,230 | 11,423 | 3,807 |
| Deer Park Bridge Project | 79,155 | 8,170 | 70,985 |
| Dow Park Pavilion - Concession Stand | 181,500 | 5,232 | 176,268 |
| Boggy Bayou Drainage | 84,560 | 67,030 | 17,530 |
| Harvey Drainage Improvements - Heritage | 1,686,426 | 189,633 | 1,496,793 |
| Pasadena Blvd. and Dowling Cir. - 6" Waterline/36" Storm Pipe | 146,722 | 37,871 | 108,851 |
| Jimmy Burke Activity Center | 74,725 | 39,862 | 34,863 |
| Hike and Bike Trails | 70,000 | 39,920 | 30,080 |
| Drainage Improvements - Deer Park Manor/Delo-Elaine | 255,660 | 230,646 | 25,014 |
| Harris County Flood Control District B112 Ditch | 76,163 | 20,025 | 56,138 |
| Community Center and Gym | 87,225 | 82,119 | 5,106 |
| Hike and Bike Trails - Type B | 500,000 | 71,768 | 428,232 |
| Emergency Operations Center/Dispatch Facility Renovations | 34,960 | 29,533 | 5,427 |
| **Total** | $ 4,074,296 | $ 1,145,405 | $ 2,928,891 |

The following is a summary of changes in capital assets for business-type activities for the year end:

| | Primary Government | | | |
|---|---|---|---|---|
| | Beginning Balance | Increases | (Decreases)/ Reclassifications | Ending Balance |
| **Business-Type Activities:** | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 591,397 | $ - | $ - | $ 591,397 |
| Construction in progress | 24,604,829 | 5,741,205 | (3,587,222) | 26,758,812 |
| **Total capital assets not being depreciated** | 25,196,226 | 5,741,205 | (3,587,222) | 27,350,209 |
| Other capital assets: | | | | |
| Buildings | 4,795,184 | - | - | 4,795,184 |
| Improvements | 58,386,339 | 5,253,855 | - | 63,640,194 |
| Machinery and equipment | 4,851,469 | 159,279 | (38,133) | 4,972,615 |
| **Total other capital assets** | 68,032,992 | 5,413,134 | (38,133) | 73,407,993 |
| Less accumulated depreciation for: | | | | |
| Buildings | (1,431,734) | (119,429) | - | (1,551,163) |
| Improvements | (33,952,516) | (1,618,099) | - | (35,570,615) |
| Machinery and equipment | (3,673,596) | (246,226) | 38,133 | (3,881,689) |
| **Total accumulated depreciation** | (39,057,846) | (1,983,754) | 38,133 | (41,003,467) |
| **Other capital assets, net** | 28,975,146 | 3,429,380 | - | 32,404,526 |
| **Business-Type Activities Capital Assets, Net** | $ 54,171,372 | $ 9,170,585 | $ (3,587,222) | 59,754,735 |
| | | | Less associated debt | (48,752,725) |
| | | | Plus deferred charge on refunding | 30,468 |
| | | | Plus unspent bond proceeds | 5,786,130 |
| | | | **Net Investment in Capital Assets** | $ 16,818,608 |

Depreciation was charged to business-type functions as follows:

| | |
|---|---|
| Water and sewer | $ 1,983,754 |
| **Total Business-Type Activities Depreciation Expense** | $ 1,983,754 |

Construction in progress and remaining commitments under related construction contracts for business-type activities projects at year end are as follows:

| Project Description | Authorized Contract | Contract Expenditures | Remaining Contract |
|---|---|---|---|
| Waste Water Treatment Plant - Lagoon Project | $ 486,000 | $ 750 | $ 485,250 |
| Avon Elevated Storage Tank Improvements | 212,100 | 141,400 | 70,700 |
| Avon & P Street Storage Tanks | 53,760 | 47,478 | 6,282 |
| 6" Waterline - Pasadena Blvd. and Dowling Cir. | 146,722 | 62,837 | 83,885 |
| Water Treatment Plant - Solids Handling | 495,348 | 461,818 | 33,530 |
| Sanitary Sewer Rehab - Park Meadows | 1,987,242 | 1,968,096 | 19,146 |
| 2020 Waterline Project | 672,884 | 656,224 | 16,660 |
| Sanitary Sewer Rehab - X Street & Maxwell | 441,448 | 269,599 | 171,849 |
| Coy Street Ground Storage Rehab | 419,000 | 65,200 | 353,800 |
| Clearwell Transfer Pump | 677,810 | 86,843 | 590,967 |
| **Total** | $ 5,592,314 | $ 3,760,245 | $ 1,832,069 |

The following is a summary of changes in capital assets for the component units for the year end:

| | Component Units | | | |
|---|---|---|---|---|
| | Beginning Balance | Increases | (Decreases)/ Reclassifications | Ending Balance |
| **Discretely presented component units:** | | | | |
| Capital assets: | | | | |
| Building | $ 2,073,921 | $ - | $ - | $ 2,073,921 |
| Improvements | 841,182 | 82,675 | - | 923,857 |
| Machinery and equipment | 5,183,101 | 688,793 | (311,477) | 5,560,417 |
| **Total capital assets** | 8,098,204 | 771,468 | (311,477) | 8,558,195 |
| Less accumulated depreciation for: | | | | |
| Building | (61,439) | (52,675) | - | (114,114) |
| Improvements | (99,666) | (62,292) | - | (161,958) |
| Machinery and equipment | (2,751,701) | (573,040) | 311,477 | (3,013,264) |
| **Total accumulated depreciation** | (2,912,806) | (688,007) | 311,477 | (3,289,336) |
| **Capital assets, being depreciated, net** | 5,185,398 | 83,461 | - | 5,268,859 |
| **Discretely Presented Component Units Capital Assets, Net** | $ 5,185,398 | $ 83,461 | $ - | 5,268,859 |
| | | | Less associated debt | (772,685) |
| | | | **Net Investment in Capital Assets** | $ 4,496,174 |

Depreciation was charged to component units as follows:

| | |
|---|---|
| Crime control and prevention district | $ 440,974 |
| Fire control, prevention, and emergency medical services district | 247,033 |
| **Total Component Units Depreciation Expense** | $ 688,007 |

**E. Long-Term Debt**

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

| | Beginning Balance | Additions | Reductions | Ending Balance | | Amounts Due Within One Year |
|---|---|---|---|---|---|---|
| **Governmental Activities:** | | | | | | |
| General obligation bonds | $ 10,467,712 | $ 4,240,000 | $ 1,564,954 | $ 13,142,758 | * | $ 1,924,671 |
| Certificates of obligation | 9,880,000 | - | 5,965,000 | 3,915,000 | * | 735,000 |
| Certificates of obligation from direct borrowings/placements | 7,205,000 | - | 1,105,000 | 6,100,000 | * | 1,125,000 |
| Capital leases | 504,540 | 1,436,693 | 403,805 | 1,537,428 | * | 354,586 |
| Premium on bond issuance | 963,985 | 731,083 | 383,624 | 1,311,444 | * | - |
| Compensated absences | 1,177,663 | 1,410,184 | 1,184,860 | 1,402,987 | | 1,262,687 |
| Net pension liability | | | | | | |
| TMRS | 14,223,300 | - | 8,908,221 | 5,315,079 | | - |
| TESRS | 463,753 | 317,734 | - | 781,487 | | - |
| Total OPEB liability | | | | | | |
| SDBF | 1,073,790 | 21,921 | - | 1,095,711 | | - |
| Health | 20,461,705 | 2,158,409 | - | 22,620,114 | | - |
| Closure costs | 53,574 | 643 | - | 54,217 | | - |
| **Total Governmental Activities** | $ 66,475,022 | $ 10,316,667 | $ 19,515,464 | $ 57,276,225 | | $ 5,401,944 |
| **Long-term debt due in more than one year** | | | | $ 51,874,281 | | |
| ***Debt associated with governmental activities capital assets** | | | | $ 26,006,630 | | |

Long-term liabilities of the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. For the governmental activities, compensated absences are generally liquidated by the general fund. For governmental activities, the net pension liability and total OPEB liability are fully liquidated by the general fund.

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

| | Beginning Balance | Additions | Reductions | Ending Balance | | Amounts Due Within One Year |
|---|---|---|---|---|---|---|
| **Business-Type Activities:** | | | | | | |
| General obligation bonds | $ 2,557,312 | $ - | $ 660,047 | $ 1,897,265 | ** | $ 590,329 |
| Certificates of obligation | 42,455,000 | 4,185,000 | 1,690,000 | 44,950,000 | ** | 1,915,000 |
| Capital leases | 112,518 | - | 89,811 | 22,707 | ** | 22,707 |
| Premium on bond issuance | 1,505,233 | 526,604 | 149,084 | 1,882,753 | ** | - |
| Net pension liability - TMRS | 2,010,900 | - | 1,239,223 | 771,677 | | - |
| Total OPEB liability - Health | 3,026,541 | 354,637 | - | 3,381,178 | | - |
| Compensated absences | 148,501 | 173,205 | 138,195 | 183,511 | | 165,160 |
| **Total Business-Type Activities** | $ 51,816,005 | $ 5,239,446 | $ 3,966,360 | $ 53,089,091 | | $ 2,693,196 |
| | | | **Long-term debt due in more than one year** | $ 50,395,895 | | |
| | | | ****Debt associated with business-type activities capital assets** | $ 48,752,725 | | |

The following is a summary of changes in the City's total discretely presented component units long-term liabilities for the year end:

| | Beginning Balance | Additions | Reductions | Ending Balance | | Amounts Due Within One Year |
|---|---|---|---|---|---|---|
| **Discretely Presented Component Units:** | | | | | | |
| Capital leases | $ 913,240 | $ - | $ 140,555 | $ 772,685 | *** | $ 143,392 |
| Net pension liability - TMRS | 399,613 | - | 289,092 | 110,521 | | - |
| Total OPEB liability - Health | 672,679 | 111,288 | - | 783,967 | | - |
| **Total Discretely Presented Component Units** | $ 1,985,532 | $ 111,288 | $ 429,647 | $ 1,667,173 | | $ 143,392 |
| | | | **Long-term debt due in more than one year** | $ 1,523,781 | | |
| | | | *****Debt associated with discretely presented component units capital assets** | $ 772,685 | | |

Governmental activities long-term debt at year end was comprised of the following debt issues:

| Description | Interest Rates | Balance |
|---|---|---|
| **Governmental Activities** | | |
| **General Obligation Bonds** | | |
| 2010 General Obligation Refunding Bonds | 4.00-4.50% | $ 234,733 |
| 2012 General Obligation Refunding Bonds | 2.00-3.00% | 2,015,000 |
| 2014 General Obligation Bonds | 3.00-4.00% | 765,000 |
| 2014 General Obligation Refunding Bonds | 3.00-4.00% | 553,025 |
| 2016 Limited Tax Refunding Bonds | 2.25-4.00% | 5,335,000 |
| 2019 Limited Tax Refunding Bonds | 4.00-5.00% | 4,240,000 |
| **Total General Obligation Bonds** | | 13,142,758 |
| **Certificates of Obligation** | | |
| 2015 Certificates of Obligation | 2.00-4.00% | 3,915,000 |
| 2016 Certificates of Obligation | 1.59% | 4,305,000 |
| 2017 Certificates of Obligation | 1.89% | 1,795,000 |
| **Total Certificates of Obligation** | | 10,015,000 |
| **Capital Leases** | | |
| 2018 Freightliner M2-106-80 | 2.68% | 43,764 |
| VOIP Telephone Equipment | 2.87% | 78,153 |
| 2021 Pierce Velocity Pumper Truck | 1.41% | 1,142,914 |
| 2021 Ford F550 Bucket Truck | 1.39% | 96,421 |
| 2021 Freightliner M2 Garbage Truck | 1.63% | 176,176 |
| **Total Capital Leases** | | 1,537,428 |
| **Total Governmental Activities Long-Term Debt** | | $ 24,695,186 |

Business-type activities long-term debt at year end was comprised of the following debt issues:

| Description | Interest Rates | Balance |
|---|---|---|
| **Business-Type Activities** | | |
| **General Obligation Bonds** | | |
| 2010 General Obligation Refunding Bonds | 4.00-4.50% | $ 155,267 |
| 2011 General Obligation Refunding Bonds | 2.50-3.00% | 850,000 |
| 2014 General Obligation Refunding Bonds | 3.00-4.00% | 891,998 |
| **Total General Obligation Bonds** | | 1,897,265 |
| **Certificates of Obligation** | | |
| 2011 Certificates of Obligation | 2.50-4.00% | 2,430,000 |
| 2012 Certificates of Obligation | 2.00-3.00% | 3,935,000 |
| 2013 Certificates of Obligation | 3.00-3.35% | 6,315,000 |
| 2014 Certificates of Obligation | 3.00-4.00% | 5,300,000 |
| 2015-A Certificates of Obligation | 2.00-3.50% | 6,095,000 |
| 2016-A Certificates of Obligation | 2.00-4.00% | 6,175,000 |
| 2017-A Certificates of Obligation | 2.00-3.00% | 4,690,000 |
| 2018 Certificates of Obligation | 3.25-5.00% | 5,955,000 |
| 2019 Certificates of Obligation | 3.00-5.00% | 4,055,000 |
| **Total Certificates of Obligation** | | 44,950,000 |
| **Capital Leases** | | |
| Gradall XL5100 Excavator | 1.81% | 22,707 |
| **Total Capital Leases** | | 22,707 |
| **Total Business-Type Activities Long-Term Debt** | | $ 46,869,972 |

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

Component unit long-term debt at year end was comprised of the following debt issues:

| Description | Interest Rates | Balance |
|---|---|---|
| **Component Unit** | | |
| **Capital Leases** | | |
| 2018 Pierce Velocity | 2.00% | $ 772,685 |
| **Total Component Unit Long-Term Debt** | | $ 772,685 |

Annual debt service requirements for governmental activities are as follows:

| Year | Governmental Activities | | | | |
|---|---|---|---|---|---|
| Ending | General Obligation Bonds | | Certificates of Obligation | | |
| Sep 30 | Principal | Interest | Principal | Interest | Total |
| 2021 | $ 1,924,671 | $ 452,436 | $ 735,000 | $ 106,425 | $ 3,218,532 |
| 2022 | 1,878,025 | 383,672 | 760,000 | 84,000 | 3,105,697 |
| 2023 | 1,943,025 | 311,406 | 785,000 | 60,825 | 3,100,256 |
| 2024 | 1,477,037 | 251,093 | 805,000 | 36,975 | 2,570,105 |
| 2025 | 1,330,000 | 206,269 | 830,000 | 12,450 | 2,378,719 |
| 2026-2030 | 4,330,000 | 408,881 | - | - | 4,738,881 |
| 2031-2034 | 260,000 | 21,401 | - | - | 281,401 |
| **Total** | $ 13,142,758 | $ 2,035,158 | $ 3,915,000 | $ 300,675 | $ 19,393,591 |

Annual debt service requirements for direct borrowings/placements are as follows:

| Year | Governmental Activities | | |
|---|---|---|---|
| Ending | General Obligation Bonds | | |
| Sep 30 | Principal | Interest | Total |
| 2021 | $ 1,125,000 | $ 92,779 | $ 1,217,779 |
| 2022 | 1,145,000 | 73,412 | 1,218,412 |
| 2023 | 1,165,000 | 53,698 | 1,218,698 |
| 2025 | 1,185,000 | 33,643 | 1,218,643 |
| 2025 | 735,000 | 17,689 | 752,689 |
| 2026 | 745,000 | 5,922 | 750,922 |
| **Total** | $ 6,100,000 | $ 277,143 | $ 6,377,143 |

The annual debt service requirements for business-type activities are as follows:

| Year | Business-Type Activities | | | | |
|---|---|---|---|---|---|
| Ending | General Obligation Bonds | | Certificates of Obligation | | |
| Sep 30 | Principal | Interest | Principal | Interest | Total |
| 2021 | $ 590,329 | $ 48,839 | $ 1,915,000 | $ 1,474,607 | $ 4,028,775 |
| 2022 | 426,975 | 32,803 | 2,005,000 | 1,413,932 | 3,878,710 |
| 2023 | 416,975 | 20,144 | 2,090,000 | 1,350,508 | 3,877,627 |
| 2024 | 462,986 | 6,944 | 2,675,000 | 1,277,313 | 4,422,243 |
| 2025 | - | - | 2,760,000 | 1,190,692 | 3,950,692 |
| 2026-2030 | - | - | 15,305,000 | 4,458,550 | 19,763,550 |
| 2031-2035 | - | - | 14,445,000 | 1,728,621 | 16,173,621 |
| 2036-2039 | - | - | 3,755,000 | 194,940 | 3,949,940 |
| **Total** | $ 1,897,265 | $ 108,730 | $ 44,950,000 | $ 13,089,163 | $ 60,045,158 |

<u>Legal Debt Margin</u>

The City is authorized to issue debt up to 10% of the average full valuation of taxable real property which is currently $296,977,123. The net indebtedness subject to the debt limit is $10,133,602 resulting in a legal debt margin of $286,843,521.

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds for governmental activities is from taxes levied on all taxable property located within the City, while business-type activities will be paid with utility rate revenues. A number of limitations and restrictions are contained in the various bond ordinances. The City has complied with all significant limitations and restrictions.

During the fiscal year, the City issued $4,240,000 of Limited Tax Refunding Bonds, Series 2019 (the "Bonds") to provide resources for all future debt service payments of $4,825,000 of Certificates of Obligation, Series 2010. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the Statement of Net Position. The net carrying amount of the old debt exceeded the reacquisition price by $99,436. This amount is being amortized over the remaining life of the refunded debt, which is the same as the life of the new debt. This current refunding was undertaken to reduce total debt service payments over the next 10 years by $690,125 and resulted in an economic gain of $619,851.

Certificates of Obligations

The City has issued tax and revenue certificates of obligation to provide funds for the acquisition and construction of major capital facilities. Certificates of obligation are direct obligations of the City for which its full faith and credit are pledged. Repayment of certificates for governmental activities is from taxes levied on all taxable property located within the City, while business-type activities will be paid with utility rate revenues. A number of limitations and restrictions are contained in the various bond ordinances. The City has complied with all significant limitations and restrictions.

During the fiscal year, the City issued Certificates of Obligation, Series 2019 (the "Certificates") in the amount of $4,185,000. Proceeds from the sale of the Certificates will be used for the repair and renovation of, the construction of improvements to, and the equipment of the water and sewer system. The Certificates will mature on March 15, 2039. The interest rates of the Certificates range from 3.00 to 5.00 percent.

Capital Leases

The City has entered into lease agreements as lessee for financing the acquisition of equipment, principally consisting of vehicles and equipment. These leases qualify as capital leases for accounting purposes (titles transfer at the end of the lease terms) and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception. Capital leases bear interest rates ranging from 1.39 percent to 2.87 percent and have remaining maturity dates ranging from 2021 to 2028.

Deer Park Community Development Corporation

On May 9, 2015, voters approved a dedication of 0.50% of sales tax for various projects in an amount not to exceed $20,000,000. The Deer Park Community Development Corporation (DPCDC) was created. The City issued Certificates of Obligation, Series 2016 in the amount of $9,450,000 and Certificates of Obligation, Series 2017 in the amount of $2,700,000 to finance various voter approved projects in which the DPCDC has pledged sales tax revenues to reimburse the City for the related debt service payments.

Annual requirements to satisfy these obligations are as follows:

| Year Ending Sep 30 | Governmental Activities Capital Leases Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 354,586 | $ 20,428 | $ 375,014 |
| 2022 | 236,105 | 15,331 | 251,436 |
| 2023 | 217,390 | 11,870 | 229,260 |
| 2024 | 141,787 | 9,370 | 151,157 |
| 2025 | 143,799 | 7,358 | 151,157 |
| 2026-2028 | 443,761 | 9,712 | 453,473 |
| **Total** | $ 1,537,428 | $ 74,069 | $ 1,611,497 |

| Year Ending Sep 30 | Business-Type Activities Capital Leases Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 22,707 | $ 68 | $ 22,775 |
| **Total** | $ 22,707 | $ 68 | $ 22,775 |

| Year Ending Sep 30 | Component Units Capital Leases Principal | Interest | Total |
|---|---|---|---|
| 2021 | $ 143,392 | $ 14,144 | $ 157,536 |
| 2022 | 146,287 | 11,250 | 157,537 |
| 2023 | 149,239 | 8,297 | 157,536 |
| 2024 | 152,252 | 5,285 | 157,537 |
| 2025 | 155,325 | 2,211 | 157,536 |
| 2026 | 26,190 | 66 | 26,256 |
| **Total** | $ 772,685 | $ 41,253 | $ 813,938 |

The assets acquired through capital leases are as follows:

| Assets: | Governmental Activities | Business-Type Activities | Component Units |
|---|---|---|---|
| Machinery and equipment | $ 1,855,518 | $ 435,228 | $ 1,163,743 |
| Less: accumulated depreciation | (309,786) | (217,614) | (193,957) |
| **Total** | $ 1,545,732 | $ 217,614 | $ 969,786 |

## Federal Arbitrage

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS.

### F. Interfund Receivables, Payables, and Transfers

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

| Transfer In | Transfer Out | Amounts |
|---|---|---|
| General | Water and sewer | $ 104,383 |
| General | Nonmajor governmental | 310,609 |
| Debt service | Nonmajor governmental | 21,377 |
| Capital improvement | General | 2,958,447 |
| Water and sewer | Debt service | 770,982 |
| Storm water utility | Water and sewer | 39,297 |
| Storm water utility | General | 159,297 |
| | | $ 4,364,392 |

Amounts transferred between funds relate to the following activities:

- Transfers to the debt service fund were made to transfer interest earned from bond funds for the repayment of debt service and debt service related expenditures in accordance with applicable ordinances and federal regulations.
- The general fund transferred $2,958,447 to the capital improvement fund to fund current and future capital improvement projects.
- Transfers to the general fund were made by the water and sewer fund and the nonmajor governmental funds as contributions to the general fund for various governmental expenditures.
- Transfers to the water and sewer fund were made by the debt service fund for current year debt service payments.
- Transfers to the solid waste fund were made by the general fund and water and sewer fund as additional funding for various projects.

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

| Due To | Due From | Amounts |
|---|---|---|
| General | Nonmajor governmental | $ 5,866 |

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

### G. Fund Equity

As of September 30, 2020, $742,258 of the City's total fund balance is restricted by enabling legislation.

### H. Restatement of Net Position

The City has restated beginning net position for governmental activities to reduce an overstatement of capital assets that were recognized in error. A capital project was recognized as an addition when completed but not shown as a reduction in construction in progress.

| | Governmental Activities |
|---|---|
| **Beginning net position as reported** | $ 106,007,021 |
| Restate capital assets | (1,413,055) |
| **Beginning net position - restated** | $ 104,593,966 |

## IV. OTHER INFORMATION

### A. Risk Management

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

### B. Contingent Liabilities

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

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

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

The continued spread of the COVID-19 pandemic has given a rise in uncertainties that may have a significant negative impact on the operating activities and results of the City. The occurrence and extent of such impact will depend on future developments, including (i) the duration and spread of the virus, (ii) government quarantine measures, (iii) the effects on the financial markets, and (iv) the effects on the economy overall, all of which are unknown at this time.

## C. Pension Plans

### 1. Texas Municipal Retirement System

Plan Description

The City participates as one of 888 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State 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. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the "Board"). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmrs.com.

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

Benefits Provided

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

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

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

| | **2020** | **2019** |
|---|---|---|
| Employee deposit rate | 7.00% | 7.00% |
| Matching ratio (City to employee) | 2 to 1 | 2 to 1 |
| Years required for vesting | 5 | 5 |
| Service requirement eligibility (expressed as age/yrs of service) | 60/5, 0/20 | 60/5, 0/20 |
| Updated service credit | 100% Repeating, Transfers | 100% Repeating, Transfers |
| Annuity increase (to retirees) | 50% of CPI | 50% of CPI |

Employees Covered by Benefit Terms

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

| | Primary Government | Component Units |
|---|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 198 | 6 |
| Inactive employees entitled to, but not yet receiving, benefits | 146 | 4 |
| Active employees | 302 | 9 |
| **Total** | 646 | 19 |

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.78 percent and 14.10 percent in calendar years 2020 and 2019, respectively. For the calendar year 2020 the City elected to pay the same rate as 2019 of 14.10 percent. The City’s contributions to TMRS for the fiscal year ended September 30, 2020 were $2,998,530 which were more than the required contributions.

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 NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

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

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

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

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

The target allocation and best estimates of 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) |
|---|---|---|
| Global Equity | 30.0% | 5.30% |
| Core Fixed Income | 10.0% | 1.25% |
| Non-Core Fixed Income | 20.0% | 4.14% |
| Real Return | 10.0% | 3.85% |
| Real Estate | 10.0% | 4.00% |
| Absolute Return | 10.0% | 3.48% |
| Private Equity | 10.0% | 7.75% |
| **Total** | 100.0% | |

Discount Rate

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

Changes in the NPL

| | Primary Government Increase (Decrease) | | |
|---|---|---|---|
| | **Total Pension Liability (A)** | **Plan Fiduciary Net Position (B)** | **Net Pension Liability (A) - (B)** |
| Changes for the year: | | | |
| Service cost | $ 3,460,870 | $ - | $ 3,460,870 |
| Interest | 8,748,564 | - | 8,748,564 |
| Difference between expected and actual experience | (952,519) | - | (952,519) |
| Changes of assumptions | 448,080 | - | 448,080 |
| Contributions - employer | - | 2,820,710 | (2,820,710) |
| Contributions - employee | - | 1,400,352 | (1,400,352) |
| Net investment income | - | 17,734,628 | (17,734,628) |
| Benefit payments, including refunds of employee contributions | (6,091,974) | (6,091,974) | - |
| Administrative expense | - | (100,240) | 100,240 |
| Other changes | - | (3,011) | 3,011 |
| **Net Changes** | 5,613,021 | 15,760,465 | (10,147,444) |
| Balance at December 31, 2018 | 132,115,475 | 115,881,275 | 16,234,200 |
| **Balance at December 31, 2019** | $ 137,728,496 | $ 131,641,740 | $ 6,086,756 |

| | Component Units Increase (Decrease) | | |
|---|---|---|---|
| | **Total Pension Liability (A)** | **Plan Fiduciary Net Position (B)** | **Net Pension Liability (A) - (B)** |
| Changes for the year: | | | |
| Service cost | $ 98,597 | $ - | $ 98,597 |
| Interest | 249,239 | - | 249,239 |
| Difference between expected and actual experience | (27,136) | - | (27,136) |
| Changes of assumptions | 12,765 | - | 12,765 |
| Contributions - employer | - | 80,360 | (80,360) |
| Contributions - employee | - | 39,895 | (39,895) |
| Net investment income | - | 505,244 | (505,244) |
| Benefit payments, including refunds of employee contributions | (173,555) | (173,555) | - |
| Administrative expense | - | (2,856) | 2,856 |
| Other changes | - | (86) | 86 |
| **Net Changes** | 159,910 | 449,002 | (289,092) |
| Balance at December 31, 2018 | 2,538,345 | 2,138,732 | 399,613 |
| **Balance at December 31, 2019** | $ 2,698,255 | $ 2,587,734 | $ 110,521 |

Sensitivity of the NPL to Changes in the Discount Rate

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

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|---|---|---|---|
| Primary Government's Net Pension Liability | $ 25,040,397 | $ 6,086,756 | $ (9,512,372) |

| | 1% Decrease in Discount Rate (5.75%) | Discount Rate (6.75%) | 1% Increase in Discount Rate (7.75%) |
|---|---|---|---|
| Component Units' Net Pension Liability | $ 580,810 | $ 110,521 | $ (276,630) |

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 at www.tmrs.com.

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

For the fiscal year ended September 30, 2020, the City recognized pension expense of $3,127,967 for the primary government and $89,113 for the component units.

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

| | Primary Government | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Differences between expected and actual economic experience | $ 4,746 | $ 1,795,562 |
| Changes in actuarial assumptions | 407,368 | - |
| Difference between projected and actual investment earnings | - | 4,003,178 |
| Contributions subsequent to the measurement date | 2,268,412 | - |
| **Total** | $ 2,680,526 | $ 5,798,740 |

| | Component Units | | | |
|---|---|---|---|---|
| | **Deferred Outflows of Resources** | | **Deferred Inflows of Resources** | |
| Differences between expected and actual economic experience | $ | 205 | $ | 48,162 |
| Changes in actuarial assumptions | | 8,652 | | - |
| Difference between projected and actual investment earnings | | - | | 139,091 |
| Contributions subsequent to the measurement date | | 64,625 | | - |
| **Total** | $ | 73,482 | $ | 187,253 |

$2,268,413 for the primary government and $64,625 for component units are reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2021.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| | Pension Expense | | | |
|---|---|---|---|---|
| **Fiscal Year Ended September 30** | **Primary Government** | | **Component Units** | |
| 2021 | $ | (1,571,170) | $ | (52,034) |
| 2022 | | (1,619,902) | | (53,648) |
| 2023 | | (92,106) | | (3,050) |
| 2024 | | (2,103,448) | | (69,664) |
| **Total** | $ | (5,386,626) | $ | (178,396) |

## 2. Texas Emergency Services Retirement System

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the TESRS and established and administered by the State to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2019, there were 237 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2019, the TESRS system membership consisted of:

| | |
|---|---|
| Retirees and beneficiaries currently receiving benefits | 3,649 |
| Terminated members entitled to, but not yet receiving, benefits | 1,842 |
| Active participants | 3,702 |

Pension Plan Fiduciary Net Position

Detailed information about TESRS's fiduciary net position is available in a separately-issued CAFR that includes financial statements and Required Supplementary Information. TESRS issues a publicly available annual financial report, which includes financial statements, notes, and Required Supplementary Information, and can be obtained at www.tesrs.org. The separately issued actuarial valuations that may be of interest are also available at the same link.

Benefits Provided

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

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

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

Funding Policy

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

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

The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percentage of the Part One portion (not to exceed 15 percent), is to be actuarially adjusted near the end of each even-numbered calendar year based on the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the Board to be two percent of the Part One contributions beginning September 1, 2017. Based on the August 31, 2018 actuarial valuation, the Part Two contributions are not required for an adequate contribution arrangement.

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

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

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2019, total contributions (dues, prior service, and interest on prior service financing) of $139,438 were paid by the City. The State appropriated $1,329,224 for the fiscal year ending August 31, 2019 to TESRS as a whole.

Actuarial Assumptions

The TPL in the August 31, 2018 actuarial valuation, rolled forward to August 31, 2019, was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage (currently 5.01%) and by adding expected inflation (3.00%). In addition, the final 7.75 percent assumption reflected a reduction of 0.26 percent for adverse deviation. The target allocation and expected arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate

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

Discount Rate Sensitivity Analysis

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

| | 1% Decrease in Discount Rate (6.75%) | Discount Rate (7.75%) | 1% Increase in Discount Rate (8.75%) |
|---|---|---|---|
| City's proportionate share of the net pension liability | $ 1,388,972 | $ 781,487 | $ 374,847 |

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

At September 30, 2020, the City reported a liability of $781,487 for its proportionate share of TESRS's NPL. The amount recognized by the City as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the City were as follows:

| | | |
|---|---|---|
| City's proportionate share of the collective NPL | $ | 781,487 |
| *State's proportionate share that is associated with the City | | 231,810 |
| **Total** | $ | 1,013,297 |

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

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

At August 31, 2019, the employer's proportion of the collective NPL was 2.757 percent, which was an increase of 0.617 percent from its proportion measured as of August 31, 2018.

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

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

For the measurement year ended August 31, 2019, the City recognized pension expense of 185,180. The City recognized on-behalf revenues of $10,870 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

At September 30, 2020, the City reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Net difference between projected and actual investment earnings | $ 100,637 | $ - |
| Differences between expected and actual experience | - | 945 |
| Contributions paid to TESRS subsequent to the measurement date | 114,679 | - |
| **Total** | $ 215,316 | $ 945 |

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

| Fiscal Year Ended September 30 | Pension Expense |
|---|---|
| 2021 | $ 21,217 |
| 2022 | 11,125 |
| 2023 | 24,733 |
| 2024 | 42,617 |
| **Total** | $ 99,692 |

## D. Other Postemployment Benefits

### 1. Healthcare Plan

Plan Description

The City provides medical benefits to eligible retirees through an unfunded single-employer defined benefit plan (the "Plan"). The City pays a portion of the current monthly contribution rate for individual medical benefits for retirees meeting certain eligibility requirements. All active employees who retire directly from the City and meet the eligibility criteria may participate. Eligibility is based on retirement at, or after, age 55 and 20 years of service (age plus years of service equals 80). If age 56 or older on or before December 31, 2003, an employee may retire with 10 years of service if age plus years of service equals 75. If hired prior to October 1, 2001, an employee may retire with 25 years of service without regard to age. There is no City subsidy for dependent coverage and the cost of elected dependent coverage is paid entirely by the retiree. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No.75, *Accounting and Financial Reporting for Other Postemployment Benefits other than Pensions* (GASB 75).

Benefits

Medical benefits continue after age 65 with the medical coverage offered as a supplement to Medicare benefits. Dental and life insurance benefits are also made available to retirees, but these benefits are not subsidized by the City and are not included the actuarial valuation. The retiree pays a percentage of the contribution for individual pre-65 medical coverage based on points (retirement age plus years of service). This contribution ranges from 25% for 80 or more points to 92.5% for 71 or less points. The retiree pays 20% of the individual Medicare supplement benefit contribution for any dependent coverage elected. Pre-65 medical benefits are provided through the TML

Intergovernmental Employee Benefits Pool and Medicare supplement benefits are provided through United Healthcare.

Participation in Plan as of September 30, 2020 is summarized below:

| | Primary Government | Component Units |
|---|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 59 | 3 |
| Inactive employees entitled to, but not yet receiving, benefits | - | - |
| Active employees | 284 | 12 |
| **Total** | 343 | 15 |

Total OPEB Liability

The City's total OPEB liability of $26,001,292 for the primary government and $783,967 for the component units were determined by an actuarial valuation as of December 31, 2018, rolled forward to measure as of September 30, 2020.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2018 actuarial valuation, rolled forward to measurement date September 30, 2020, was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Discount rate* | 2.41% |
| Health care trend rate | |
| | Pre-65: Initial rate of 7.00% declining to an ultimate rate of 4.25% after 13 years; Post-65: Initial rate of 6.30% declining to an ulitmate rate of 4.25% after 13 years |
| Actuarial cost method | Individual entry-age normal |
| Demographic assumptions | Based on the experience study covering the four-year period ending December 31,2018 as conducted for the TMRS. |
| Mortality | For healthy retirees, the gender-distinct 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables published through 2019 to account for future mortality improvements. |
| Health care trend rate | Pre-65: Initial rate of 7.00% declining to an ultimate rate of 4.25% after 13 years; Post-65: Initial rate of 6.30% declining to an ultimate rate of 4.25% after 13 years |
| Participation rates | 75% for retirees eligible for 75% subsidy; 20% for retirees eligible for 50% subsidy; 0% for retirees not eligible for at least a 50% subsidy; 0% for those retiring before age 50 |

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of September 30, 2020.

Changes in the Total OPEB Liability

| | Total OPEB Liability | |
|---|---|---|
| | **Primary Government** | **Component Units** |
| Changes for the year: | | |
| Service cost | $ 1,017,161 | $ 45,043 |
| Interest | 644,964 | 28,562 |
| Changes of assumptions | 1,307,011 | 57,880 |
| Difference between expected and actual experience | (72,693) | (3,219) |
| Benefit payments | (383,397) | (16,978) |
| **Net Changes** | 2,513,046 | 111,288 |
| Balance at September 30, 2019 | 23,488,246 | 672,679 |
| **Balance at September 30, 2020** | $ 26,001,292 | $ 783,967 |

Change of assumptions reflected a change in the discount rate from 2.75 percent as of September 30, 2019 to 2.41 percent as of September 30, 2020.

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

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate and Healthcare Costs Trend Rate Assumptions

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

| | **1% Decrease in Discount Rate (1.45%)** | **Discount Rate (2.41%)** | **1% Increase in Discount Rate (3.41%)** |
|---|---|---|---|
| Primary Government's Total OPEB Liability | $ 31,416,870 | $ 26,001,292 | $ 21,784,993 |

| | **1% Decrease in Discount Rate (1.45%)** | **Discount Rate (2.41%)** | **1% Increase in Discount Rate (3.41%)** |
|---|---|---|---|
| Component Units' Total OPEB Liability | $ 947,561 | $ 783,967 | $ 656,449 |

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

| | 1% Decrease | Current Healthcare Cost Trend Rate Assumption | 1% Increase |
|---|---|---|---|
| Primary Government's Total OPEB Liability | $ 20,842,059 | $ 26,001,292 | $ 33,008,744 |

| | 1% Decrease | Current Healthcare Cost Trend Rate Assumption | 1% Increase |
|---|---|---|---|
| Component Units' Total OPEB Liability | $ 624,369 | $ 783,967 | $ 1,001,550 |

OPEB Expense and Deferred Outflows/Inflows of Resources

For the year ended September 30, 2020, the City recognized OPEB expense of $2,468,551 for the primary government and $122,059 for the component units.

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

| | Primary Government | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Changes in actuarial assumptions | $ 3,771,942 | $ - |
| Difference between expected and actual experience | 2,055,928 | 64,401 |
| **Total** | $ 5,827,870 | $ 64,401 |

| | Component Units | |
|---|---|---|
| | Deferred Outflows of Resources | Deferred Inflows of Resources |
| Changes in actuarial assumptions | $ 118,319 | $ - |
| Difference between expected and actual experience | 52,728 | 2,852 |
| **Total** | $ 171,047 | $ 2,852 |

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

| | OPEB Expense | | | |
|---|---|---|---|---|
| **September 30** | **Primary Government** | | **Component Units** | |
| 2021 | $ | 830,640 | $ | 24,240 |
| 2022 | | 830,640 | | 24,240 |
| 2023 | | 830,640 | | 24,240 |
| 2024 | | 830,640 | | 24,240 |
| 2025 | | 830,640 | | 24,240 |
| Thereafter | | 1,610,269 | | 46,995 |
| **Total** | $ | 5,763,469 | $ | 168,195 |

**2. TMRS Supplemental Death Benefits**

Plan Description

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

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

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

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2019 is summarized below:

| | |
|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 153 |
| Inactive employees entitled to, but not yet receiving, benefits | 36 |
| Active employees | 311 |
| **Total** | 500 |

Total OPEB Liability

The City's total OPEB liability of $1,095,711 was measured as of December 31, 2019 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

| | |
|---|---|
| Inflation | 2.50% |
| Salary increases | 3.50% to 11.50% including inflation |
| Discount rate | 2.75%* |
| Retirees' share of benefit-related costs | Zero |
| Administrative expenses | All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB 68. |
| Mortality rates-service retirees | 2019 Muncipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. |
| Mortality rates-disabled retirees | 2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3.0% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor. |

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|---|---|
| Changes for the year: | |
| Service cost | $ 30,862 |
| Interest | 40,257 |
| Difference between expected and actual experience | (213,987) |
| Changes of assumptions | 173,019 |
| Benefit payments* | (8,230) |
| **Net Changes** | 21,921 |
| Balance at December 31, 2018 | 1,073,790 |
| **Balance at December 31, 2019** | $ 1,095,711 |

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

The discount rate decreased from 3.71 percent as of December 31, 2018 to 2.75 percent as of December 31, 2019. There were no other changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

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

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

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

| | 1% Decrease in Discount Rate (1.75%) | Discount Rate (2.75%) | 1% Increase in Discount Rate (3.75%) |
|---|---|---|---|
| Total OPEB Liability | $ 1,329,615 | $ 1,095,711 | $ 914,383 |

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

For the year ended September 30, 2020, the City recognized OPEB expense of $83,309.

The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Changes in actuarial assumptions | $ 188,791 | $ 45,804 |
| Difference between expected and actual experience | 75,174 | 181,066 |
| Contributions subsequent to the measurement date | 6,619 | - |
| | $ 270,584 | $ 226,870 |

$6,619 is reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2021.

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

| Fiscal Year Ended September 30 | OPEB Expense |
|---|---|
| 2021 | $ 12,190 |
| 2022 | 12,190 |
| 2023 | 12,190 |
| 2024 | 6,543 |
| 2025 | (2,870) |
| Thereafter | (3,148) |
| **Total** | $ 37,095 |

### 3. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the "Plan") created in accordance with Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The Plan's trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under Plan provisions are disbursed monthly by the City to a third-party administrator. The third-party administrator handles all funds in the Plan and makes investment decisions and disburses funds to employees in accordance with Plan provisions.

## E. Industrial District Contracts

A significant portion of the City's revenue is derived from separate contractual agreements (the "Contracts") with 27 separate industrial companies (the "Companies") that lie within the City's extraterritorial jurisdiction (known as the "Industrial District"). In 2007, the City and the Companies located in the Industrial District agreed to new Contracts extending to December 31, 2014. The City completed negotiations on new Contracts with the Companies located in the Industrial District, with a new expiration date of December 31, 2026. These Contracts call for each Company to annually render to the City a written description of its land, improvements, and tangible personal property as of the immediately preceding January 1 (based on the opinion of the legal counsel for the Harris County Appraisal District that the value of land and improvements that were not physically located within the corporate area of the City could not be included in the City's tax roll). The Companies have agreed to pay an amount "in lieu" of taxes in the unannexed area of an amount equal to the sum of 63 percent of the amount of ad valorem taxes that would be payable to the City if all of the Company's land and improvements that existed on each January 1 had been within the corporate limits of the City. Under the new Contract, the Companies have agreed to pay an amount "in lieu" of taxes in the unannexed area of an amount equal to the sum of 63 percent of the amount of ad valorem taxes that would be payable to the City if all of the Company's land and improvements that existed on January 1, 2015, 2016, 2017, and 2018 had been within the corporate limits of the City; 64 percent of the amount of ad valorem taxes that would be payable to the City if all of the Company's land and improvements that existed on January 1, 2019, 2020, 2021, and 2022 had been within the corporate limits of the City; and 65 percent of the amount of ad valorem taxes that would be payable to the City if all of the Company's land and improvements which existed on January 1, 2023, 2024, 2025, and 2026 had been within the corporate limits of the City. Payments "in lieu" of taxes on new construction will be based on percentages of new value as described in the Contract as ten percent the first year, 20 percent the second year, 30 percent the third year, 40 percent the fourth year, 50 percent the fifth year, and 100 percent after the fifth year of operations. For new construction in excess of $100,000,000, the new Contracts allow for each Company to negotiate these payment percentages. If those particular negotiations are not completed by January 1, the stated Contract rates will apply to the new construction value. During the fiscal year, the City received revenues of $12,660,382 related to these Contracts.

## F. Operating Leases

Effective May 29, 2013, the City entered into a lease agreement (the "Agreement") with a tenant to operate the City's municipal golf course. The Agreement extends through May 31, 2023. The term of the Agreement may be extended for four, five-year extensions upon the mutual agreement of the City and the tenant. As part of the Agreement, the City receives monthly rent payments based upon an annual minimum rent amount plus a percentage of gross revenues. However, in September 2016, an amendment to the Agreement temporarily reduced the monthly rent payment and temporarily eliminated the percentage rent payment.

The City leases golf carts for the City's municipal golf course. Total operating lease costs were $19,348 for the year ended September 30, 2020. The future minimum lease payments for these leases are as follows:

| Fiscal Year Ending Sept. 30 | Golf Carts |
|---|---|
| 2021 | $ 77,395 |
| 2022 | 77,395 |
| 2023 | 77,395 |
| 2024 | 58,047 |
| **Total** | $ 290,232 |

## G. Transfer Station Closure Cost

The City operates a municipal solid waste transfer station (the "Transfer Station"), which is currently permitted for 200 tons per day of municipal solid waste transfer. Transfer stations are facilities where municipal solid waste is unloaded from collection vehicles and held until the waste is reloaded onto larger transport vehicles for shipment to landfills or other treatment/disposal facilities.

As of September 30, 2020, the total estimated closure costs for the City's Transfer Station are $54,217. The reported liability represents 100 percent of the closure costs for the Transfer Station. The liability is based on an engineering study performed in March 2002 that estimated the total closure costs. The estimated closure costs are adjusted annually using the Implicit Price Deflator for Gross National Product published by the United States Department of Commerce. The actual cost may differ from the estimate due to inflation, changes in technology, or regulatory changes.

## H. Chapter 380 Economic Development Agreement

Chapter 380, *Miscellaneous Provisions Relating to Municipal Planning and Development*, of the Texas Local Government Code provides the authority to the governing body of a municipality to establish and provide for the administration of one or more programs, including programs to promote state or local economic development and to stimulate business and commercial activity in the municipality. The City has entered into a Chapter 380 Economic Development Agreement (the "Agreement") with one developer (the "Developer"). The term of this Agreement is for a period of 16 years. This Developer agreed to make real property improvements as part of a retail development (the "Project") including the construction of water and sanitary sewer facilities and traffic and roadway improvements to support the Project. The Developer also agreed to employ and maintain a minimum number of full-time equivalent employment positions working at the retail development site. Between the years ending 2019 through 2022, the City has agreed to reimburse the Developer $1,000 for each job created/retained up to a maximum of $465,000 over the four-year period. The City also agreed to pay the Developer a percentage of sales and use tax collected on the property, which ranges from 100 percent of the collections in calendar year 2017 to 50 percent of the collections in calendar year 2031. Lastly, the City agreed to pay the Developer 100 percent of the property tax increment revenues for tax years 2016 through 2025. The aggregate total of all grant program payments made by the City to the Developer shall not exceed $4,175,750. During fiscal year 2020, the City recognized expenditures of $130,000 related to this Agreement.

## I. Subsequent Events

In December 2020, the City issued Certificates of Obligation, Series 2020 (the "Certificates") in the amount of $5,000,000. Proceeds from the sale of the Certificates will be used to pay the costs associated with the repair and renovation, the construction of improvements to and the equipment of the City's waterworks and sanitary sewer system. The Certificates will mature on March 15, 2040 and interest rates range from 3.00 to 4.00 percent.

In December 2020, the City also issued Limited Tax Refunding Bonds, Series 2020 (the "Bonds") in the amount of $6,570,000. Proceeds from the sale of the Bonds will be used to defease $2,260,000 of Certificates of Obligation, Series 2011, $3,655,000 of Certificates of Obligation, Series 2012, and $1,365,000 of General Obligation Refunding Bonds, Series 2012. The Bonds will mature on March 15, 2032 and interest rates range from 2.00 to 4.00 percent.

In January 2021, the City entered into a capital lease with PNC Equipment Finance for various equipment for the municipal golf course. The lease term is for 36 months, with monthly payments of $6,974 beginning February 15, 2021.

# APPENDIX C

## FORM OF BOND COUNSEL OPINION

[Insert Bracewell LLP Letterhead]

[CLOSING DATE]

$5,055,000
CITY OF DEER PARK, TEXAS
LIMITED TAX REFUNDING BONDS, SERIES 2021

We have represented the City of Deer Park, Texas (the "Issuer") as its bond counsel in connection with an issue of bonds (the "Bonds") as described below:

> CITY OF DEER PARK, TEXAS, LIMITED TAX REFUNDING BONDS, SERIES 2021, dated December 1, 2021.
>
> The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the City authorizing their issuance (the "Bond Ordinance") and a pricing certificate executed pursuant to the Bond Ordinance (the "Pricing Certificate," and together with the Bond Ordinance, the "Ordinance").

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

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 and the refunding and defeasance of the outstanding obligations being refunded (the "Refunded Obligations") by the proceeds of the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer, an escrow agreement (the "Escrow Agreement") between the Issuer and BOKF, NA, as escrow agent, a report (the "Report") of Robert Thomas CPA, LLC, verifying the sufficiency of the deposits made under the Escrow Agreement for the Refunded Obligations, customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the Bonds and the refunding of the Refunded Obligations. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed Bond No. I-1 of this issue.

**Bracewell LLP**
T: +1.713.223.2300 F: +1.800.404.3970
711 Louisiana Street, Suite 2300, Houston, Texas 77002-2770
bracewell.com

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

Based upon such examination, it is our opinion that:

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

2. A continuing ad valorem tax upon all taxable property within the City of Deer Park, Texas, necessary to pay the interest on and principal of the Bonds, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law.

3. Firm banking and financial arrangements have been made for the discharge and final payment of the Refunded Obligations pursuant to the Ordinance and the Escrow Agreement, and therefore such Refunded Obligations are deemed to be fully paid and no longer outstanding except for the purpose of being paid from the funds provided therefor under the Escrow Agreement.

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

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

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

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