

NEW ISSUE: BOOK-ENTRY-ONLY

Ratings:
Insured: S&P: "AA"
Uninsured: S&P: "A+"
(See "OTHER INFORMATION – Ratings"
and "BOND INSURANCE" herein)

OFFICIAL STATEMENT
December 12, 2022

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

\$13,365,000
CITY OF FLORESVILLE, TEXAS
(A Political Subdivision of the State of Texas Located in Wilson County)
ELECTRIC LIGHT AND POWER SYSTEM IMPROVEMENT REVENUE BONDS, SERIES 2022

Dated Date: November 15, 2022 (interest to accrue from the Delivery Date)

Due: August 15, as shown herein

Interest on the \$13,365,000 City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2022 (the "Bonds") will accrue from the Delivery Date (defined below), will be payable on February 15 and August 15 of each year commencing February 15, 2023, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The City (defined below) intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), New York, New York, but reserves the right on its behalf or on behalf of DTC to discontinue such system. The principal of and interest on the Bonds will be payable to Cede & Co., as nominee for DTC, by UMB Bank, N.A., Austin, Texas, as the initial Paying Agent/Registrar (the "Paying Agent/Registrar") for the Bonds. No physical delivery of the Bonds will be made to the owners thereof. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

The Bonds are issued in accordance with the Constitution and laws of the State of Texas, including, but not limited to, Chapter 1502, as amended, Texas Government Code; Chapter 164, as amended, Texas Utilities Code; and an ordinance (the "Ordinance") adopted by the City Council of the City of Floresville, Texas (the "City") on December 12, 2022, the date of the sale of the Bonds. The Bonds are special obligations of the City payable, both as to principal and interest, solely from and equally and ratably secured, together with the currently outstanding Parity Bonds, by a first and prior lien on and pledge of the Net Revenues (defined herein) of the Floresville Electric Light and Power System (the "System"). **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation or from any other source except the Net Revenues of the System** (see "THE BONDS – Authority for Issuance").

Proceeds from the sale of the Bonds will be used to (i) acquire, purchase, construct, improve, enlarge and equip interests in property, buildings, fleet structures, activities, services or other facilities of the System (the "Project") and (ii) pay costs of issuance of the Bonds (see "THE BONDS – Purpose").

The City reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, 2032, in whole or in part and in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2031 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The Term Bonds, hereinafter defined, are subject to mandatory sinking fund redemption as described herein (see "THE BONDS – Redemption Provisions" and "THE BONDS – Mandatory Sinking Fund Redemption" herein).

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.** (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein.)



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

(See Inside Cover Page)

The Bonds are offered for delivery when, as and if issued and received by the initial purchaser named below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel (see APPENDIX D - "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the City and the System by their counsel, Dykema Gossett PLLC, San Antonio, Texas, and for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. It is expected that the Bonds will be available for initial delivery through the services of DTC on or about December 29, 2022 (the "Delivery Date").

SAMCO CAPITAL MARKETS

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

CUSIP NO. PREFIX⁽¹⁾: 340405

\$13,365,000

City of Floresville, Texas

Electric Light and Power System Improvement Revenue Bonds, Series 2022

\$6,310,000 Serial Bonds

Stated Maturity August 15	Principal Amount	Initial Rate (%)	Initial Yield (%)	CUSIP No Suffix ⁽¹⁾
2023	\$495,000	5.000%	2.770%	NK1
2024	295,000	5.000	2.780	NL9
2025	310,000	5.000	2.790	NM7
2026	325,000	5.000	2.820	NN5
2027	345,000	5.000	2.860	NP0
2028	360,000	5.000	2.900	NQ8
2029	380,000	5.000	2.930	NR6
2030	400,000	5.000	2.980	NS4
2031	415,000	5.000	3.010	NT2
2032	440,000	5.000	3.060 ⁽²⁾	NU9
2033	460,000	5.000	3.120 ⁽²⁾	NV7
2034	485,000	5.000	3.250 ⁽²⁾	NW5
2035	505,000	5.000	3.430 ⁽²⁾	NX3
2036	535,000	5.000	3.590 ⁽²⁾	NY1
2037	560,000	5.000	3.680 ⁽²⁾	NZ8

\$7,055,000 Term Bonds

\$1,195,000 4.000% Term Bonds due August 15, 2039; Priced at \$98.325 to Yield 4.140%; CUSIP No. Suffix⁽¹⁾: PB9

\$1,295,000 4.000% Term Bonds due August 15, 2041; Priced at \$97.051 to Yield 4.230%; CUSIP No. Suffix⁽¹⁾: PD5

\$1,400,000 4.000% Term Bonds due August 15, 2043; Priced at \$96.052 to Yield 4.290%; CUSIP No. Suffix⁽¹⁾: PF0

\$1,520,000 4.125% Term Bonds due August 15, 2045; Priced at \$96.916 to Yield 4.340%; CUSIP No. Suffix⁽¹⁾: PH6

\$1,645,000 4.250% Term Bonds due August 15, 2047; Priced at \$97.753 to Yield 4.400%; CUSIP No. Suffix⁽¹⁾: PK9

(interest accrues from the Delivery Date)

Redemption...The City reserves the right, at its option, to redeem Bonds having stated maturities on or after August 15, 2032, in whole or in part and in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2031 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The Term Bonds, hereinafter defined, are subject to mandatory sinking fund redemption as described herein (see “THE BONDS – Redemption Provisions” and “THE BONDS – Mandatory Sinking Fund Redemption” herein).

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

⁽²⁾ Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on August 15, 2031, the first optional call date for such Bonds, at a redemption price of par plus accrued interest to the date of redemption.

CITY OFFICIALS

CITY COUNCIL:

Name	Years Served	Term Expires	Occupation
Cecelia Gonzalez-Dippel Mayor	6	May 2024	Retired Radio Broadcaster
Eduardo Villarreal, Mayor Pro-Tem Councilmember, Place 3	2	May 2023	Salesman
Marissa Ximenez Councilmember, Place 1	4	May 2024	Training Coordinator
Terry Rolland Councilmember, Place 2	< 1	May 2024	Retired Probation Officer
Jade Jimenez Councilmember, Place 4	2	May 2023	Dental Hygienist
Gloria Morales Cantu Councilmember, Place 5	7	May 2023	Retired Educator

ADMINISTRATIVE OFFICIALS:

Name	Position	Years With the City
Andy Joslin	City Manager	12 years
Cynthia Sturm	Finance Director	3 years
Monica Veliz	City Secretary	21 years

SYSTEM BOARD

Name	Length of Service	Term Expires (December)	Occupation
Braden Lyssy Chair, City of Poth	3 years	2023	Poth ISD – Chief Financial Officer
John L. Akin Vice Chair, City of Stockdale	5 years	2025	Retired Business Owner
Cecelia Gonzalez-Dippel Trustee, Mayor, City of Floresville	6 years	Ex-Officio	Retired Radio Broadcaster
Daniel Tejada ⁽¹⁾ Trustee, City of Floresville	10 years	2022	Retired Senior Benefit Analyst
Royce Wetz Rotating Trustee, City of Stockdale	2 years	2024	Retired Salesman
Vacant ⁽²⁾ Advisory Trustee, City of Falls City	--	----	-----
Tommy Scogin Advisory Trustee, City of La Vernia	<1 years	2025	Retired Livestock Inspector

⁽¹⁾ Also, served on Board as Mayor of Floresville from 2006-2012. Mr. Tejada's term expires on December 31, 2022. The City Council of the City of Floresville, Texas, at their December 13, 2022 special meeting, appointed Sylvia Madero as Trustee to the Board commencing January 1, 2023.

⁽²⁾ The Advisory Trustee from the City of Falls City passed away in fall 2022.

APPOINTED OFFICIALS:

Name	Position	Length of Service to System	Total Utility Service
Mark Crowson	Chief Executive Officer	<1 year	41 years
Marcy Jacobs	Chief Financial Officer	25 years	25 years

CONSULTANTS AND ADVISORS:

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

For additional information regarding the System, please contact:

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Chief Financial Officer
Floresville Electric Light & Power System
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Floresville, Texas 78114
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R. Dustin Traylor
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USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP. (“AGM”) MAKES NO REPRESENTATION REGARDING THE BONDS OR THE ADVISABILITY OF INVESTING IN THE BONDS. IN ADDITION, AGM HAS NOT INDEPENDENTLY VERIFIED, MAKES NO REPRESENTATION REGARDING, AND DOES NOT ACCEPT ANY RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF THIS OFFICIAL STATEMENT OR ANY INFORMATION OR DISCLOSURE CONTAINED HEREIN, OR OMITTED HEREFROM, OTHER THAN WITH RESPECT TO THE ACCURACY OF THE INFORMATION REGARDING AGM, SUPPLIED BY AGM AND PRESENTED UNDER THE HEADING “BOND INSURANCE” AND “APPENDIX E - SPECIMEN MUNICIPAL BOND INSURANCE POLICY”.

NONE OF THE CITY, THE FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM OR AGM OR ITS MUNICIPAL BOND GUARANTY POLICY AS DESCRIBED HEREIN UNDER THE CAPTION "BOND INSURANCE", AS SUCH INFORMATION HAS BEEN PROVIDED BY AGM.

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

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

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OFFICIAL STATEMENT SUMMARY

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

The City	The City of Floresville, Texas (the “City”) is the County seat, a political subdivision, and municipal corporation of the State of Texas operating pursuant to its Home Rule Charter, located primarily in Wilson County, Texas. The City covers approximately five square miles (see “INTRODUCTION – Description of the City” herein).
The System	The Floresville Electric Light and Power System (the “System”) is an electric light and power distribution system which serves most of Wilson County, Texas (located approximately 30 miles southeast of San Antonio, Texas) and portions of Karnes County, Texas, including the Cities of Floresville, Stockdale, Poth (each a “Participating City”), Falls City, and La Vernia and certain unincorporated areas. Management and control of the System is vested in a five-member Board of Trustees composed of the Mayor of the City of Floresville, one member for each of the Cities of Floresville, Poth and Stockdale appointed by the respective governing body thereof, and one member appointed on a rotating basis by the City Councils of the Cities of Floresville, Poth or Stockdale. The Board also includes two non-voting advisory members appointed by the cities of Falls City and La Vernia (see “THE SYSTEM – Management of the System” herein).
The Bonds	The Bonds are issued as \$13,365,000 City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2022. The Bonds are issued as serial bonds maturing August 15 in each of the years 2023 through 2037, and as term bonds maturing August 15 in each of the years 2039, 2041, 2043, 2045 and 2047. (See “THE BONDS – Description of the Bonds” herein).
Paying Agent/Registrar	The initial paying agent/registrar is UMB Bank, N.A., Austin, Texas.
Payment of Interest	Interest on the Bonds accrues from the Delivery Date, and will be payable on February 15, 2023 and each August 15 and February 15 thereafter until stated maturity or prior redemption (see “THE BONDS – Description of the Bonds” and “THE BONDS – Optional Redemption”).
Authority for Issuance	The Bonds are issued in accordance with the Constitution and laws of the State of Texas including, but not limited to, Chapter 1502, as amended, Texas Government Code; Chapter 164, Texas Utilities Code; and pursuant to an Ordinance passed by the City Council of the City on December 12, 2022 (see “THE BONDS – Authority for Issuance” herein).
Security for the Bonds	The Bonds constitute special obligations of the City, payable, both as to principal and interest, solely from and secured, together with the currently outstanding Parity Bonds, by a first and prior lien on and pledge of the Net Revenues of the System (each of such capitalized terms as defined herein). The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation (see “THE BONDS – Security and Source of Payment” herein).
Bond Insurance	The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. (“AGM”). See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS” herein.
Optional Redemption	The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2031 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. The Term Bonds, hereinafter defined, are subject to mandatory sinking fund redemption as described herein (see “THE BONDS – Redemption Provisions” and “THE BONDS – Mandatory Sinking Fund Redemption” herein).
Book-Entry-Only System	The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York, relating to the method and timing of payment and the method of transfer relating to the Bonds (see “BOOK-ENTRY-ONLY SYSTEM” herein).
Tax Exemption	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption “TAX MATTERS”.
Use of Proceeds	Proceeds from the sale of the Bonds will be used to (i) acquire, purchase, construct, improve, enlarge, and equip any property, interests in property, buildings, fleet structures, activities, services, operations, or other facilities of the System (the “Project”), and to (ii) pay costs of issuance of the Bonds.
Ratings	S&P Global Ratings (“S&P”) assigned a rating of “AA” (Stable Outlook) to the Bonds with the understanding that, concurrently with the delivery of the Bonds, a municipal bond insurance policy will be issued by AGM. The Bonds have been rated “A+” by S&P without regard to credit enhancement. (see “OTHER INFORMATION - Ratings” herein).
Payment Record	The City has never defaulted in payment of its bonded indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 12/31	Estimated System Population ⁽¹⁾	Electric Usage (KWH)			Net Available For Debt Service ⁽²⁾	Annual Debt Service Requirement	Coverage Of Debt ⁽²⁾
		Average Day Usage	Average KWH/ Customer	Total KWH Sold			
1998	32,764	549,354	18,985	200,514,328	2,129,328	503,685	4.23
1999	33,036	568,364	18,913	207,452,808	2,292,277	500,585	4.58
2000	34,145	623,905	19,929	227,725,215	2,899,494	968,036	3.00
2001	35,200	637,373	19,739	232,641,114	3,530,792	908,928	3.88
2002	35,990	655,698	19,824	239,329,877	3,062,617	935,940	3.27
2003	36,500	674,164	19,938	246,069,719	3,157,599	1,040,729	3.03
2004	37,100	668,524	19,384	244,011,425	2,915,595	1,041,004	2.80
2005	38,231	748,553	21,261	273,221,885	3,849,235	1,036,028	3.72
2006	40,256	759,847	21,154	277,344,437	4,696,311	1,191,711	3.94
2007	44,297	749,649	20,536	273,621,990	4,521,376	1,193,699	3.79
2008	42,799	769,962	20,790	281,036,006	4,264,866	1,301,473	3.28
2009	43,171	786,769	20,989	287,170,850	3,909,694	1,194,784	3.27
2010	45,517	806,721	21,296	294,453,163	4,399,220	1,466,708	3.00
2011	43,697	867,578	22,632	316,665,894	4,376,599	1,469,900	2.98
2012	44,370	852,233	21,721	311,065,350	4,620,185	2,135,391	2.16
2013	47,150	861,831	21,421	314,568,339	4,531,056	2,126,554	2.13
2014	48,627	961,507	23,265	350,950,014	7,309,137	2,130,516	3.43
2015	49,833	923,317	22,147	337,010,734	5,809,666	2,687,812	2.16
2016	51,296	890,061	21,197	325,762,398	7,326,556	2,653,433	2.76
2017	52,760	954,409	20,937	325,967,095	7,571,440	2,646,253	2.86
2018	51,077	961,417	22,169	350,917,205	9,053,038	2,637,253	3.43
2019	52,839	963,398	21,864	351,640,334	9,296,205	3,644,052	2.55
2020	49,753	953,959	21,322	349,149,175	9,012,191	3,646,478	2.47
2021	51,257	963,832	20,968	351,798,737	9,402,970	3,472,564	2.71

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

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

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**OFFICIAL STATEMENT
RELATING TO**

\$13,365,000

CITY OF FLORESVILLE, TEXAS

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

ELECTRIC LIGHT AND POWER SYSTEM IMPROVEMENT REVENUE BONDS, SERIES 2022

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$13,365,000 City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2022 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance adopted by the City Council (the “Council”) of the City of Floresville, Texas (the “City”) on December 12, 2022, and which authorized the issuance of the Bonds (the “Ordinance”), except as otherwise indicated herein (see APPENDIX B - “Selected Provisions of the Ordinance” herein).

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

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

Description of the City. The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the Councilmembers’ terms expiring in even-numbered years and the terms of the other three Councilmembers expiring in odd-numbered years. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water and sanitary sewer utilities, culture-recreation, public improvements, planning and zoning, and general administrative services. The City covers approximately five square miles.

THE BONDS

Purpose. Proceeds from the sale of the Bonds will be used to (i) acquire, purchase, construct, improve, enlarge, and equip any property, interests in property, buildings, fleet structures, activities, services, operations, or other facilities of the System (the “Project”) and (ii) pay costs of issuance of the Bonds.

Description of the Bonds. The Bonds are dated November 15, 2022, and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest accrues from the Delivery Date (on or about December 29, 2022), will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on each February 15 and August 15, commencing February 15, 2023. The City intends to utilize the Book-Entry-Only System of The Depository Trust Company (“DTC”), but reserves the right on its behalf or on behalf of DTC to discontinue such system. Principal of and interest on the Bonds will be payable by the paying agent/registrar, initially UMB Bank, N.A., Austin, Texas (the “Paying Agent/Registrar”), to Cede & Co., as nominee of DTC. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer. DTC will be responsible for distributing the principal and interest payments to the participating members of DTC and the participating members will be responsible for distributing the payment to the owners of beneficial interest in the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein. So long as the Bonds are in Book-Entry-Only form, and DTC is the securities depository therefor, Cede & Co., as nominee for DTC, will be the registered owner of the Bonds and references herein to bondholders or registered owners shall mean Cede & Co. and not the beneficial owners of the Bonds. In the event the Bonds are no longer held in Book-Entry-Only form, interest on the Bonds will be payable by check, dated as of the interest payment date and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see “THE BONDS - Record Date for Interest Payment” herein), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, a registered owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as it made on the original date payment was due.

Authority for Issuance. The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1502, as amended, Texas Government Code, Chapter 164, as amended, Texas Utilities Code, and the Ordinance.

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

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

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

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

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

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

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

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

As of the closing date for the Bonds, the City will have two debt service reserve fund policies in a cumulative amount in excess of the Reserve Amount pursuant to the Ordinances authorizing the issuance of the Parity Bonds.

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

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

does not contractually limit such permissible Defeasance Securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, Registered Owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other Defeasance Securities, notwithstanding the fact that such Defeasance Securities may not be of the same investment quality as those currently identified under State law as permissible Defeasance Securities.

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

Redemption Provisions. The City reserves the right, at its option, to redeem Bonds having stated maturities on and after August 15, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2031 or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar will determine by lot the Bonds, or portions hereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) is called for redemption and notice of such redemption given, such Bond (or the principal amount thereof to be redeemed) will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Mandatory Sinking Fund Redemption. The Bonds stated to mature on August 15 in each of the years 2039, 2041, 2043, 2045 and 2047 (the "Term Bonds") are subject to mandatory sinking fund redemption in part, prior to their stated maturity at the redemption price of par plus accrued interest to the date of redemption on the dates and in the principal amounts as follows:

\$1,195,000 Term Bonds due <u>August 15, 2039</u>		\$1,295,000 Term Bonds due <u>August 15, 2041</u>		\$1,400,000 Term Bonds due <u>August 15, 2043</u>	
Mandatory Redemption Date (8/15)	Principal Amount	Mandatory Redemption Date (8/15)	Principal Amount	Mandatory Redemption Date (8/15)	Principal Amount
2038	\$585,000	2040	\$635,000	2042	\$685,000
2039*	610,000	2041*	660,000	2043*	715,000
\$1,520,000 Term Bonds due <u>August 15, 2045</u>			\$1,645,000 Term Bonds due <u>August 15, 2047</u>		
Mandatory Redemption Date (8/15)	Principal Amount	Mandatory Redemption Date (8/15)	Principal Amount	Mandatory Redemption Date (8/15)	Principal Amount
2044	\$745,000	2046	\$805,000	2047*	840,000
2045*	775,000				

*Stated Maturity

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot the numbers of the Term Bonds within the applicable Stated Maturity to be redeemed on the next following August 15 from money set aside for that purpose in the Retirement Account (but not the Reserve Amount of the Retirement Account). Any Term Bonds not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption requirements may be reduced, at the option of the City, by the principal amount of any such Term Bonds which, at least fifty (50) days prior to the date of the mailing of notice of such mandatory redemption, (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City, or (iii) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

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

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

Additional Bonds. The City may issue additional revenue obligations payable from the Net Revenues which together with the Parity Bonds then outstanding (which will include the Bonds) will be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System, subject, however, to complying with certain conditions in the Ordinance (see APPENDIX B – “Selected Provisions of the Ordinance” herein, for terms and conditions to be satisfied for the issuance of Additional Bonds).

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

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

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

Future Transfer, Exchange and Registration. In the event the Bonds are not in the Book-Entry-Only System, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bond or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bond being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer will be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the City nor the Paying Agent/Registrar is required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

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

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

Bondholders’ Remedies. If the City defaults in the payment of principal of and interest on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties

with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the registered owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language.

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

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

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

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

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

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Sources of Funds	
Principal Amount of Bonds	\$13,365,000.00
Net Reoffering Premium	<u>457,312.70</u>
Total Sources	\$13,822,312.70
Use of Funds	
Deposit to Project Fund	\$13,500,000.00
Costs of Issuance, Underwriter's Discount, Surety Policy Premium, Bond Insurance Premium, and excess proceeds	<u>322,312.70</u>
Total Uses	\$13,822,312.70

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

BOND INSURANCE

BOND INSURANCE POLICY. Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

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

ASSURED GUARANTY MUNICIPAL CORP. AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On October 21, 2022, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 8, 2022, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On March 18, 2022, Moody's announced it had upgraded AGM's insurance financial strength rating to "A1" (stable outlook) from "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Capitalization of AGM

At September 30, 2022:

- The policyholders' surplus of AGM was approximately \$2,660 million.
- The contingency reserve of AGM was approximately \$915 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,102 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (filed by AGL with the SEC on February 25, 2022);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 (filed by AGL with the SEC on May 6, 2022);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022 (filed by AGL with the SEC on August 4, 2022); and
- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022 (filed by AGL with the SEC on November 8, 2022).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

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

BOND INSURANCE RISK FACTORS

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bonds shall have a claim under Policy for such payments. However, in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments are to be made in such amounts and at such times as such payments would have been due had there not been any such acceleration. The Policy does not insure against redemption premium, if any. The payment of principal and interest in connection with mandatory or optional prepayment of the

Bonds by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy, however, such payments will be made by AGM at such time and in such amounts as would have been due absent such prepayment by the City unless AGM chooses to pay such amounts at an earlier date.

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of AGM without appropriate consent. AGM may reserve the right to direct and consent to any remedies and AGM's consent may be required in connection with amendments to the applicable Bond documents. In the event AGM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the moneys received pursuant to the applicable Bond documents.

In the event AGM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

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

The obligations of AGM are general obligations of AGM and in an event of default by AGM, the remedies available to AGM may be limited by applicable bankruptcy law or other similar laws related to insolvency.

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

THE SYSTEM

Participating Cities. On October 24, 1942, the City of San Antonio, Texas, granted an option to the Cities of Floresville, Stockdale, and Poth (the "Participating Cities") to acquire all of the properties necessary to establish the System. On December 3, 1942, the Participating Cities entered into an agreement that provided for the sharing of revenues generated by the System and established the rights of the Participating Cities in the System. Floresville exercised its option to purchase the properties establishing the System by entering into a trust indenture on January 1, 1943, and issuing bonds to finance the purchase. On January 12, 1945, the Participating Cities amended and supplemented the 1942 agreement to revise the method of revenue distribution and give additional rights to Stockdale and Poth. The Participating Cities entered into a revised agreement (the "System Agreement") as of September 30, 1996, to settle litigation among the Participating Cities. The System Agreement sets out the ownership interests of the System as follows: City of Floresville 64%, City of Poth 18% and the City of Stockdale 18%. It also provides for the re-establishment of a five-member Board composed of the Mayor of the City of Floresville, one member from each of the Cities of Floresville, Poth and Stockdale appointed by the respective governing body of each such Participating City, and one member appointed on a rotating basis by the City Councils of the Cities of Floresville, Poth or Stockdale. The Board also includes two non-voting advisory members appointed by the Cities of Falls City and La Vernia. The System is allowed by the System Agreement and based on the System's Board of Trustees' authorization to transfer up to 3 percent of the System's gross electric sales revenue to the Participating Cities. According to the franchise agreements, the System transfers 2.5 percent of gross electric sales within the city limits of the City of La Vernia and 2 percent within the city limits of the City of Falls City to those two cities, respectively. During 2021, these distributions were made.

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

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

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

The Board must elect one of its members as Chairman and one as Vice Chairman of the Board and appoint a Secretary and a Treasurer, or a Secretary-Treasurer, who may, but need not be, a member or members of the Board. If a member of the Board is not appointed as Secretary or Treasurer, or Secretary-Treasurer, then an employee or employees of the System whose duties in the operation of the System require performance of similar duties may be appointed as Secretary or Treasurer or Secretary-Treasurer. The Board may follow and adopt such rules for the orderly handling of its affairs as it may see fit and may manage and conduct the affairs of the System with the same freedom and in the same manner

ordinarily employed by the board of directors of private corporations operating properties of a similar nature. No member of the Board, however, may ever vote by proxy in the exercise of his duties as a member.

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

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

The members of the Board receive annual compensation in the amount of \$2,700 or such additional amount as may be determined from time to time by the City Council of each Participating City. An Advisory Member receives annual compensation in the amount of \$2,100 or such additional amount as may be determined from time to time by the Board. The members of the Board are entitled to payment by the Board of their reasonable and necessary expenses for the discharge of their duties.

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

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

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

Improvements to the System have maintained it in a condition to serve approximately 17,334 electric customers and 3,920 security lighting customers at present. The properties constituting the System include four 138 KV/13.8 KV substations; the "Floresville" substation consisting of one 20 MVA transformer, one 25 MVA transformer and one 35 MVA transformer, the "Sutherland Springs" substation consisting of two 25 MVA transformers, the "Falls City" substation consisting of two 10 MVA transformers, and the "Eagle Creek" substation consisting of two 25 MVA transformers. The distribution system includes approximately 1,581 miles of 13.8 KV distribution lines and 13 miles of 138 KV overhead transmission lines. Additionally there are various items of equipment used to maintain the System.

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

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

2021 Winter Storm. From February 14, 2021 through February 19, 2021, the State of Texas experienced a severe winter storm (the "2021 Winter Storm"). Due to effects of the 2021 Winter Storm and a reduction in available gas supply, approximately 185 generating units in the Electric Reliability Council of Texas ("ERCOT") grid tripped offline, and the grid lost roughly 46,000 MW of generation. In order to limit demand and protect the integrity of the grid, ERCOT implemented widespread and prolonged blackouts. As a result, approximately 4 million Texas residents were without power for significant stretches of the week. Extended subfreezing temperatures caused water pipes to freeze and burst, and combined with the lack of power, eventually led to multiple water system failures across the State that impacted water availability generally and, in some instances, required the issuance of water boil notices. Initial reports indicated that roughly 14 million Texans were under boil water notices as of February 19, 2021. On February 19, 2021, the President of the United States issued a Major Disaster Declaration for 77 counties in Texas, including Wilson County. The Texas Governor, on February 18, 2021, declared an emergency item for the Texas Legislature, in which he requested the Texas Legislature to mandate the winterization of Texas' power system and to ensure the necessary funding for winterization. The total purchased power cost for year 2021 was \$49,241,582, or approximately 81.4% higher than the comparable amount for 2020. The increase in purchased power cost was due to the increase in gas prices during the 2021 Winter Storm. In August 2021, the System and CPS Energy executed a Confidential Standstill and Tolling Agreement (the "Agreement") for the February 2021 billing period to allow CPS Energy to pursue matters with their gas suppliers, which may affect the amount owed by the System to CPS Energy. This Agreement is effective until February 25, 2023. The System started recovering these costs through fuel recovery charges from customers. In August 2021, the System made an initial payment of approximately \$10,300,000 toward the February invoice. Approximately \$29,000,000 of the purchased power cost associated with the 2021 Winter Storm remains unpaid. The System has collected approximately \$8,000,000 in fuel recovery charges which have not yet been remitted and expects to collect the full amount of the unpaid balance within five years. These fuel recovery charges may be used to

secure indebtedness issued by the System to repay the balance due. The fuel and regulatory component of the purchased power cost is passed through to the customers in the form of a charge as stated in the System's rate tariffs. The unpaid balance of the purchase power costs and the revenues generated from the fuel recovery charges have been excluded from the calculation of Net Revenues for fiscal year ended 2021.

ELECTRIC RATES AND RATE REGULATION

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

The electric retail rates listed below were effective with meter readings commencing January 4, 2021 and were adopted by the City. The rates set forth below are not purported to be the System's complete rate schedule, only a listing of the primary rate classifications. All rates shown below are subject to a power cost recovery factor. The generation and transmission factor represents the pass-through to System customers of the cost of purchased power from CPS Energy.

Electric Rates

Table 1

Residential Service Rate

\$20.00 Service Charge (Min)
\$0.0202 Per kWh

Small Commercial Rate

\$45.00 Service Charge (Min)
\$0.0295 Per kWh

Medium Commercial Rate

\$100.00 Service Charge (Min)
\$0.0158 Per kWh
\$3.00 Demand Charge x KW of Billing Demand

Large Commercial Rate

\$250.00 Service Charge (Min)
\$0.0146 Per kWh
\$3.75 Demand Charge x KW of Billing Demand

Industrial Commercial Rate

\$1,000.00 Service Charge (Min)
\$0.0108 Per kWh
\$5.00 Demand Charge x KW of Billing Demand

The Electric Utility Industry Generally. The electric utility industry in the State in general has been, and in the future may be, affected by a number of factors that could impact the financial condition and competitiveness of the System. Such factors include:

- Legislation passed by the Texas Legislature to restructure the electric utility industry in Texas or any amendments that may be enacted to that legislation in future Texas legislative sessions, including particularly legislation related to the 2021 Winter Storm;
- Prevailing governmental policies and regulatory actions, including those of the FERC, Environmental Protection Agency, Texas Commission on Environmental Quality, the PUC and ERCOT, with respect to:
 - Wholesale market design, including allocation of transmission congestion costs;
 - Transmission cost rate structure;
 - Purchased power and recovery of investments;
 - Acquisitions and disposal of assets and facilities;
 - Operation and construction of facilities;
 - Present or prospective wholesale and retail competition;
 - Changes in and compliance with environmental and safety laws and policies;
 - Developments in federal law with respect to the ability of the City to finance and operate facilities in a manner that permits it to finance facilities with, and honor existing covenants with respect to, tax-exempt debt;
 - Federal and state environmental regulation including regulations of mercury emission and other greenhouse regulation; and
 - Reliability standards put forth by Electric Reliability Organizations under FERC authority;
- Federal legislation seeking to expand FERC authority to address cyber-security vulnerabilities in the electric utility industry;
- Power costs and availability, including the continued development, and financial stability of owners of, merchant power plants in the State;
- Increased costs or decreased revenues resulting from conservation and demand-side management programs on the timing and use of electric energy;
- Increased costs of compliance and production resulting from possible federal legislation to curb the generation of greenhouse gases, primarily carbon dioxide;
- Power costs and availability, including the continued development, and financial stability of owners of, merchant power plants in the State;

- Global pandemics, such as COVID-19;
- Unanticipated population growth or decline, and changes in market demand and demographic patterns;
- Issues related to cyber and physical security;
- Competition from “self-generation” of electric energy by certain industrial and commercial customers;
- Weather conditions and other natural phenomena, and acts of sabotage, wars or terrorist activities;
- Unanticipated population growth or decline, and changes in market demand and demographic patterns;
- Changes in business strategy, development plans or vendor relationships;
- Competition for retail and wholesale customers;
- Access to adequate and reliable transmission facilities to meet changing demands;
- Pricing and transportation of coal, natural gas and other commodities that may affect the cost of energy sold to the City;
- Unanticipated changes in interest rates, commodity prices or rates of inflation;
- Unanticipated changes in operating expenses and capital expenditures;
- Commercial bank market and capital market conditions;
- Competition for new energy development and other business opportunities;
- Legal and administrative proceedings and settlements; and
- Actions of rating agencies.

The City cannot predict what effects such factors will have on the operations and financial condition of its electric utility portion of the System, but the effects could be significant. The discussion of such factors herein does not purport to be comprehensive or definitive, and any or all of these matters are subject to change subsequent to the date hereof. Extensive information on the electric utility industry is, and will be, available from the legislative and regulatory bodies and other sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

Texas 2021 Winter Weather Event. The ERCOT Market - Settlements and Market Participant Short Payments and Uplift. ERCOT settlements occur daily. The ERCOT Protocols require that ERCOT collect payments due from the market participants serving load the day before payments are due to generation market participants. As a result of the 2021 Winter Storm, on February 22, 2021, ERCOT announced a temporary deviation from the protocol deadlines and timing related to settlements, collateral obligations, and invoice payments. On February 23, 2021, ERCOT ended its temporary deviation from the protocol deadlines. As a result of the temporary deviation from protocols, ERCOT aggregated the settlement activity for multiple days and invoiced market participants for that aggregate activity, which (because of extremely elevated prices) produced extraordinarily large invoices to market participants.

In the immediate aftermath of the 2021 Winter Storm and continuing today, ERCOT has experienced short payments from some of its market participants. Short payments occur when a market participant fails to make a complete payment for settlement invoices. When market participants do not pay the amount owed, ERCOT in turn pays amounts to market participants that are less than what their settlement statements from ERCOT reflect (i.e., they are "short paid"). ERCOT previously estimated the cumulative aggregate short pay amount at \$2.9 billion (which is a gross amount that does not factor ERCOT's stated application of \$800 million in congestion revenue rights auction revenue funds to mitigate the short-pay impacts of some market participants' non-payment in the immediate aftermaths of the 2021 Winter Storm). This amount reflects payments received for previously short-paid invoices and the application of financial security to short-paid balances, where available. This information is provided through short payment notices issued to market participants.

All ERCOT market participants could be exposed to the liability of non-paying or bankrupt ERCOT market participants. ERCOT is a membership-based nonprofit corporation, and thus revenue neutral (meaning that it has no independent revenue source and is a clearinghouse that passes on losses to other participants). If sufficient funds continue to be unavailable from short-paying entities, ERCOT also "uplifts" shortages to market participants on a pro-rata share as established through the ERCOT Protocols (this process is referred to as "Uplift"). Typical timelines of Uplift invoices are no earlier than 90 days and no more than \$2.5 million per month until ERCOT uplifts the total short-paid amount. Such invoices must be at least 30 days apart. To address extraordinary purchased power costs incurred during the storm, the 87th Texas Legislature passed HB 4492 and SB 1580. SB 1580 sets forth the ability for electric cooperatives to securitize certain costs. HB 4492 pertains to the securitization of other ERCOT market participants. Separately, the legislature passed HB 1520 to securitize the exceptionally high gas expenses incurred by investor-owned gas utilities and HB 1510 to assist electric utilities located within the state but outside of ERCOT by securitizing the elevated costs of power incurred during the 2021 Winter Storm.

State Response to the 2021 Winter Storm. In the aftermath created by the 2021 Winter Storm, many challenges were created for the ERCOT market as a whole. The storm exposed deficiencies in the natural gas supply as well as deficiencies in the winterization programs implemented by the generator owners. As a result, numerous changes have occurred at both the PUC and ERCOT, including the following:

- All three commissioners of the PUC resigned their positions. The PUC was expanded from three to five commissioners and four new commissioners have been appointed by the Governor and confirmed by the Texas Senate: Peter Lake, Chair, Will McAdams, Lori Cobos, and Jimmy Glotfelty.
- All out-of-state board members of the ERCOT Board of Directors submitted a letter of resignation from the ERCOT board; shortly thereafter, three other ERCOT board members resigned.
- The ERCOT board voted to terminate its CEO, Bill Magness.
- The ERCOT board selected Brad Jones to serve as interim President and CEO effective May 4, 2021.
- Paul Foster was named Chair of the new board of ERCOT.
- Bill Flores, Elaine Mendoza, and Zin Smati were appointed to the ERCOT board.
- On December 29, 2021, the final two ERCOT board seats were filled by Julie England and Peggy Heeg.
- The ERCOT board appointed Pablo Vegas to serve as President and CEO effective October 1, 2022.

The Texas Legislature also addressed events from the 2021 Winter Storm during the 87th Texas Legislature regular session, which ended on May 31, 2021. Senate Bill 3 ("SB 3") was the comprehensive bill approved by the Texas Legislature and signed into law by the Governor on June 8, 2021, addressing the vulnerabilities exposed during the 2021 Winter Storm. Among other items, SB 3 requires electric and other energy companies to implement a number of reforms, including (i) engaging in winterization measures for natural gas, electric generating facilities, water production, and supply systems, (ii) the mapping and identification of the electricity supply chain, including natural gas facilities, (iii) identification of such systems and process as "critical load", and (iv) implementing a statewide energy outage alert system. Section 38.075 was added to the Utilities Code and (i) applies to municipal owned utilities ("MOUs") that provide transmission service in the ERCOT power region, (ii) requires the PUC to adopt weatherization standards to prepare for weather emergencies, (iii) requires ERCOT to inspect the covered entities for compliance, (iv) requires ERCOT to inform the PUC of violations, and (v) authorizes the PUC to impose an administrative penalty for each violation, not to exceed \$1 million for each day of noncompliance. The PUC adopted new reliability standards effective December 1, 2022, as required by SB3. In addition, SB 3 calls on the PUC to implement certain market reforms to increase the reliability of the ERCOT grid. The Governor has directed the regulatory agency to rely on existing legislative authority to make additional market reforms to incentivize investment in new dispatchable generation.

Rulemaking by the PUC for electric and water utilities, and the Texas Railroad Commission (the "RRCT") for natural gas facilities and utilities, needed to implement the mandates of SB 3 began in the summer of 2021. As the PUC, RRCT, ERCOT and other oversight bodies continue their investigation, the ERCOT market expects additional rules will be implemented to mitigate market and fuel risks.

Electric Rate Regulation. *Texas Deregulation Structure, Status and Issues.* The following discussion, as well as the discussion set forth under "The New Nodal Design Rule," is presented for the purpose of providing information concerning the current Texas legal and market structure. The Texas market is unique in many respects from deregulated markets in other parts of the United States, in part due to the isolation of the market in ERCOT, which is essentially a transmission grid and associated generation facilities with few interconnects to other transmission grids. The City has not "opted in" to full retail competition.

The wholesale energy market in ERCOT was established by legislation enacted in the 1995 Texas Legislature, and has been significantly modified and developed through enactment of Senate Bill 7, approved by the 1999 Texas Legislature ("SB 7") and the commencement of retail electric choice in Texas on January 1, 2002. The discussion below describes some of the effects on the market and the challenges presented to the market as a whole, as well as, in some instances, local regions within ERCOT that are facing particular effects of deregulation.

The information in this section is derived from various PUC and ERCOT source materials, and in particular, portions of this section are excerpted from 2007, 2009, 2011, 2013, 2015, 2017, 2019 and 2021 PUC Reports to the Texas Legislature (The 2007, 2009, 2011, 2013, 2015, 2017, 2019 and 2021 PUC Reports, collectively the "PUC Legislative Reports"). The 2021 PUC Report is available in full on the PUC website at http://www.puc.texas.gov/agency/resources/reports/bar/2021_Biennial_Agency_Report.pdf and previous biennial reports to the Texas Legislature are available in full on the PUC website at <http://www.puc.texas.gov/industry/electric/reports/scope/ScopeArchive.aspx>. Except for specific references to the City or as otherwise noted as being provided by another source or entity, all expressions of opinion, summaries of events and statistical information contained in such sections are from the PUC Legislative Reports. The City does not take responsibility for the content of the PUC Legislative Reports on either the PUC or ERCOT websites or in ERCOT reports. References to website 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 websites and information or links contained therein are not incorporated into, and are not part of, this official statement.

In general, the restructuring of the electric utility industry in accordance with SB 7 continues to evolve, and the City is observing and evaluating the changes in the developing energy market in the State. The elimination of the price to beat ("PTB") rate on January 1, 2007 and the "go-live" implementation of the Nodal Market in ERCOT on December 1, 2010 are key dates in the evolution of the restructured market.

Since January 1, 2002 when consumer choice began in competitive areas of ERCOT, there has been continued development within ERCOT of a market-driven wholesale market in which energy is a commodity. It is apparent that traditional planning methods using known generation resources paired with known load has become less important as a planning approach in the market in general. As the competitive market matures in Texas, the market will almost certainly experience ebbs and flows in the construction of new generation and transmission facilities, and some of the existing generation will be displaced by newer resources, which may affect the market price of energy on both the retail and wholesale levels, as well as the demands on, and capacity of, the existing electric transmission system.

Overview of Senate Bill 7 Market Structure. SB 7 dramatically altered the production and sale of electricity to retail customers in the State. Prior to SB 7, all retail customers in Texas were served by integrated investor owned electric utilities, electric cooperatives ("Electric Co-ops"), or MOUs. The PUC certificated the service areas of utilities, Electric Co-ops, and MOUs, where, for the most part, these entities were granted the exclusive right and obligation to service retail customers in an area. Integrated utilities, MOUs, and Electric Co-ops built generation plants and constructed transmission and distribution facilities and performed retail functions such as billing and customer service to meet their obligations to serve. The PUC set electric rates, for those utilities over which it had rate-making authority, that gave those utilities the opportunity to earn a reasonable return on prudent investments and to recover reasonably incurred expenses, but that were also just and reasonable to retail customers. As described below, the Nodal Design Rule dramatically altered market dynamics in ERCOT.

The wholesale electric market was opened to competition as a result of the amendments to the Texas Public Utility Regulatory Act ("PURA") adopted by the Legislature in 1995. As a part of these amendments, independent power producers ("IPPs") were granted access to the transmission lines of utilities, Electric Co-ops, and MOUs in order for IPPs and power marketers to move power to wholesale customers.

SB 7 established a framework to allow retail electric customers to select a provider of electricity other than the traditional utility beginning on January 1, 2002, unless the PUC delayed competition for a utility's service area. The governing boards of Electric Co-ops and MOUs were granted the authority to decide if and when to open their service areas to customer choice.

Transmission facilities are regulated by the PUC. Distribution facilities are regulated by the PUC in competitive areas but not in areas served by Electric Co-ops and MOUs.

The prices for the production and sale of electricity to both wholesale and retail customers in areas other than those served by Electric Co-ops and MOUs are now predominantly dictated by market forces instead of regulatory rate-setting procedures.

SB 7 established a framework for retail competition that is different from that adopted in other states. Formerly integrated investor owned utilities were required to separate their business functions into three distinct companies: a power generation company (“PGC”), a transmission and distribution utility (“TDU”), and a retail electric provider (“REP”). PGCs operate as wholesale providers of generation services, in the same manner as independent generators. REPs operate as retail providers of electricity and energy services, and are the entities that have the primary contact with retail customers in the new market. TDUs remain regulated by the PUC, and are required to provide non-discriminatory access to the transmission and distribution grid at rates and terms of access prescribed by the PUC.

In Texas, ERCOT performs functions in the retail market that are performed by the TDUs in other states that have introduced retail competition. Key elements in the design of the ERCOT retail market are the creation of a single, large retail market throughout the region and the use of a neutral third party to perform tasks related to the scheduling of power and settlement functions. ERCOT also serves as the registration agent for all retail transactions. All customer switch requests, move-in and move-out requests, and monthly electricity usage data flow through ERCOT.

REPs generally provide electricity to customers by purchasing wholesale electricity from generators located within the ERCOT region. REPs use a qualified scheduling entity (“QSE”) to schedule power through ERCOT to meet their customers’ daily energy needs. All schedules and transactions within ERCOT “flow,” which means that schedules are not contingent upon a determination that there is adequate transmission capacity available to move power from the generation resource to the load. If all of the schedules submitted for a particular day or hour cannot be accommodated because of transmission constraints, ERCOT uses a market-based congestion management system to clear the congestion and maintain reliability. The costs associated with clearing the congestion are assigned to market participants under methods outlined in the protocols adopted by ERCOT (the “ERCOT Protocols” or the “Protocols”) and approved by the PUC. All REPs compete on an equal basis for customers.

Generation Capacity Adequacy. According to the ERCOT Long-Term Hourly Peak Demand and Energy Forecast January 2021 (the “ERCOT LTDEF”), the peak demand on the ERCOT system from 2011-2020 has increased at a rate of 0.9% per year.

The current forecast for 2021 through 2030 indicates a 1.2% average annual increase in ERCOT’s peak demand. Currently there are almost 11,500 MW of generation within ERCOT that is from generating units over 40 years in age. Generation maturity is important to ERCOT planners in determining available capacity, long-range reliability, and whether there will be enough new capacity to compensate for load growth requirements. Age is one indication of the efficiency and maintenance cost of a generating unit, which are major factors in the decommissioning of units. Most of the older capacity is located in and around the larger metropolitan areas of the state.

The chart below provides information on ERCOT projected summer reserve margin for the years 2022 through 2026, based on the ERCOT Report on the Capacity, Demand and Reserves in the ERCOT Region, 2022 – 2031 (the “ERCOT December 2021 CDR Report”), dated December 29, 2021. ERCOT experiences peak demand during the summer; projected winter reserve margins are substantially higher than the projected summer margins.

Year	Summer Load Forecast (MW) ⁽¹⁾	Total Resources Available (MW) ⁽²⁾	Reserve Margin
2022	74,977	92,884	23.9%
2023	76,542	106,684	39.4%
2024	77,767	110,179	41.7%
2025	78,795	110,521	40.3%
2026	79,819	110,683	38.7%

Source: ERCOT December 2021 EDR Report
 (1) Summer Load Forecast is ERCOT’s firm load forecast, not peak summer load.
 (2) Total Resources Available include installed capacity, capacity from private networks, peak average capacity (“PAC”) of wind generation, RMR units, non-synchronous ties, switchable units, available mothballed generation, planned thermal resources with signed interconnection agreement (“IA”) and air permits and water permits and PAC of planned wind units with signed IA. Total Resources Available excludes switchable units unavailable to ERCOT and retiring units.

ERCOT has performed technical studies and reviewed the appropriate level of reserve margins. As a result of such studies, ERCOT has established a 13.75% reserve margin goal for the ERCOT market for planning purposes.

PUC Regulatory Activities. Wholesale Market Oversight. In September 2006, the PUC selected Potomac Economics to serve as the independent market monitor (“IMM”) for ERCOT, a function that was legislated at the request of the PUC by the 2005 Texas Legislature. The IMM has the authority to conduct monitoring, analysis and reporting activities but has no enforcement authority. A PUC rule provides that the IMM shall report directly to the PUC any potential market manipulations, including market power abuse, and any violations of PUC rules or ERCOT Protocols.

The PUC rule establishes the IMM as an office independent from ERCOT, which is not subject to the supervision of ERCOT with respect to its monitoring and investigative activities. ERCOT funds the operations of the IMM, but the budget and expenditures of the IMM are subject to PUC supervision and oversight. The ethical standards governing the IMM director and staff are intended to prevent conflicts of interest between the IMM and a market participant or an affiliate of a market participant. The rule took effect in April 2006. The IMM publishes an annual ERCOT state of the market report.

Emerging Issues. System Hardening. PUC staff initiated a project to identify ways to improve electric and telecommunications infrastructure, and to minimize the utilities' downtime occurring as the result of Gulf Coast hurricanes. To accomplish this, staff conducted industry workshops at the PUC as well as town hall meetings in the Houston, Beaumont, and Corpus Christi areas. Additional information was obtained directly from the utilities as well as interested parties. The final report concluded with three recommendations for utilities along the Gulf Coast and nine recommendations for all of the utilities in the state. Eight recommendations will ultimately require related rulemakings to define the requirements thoroughly for the utilities.

Demand Response. Demand response, the ability of customers to reduce usage in response to high prices or grid conditions, will play an increasing role in the electricity market in the coming years. Certain customers have some ability to respond to high prices by reducing usage at times when the price of electricity rises to a high level. This option may be attractive to additional customers, if developments in metering allow smaller customers to have their consumption metered at intervals shorter than one month and if they take advantage of retail prices that are based on wholesale prices. For ERCOT's settlement system to allow smaller customers to respond readily to spot market prices, advanced metering will be required. When advanced meters are deployed, REPs will have the chance to offer demand response products to smaller customers, which will in turn allow customers to have more control over their electric bills. The PUC adopted a rule on advanced metering in May 2007. Many of the State's utilities have commenced deploying advanced meters in accordance with the rule.

Alternative Transmission Models. According to the PUC, there has been interest in building transmission under a different set of rules. A power generation company might, for example, be willing to build and operate transmission facilities at its own expense (with no support from regulated rates) to connect to the transmission grid, without incurring the obligation to provide open-access to other entities. Such an arrangement might, for example, permit one or more generation companies that are outside of ERCOT to connect their facilities to the ERCOT transmission network at their own expense, without running the risk that they would be obligated to provide service to other customers. A similar transmission arrangement might permit a group of wind generators to build transmission to move the power they generate from West Texas to a location closer to population centers in East and Central Texas. Developers might also be interested in building merchant transmission connections between ERCOT and other power regions (the eastern or western United States or Mexico), where the interconnections are limited today.

The ERCOT Nodal Electric Market. In August 2003, the PUC adopted an order setting forth the parameters of a new nodal electric market within ERCOT. Pure theoretical nodal market design is based upon the costs incurred for delivery of energy to a specific location on the electric grid, and assessing that cost to the specific location as opposed to spreading the cost to all participants on the grid, as in the prior "zonal" wholesale market design of ERCOT. This nodal approach is used in the service areas of several national independent system operators, particularly those in the northeast region of the United States (i.e., the Midwest Independent System Operator, the Pennsylvania, New Jersey, Maryland Independent System Operator, the New York Independent System Operator and the New England Independent System Operator). The Texas nodal electric market design, however, differs from such other nodal approaches in that the ERCOT nodal electric market is a variation of that theoretical approach in which load costs are settled by zones and all other participant costs are settled by specific location (node). The ERCOT nodal electric market went into effect on December 1, 2010.

The prior ERCOT zonal market operated in a manner that allowed parties to meet their contractual requirements and deliver power based upon those contracts. It also allowed entities to self-supply their energy requirements from their owned resources without any market impacts other than the potential of reliability related transmission congestion costs. In the prior ERCOT zonal market design, the sale and purchase of electric power was determined by bilateral agreements.

In the ERCOT nodal electric market design, there are three separate markets, intended to work together to bring efficiency and economy to the ERCOT system: the real-time market, the day-ahead market and the congestion revenue rights market. Prior to any given day of service, ERCOT operates the day-ahead market for energy, ancillary services and some types of congestion revenue rights, as a hedge to the real-time market. On the day of service, ERCOT runs the real-time market, monitors real-time market operations and dispatches energy in the most economic manner consistent with security constraints. Following the day of service, ERCOT settles the financial obligations of the parties.

Electric pricing in the real-time market is determined at each "node" in the electric transmission system. "Nodes" include each onramp for electric generation onto the ERCOT transmission grid, each transmission substation within the ERCOT transmission grid and each distribution off-ramp from the ERCOT transmission grid. Electric pricing paid to electric generators is determined by ERCOT. ERCOT requests (i) "offers" from all electric generators (in terms of price and amount of electric output) and (ii) "bids" for electric load demand from all load serving entities, including Qualified Scheduling Entities, ("QSE") acting on behalf of its respective electric customers. Such QSEs are the entities approved by ERCOT to submit bids to buy and/or offers to sell energy in the ERCOT markets on behalf of both resource entities and load serving entities, as applicable. Each QSE is responsible for settling financially with ERCOT for its transactions.

Balancing the supply and demand, ERCOT determines the "locational marginal price" or "LMP" which is the cost of the last MWh required to serve the requested aggregate demand. The LMP is, however, subject to certain maximum offer caps, currently \$9,000 per MWh. See "Generation Capacity In ERCOT." The LMP is paid to all dispatched electric generators who bid up to that clearing price (without regard to a lesser price bid by a generator) which also corresponds to the necessary amount of electric generation to meet the requested demand. Every load serving entity pays the LMP for electric power requested, which may also include any nodal congestion costs related to such entity's offload "node." This price determination method is done on an ERCOT-wide basis in the real-time market for every fifteen minute settlement period.

Federal Regulation of Electric Transmission Services. The Energy Policy Act of 1992. The Federal Energy Policy Act of 1992 (the "Energy Act") greatly expanded the authority of the Federal Energy Regulatory Commission ("FERC") to order utilities, including utilities within ERCOT, to provide transmission service for other utilities, qualifying facilities, and independent power producers. FERC also has authority to determine the prices that may be charged for transmission, but has generally deferred to the PUC electric transmission open access rules for access and pricing within ERCOT.

Retail Wheeling. The authority to order retail wheeling, which allows a retail customer to be located in one utility's service area and to obtain power from another utility or non-utility source, is specifically excluded from the enhanced authority granted to FERC under the Energy Act. However,

while individual states may have authority to determine whether retail wheeling will be permitted, FERC has determined that it has jurisdiction over the rates, terms and conditions of retail wheeling.

FERC Final Rules and Proposed Rulemaking in Federal Regulation of Electric Utilities. To establish foundations necessary to develop a competitive wholesale electricity market and effectuate the transmission access provisions of the Energy Policy Act, on April 24, 1996, FERC issued two final rules (“FERC Final Rules”) on non-discriminatory open access transmission services by public utilities and stranded cost recovery. The first of the FERC Final Rules, Order No. 888, requires all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to (i) file open-access, non-discriminatory transmission tariffs containing, at a minimum, the non-price terms and conditions set forth in the order and (ii) functionally unbundle wholesale power services by (1) applying unified transmission tariffs system to all customers, (2) providing separate rate systems for wholesale generation, transmission and ancillary services, and (3) relying on the same electronic information dissemination network that its transmission customers rely on in selling and purchasing energy. The second of the FERC Final Rules, Order No. 889, requires all public utilities to establish or participate in an Open Access Same-Time Information System (OASIS) that meets certain specifications, and comply with standards of conduct designed to prevent employees of a public utility (or any employees of its affiliates) engaged in wholesale power marketing functions from obtaining preferential access to pertinent transmission system information.

FERC stated that its overall objective is to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. FERC also indicated that it intends to apply the principles set forth in the FERC Rules to the maximum extent to municipal and other non-FERC regulated utilities, both in deciding cases brought under the Federal Power Act and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

Although the FERC Rules do not directly regulate municipally-owned and other non-FERC regulated utilities, the FERC Rules have a significant impact on such utilities’ operations. The FERC Rules have significantly changed the competitive climate in which the non-FERC regulated utilities operate, giving their customers much greater access to alternative sources of electric transmission services. The rules require them to provide open access transmission service conforming to the requirements for investor owned utilities whenever they are properly requested to do so under the Energy Policy Act or as a condition of taking transmission service from an investor owned utility. In certain circumstances, the non-FERC regulated utilities are required to pay compensation to their present suppliers of wholesale power and energy for stranded costs that may arise when the non-FERC regulated utilities exercise their option to switch to an alternative supplier of electricity.

Over past years, various efforts have been made to provide some interstate connections with the ERCOT transmission grid. These efforts have resulted in protracted judicial and administrative proceedings involving ERCOT members. FERC has issued orders, which, among other things, permit the ERCOT members to avoid Federal regulation of rates as the result of the ordered interconnections with another interstate connected utility.

Reliability Compliance. The Federal Energy Policy Act of 2005 (the “2005 Energy Act”) significantly changed the electric regulatory climate in North America. The 2005 Energy Act requires all electric utilities in the United States to comply with reliability standards promulgated and enforced by the North American Electric Reliability Corporation (“NERC”), under the supervision of FERC. Such mandatory and enforceable reliability standards include the ability to assess civil penalties for violations of such standards. The 2005 Energy Act also allows NERC to delegate enforcement authority to a regional entity, subject to FERC approval, and NERC has designated the Texas Regional Entity as the regional enforcement entity within ERCOT.

Proposed Federal and State Legislation. Many bills have been introduced in the United States House of Representatives, the United States Senate and the Texas Legislature to further deregulate the electric utility industry on the federal or state level. Many of the bills provide for open competition in the furnishing of electricity to all retail customers (i.e., retail wheeling). In addition, various bills have been introduced that would impact the issuance of debt by or the operations of Electric Co-ops and MOUs. No prediction can be made as to whether these bills or any future proposed federal bills will become law or, if they become law, what their final form or effect would be.

Environmental Regulation. Electric utilities, in general, are subject to numerous environmental statutes, regulations, and other rules administered at the federal, state, and local level. These environmental rules generally tend to increase and become more stringent over time and are subject to change especially with changes in Presidential Administrations.

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

Table 2

Fiscal Year Ended 12/31	Currently Outstanding Parity Bonds Debt Service	The Bonds			Currently Outstanding Junior Lien Bonds Debt Service	Total Outstanding Debt Service
		Principal	Interest	Total		
2022	\$ 2,780,563				\$ 196,400	\$ 2,976,963
2023	2,772,913	\$ 495,000	\$ 378,997	\$ 873,997	201,600	3,848,510
2024	2,514,563	295,000	578,963	873,963	191,500	3,580,025
2025	2,508,913	310,000	564,213	874,213	195,725	3,578,850
2026	2,518,063	325,000	548,713	873,713	194,600	3,586,375
2027	2,515,113	345,000	532,463	877,463	192,400	3,584,975
2028	2,519,863	360,000	515,213	875,213	-	3,395,075
2029	2,517,013	380,000	497,213	877,213	-	3,394,225
2030	2,516,863	400,000	478,213	878,213	-	3,395,075
2031	2,354,513	415,000	458,213	873,213	-	3,227,725
2032	2,356,313	440,000	437,463	877,463	-	3,233,775
2033	2,360,913	460,000	415,463	875,463	-	3,236,375
2034	2,358,113	485,000	392,463	877,463	-	3,235,575
2035	2,088,163	505,000	368,213	873,213	-	2,961,375
2036	1,581,613	535,000	342,963	877,963	-	2,459,575
2037	1,574,813	560,000	316,213	876,213	-	2,451,025
2038	1,580,563	585,000	288,213	873,213	-	2,453,775
2039	1,578,125	610,000	264,813	874,813	-	2,452,938
2040	1,002,750	635,000	240,413	875,413	-	1,878,163
2041	1,001,500	660,000	215,013	875,013	-	1,876,513
2042	1,003,250	685,000	188,613	873,613	-	1,876,863
2043	1,003,250	715,000	161,213	876,213	-	1,878,963
2044	-	745,000	132,613	877,613	-	877,613
2045	-	775,000	101,881	876,881	-	876,881
2026	-	805,000	69,913	874,913	-	874,913
2047	-	840,000	35,700	875,700	-	875,700
	<u>\$45,007,238</u>	<u>\$13,365,000</u>	<u>\$8,523,354</u>	<u>\$21,888,354</u>	<u>\$1,172,225</u>	<u>\$68,067,816</u>

FINANCIAL INFORMATION
Condensed Statement of System Operations

Table 3

	Fiscal Year Ended December 31,				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Revenues					
Power Sold	\$33,151,192 ⁽¹⁾	\$40,665,881	\$38,198,212	\$39,863,943	\$38,816,155
Other Revenue	<u>1,798,482</u>	<u>1,469,236</u>	<u>1,798,482</u>	<u>1,546,605</u>	<u>1,510,659</u>
Total Revenues	\$35,137,951	\$42,135,117	\$39,996,694	\$41,410,548	\$40,326,814
Expenses					
Power Purchased	\$20,241,582 ⁽²⁾	\$27,143,074	\$24,785,481	\$26,349,171	\$26,112,071
Distribution	2,189,392	2,083,979	1,913,713	2,062,769	2,467,866
Transmission	3,912	6,942	2,886	3,297	6,463
Administration	1,900,129	1,446,320	1,301,534	1,238,523	1,306,532
Other Expenses	<u>1,506,018</u>	<u>2,442,611</u>	<u>2,696,975</u>	<u>2,703,750</u>	<u>2,862,442</u>
Total Expense	\$25,841,033	\$33,122,926	\$30,700,589	\$32,357,510	\$32,755,374
Net Available for Debt Service	\$9,296,918	\$9,012,191	\$9,296,105	\$9,053,038	\$7,571,440
Customer Count	16,778	16,375	16,083	15,829	15,569

⁽¹⁾ Does not include \$4,657,872 of fuel recovery charges associated with the events of Winter Storm Uri.

⁽²⁾ Does not include approximately \$29,000,000 of unpaid additional fuel and purchased power charges associated with Winter Storm Uri. For additional information regarding these charges and the System's intended repayment plan, please see "THE SYSTEM – 2021 Winter Storm" herein.

COVERAGE AND FUND BALANCES

Table 4

Average Annual Parity Bonds Principal and Interest Requirements, 2022-2047 ⁽¹⁾	\$ 2,572,907
Coverage of Average Annual Parity Bonds Requirements by 12/31/2021 Net Available for Debt Service ⁽¹⁾	3.61X
Estimated Maximum Parity Bonds Principal and Interest Requirements, 2023 ⁽¹⁾	\$ 3,646,910
Coverage of Maximum Parity Bonds Requirements by 12/31/2021 Net Available for Debt Service ⁽¹⁾	2.55X
Average Annual Total Principal and Interest Requirements (All Parity Bonds and Junior Lien Bonds), 2022-2047 ⁽¹⁾	\$ 2,617,993
Coverage of Average Annual Total Requirements by 12/31/2021 Net Available for Debt Service ⁽¹⁾	3.55X
Estimated Maximum Total Principal and Interest Requirements (All Parity Bonds and Junior Lien Bonds), 2023 ⁽¹⁾	\$ 3,848,510
Coverage of Maximum Total Requirements by 12/31/2021 Net Available for Debt Service ⁽¹⁾	2.42x
Electric System Revenue Bonds Outstanding (All Parity Bonds and Junior Lien Bonds) ⁽¹⁾	\$ 43,745,000
Interest and Sinking Fund, 12/31/21	\$ 1,322,746

⁽¹⁾ Includes the Bonds.

COMPARATIVE RATES
Residential Electric Utility Rate Survey
As of February 2022

Table 5

Texas Utilities	1000 kwh⁽¹⁾
City of San Marcos	\$ 95.39
Austin Energy	99.16
City of Boerne	103.49
City of Seguin	108.65
Magic Valley Electric	109.90
Floresville Electric Light & Power System	115.20
New Braunfels Utility	119.41
CPS Energy (San Antonio)	120.07
Guadalupe Valley Electric Cooperative	120.39
San Bernard Electric Cooperative	148.00

⁽¹⁾ Source: Floresville Electric Light & Power System Staff Calculations.

NET UTILITY PLANT

Table 6

	Fiscal Year Ended December 31,				
	2021	2020	2019	2018	2017
Electric distribution system	\$114,179,084	\$107,609,238	\$103,039,659	\$97,532,986	\$92,300,081
Electric transmission system	1,782,447	1,760,731	1,735,982	1,721,359	1,705,435
Land, buildings and improvements	16,061,881	11,611,684	2,983,942	2,157,988	2,063,499
Automobiles and trucks	4,195,128	4,408,558	4,329,034	4,357,814	4,276,936
Office and computer equipment	2,161,820	1,750,030	1,618,295	1,849,200	1,442,563
Large tools	<u>340,343</u>	<u>629,097</u>	<u>626,117</u>	<u>604,294</u>	<u>594,269</u>
Total Value	\$138,720,703	\$127,769,336	\$114,333,029	\$108,224,272	\$102,382,783
Less: Depreciation	<u>55,183,210</u>	<u>54,338,915</u>	<u>53,791,687</u>	<u>51,447,233</u>	<u>48,937,196</u>
Net Utility Plant	83,537,493	\$73,430,421	\$60,541,342	\$56,777,039	\$53,445,587

Anticipated Issuance of Revenue Bonds. The System expects to issue approximately \$3,500,000 of additional revenue bonds early in the 2023 calendar year. The System may additionally issue revenue bonds in 2023 to repay outstanding charges associated with the 2021 Winter Storm. See "THE SYSTEM - 2021 Winter Storm."

Pension Fund. The System provides pension benefits for all of its full-time employees. The System makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX C - "Excerpts from the System's Annual Financial Report" – Note #9).

**LARGEST CUSTOMERS
January 2021 – December 2021**

Table 7

Customer	Type of Industry	KWH'S	Percent of Power Sold ⁽¹⁾
Floresville ISD	Public School	8,136,388	2.31%
Lyssy & Eckel Feed	Pellet Plan & Elevators	5,465,503	1.55%
EOG Resources	Oil Production	4,506,803	1.28%
Recoil Resources Operating	Oil Production	3,965,283	1.13%
Connally Memorial Medical Ctr	Hospital	3,648,987	1.04%
HEB Grocery Company, LP	Grocery Store	3,427,665	0.97%
Wal-Mart Inc.	Retail Store	3,278,400	0.93%
City of Floresville	City Government	2,475,574	0.70%
Wilson County	County Government	2,269,015	0.64%
Texaloy Foundry	Foundry	<u>1,776,840</u>	<u>0.51%</u>
Total		<u>38,950,458</u>	<u>10.57%</u>

⁽¹⁾ Based on Total Twelve Month Sales of 351,798,737 KWH.

INVESTMENTS

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

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

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

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

Investment Policies. Under State law, the System is required to adopt and annually review written investment policies and must invest its funds in accordance with its policies. The policies must identify eligible investments and address investment diversification, yield, maturity, and the quality and capability of investment management. For investments whose eligibility is rating dependent, the policies must adopt procedures to monitor ratings and liquidate investments if and when required. The policies must require that all investment transactions settle on a delivery versus payment basis. The System is required to adopt a written investment strategy for each fund group to achieve investment objectives in the following order of priority: (1) suitability, (2) preservation and safety of principal, (3) liquidity, (4) marketability, (5) diversification, and (6) yield.

State law requires the System’s investments be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived.” The System is required to perform an annual audit of the management controls on investments and compliance with its investment policies and provide regular training for its investment officers.

Table 8

Current Investments. As of October 15, 2022 (unaudited), System investable funds were invested in the following categories:

<u>Category</u>	<u>Amount</u>	<u>% of Portfolio</u>
Cash	\$ 11,242,496	54.16%
Money Market	3,730,032	17.97%
TexPool	3,336,724	16.07%
Certificates of Deposit	<u>2,450,000</u>	<u>11.80%</u>
	\$20,759,252	100.00%

TAX MATTERS

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

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

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

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

For taxable years beginning after 2022, the Code imposes a minimum tax of 15 percent of the adjusted financial statement income of certain large corporations, generally consisting of corporations (other than S corporations, regulated investment companies and real estate investment trusts)

with more than \$1 billion in average annual adjusted financial statement income, determined over a three-year period. For this purpose, adjusted financial statement income generally consists of the net income or loss of the taxpayer set forth on the taxpayer's applicable financial statement for the taxable year, subject to various adjustments, but is not reduced for interest earned on tax-exempt obligations, such as the Bonds. Prospective purchasers that could be subject to this minimum tax should consult with their own tax advisors regarding the potential impact of owning the Bonds.

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

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

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

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

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

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

OTHER INFORMATION

Ratings. S&P Global Ratings ("S&P") assigned an insured rating of "AA" (Stable Outlook) to the Bonds with the understanding that, concurrently with the delivery of the Bonds, a municipal bond insurance policy will be issued by AGM. The Bonds have been rated "A+" by S&P without regard to credit enhancement. (See "BOND INSURANCE" and "BOND INSURANCE RISK FACTORS" herein).

An explanation of the significance of such rating may be obtained from S&P. The rating of the Bonds by S&P reflects only the views of S&P at the time the rating is given, and the System makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the ratings will not be revised downward or withdrawn entirely by S&P if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. A rating is not a recommendation to buy, hold or sell securities.

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

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

Registration and Qualification of Bonds for Sale. The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction.

Neither the City nor the System assume any responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

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

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

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

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City, acting by and through the System (who has accepted such responsibility by resolution of the System adopted on October 26, 2022), has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the System, on behalf of the City, will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system through an internet website accessible at www.emma.msrb.org.

Annual Reports. Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the System must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file each audit report with the Secretary of the Board of Trustees within 180 days after the close of the System's fiscal year. The System's fiscal records and audit reports are available for public inspection during the regular business hours of the Secretary of the Board of Trustees. Additionally, upon the filing of these financial statements and the annual audit, these documents are subject to the Texas Open Records Act, as amended, Texas Government Code, Chapter 552. Thereafter, any person may obtain copies of these documents upon submission of a written request to the Chief Financial Officer of the System, 187 State Highway 97 E., Floresville, Texas 78114, and upon paying the reasonable copying, handling, and delivery charges for providing this information.

The City, acting by and through the System, will file with the MSRB annually certain updated financial information and operating data. The information to be updated includes all quantitative financial information and operating data with respect to the System of the general type disclosed in Tables 1 through 8 in this Official Statement and in APPENDIX C hereto. The System will update and provide this information within six months after the end of each fiscal year ending in or after 2022.

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

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

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

For these purposes, (a) any event described in clause (12) of the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under the state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) the

City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

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

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

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

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

For the fiscal year ending September 30, 2018, the City of Floresville, Texas timely filed its annual financial operating tables along with unaudited financials as required by its continuing disclosure agreements. However, a complete and final copy of the City's audited financial statements for fiscal year ending September 30, 2018 was not filed when available to the City, as required by its continuing disclosure agreements. Such audit was filed on September 17, 2019. A material event notice regarding this late filing was made on October 23, 2019.

FINANCIAL ADVISOR

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

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at the prices indicated on the inside front cover hereof less an underwriting discount of \$88,789.76, and no accrued interest. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

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

INFECTIOUS DISEASE OUTBREAK – COVID-19

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

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State. The Governor retains the right to impose additional restrictions on activities if needed in order to mitigate the effects of COVID-19. The System has not experienced any decrease in

revenues as a result of COVID-19; however the System cannot predict the long term economic effect of COVID 19 or a similar virus should there be a reversal of economic activity and reimposition of restrictions.

MISCELLANEOUS

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

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

The Ordinance authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriter.

This Official Statement has been approved by the Board of Trustees of the System and by the City Council of the City for distribution in accordance with the provisions of the United States Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12.

ATTEST:

/s/ Monica Veliz
City Secretary
City of Floresville, Texas

/s/ Cecelia Gonzalez-Dippel
Mayor
City of Floresville, Texas

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APPENDICES

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

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

The information contained in Appendix C consists of City of Floresville Electric Light & Power System, Annual Financial Report for Fiscal Year Ended December 31, 2021.

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

The information contained in Appendix E consists of the Specimen Municipal Bond Insurance Policy.

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APPENDIX A

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

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THE CITY

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

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

Historical population for the area includes:

Year ⁽¹⁾	City	County
1970	3,707	13,041
1980	4,381	16,756
1990	5,247	22,650
2000	5,868	32,408
2010	6,448	42,918
2020	7,203	49,753

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

Description of the City. The City is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Councilmembers. The term of office is two years with the terms of the Mayor and two of the aldermen’s terms expiring in even-numbered years and the other terms of the three Aldermen expiring in odd-numbered years. There are term limits of three two-year terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, electric, water, and sanitary sewer utilities, culture-recreation, public improvements, planning and zoning, and general administrative services. The estimated 2022 population for the City was 8,747. The City covers approximately five square miles.

Education. The Floresville Independent School District is comprised of one high school, one middle school, two elementary schools, and one alternative education school with a combined 2021/22 enrollment of approximately 4,016. In addition to the public school system, there are several private kindergartens, licensed day care centers, and a parochial school (grades Pre K-4).

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

Wilson County. Wilson County is located in South Texas and is adjacent to Bexar County and just south of the San Antonio metropolitan area. Part of northern Wilson County is considered to be within the San Antonio metropolitan area. According to the Texas Almanac, Wilson County was created and organized from Bexar and Karnes counties in 1860 and was named for James C. Wilson, a member of the Mier Expedition. The county contains approximately 809 square miles of land area. Typical elevations vary from 300 feet above MSL to 781 feet above MSL. The average annual rainfall for the county is 29.4 inches. The county’s average mean minimal temperature is 36 degrees Fahrenheit generally occurring in January. The average mean maximum temperature is 96 degrees F and generally occurs in July. The 2020 U.S. Census population of Wilson County is 49,753, up from the 2010 Census population of 42,918. Floresville, the county seat of Wilson County has a 2020 Census population of 7,203. Other population centers for the county include La Vernia, Poth, Stockdale, and Sutherland Springs.

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

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

Labor Force Statistics for Wilson County

	2022⁽¹⁾	2021	2020	2019	2018
Labor Force	25,467	24,999	24,248	24,876	24,556
Total Employed	24,644	23,899	22,860	24,174	23,806
Unemployed	823	1,100	1,388	702	750
% Unemployment	3.2%	4.4%	5.7%	2.8%	3.1%
% Unemployment (Texas)	4.2%	5.7%	7.7%	3.5%	3.9%
% Unemployment (U.S)	3.8%	5.3%	8.1%	3.7%	3.9%

Source: Texas Workforce Commission.

⁽¹⁾ As of August 2022.

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APPENDIX B

Selected Provisions of the Ordinance

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APPENDIX B

Selected Provisions of the Ordinance

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

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

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

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

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

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

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

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

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

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

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

K. “*Credit Facility*” - a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations under and pursuant to Texas law, including the debt service reserve surety policy issued by the Credit Provider and deposited in the reserve common account of the Retirement Account as further described in Section 14(2) hereof, with the reimbursement obligations owed to the Credit Provider in connection therewith; or (ii) a letter or line of credit issued by any financial institution authorized under applicable Texas law to deliver such type of financial instruments.

L. “*Credit Provider*” - any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Facility, including Assured Guaranty Municipal Corp. (as issuer of the debt service reserve surety policy currently on deposit in the Retirement Account as described in Section 14(2) hereof).

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

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

O. “*Government Securities*” shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; or (iv) any additional

securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

P. “*Interest Payment Date*” - February 15, 2023 and each August 15 and February 15 thereafter.

Q. “*Insurance Policy*” means the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

R. “*Insurer*” means Assured Guaranty Municipal Corp., a New York stock insurance company, or any successor thereto or assignee thereof.

S. “*Maintenance and Operating Expenses*” - those expenses required by the law (Article 1113, Vernon’s Texas Civil Statutes, as amended, now codified as Chapter 1502, as amended, Texas Government Code) to be a first lien on and charge against the income of the System, including the cost of insurance; the purchase and carrying of stores, materials, and supplies; the purchase, manufacture, and production of electricity for distribution and resale; the payment of salaries; and the payment of all other expenses properly incurred in operating and maintaining the System and keeping it in good repair and operating condition (classed as a maintenance and operating expense as opposed to a capital expenditure under the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners); provided, however, the definition of Maintenance and Operating Expenses shall never include any allowance for depreciation, property retirement, depletion, obsolescence, and other items not requiring an outlay of cash and any interest on the Parity Bonds or any other debt.

T. “*Moody’s*” - Moody’s Investors Service, Inc., or any successor thereto or assignee thereof.

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

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

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

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

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

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

W. “*Outstanding Bonds*” - (i) City of Floresville, Texas Electric Light and Power System Junior Lien Revenue Refunding Bonds, Series 2014 originally issued in the principal amount of \$2,015,000, (ii) City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2014 originally issued in the principal amount of \$8,935,000, (iii) City of Floresville, Texas Electric Light and Power System Revenue Refunding Bonds, Series 2015 originally issued in the principal amount of \$6,565,000, (iv) City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2018 originally issued in the principal amount of \$14,770,000, (v) City of Floresville, Texas Electric Light and Power System Revenue Refunding Bonds, Series 2020 originally issued in the principal amount of \$8,665,000, and (vi) upon issuance, the Bonds.

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

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

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

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

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

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

DD. “*System*” - the entire electric light and power plants and system and all property of every kind appurtenant to and used or acquired in connection with said electric light and power plant and system owned by the City and described in and covered by this Ordinance and any additional enterprise funds, businesses, or other facilities permitted by Chapter 164, as amended, Texas Utilities Code, upon obtaining the written consent from each of the Participating Cities while the System Agreement is in effect, together with all property of every kind now and hereafter owned or acquired by the City or the Participating Cities as a part of or for use in the operation of such electric light and power plants and system, excluding from the foregoing, however, to the extent now or hereafter authorized or permitted by law, facilities of any kind which are declared by the City Council prior to the acquisition or construction thereof by the City, not to be a part of the System and which are acquired or constructed by or on behalf of the City with the proceeds of the issuance of “*Special Facilities Bonds*” which are hereby defined as being special revenue obligations of the City which are not payable from Net Revenues but which are payable from and

secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Parity Bonds, including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

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

SECTION 10: Pledge.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

From the Net Revenues pledged to the payment and security of the Parity Bonds, the Board shall cause to be paid into the Retirement Account such amounts as will be fully sufficient to (i) promptly pay, when due, all principal of and interest on the Parity Bonds (hereinafter sometimes referred to as the “interest and sinking fund portion” of the Retirement Account) and (ii) establish and maintain in the Retirement Account a reserve amount (hereinafter sometimes referred to as

the “Reserve Amount” or “reserve fund portion”) equal to not less than the average annual principal and interest requirements of all outstanding Parity Bonds (calculated on a Fiscal Year basis as of the date the last series of Parity Bonds were authorized). The Reserve Amount may be provided in whole or in part by one or more Credit Facilities.

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

(1) Deposits for payment of interest—on or before the first calendar day of the first month to occur following the date of delivery of the Bonds to the Purchasers and on or before the first calendar day of each following month through February 1, 2023, an equal amount of money with such deposits totaling not less than the amount of the installment of interest coming due on the Bonds on August 15, 2023, and beginning on or before March 1, 2023 and on or before the first calendar day of each following month, until the Bonds are no longer outstanding, an amount of money equal to not less than one-sixth (1/6) of the next semiannual installment of interest to become due on the Bonds; provided, however, that to the extent there is money available in the interest and sinking fund portion of the Retirement Account to pay interest on the Bonds on any February 15 or August 15, such deposits may be reduced by the amount of the aforesaid money available to pay said interest on the Bonds.

(2) In accordance with the provisions of the ordinances authorizing the issuance of the Parity Bonds, the amount currently on deposit in the reserve fund portion of the Retirement Account is \$2,304,285.00. By reason of issuance of the Bonds, the total amount to be accumulated and maintained in the reserve fund portion of the Retirement Account is hereby determined to be \$2,572,907.00 (the *Reserve Amount*), which is at least equal to the Average Annual Principal and Interest Requirements for the Parity Bonds. Until the issuance of any Additional Parity Bonds, the Reserve Amount shall be accumulated in the following manner: beginning on or before the last day of the month following the delivery of the Bonds to the Purchasers and on or before the last day of each following month until the Reserve Amount has been accumulated, the City covenants and agrees to deposit to the reserve fund portion of the Retirement Account from the Net Revenues of the System, or any other lawfully available funds, an amount not less than \$0.00, being the required monthly Reserve Amount deposits. Notwithstanding the foregoing, the Reserve Amount for the Bonds and the Parity Bonds will be funded by a surety policy which shall be deposited into the Retirement Account.

(3) Deposits for payment of principal—on or before October 15, 2023, and on or before the 15th calendar day of each following month, until the Bonds are no longer outstanding, an equal amount of money so that such deposits shall total, when due, the next annual principal payment becoming due on the Bonds.

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

appropriate) and then replenish any cash required in the Retirement Account to restore the Reserve Amount.

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

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

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

SECTION 17: Investments. Money on deposit in the Retirement Account and the Repair and Replacement Account may be, at the option of the Board, invested in Permitted Investments. Any obligations, or evidences of ownership of said obligations, in which funds on deposit in the aforementioned Accounts are so invested shall be kept in escrow in the respective Depositories for such Accounts and such investments shall be promptly sold when required and the proceeds of the sale applied to the making of payments required to be made from the Account from which the investment was made whenever such payments are necessary to be made. All income and profits received from the investment of funds in the Repair and Replacement Account shall be transferred and credited to the Revenue Fund. During the period of time the Reserve Amount in the Retirement Account is on deposit therein, all income and profits received from the investment of such funds shall be transferred to the interest and sinking fund portion of the Retirement Account,

thereby reducing the amount required to be deposited therein, to meet the debt service requirements of Parity Bonds; otherwise income and profits received from investments of the funds constituting the reserve portion of the Retirement Account shall be retained as a portion of the reserve portion until the Reserve Amount is attained. Income and profits received from investments of funds on deposit in the interest and sinking fund portion of the Retirement Account shall be used only for the purposes of paying the principal of and interest on the Parity Bonds, as and when the same shall become due.

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

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

SECTION 20: Issuance of Additional Parity Bonds.

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

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

(2) The Board shall have secured from the Chief Executive Officer or chief financial officer of the System evidencing his determination that the Net Revenues (including earnings from the investment of System's funds) were, during the last completed Fiscal Year or for any consecutive 12 month period during the last 15 consecutive months prior to the month of adoption of the ordinance authorizing the issuance of the additional

obligations, equal to at least 1.25 times the Average Annual Principal and Interest Requirements on the then-outstanding Parity Bonds and the Additional Parity Bonds then proposed to be issued. For the purpose of making such determination, the Chief Executive Officer or chief financial officer of the System may adjust the Net Revenues to include a proper allowance for revenues arising from any increase in electric rates which has become effective prior to the issuance of the proposed Additional Parity Bonds, but which during all or any part of the past Fiscal Year, or other 12 month period used for determining said Net Revenues, was not in effect in an amount equal to the amount by which the billings of the System to customers for such Fiscal Year or 12 month period would have been increased if such increase in rates had been in effect during the whole of such Fiscal Year or 12 month period.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- (1) Make any change in the maturity of outstanding Parity Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding Parity Bonds;
- (3) Reduce the amount of the principal of, or redemption premium, if any, payable on any outstanding Parity Bonds;
- (4) Modify the terms of payment of principal or of interest or redemption premium on outstanding Parity Bonds or any of them or impose any condition with respect to such payment;

(5) Affect the rights of the holders of less than all of the Parity Bonds then outstanding; or

(6) Change the minimum percentage of the principal amount of bonds necessary for consent to such amendment.

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

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

D. Upon the adoption of any amendatory ordinance pursuant to the provisions of this Section, the ordinances authorizing the Parity Bonds then outstanding shall be deemed to be modified and amended in accordance with such amendatory ordinance, and the respective rights, duties, and obligations of the City and all holders of outstanding Parity Bonds shall thereafter be determined, exercised, and enforced, subject in all respects to such amendment.

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

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

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

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

SECTION 25: Records--Accounts-Accounting Reports. The City hereby covenants and agrees that so long as any Parity Bonds, or any interest thereon, remain outstanding and unpaid, a proper and complete set of records and accounts pertaining to the operation of the System shall be kept and maintained separate and apart from all other records and accounts of the City, in which complete and correct entries shall be made of all transactions relating to the System as provided in Article 1113, Vernon's Texas Civil Statutes, as amended (codified as Section 1502.069, Texas Government Code on September 1, 1999), and that the holder or holders of any of the Parity Bonds or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts, and data relating thereto and to inspect the System and all properties comprising the same. The Board shall, so far as practicable, keep its books and records in the manner prescribed in the Uniform System of Accounts adopted by the National Association of Regulatory Utility Commissioners. It is further agreed that as soon after the close of each Fiscal Year as may reasonably be done, the City (acting by and through the Board) will cause an annual audit of such books and accounts to be made by an independent firm of certified public accountants. Each such audit, in addition to whatever other matters may be thought proper by the accountants, shall reflect the revenues and expenses of the System for said Fiscal Year, and the assets, liabilities, and financial condition of the System (in reasonable detail) at the close of such Fiscal Year. Expenses incurred in making the audit above referred to are to be regarded as Maintenance and Operating Expenses and paid as such.

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

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

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

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

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

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

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

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

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

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

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

C. Prior to the issuance of any replacement bond, the Paying Agent/Registrar shall charge the owner of such Bond with all legal, printing, and other expenses in connection therewith. Every replacement bond issued pursuant to the provisions of this Section by virtue of the fact that any Bond is lost, stolen, or destroyed shall constitute a contractual obligation of the City whether

or not the lost, stolen, or destroyed Bond shall be found at any time, or be enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and proportionately with any and all other Bonds duly issued under this Ordinance.

D. This Section of this Ordinance shall constitute authority for the issuance of any such replacement bond without necessity of further action by the governing body of the City or any other body or person, and the duty of the replacement of such bonds is hereby authorized and imposed upon the Paying Agent/Registrar, and the Paying Agent/Registrar shall authenticate and deliver such bonds in the form and manner and with the effect, as provided in Section 5 of this Ordinance for Bonds issued in conversion and exchange for other Bonds.

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

* * * *

APPENDIX C

The information contained in Appendix C consists of City of Floresville Electric Light & Power System,
Annual Financial Report for Fiscal Year Ended December 31, 2021.

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Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Independent Auditor's Report and Financial Statements

December 31, 2021 and 2020

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
December 31, 2021 and 2020

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type and fiduciary activities of Floresville Electric Light and Power System (FELPS), a component unit of the City of Floresville, Texas, as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise FELPS' basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type and fiduciary activities of FELPS as of December 31, 2021 and 2020, and the changes in financial position and, where applicable, cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of FELPS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management 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, and for 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. In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about FELPS' ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 FELPS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about FELPS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, is the responsibility of management and although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise FELPS' basic financial statements. The Summary of Property and Equipment and Accumulated Depreciation, Schedule of Revenue Bond Debt Service Requirements to Maturity and Schedule of Power Sold as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Summary of Property and Equipment and Accumulated Depreciation, Schedule of Revenue Bond Debt Service Requirements to Maturity and Schedule of Power Sold are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

BKD, LLP

San Antonio, Texas
March 30, 2022

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Management's Discussion and Analysis
Fiscal Years Ended December 31, 2021 and 2020

The management's discussion and analysis (MD&A) serves as an introduction to the financial statements of Floresville Electric Light and Power System (FELPS/System). It is intended to be an objective and easily understandable analysis of significant financial and operating activities and events for the years ended December 31, 2021 and 2020. It also provides an overview of FELPS' general financial condition and results of operations for the fiscal years ended December 31, 2021 and 2020. This MD&A is in accordance with the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*.

The Audited Financial Statements Presented this Year Include the Following:

The statements of net position present information on FELPS' assets, deferred outflows of resources, liabilities and deferred inflows of resources as of the end of the respective reporting periods. Assets are reported as current and noncurrent. Restricted assets include cash, cash equivalents and investments. These assets are classified as restricted due to State Law and Bond Ordinances. Additionally, receivables, investments, inventories, prepayments and net capital assets are itemized. Liabilities are segregated into current and noncurrent to illustrate the short-term liabilities from operations and the long-term nature of pension liabilities and bonds payable. The fund net position is classified as net investment in capital assets (net of related debt), restricted and unrestricted which is available for operations. Restricted net position includes restricted cash for the retirement of bonds payable.

The statements of revenues, expenses and changes in net position include all reporting period revenues and expenses of the System during the reporting period. These statements identify the amount of revenue generated from existing energy sales to cover operating expenses for the year, with operating expenses shown by major cost categories. Remaining revenue is available to pay for disbursements according to the flow of funds, as stated in the Bond Ordinance. GASB 33, *Accounting and Financial Reporting for Nonexchange Transactions*, requires governments to recognize capital contributions to enterprise funds as revenues, not contributed capital. This revenue is shown on the statements of revenues, expenses and changes in net position.

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

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Management's Discussion and Analysis

Fiscal Years Ended December 31, 2021 and 2020

Following are other analyses and explanations of the transactions, activities and events that had a major impact on either the net position or the change in net position for 2021 and 2020.

Major Transactions and Events

FELPS, during its history, has shown steady growth. When the System was purchased from CPS Energy (CPSE) in 1942, by the cities of Floresville, Stockdale and Poth, the utility had 802 customers compared with an average of 16,778 and 16,375 at the end of 2021 and 2020, respectively.

FELPS did not issue Revenue Bonds in 2021. During 2021, Standard & Poor's affirmed FELPS' A+ rating on the senior-lien debt and A rating on the junior-lien debt but assigned a negative outlook. The negative outlook was given due to the potential exposure to natural gas prices, as experienced during Winter Storm Uri. FELPS has hedged 75 percent of its daily MMBtu requirements over the course of the year, as determined by the historical and forecasted load. The scope and scale of the winter weather event was unprecedented and beyond the realistic levels FELPS would hedge. Hedging at such a level would have exceeded the tolerances of the risk management guidelines and would have been out of line with good utility practice.

CPSE, with an industry leading credit rating, continues to serve as FELPS' wholesale power supplier. FELPS' Wholesale Power Agreement with CPSE began January 1, 2016. During 2016, FELPS renegotiated the agreement to include a cost reduction and an extension of the terms through December 31, 2025. The renegotiated contract began January 1, 2021. The contract changed the pricing structure from a contract tied to CPSE's system rate to one tied to a "Heat Rate" based contract. As stated previously, Winter Storm Uri affected FELPS with extremely high gas prices. In August 2021, FELPS and CPSE executed a Confidential Standstill and Tolling Agreement for the February 2021 billing period to allow CPSE to pursue matters with their gas suppliers, which may affect the amount owed by FELPS to CPSE. This agreement is effective until August 25, 2022. During August, FELPS made an initial payment of approximately \$10.2 million toward the February invoice.

FELPS is allowed by the System Agreement and based on FELPS' Board of Trustees' authorization to transfer up to 3 percent of the System's gross electric sales revenue to the owner cities – Floresville, Stockdale and Poth. According to the franchise agreements, FELPS transfers 2.5 percent of gross electric sales within the city limits of La Vernia and 2 percent within the city limits of Falls City to those two cities. During 2021, these distributions were made.

FELPS maintains ongoing training and development of staff with participation in outside organizations related to FELPS' engineering, operational and financial functions. Board of Trustee (Board) members attend periodic work sessions to help them make informed decision. FELPS has implemented enhanced and regular key staff meetings to disseminate information and obtain vital feedback. During 2021, all employees moved into a new facility allowing easier dissemination of information. Customers are continually provided timely information through bill mailings and other forums.

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

Floresville Electric Light and Power System
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Management's Discussion and Analysis
Fiscal Years Ended December 31, 2021 and 2020

Management and the Board review all budgets on an ongoing basis and annually update forecasts with new financial analysis from actual experience. FELPS financial planning window extends through 2026 and remains on track with its long-range forecast and plans.

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

Comparison of 12 Months Ended December 2021, 2020 and 2019

Operating revenues from electric sales for the year 2021 totaled \$37,809,064, a 7 percent decrease from the previous year. This overall decrease in revenue is attributed to the decrease in generation and transmission costs. During the year, the number of customers increased by 403 to a year-end average of 16,778 presenting a 2.5 percent increase. Despite increased material costs, growth continues to outpace forecasts in the service territory.

The total purchased power cost for year 2021 was \$49,241,582, or approximately 81.4 percent higher than the comparable amount for 2020. The increase in purchased power cost was due to the increase in gas prices during Winter Storm Uri. FELPS has not paid the entire balance, however, through the generation and transmission pass through, FELPS started recovering those costs from customers and expects to collect the full amount within five years. The fuel and regulatory component of the purchased power cost is passed through to the customers in the form of a charge as stated in the FELPS rate tariffs.

FELPS' operating and maintenance expenses, other than purchased power costs, amounted to \$9,287,856, which was approximately 4 percent higher as compared to the previous year. Total depreciation expense amounted to \$4,128,639, which was 25 percent higher than 2020, due to additional depreciation on plant, including the new facility that began construction in 2020 and was completed in 2021.

FELPS makes payments to the cities of Floresville, Stockdale and Poth based on a percentage of the prior year's gross electric sales revenue. FELPS, once again, has met the owner cities distribution transfer at the maximum Bond Ordinance level of 3 percent. The amount distributed in 2021 totaled \$1,220,531, which increased by 7 percent over last year, reflecting the increased revenue used for the distribution calculation. Of this total, Floresville received \$781,140 and Poth and Stockdale each received \$219,696.

Loss before contributions and distributions was \$19,607,239 in 2021, as compared to \$4,801,673 in 2020. This decrease of 501 percent was primarily because of the additional cost of purchased power during Winter Storm Uri.

Operating revenues from electric sales for the year 2020 totaled \$40,665,880, a 6.5 percent increase from 2019. This overall increase in revenue is attributed to the increase in generation and transmission costs. During 2020, the number of customers increased by 292 to a year-end average of 16,375 presenting a 1.8 percent increase.

The total purchased power cost for year 2020 was \$27,143,074, or approximately 9.5 percent higher than the comparable amount for 2019. The purchased power cost was due to the increase in the fuel component in the wholesale power agreement and lower purchases as compared to 2019.

Floresville Electric Light and Power System
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Management's Discussion and Analysis
Fiscal Years Ended December 31, 2021 and 2020

The fuel and regulatory component of the purchased power cost is passed through to the customers in the form of a charge as stated in the FELPS rate tariffs.

FELPS' operating and maintenance expenses, other than purchased power costs, amounted to \$8,941,316, which was 1 percent lower as compared to 2019. Total depreciation expense amounted to \$3,308,313, which was 5 percent lower than 2019, due to additional depreciation on plant.

FELPS makes payments to the cities of Floresville, Stockdale and Poth based on a percentage of the prior year's gross electric sales revenue. FELPS, once again, met the owner cities distribution transfer at the maximum Bond Ordinance level of 3 percent. The amount distributed in 2020 totaled \$1,145,946, which decreased by 4.2 percent over 2019, reflecting the slightly decreased revenue used for the distribution calculation. Of this total, Floresville received \$733,406 and Poth and Stockdale each received \$206,270.

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

Management's Discussion and Analysis

Fiscal Years Ended December 31, 2021 and 2020

Summary of Revenues, Expenses and Changes in Net Position Information

	Years Ended December 31,			Change	
	2021	2020	2019	2021 vs. 2020	2020 vs 2019
Operating Revenues					
Electric revenue	\$ 37,809,064	\$ 40,665,880	\$ 38,198,212	\$ (2,856,816)	\$ 2,467,668
Total operating revenues	37,809,064	40,665,880	38,198,212	(2,856,816)	2,467,668
Operating Expenses					
Purchased power	49,241,582	27,143,074	24,785,481	22,098,508	2,357,593
Depreciation	4,128,639	3,308,313	3,481,995	820,326	(173,682)
Distribution expenses	2,189,392	2,083,979	1,913,713	105,413	170,266
Transmission	3,912	6,942	2,886	(3,030)	4,056
Meter reading, accounting and collecting	1,506,018	2,095,762	2,333,018	(589,744)	(237,256)
Administrative	1,900,129	1,446,320	1,301,534	453,809	144,786
Total operating expenses	58,969,672	36,084,390	33,818,627	22,885,282	2,265,763
Nonoperating Revenues (Expenses)					
Interest on bonded debt	(1,313,233)	(1,225,812)	(1,504,946)	(87,421)	279,134
Gain on disposal of assets	1,286,423	23,604	10,101	1,262,819	13,503
Other income, net	1,580,179	1,445,995	1,798,482	134,184	(352,487)
Total nonoperating revenues	1,553,369	243,787	303,637	1,309,582	(59,850)
Income before contributions	(19,607,239)	4,801,673	4,673,121	(24,408,912)	128,552
Contributions in aid of construction	770,571	656,106	648,265	114,465	7,841
Change in fund net position	(18,836,668)	5,457,779	5,321,386	(24,294,447)	136,393
Payments to the cities of Floresville, Stockdale and Poth	(1,220,531)	(1,145,946)	(1,195,918)	(74,585)	49,972
Net Position - Beginning	51,352,139	47,040,306	42,914,838	4,311,833	4,125,468
Net Position - Ending	\$ 31,294,940	\$ 51,352,139	\$ 47,040,306	\$ (20,057,199)	\$ 4,311,833
				-39.1%	9.2%
				-7.0%	6.5%
				-7.0%	6.5%
				81.4%	9.5%
				24.8%	-5.0%
				5.1%	8.9%
				-43.6%	140.5%
				-28.1%	-10.2%
				31.4%	11.1%
				63.4%	6.7%
				7.1%	-18.5%
				0.0%	0.0%
				9.3%	-19.6%
				537.2%	-19.7%
				-508.3%	2.8%
				17.4%	1.2%
				-445.1%	2.6%
				6.5%	-4.2%
				9.2%	9.6%
				-39.1%	9.2%

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Management's Discussion and Analysis
Fiscal Years Ended December 31, 2021 and 2020

Total assets and deferred outflows of resources on December 31, 2021, amounted to \$119,411,149, an increase of \$7,665,314. The increase from the prior year can be attributed to additional capital projects during the year, including the completion of a new facility. The decrease in deferred outflows of \$1,327,902 is attributable to the bond refunding during the prior year, which did not occur in 2021, and the loss on derivative instruments.

Total assets and deferred outflows of resources on December 31, 2020, amounted to \$111,745,135, an increase of \$3,961,896. The increase from 2019 can be attributed to additional capital projects during the year, including the construction of a new facility. The increase in deferred outflows of \$1,011,126 is attributable to the bond refunding during the year, and the loss on derivative instruments.

Summary of Statement of Net Position Information

	2021	December 31, 2020	2019
Assets			
Current and other assets	\$ 31,153,970	\$ 35,650,703	\$ 43,689,018
Other noncurrent assets	3,382,882	-	-
Capital assets - net	83,537,494	73,430,427	60,541,342
Deferred Outflows of Resources	<u>1,336,803</u>	<u>2,664,705</u>	<u>1,662,579</u>
Total assets and deferred outflows of resources	<u>\$ 119,411,149</u>	<u>\$ 111,745,835</u>	<u>\$ 105,892,939</u>
Liabilities			
Current liabilities	\$ 35,685,351	\$ 9,411,667	\$ 6,562,669
Noncurrent liabilities	43,525,082	49,689,333	51,329,287
Deferred Inflows of Resources	<u>8,905,776</u>	<u>1,292,696</u>	<u>960,677</u>
Total liabilities and deferred inflows of resources	<u>88,116,209</u>	<u>60,393,696</u>	<u>58,852,633</u>
Net Position			
Net investment in capital assets	52,933,455	42,170,854	34,710,043
Restricted	780,918	1,096,556	969,311
Unrestricted	<u>(22,419,433)</u>	<u>8,084,729</u>	<u>11,360,952</u>
Net position	<u>31,294,940</u>	<u>51,352,139</u>	<u>47,040,306</u>
	<u>\$ 119,411,149</u>	<u>\$ 111,745,835</u>	<u>\$ 105,892,939</u>

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Management's Discussion and Analysis
Fiscal Years Ended December 31, 2021 and 2020

For the year ended December 31, 2021, cash and bond funds used for capital expenditures amounted to \$15,107,949 compared to \$16,345,142 in 2020, a decrease of 8 percent. Capital expenditures are funded with a mixture of bond funds and cash reserves. Bonds proceeds from the 2019 Bond Issue will be spent over the three-year period of 2020 – 2022. FELPS continues to implement strategic initiatives and cost-containment efforts to provide effective, reliable and cost-efficient electricity. Major projects included in the capital expenditures for 2021 were pole testing and replacing poles throughout the distribution system, purchasing a new chipper and forklift, construction of a tower at the new headquarters, and completing construction on a new office complex. Several other major projects continued in 2021. The construction of a new circuit out of the Sutherland Springs substation was completed. Substation protection was installed in all four of FELPS' substations and will continue into 2022. The design for replacing the box structure and adding a substation transformer at the Floresville substation began. FELPS constructed distribution lines to newly developed service areas, including several subdivisions. Many components associated with FELPS' network and infrastructure were upgraded, including those needed at the new facility. Other small capital projects were completed during 2021. Major projects expected in 2022 include the testing and replacing of rotten poles, substation protection and control equipment upgrades, the reconductor of a copper feeder, and completion of a system planning study. Also budgeted for 2022 is the purchase of a two bucket trucks. FELPS continues to optimize the level of permanent staff size with the use of unique outside professional services and contractors.

For the year ended December 31, 2020, cash used for capital expenditures amounted to \$16,345,142 compared to \$7,510,702 in 2019, an increase of 118%. Capital expenditures are funded with a mixture of bond funds and cash reserves. Bonds proceeds from the 2018 Bond Issue was spent over the three-year period, 2019 – 2021. FELPS continued to implement strategic initiatives and cost-containment efforts to provide effective, reliable and cost-efficient electricity. Major projects included in the capital expenditures for 2020 were pole testing and replacing poles throughout the distribution system, purchasing of a new aerial device, purchasing of drones for a new drone program, and starting construction on a new office complex. Several other major projects continued in 2020. The construction of a new circuit out of the Sutherland Springs substation was nearly complete at year-end. The remainder of the AMI meters were deployed and the project was completed. Substation protection was installed in all four of FELPS' substations and continued into 2021. FELPS constructed distribution lines to newly developed service areas, including several subdivisions. Many components associated with FELPS' network and infrastructure was upgraded, including those needed at the new facility. Other small capital projects were completed during 2020. Major projects expected in 2021 included the testing and replacing of rotten poles, substation equipment upgrades, and completion of the office complex. Also budgeted for 2021 was the purchase of a chipper truck and forklift. The final phase of a new radio system project will also begin. FELPS continues to optimize the level of permanent staff size with the use of unique outside professional services and contractors.

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Management's Discussion and Analysis
Fiscal Years Ended December 31, 2021 and 2020

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

	December 31,			Change		Change	
	2021	2020	2019	2021 vs. 2020		2020 vs. 2019	
Electric plant distribution	\$ 66,448	\$ 62,730	\$ 58,446	\$ 3,718	5.9%	\$ 4,284	7.3%
Land, buildings and improvements	15,425	9,623	1,058	5,802	60.3%	8,565	809.5%
Automobiles and trucks	461	523	575	(62)	-11.9%	(52)	-9.0%
Office and computer equipment	1,112	517	406	595	115.1%	111	27.3%
Large tools	92	37	56	55	148.6%	(19)	-33.9%
Capital assets - net of depreciation	<u>\$ 83,538</u>	<u>\$ 73,430</u>	<u>\$ 60,541</u>	<u>\$ 10,108</u>	<u>13.8%</u>	<u>\$ 12,889</u>	<u>21.3%</u>

Request for Information

For more information, contact Marcy Jacobs, Chief Operating Officer at 830.216.7000, extension 261. FELPS' mailing address is 187 State Highway 97 E., Floresville, Texas 78114.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Statements of Net Position December 31, 2021 and 2020

Assets and Deferred Outflows of Resources

	2021	2020
Current Assets		
Cash and cash equivalents	\$ 16,088,476	\$ 18,073,382
Restricted cash		
Customer utility deposit fund	342,995	349,421
Construction fund	918	1,938,972
Investments - certificates of deposit		
Operating fund	1,000,000	1,450,000
Restricted investments - certificates of deposit		
Customer utility deposit fund	500,000	450,000
Repair and replacement fund	-	250,000
Accounts receivable - trade (net of allowance for doubtful accounts 2021 - \$70,914 and 2020 - \$67,747)	1,570,462	1,726,456
Accounts receivable - miscellaneous	1,001,370	74,168
Accrued interest receivable	290	15,674
Inventory	1,239,314	1,346,348
Prepaid expenses	359,607	572,961
	22,103,432	26,247,382
Noncurrent Assets		
Restricted cash		
Bond retirement fund	1,322,746	1,473,587
Rate stabilization fund	2,172,629	-
Construction fund	3,738,519	5,390,024
Investments - certificates of deposit		
Operating fund	500,000	500,000
Restricted investments - certificates of deposit		
Repair and replacement fund	250,000	-
Customer utility deposit fund	200,000	250,000
Regulatory assets (Note 12)	866,644	1,789,710
Derivative instruments - commodity swap asset (Note 6)	3,382,882	-
	12,433,420	9,403,321
Capital Assets		
Electric plant	115,961,532	109,369,973
General plant	22,759,172	18,399,369
	138,720,704	127,769,342
Total capital assets	138,720,704	127,769,342
Less accumulated depreciation	(55,183,210)	(54,338,915)
	83,537,494	73,430,427
Total capital assets, net	83,537,494	73,430,427
Total noncurrent and capital assets, net	95,970,914	82,833,748
Total assets	118,074,346	109,081,130
Deferred Outflows of Resources		
Deferred outflow on pension contributions	1,012,603	-
Deferred loss on refunding	324,200	347,357
Deferred loss on derivative instruments	-	2,317,348
	1,012,603	2,317,348
Total assets and deferred outflows of resources	\$ 119,411,149	\$ 111,745,835

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Statements of Net Position (Continued)

December 31, 2021 and 2020

Liabilities, Deferred Inflows of Resources and Net Position

	2021	2020
Current Liabilities		
Current maturities of revenue improvement bonds payable	\$ 1,894,991	\$ 2,387,025
Accounts payable - trade	574,317	5,202,310
Customer deposits	1,075,347	1,075,882
Accrued bond interest payable	542,118	392,705
Accrued liabilities		
Sales tax	53,067	46,637
Winter Storm Invoice Payable	29,106,051	-
Other	2,439,460	307,108
	35,685,351	9,411,667
Noncurrent Liabilities		
Regulatory liability	288,782	-
Revenue improvement bonds payable	33,093,566	35,000,854
Net pension liability	10,142,734	12,371,131
Derivative instruments - commodity swap liability (Note 6)	-	2,317,348
	43,525,082	49,689,333
	79,210,433	59,101,000
Deferred Inflows of Resources		
Pension items	3,350,265	1,292,696
Rate stabilization	2,172,629	-
Deferred inflows from derivative instruments	3,382,882	-
	8,905,776	1,292,696
Net Position		
Net investment in capital assets	52,933,455	42,170,854
Restricted - expendable	780,918	1,096,556
Unrestricted (deficit)	(22,419,433)	8,084,729
	31,294,940	51,352,139
	\$ 119,411,149	\$ 111,745,835

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Revenues		
Electric revenue	\$ 37,809,064	\$ 40,665,880
Operating Expenses		
Purchased power	49,241,582	27,143,074
Distribution expenses		
System operations - distribution	1,302,030	948,241
System maintenance - distribution	834,997	1,044,253
Street lighting maintenance - distribution	52,365	91,485
Total distribution expenses	2,189,392	2,083,979
Transmission	3,912	6,942
Meter reading, accounting and collecting	1,506,018	2,095,762
Administrative and general	1,900,129	1,446,320
Depreciation		
Electric plant	3,231,482	2,961,464
General plant	897,157	346,849
Total depreciation	4,128,639	3,308,313
Total operating expenses	58,969,672	36,084,390
Operating Income (Loss)	(21,160,608)	4,581,490
Nonoperating Revenues (Expenses)		
Miscellaneous service sales and other - net of expenses	587,781	639,163
Interest on investments	14,795	170,415
Gain on disposal of assets	1,286,423	23,604
Miscellaneous and late fees	977,603	612,813
Interest on bonded debt	(1,313,233)	(1,225,812)
Total nonoperating revenues	1,553,369	220,183
Income (Loss) Before Contributions and Distributions	(19,607,239)	4,801,673
Capital contributions	770,571	656,106
Cash distributions - cities	(1,220,531)	(1,145,946)
Change in Net Position	(20,057,199)	4,311,833
Net Position, Beginning of Year	51,352,139	47,040,306
Net Position, End of Year	\$ 31,294,940	\$ 51,352,139

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

Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Cash received from customers	\$ 39,210,485	\$ 40,823,449
Cash payments to suppliers for goods and services	(25,281,776)	(29,489,085)
Cash payments to employees for services	(3,011,600)	(2,964,112)
	10,917,109	8,370,252
Cash Flows from Noncapital Financing Activities		
Other noncapital financing receipts	1,565,393	1,251,976
Cash distributions to cities	(1,220,531)	(1,145,946)
	344,862	106,030
Cash Flows from Capital and Related Financing Activities		
Acquisition of capital assets	(12,557,210)	(14,189,788)
Proceeds on sale of capital assets	79,487	245,306
Contribution in aid of construction	770,571	656,106
Payments on bonds	(2,195,000)	(2,075,000)
Interest paid on bonds	(1,399,095)	(1,067,106)
	(15,301,247)	(16,430,482)
Cash Flows from Investing Activities		
Purchase of certificates of deposit	(1,700,000)	(2,200,000)
Proceeds from maturities of certificates of deposit	2,150,000	2,200,000
Interest income	30,173	179,602
	480,173	179,602
Decrease in Cash and Cash Equivalents	(3,559,103)	(7,774,598)
Cash and Cash Equivalents, Beginning of Year	27,225,386	34,999,984
Cash and Cash Equivalents, End of Year	\$ 23,666,283	\$ 27,225,386
Reconciliation of Cash and Cash Equivalents to the Statement of Net Position		
Restricted - current	\$ 343,913	\$ 2,288,393
Restricted - noncurrent	7,233,894	6,863,611
Unrestricted	16,088,476	18,073,382
	\$ 23,666,283	\$ 27,225,386

Floresville Electric Light and Power System
A Component Unit of the City of Floresville, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020

	2021	2020
Reconciliation of Operating Income (Loss) to Net Cash Provided by Operating Activities		
Operating income (loss)	\$ (21,160,608)	\$ 4,581,490
Noncash items included in income from operations		
Depreciation expense	4,128,639	3,308,313
Change in net pension liability	(2,228,397)	(937,748)
Effect of changes in operating working capital		
Accounts receivable	(771,208)	157,569
Inventory	107,034	81,184
Prepaid expenses	213,354	(290,993)
Fair value of derivative instruments	(5,700,230)	1,368,821
Regulatory assets	1,093,388	227,715
Deferred outflows of resources - pension	(1,012,603)	705,052
Deferred outflows of resources - bond refunding	23,157	(347,357)
Accounts payable	(5,099,554)	346,953
Accrued liabilities	31,393,709	206,055
Deferred inflows of resources - rate stabilization	2,172,629	-
Deferred inflows of resources - pension	2,057,569	332,019
Deferred inflows of resources - derivative instruments	5,700,230	(1,368,821)
	\$ 10,917,109	\$ 8,370,252
Noncash Capital and Related Financing Activities		
Amortization of regulatory asset (debt issuance cost)	\$ 118,460	\$ 264,330
Amortization of bond premiums	\$ 204,322	\$ 130,207
Additions to electric utility plant through accounts payable	\$ 471,562	\$ 2,229,312

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

Fiduciary Funds

Statements of Fiduciary Net Position

Pension Trust

Years Ended December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	\$ 726,856	\$ 476,269
Investments at fair value		
U.S. government obligations	932,132	1,026,156
Domestic corporate bonds	595,077	720,255
Mutual funds	7,386,071	7,057,898
Domestic stocks	3,018,051	2,593,170
Interest and dividend receivable	12,823	12,823
Prepaid benefits	109,583	101,056
	12,780,593	11,987,627
Net Position		
Restricted for pensions	12,780,593	11,987,627
	\$ 12,780,593	\$ 11,987,627

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

Fiduciary Funds

Statements of Changes in Fiduciary Net Position

Pension Trust

Years Ended December 31, 2021 and 2020

	2021	2020
Additions		
Contributions	\$ 1,012,603	\$ 625,130
Members	187,082	193,971
Total contributions	1,199,685	819,101
Investment earnings		
Net appreciation in fair value of investments	626,934	624,891
Realized gain	88,852	123,232
Interest	55,635	56,646
Dividends	419,695	159,724
Total investment earnings	1,191,116	964,493
Less investment fees	(66,808)	(37,478)
Total additions	2,323,993	1,746,116
Deductions		
Benefits paid to participants or beneficiaries	1,531,027	1,259,419
Total deductions	1,531,027	1,259,419
Net Increase in Fiduciary Net Position	792,966	486,697
Net Position, Beginning of Year	11,987,627	11,500,930
Net Position, End of Year	\$ 12,780,593	\$ 11,987,627

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

Notes to Financial Statements

December 31, 2021 and 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

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

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

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

Basis of Accounting

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

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

Notes to Financial Statements

December 31, 2021 and 2020

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

Use of Estimates

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

Budgets and Budgetary Accounting

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

Cash and Cash Equivalents

The System considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2021 and 2020, cash equivalents consisted primarily of money market accounts with a bank.

Investments and Investment Income

FELPS invests funds in accordance with its policy, bond indentures and the Texas Public Funds Investment Act. Investments in investment pools and negotiable certificates of deposit (CDs) are carried at amortized cost. Investment income consists of interest and dividend income. Investments at December 31, 2021 and 2020, consisted of CDs and TexPool funds.

Restricted and Board Designated Assets

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

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

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

In 2021, the Board established a rate stabilization account as restricted funds to reduce the impact from significant future weather events.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2021 and 2020

Trade Accounts Receivable

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

Inventory

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

Capital Assets

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

Assets with lives greater than one year and that have a value greater than \$5,000 are capitalized. Depreciation is calculated by the straight-line method over the estimated useful life of each asset. Depreciation on automotive equipment is charged to line construction when applicable thereto. Other depreciation is charged to operations or utility plant depreciation. Estimated useful lives for capital asset additions range from 1 to 40 years.

Impairment of Long-Lived Assets

The System reviews its property for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recovered. If the fair value is less than the carrying amount of the asset, an impairment loss is recognized for the difference. No impairment loss has been recognized during the years ended December 31, 2021 and 2020.

Compensated Absences

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

Sick leave benefits expected to be realized as paid time off are recognized as an expense when the time off occurs, and no liability is accrued for such benefits employees have earned but not yet realized.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2021 and 2020

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statements of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. At December 31, 2021 and 2020, the liability for compensated absences was \$130,226 and \$166,661, respectively, and was included in other accrued liabilities on the statement of net position.

Defined Benefit Pension Plan

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

Deferred Outflows of Resources

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

Deferred Inflows of Resources

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

Costs Recoverable from Future Billings

Certain income and expense items which would be recognized during the current period are deferred and not included in the determination of the change in net position until such costs are expected to be recovered through rates charged to customers, in accordance with the regulated operations provisions of GASB Statement No. 62. At December 31, 2021 and 2020, costs recoverable from future billings are comprised entirely of costs incurred in relation to FELPS' debt issuance and pension expense.

Revenue Stabilization Account

The revenue stabilization account was established by the Board during 2021 to reduce year-to-year variation in rates related to significant weather events. Amounts deposited into the stabilization account are excluded from the statements of revenue, expenses and changes in net position and treated as a credit in accordance with GASB Statement No. 62. The withdrawals and deposits from the stabilization account shall augment or reduce adjusted net revenue available for the payment of debt service.

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

Notes to Financial Statements

December 31, 2021 and 2020

In 2021, \$2,172,629 was added to the account and is reported as a deferred inflow of resources.

Net Position

Net position of the System is classified in four components on its statements of net position.

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

Electric Revenue and Purchased Power Expense

Electric revenues are based on meter readings and billings rendered to customers on a monthly basis. As allowed under FERC, the System does not accrue unbilled services rendered. At December 31, 2021 and 2020, the estimated unbilled revenue was approximately \$2,400,000 for both years.

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

Classification of Operating and Nonoperating Revenues and Expenses

FELPS defines operating revenues and expenses as those revenues and expenses generated by a specified program offering either a good or service. This definition is consistent with GASB *Codification of Governmental Accounting and Financial Reporting Standards*, which defines operating receipts as cash receipts from customers and other cash receipts that do not result from transactions defined as capital and related financing, noncapital financing or investing activities.

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

Notes to Financial Statements

December 31, 2021 and 2020

Operating expenses include purchased power, depreciation expense and personnel services, contractual services, commodities, other expenses (such as insurance) related to distribution, transmission, meter reading accounting and collecting and administration. Revenues and expenses not fitting the above definitions are considered nonoperating.

Derivative Instruments

Derivative instruments are utilized by the System to manage market risk and reduce exposure resulting from fluctuations in prices of power and energy. These instruments include commodity swap agreements. Additional information regarding these instruments is shown in Note 5.

Sales Tax

The State of Texas and local municipalities impose sales tax on the System's sales to nonexempt customers. The System collects that tax and remits the entire amount to the state. The System's accounting policy is to exclude the tax collected and remitted from revenue and cost of power purchased.

Note 2: Revision for Reporting of Commodity Derivatives

Fiscal year 2020 has been revised to include the valuation of derivative instruments that were entered into during 2017, 2018 and 2019 with terms beginning January 1, 2021. The revision includes a liability for commodity derivatives and the related deferred outflow of \$2,317,348, which both were previously not reported. In the statements of cash flows, the reconciliation of operating income to net cash provided by operating activities for 2020 presents an increase for the fair value of derivative instruments and a corresponding decrease for deferred inflows of resources of \$1,368,821. There is no impact to net position or the statement of revenues, expenses and changes in net position.

Note 3: Deposits, Investments and Investment Income

Deposits

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

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

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

Notes to Financial Statements

December 31, 2021 and 2020

As of December 31, 2021 and 2020 the carrying amount of the System's deposits with banks and financial institutions was \$19,623,534 and \$21,083,229, respectively, and bank balances totaled \$19,708,022 and \$21,203,143, respectively. At December 31, 2021 and 2020, FELPS' cash accounts exceeded federally insured limits and collateralized amount by approximately \$217,000 and \$147,000, respectively.

Investments

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

Investment Pools

In accordance with its investment policy, the System is authorized to invest in "Local Government Investment Pools," and has elected to use TexPool, which is managed by Texas Trust, an entity created by the Texas legislature as a special purpose entity to efficiently and economically manage, invest and safeguard funds for its clients. The cash and investment in TexPool at December 31, 2021 and 2020, of \$4,052,749 and \$6,140,830, respectively, approximates carrying value and fair value at year-end.

Concentration of Credit Risk

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

Interest Rate Risk

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

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

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

Notes to Financial Statements

December 31, 2021 and 2020

December 31, 2021				
Cash and Investment Maturities				
	Carrying Value	Less than One Year	One to Five Years	N/A
Cash	\$ 12,162,274	\$ -	\$ -	\$ 12,162,274
Money market	7,451,260	7,451,260	-	-
TexPool	4,052,749	4,052,749	-	-
Certificates of deposit	2,450,000	1,500,000	950,000	-
Total cash and investments	<u>\$ 26,116,283</u>	<u>\$ 13,004,009</u>	<u>\$ 950,000</u>	<u>\$ 12,162,274</u>
Included in the statements of net position				
Cash and cash equivalents	\$ 16,088,476			
Restricted cash - current	343,913			
Certificates of deposit - current	1,500,000			
Restricted cash - noncurrent	2,172,629			
Certificates of deposit - noncurrent	950,000			
Restricted cash - noncurrent	5,061,265			
	<u>\$ 26,116,283</u>			
December 31, 2020				
Cash and Investment Maturities				
	Carrying Value	Less than One Year	One to Five Years	N/A
Cash	\$ 11,982,797	\$ -	\$ -	\$ 11,982,797
Money market	9,101,759	9,101,759	-	-
TexPool	6,140,830	6,140,830	-	-
Certificates of deposit	2,900,000	2,150,000	750,000	-
Total cash and investments	<u>\$ 30,125,386</u>	<u>\$ 17,392,589</u>	<u>\$ 750,000</u>	<u>\$ 11,982,797</u>
Included in the statements of net position				
Cash and cash equivalents	\$ 18,073,382			
Restricted cash - current	2,288,393			
Certificates of deposit - current	2,150,000			
Certificates of deposit - noncurrent	750,000			
Restricted cash - noncurrent	6,863,611			
	<u>\$ 30,125,386</u>			

Credit Risk

The System's investment policy seeks to control credit risk by investing in compliance with the policy, qualifying the broker and financial institution with whom the System will transact, sufficient collateralization, portfolio diversification and limiting maturity. The System's investment policy limits the types of investment instruments that may be purchased by the System.

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

Notes to Financial Statements

December 31, 2021 and 2020

TexPool meets the credit risk requirement of their investment policy to invest in securities rated AAA or AAA-m or at an equivalent rating, by at least one nationally recognized rating service.

Custodial Credit Risk

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

Foreign Currency Risk

The System does not engage in any deposit or investment transactions involving foreign currency.

Note 4: Undivided Ownership Interests

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

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

Note 5: Cash Distributions

During 1996, in an agreement that was signed by the three cities of Floresville, Stockdale and Poth, the System agreed to annually distribute in the aggregate to the cities, an amount not greater than 3 percent of the dollar value of annual electric sales for the entire System for the year. The amount distributed to each city shall be based on the respective equity percentage of each city applied to the total amount approved for distribution by the Board. Any such distribution to the cities will be paid monthly in amounts equal to one-twelfth of the total distribution amount determined based on sales for the previous year. Total distributions to the three cities in 2021 and 2020 were \$1,220,531 and \$1,145,946, respectively.

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

Notes to Financial Statements

December 31, 2021 and 2020

Note 6: Derivative Instruments

Objectives and Terms of Derivative Instruments

The System has entered into commodity swaps to hedge changes in cash flows and reduce exposure due to fluctuations in the market price of energy. These commodity swaps are considered as derivative instruments under the provisions of GASB Codification Section D40, *Derivative Instruments*. The fair value of the commodity swaps is based on the forward swap prices as of December 31, 2021 and 2020, the contracted volumes and the risk-free rate.

Cash Flow Hedges

Cash flow hedges are derivative instruments associated with a hedgeable item that significantly reduce an identified financial risk by substantially offsetting changes in cash flows or fair values of the hedgeable item. At December 31, 2021, the positive fair value of commodity swaps considered cash flow hedges is classified as a noncurrent asset on the balance sheet, with an offsetting deferred inflow of resources for the same amount. At December 31, 2020, the liability position of commodity swaps considered cash flow hedges is classified as a noncurrent asset on the balance sheet, with an offsetting deferred outflow of resources for the same amount. The change in fair value of cash flow hedges was an increase of \$5,700,230 and a decrease of \$1,368,821 for 2021 and 2020, respectively. The change in fair value is reflected within deferred inflows and deferred outflows from derivative instruments in 2021 and 2020, respectively.

During 2021, the System had pay-fixed, receive variable commodity swaps with a national energy corporation. The System pays the predetermined fixed price and the counterparty pays the variable price, which is based on the Houston Ship Channel settlement price for the day. As of December 31, 2021, the counterparty was rated BBB+ by Standard & Poor's and Baa2 by Moody's Investors Service. The fair value of the System's derivative instruments at December 31, 2021 and 2020, is \$3,382,882 and (\$2,317,348), respectively, as reported on the statement of net position as derivative instruments - commodity swap.

A summary of objectives and terms of the System's derivative instruments at December 31, 2021, follows:

Notional Amount	Trade Date	Effective Date	Termination Date	Fixed Price per MMBTU
Cash Flow Hedges:				
		Daily starting	Daily through	
1200 MMBTU/Day	12/12/2017	1/1/2021	12/31/2025	\$ 3.0192
1300 MMBTU/Day	4/9/2018	1/1/2021	12/31/2025	\$ 2.9948
2500 MMBTU/Day	5/8/2018	1/1/2021	12/31/2025	\$ 2.8842
3000 MMBTU/Day	8/26/2019	1/1/2021	12/31/2025	\$ 2.6250
900 MMBTU/Day	12/2/2021	2/1/2022	2/28/2022	\$ 4.8100
900 MMBTU/Day	12/2/2021	1/1/2022	1/31/2022	\$ 4.8050

Floresville Electric Light and Power System

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Notes to Financial Statements

December 31, 2021 and 2020

Objectives and Terms of Derivative Instruments – Continued

Credit Risk

Credit risk is the risk that an issuer or other counterparty to a transaction will not fulfill its obligations. At December 31, 2021, for the swaps with a positive fair value, the System was exposed to credit risk in the amount of the fair value of the swaps. The System reduces its exposure to credit risk by requiring the counterparty to maintain credit ratings as defined in contract documents.

Termination Risk

The System or the counterparties may terminate the swaps if either party fails to perform as outlined in the terms of the contracts. If a swap agreement is terminated, each party will make the calculations on its part and will provide to the other party a statement showing relevant quotations and specifying any amount payable according to the applicable swap agreements.

Disclosures About Fair Value of Commodity Swaps

The System categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The fair value is estimated on a recurring basis using forward-looking prices and discounted cash flows that are observable or can be corroborated by observable market data (Level 2).

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

Notes to Financial Statements

December 31, 2021 and 2020

Note 7: Capital Assets

A detail of utility plant accounts as of December 31, 2021, is as follows (in thousands):

	Cost Basis	Estimated Useful Lives	Depreciation Expense
Electric distribution system	\$ 114,180	30 years	\$ 3,279
Electric transmission system	1,782	30 years	9
	<u>115,962</u>		<u>3,288</u>
Land, buildings and improvements	16,062	5 - 20 years	569
Automobiles and trucks	4,195	3 - 10 years	193
Office and computer equipment	2,162	1 - 10 years	250
Large tools	340	3 - 5 years	29
	<u>22,759</u>		<u>1,041</u>
Capitalized depreciation	<u>-</u>		<u>(200)</u>
	<u>\$ 138,721</u>		<u>\$ 4,129</u>

Included in depreciation expense is \$200,361 of auto and truck depreciation that was capitalized into the utility plant in 2021.

Floresville Electric Light and Power System

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Notes to Financial Statements

December 31, 2021 and 2020

Capital asset activity for the years ended December 31, 2021 and 2020, was as follows (in thousands):

	Balance January 1, 2021	Additions Increases	Reductions Decreases	Balance December 31, 2021
Electric plant				
Depreciable	\$ 108,507	\$ 7,475	\$ 693	\$ 115,289
Construction in progress	690	5,593	5,782	501
Land	172	-	-	172
Total electric plant	<u>109,369</u>	<u>13,068</u>	<u>6,475</u>	<u>115,962</u>
Buildings and improvements				
Depreciable	10,822	6,438	1,988	15,272
Land	790	-	-	790
Total building and improvements	<u>11,612</u>	<u>6,438</u>	<u>1,988</u>	<u>16,062</u>
Other assets				
Automobile and trucks	4,409	136	350	4,195
Office and computer equipment	1,750	901	489	2,162
Large tools	629	84	373	340
Total other assets	<u>6,788</u>	<u>1,121</u>	<u>1,212</u>	<u>6,697</u>
Total capital assets	<u>127,769</u>	<u>20,627</u>	<u>9,675</u>	<u>138,721</u>
Accumulated depreciation and amortization				
Electric plant	46,639	3,288	413	49,514
Buildings and improvements	1,989	569	1,921	637
Automobiles and trucks	3,886	193	345	3,734
Office and computer equipment	1,233	250	433	1,050
Large tools	592	29	373	248
Total	<u>54,339</u>	<u>4,329</u>	<u>3,485</u>	<u>55,183</u>
Capital assets - net	<u>\$ 73,430</u>	<u>\$ 16,298</u>	<u>\$ 6,190</u>	<u>\$ 83,538</u>

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2021 and 2020

	Balance January 1, 2020	Additions Increases	Reductions Decreases	Balance December 31, 2020
Electric plant				
Depreciable	\$ 104,188	\$ 6,885	\$ 2,566	\$ 108,507
Construction in progress	416	5,684	5,410	690
Land	172	-	-	172
Total electric plant	<u>104,776</u>	<u>12,569</u>	<u>7,976</u>	<u>109,369</u>
Buildings and improvements				
Depreciable	2,194	8,654	26	10,822
Land	790	-	-	790
Total building and improvements	<u>2,984</u>	<u>8,654</u>	<u>26</u>	<u>11,612</u>
Other assets				
Automobile and trucks	4,329	246	166	4,409
Office and computer equipment	1,618	280	148	1,750
Large tools	626	3	-	629
Total other assets	<u>6,573</u>	<u>529</u>	<u>314</u>	<u>6,788</u>
Total capital assets	<u>114,333</u>	<u>21,752</u>	<u>8,316</u>	<u>127,769</u>
Accumulated depreciation and amortization				
Electric plant	46,330	3,155	2,846	46,639
Buildings and improvements	1,926	63	-	1,989
Automobiles and trucks	3,754	220	88	3,886
Office and computer equipment	1,212	154	133	1,233
Large tools	570	22	-	592
Total	<u>53,792</u>	<u>3,614</u>	<u>3,067</u>	<u>54,339</u>
Capital assets - net	<u>\$ 60,541</u>	<u>\$ 18,138</u>	<u>\$ 5,249</u>	<u>\$ 73,430</u>

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

Notes to Financial Statements

December 31, 2021 and 2020

Note 8: Revenue Improvement Bonds Payable

Details of revenue improvement bonds at December 31, 2021, are as follows (in thousands):

Series	Original Amount	Call Option Date	Due Serially Through	Interest Rate	Balance Outstanding	
					Current	Long-Term
2014 Jr. Lien	\$ 2,015	August 15, 2025	2024	2.00% to 4.00%	\$ 275	\$ 6,825
2014	\$ 8,935	August 15, 2025	2034	2.00% to 4.75%	150	885
2015	\$ 6,565	August 15, 2025	2030	2.00% to 4.00%	850	800
2018	\$ 14,770	August 15, 2038	2043	4.00% to 5.00%	365	13,165
2020	\$ 8,665	August 15, 2035	2043	4.00% to 5.00%	65	8,535
					1,705	30,210
Add unamortized bond premium (net) on 2014, 2015, 2018 and 2020 series bonds					190	2,884
					<u>\$ 1,895</u>	<u>\$ 33,094</u>

Details of long-term debt activity for years ended December 31, 2021 and 2020, (in thousands) are as follows:

Series	Balance Outstanding January 1, 2021	Additions Increases	Reductions Decreases	Balance Outstanding December 31, 2021
2009	\$ 145	\$ -	\$ 145	\$ -
2011	360	-	360	-
2014 Jr.	1,185	-	150	1,035
2014	7,375	-	275	7,100
2015	2,500	-	850	1,650
2018	13,880	-	350	13,530
2020	8,665	-	65	8,600
	34,110	<u>\$ -</u>	<u>\$ 2,195</u>	31,915
Less				
Bond current maturities	(2,387)			(1,895)
Add				
Unamortized bond premium	3,278			3,074
Long-term debt	<u>\$ 35,001</u>			<u>\$ 33,094</u>

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

Notes to Financial Statements

December 31, 2021 and 2020

Series	Balance Outstanding January 1, 2020	Additions Increases	Reductions Decreases	Balance Outstanding December 31, 2020
2009	\$ 2,885	\$ -	\$ 2,740	\$ 145
2011	7,610	-	7,250	360
2014 Jr.	1,335	-	150	1,185
2014	7,640	-	265	7,375
2015	3,340	-	840	2,500
2018	14,210	-	330	13,880
2020	-	8,665	-	8,665
	37,020	\$ 8,665	\$ 11,575	34,110
Less				
Bond current maturities	(2,189)			(2,387)
Add				
Unamortized bond premium	2,241			3,278
Long-term debt	\$ 37,072			\$ 35,001

A provision of the 2020 Bond Series was to “refund” the 2009 and 2011 Bonds to effectively lower the overall interest rate on the outstanding bonds. The proceeds used to “refund” these bonds had been paid to the previous bond holders.

The annual requirements to amortize the revenue improvement bonds payable outstanding as of December 31, 2021, are as follows:

Year Ending December 31,	Principal	Interest	Total Requirements
2022	\$ 1,670,000	\$ 1,306,963	\$ 2,976,963
2023	1,730,000	1,244,513	2,974,513
2024	1,530,000	1,176,063	2,706,063
2025	1,590,000	1,114,638	2,704,638
2026	1,665,000	1,047,663	2,712,663
2027 - 2031	8,345,000	4,270,765	12,615,765
2032 - 2036	8,010,000	2,735,115	10,745,115
2037 - 2041	5,510,000	1,227,751	6,737,751
2042 - 2043	1,865,000	141,000	2,006,000
	\$ 31,915,000	\$ 14,264,471	\$ 46,179,471

Total interest expense on the bonds on the previous page was \$1,277,564 and \$1,571,478 for 2021 and 2020, respectively.

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

Notes to Financial Statements

December 31, 2021 and 2020

As of December 31, 2021 and 2020, bond debt service and reserve requirements for the 2009, 2011, 2014, 2015, 2018, and 2020 Series Bonds have been met.

Revenue Improvement Bonds Details

On April 1, 2009, April 14, 2011, October 2, 2014 and September 30, 2015, Improvement Revenue Bonds, Series 2009, Series 2011, Series 2014 and Series 2015, October 30, 2014, Junior Lien Revenue Refunding Bonds Series 2014 Jr., (Bonds), and December 22, 2020, Revenue Refunding Bonds, Series 2020 were issued. The Bonds are special obligations of the City payable, both as to principal and interest, solely from and equally and ratably secured, together with the currently outstanding parity bonds, by a first lien on and pledge of the (net revenues) of the System after the payment of maintenance and operating expenses. Maintenance and operating expenses include contractual payments which under Texas laws and their provisions are established as operating expenses.

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

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

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

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

On September 30, 2015, the System issued \$6.565 million of Series 2015 Improvement Revenue Bonds. The interest rate for this issue, which has maturities in 2016 through 2030, is 2.07 percent. Bond proceeds are used primarily for construction projects. During 2018, the System issued \$14.8 million of Series 2018 Revenue Bonds. The interest rate for this issue, which has maturities in 2019 through 2043, is 4.00 percent. Bond proceeds are used primarily for construction projects.

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

Notes to Financial Statements

December 31, 2021 and 2020

During 2020, the System issued \$8.6 million of Series 2020 Revenue Bonds. The interest rate for this issue, which has maturities in 2021 through 2035, is 4.0 percent. Bond proceeds are used primarily for construction projects. As a result of the refunding transaction, the System achieved a cash flow savings of \$2.4 million and an economic gain of \$2.2 million.

Note 9: Pension Plan for the Employees of the City of Floresville Electric Light and Power System (Plan)

Plan Description

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

A general summary of the defined benefit plan of the System is as follows: All employees who are regularly engaged full-time employees are eligible on their date of employment. Each participant is required to contribute 6 percent of compensation, and the System is to contribute at an actuarially determined rate. The System's contribution is a fixed amount determined by the actuary and approved by the Board. For the year ended December 31, 2021, the approved employer contribution was \$1,012,603. For the year ended December 31, 2020, the employer contribution was 18 percent of annual covered payroll.

Benefits Provided

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

Contributions

The current policy of FELPS is to use each actuarial valuation as the basis for determining employer contributions to the Plan during the fiscal year beginning in the calendar year after the valuation year. The Administrative Committee, composed of a cross-functional group of active and retired FELPS employees, established funding levels, considering annual actuarial valuations.

Generally, participating employees contribute 6 percent of their total compensation, commencing with the effective date of participation and continuing until normal or early retirement age of 65 with at least 20 years of credited service, or termination of employment.

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

Notes to Financial Statements

December 31, 2021 and 2020

Participants who leave FELPS service before becoming eligible for retirement benefits receive a return of the total amount they contributed to the Plan, plus the vested portion of accumulated interest.

The balance of Plan contributions is the responsibility of FELPS, giving consideration to actuarial information, budget controls, legal requirements, compliance and industry and/or community norms. For 2021 and 2020, the amount to be funded was established using a general target near the 30-year funding contribution level as determined by the Plan's actuary using the entry-age normal cost method. For the years ended December 31, 2021 and 2020, the System contributed \$1,012,603 and \$625,400, respectively, to the Plan.

Net Pension Liability

FELPS net pension liability at December 31, 2021 and 2020, was measured as of December 31, 2020 and 2019, respectively. The total pension liability used to calculate the net pension liability was determined by actuarial valuations as of January 1, 2021 and rolled forward using generally accepted actuarial procedures to the December 31, 2021 measurement date.

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

	December 31, 2020	December 31, 2019
Active Participants		
Vested	28	37
Nonvested	26	25
Total	54	62
Participants Entitled to but Not Yet Receiving Benefits	5	3
Participants Currently Receiving Benefits	38	34
Total participants	97	99

Actuarial Assumptions

Significant actuarial assumptions used in the January 1, 2021 and 2020, valuations include a rate of return on the investment assets of 6.5 percent and annual projected salary increases averaging 5.0 percent per year. The projected salary increases include an inflation rate of 3.0 percent. Mortality rates used were the RP-2014 Employee and Annuitant Blue Collar Table for Males and Females with generational projection from 2014 using scale MP-2014. The disabled mortality table used was RP-2014 Disabled Retiree Mortality with no projection.

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

Notes to Financial Statements

December 31, 2021 and 2020

Discount Rate

The discount rate used to measure the total pension liability was 6.5 percent for the years ended December 31, 2021 and 2020. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that FELPS contributions will be made in a manner consistent with the current contribution practices. Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on Plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

	2021	2020
Total Pension Liability		
Service cost	\$ 553,164	\$ 546,303
Interest	1,541,125	1,510,432
Differences between expected and actual experience	(2,502,258)	-
Plan amendments	-	(289,288)
Benefit payments, including refunds of member contributions	(1,236,240)	(1,346,776)
Net change in total pension liability	(1,644,209)	420,671
Total pension liability, beginning of period	23,774,570	23,353,899
Total pension liability, end of period	22,130,361	23,774,570
Plan Fiduciary Net Position		
Employer contributions	625,130	615,218
Employee contributions	193,971	224,548
Earnings on Plan assets	1,001,327	1,925,568
Benefit payments	(1,236,240)	(1,346,776)
Administrative expense	(60,656)	(60,139)
Other	(36,835)	-
Net change in Plan fiduciary net position	486,697	1,358,419
Plan fiduciary net position, beginning of period	11,500,930	10,045,020
Plan fiduciary net position, end of period	11,987,627	11,403,439
Net pension liability, end of period	\$ 10,142,734	\$ 12,371,131

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

Notes to Financial Statements

December 31, 2021 and 2020

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

Discount Rate	Net Pension Liability at December 31, 2021	Net Pension Liability at December 31, 2020
1% decrease - 5.5%	\$ 12,865,744	\$ 15,669,315
Current discount rate - 6.5%	10,142,734	12,371,131
1% increase - 7.5%	7,856,444	9,618,652

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

For the years ended December 31, 2021 and 2020, the System recognized pension expense of \$116,439 and \$128,392, respectively, and the decrease in net pension liability of \$1,183,431 and \$99,323, respectively, as a regulatory asset. The System reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	December 31, 2021	December 31, 2020
Deferred Inflows of Resources		
Differences between projected and actual earnings on pension assets	\$ 2,706,813	\$ 589,329
Differences between expected and actual experience in the measurement of total pension liability	643,452	703,367
	<u>\$ 3,350,265</u>	<u>\$ 1,292,696</u>
Deferred Outflows of Resources		
Contributions made between measurement date and end of reporting period	<u>\$ 1,012,603</u>	<u>\$ -</u>

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

Notes to Financial Statements

December 31, 2021 and 2020

Amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2021, related to pensions will be recognized in pension expense as follows:

Year ended December 31,	
2022	\$ (711,001)
2023	(562,454)
2024	(811,701)
2025	(549,468)
2026	(434,325)
Thereafter	<u>(281,316)</u>
	<u>\$ (3,350,265)</u>

Note 10: Purchased Power

Electric power purchased during 2021 and 2020 in the amount of \$39,375,525 and \$21,963,431, respectively, was purchased from one supplier. Electric power is purchased from this supplier under a contract through December 31, 2025 (inclusive of termination and option periods). FELPS also incurs a Transmission Cost of Service (TCOS), which is passed directly through on members' bills. A total of \$9,792,520 and \$5,179,643 in 2021 and 2020, respectively, related to these costs incurred by the System. Deferred purchased power is netted against the costs of purchased power. Deferred purchased power of \$71,825 and \$449,960 was recognized during 2021 and 2020, respectively. For 2021, the electric power purchased was netted against \$14,592,295 of hedge settlements.

Note 11: Commitments and Contingencies

Part of the proceeds from the Series 2014 and 2015 bonds were invested in government bonds which are included in the statements of net position under the caption "Construction Fund" as established by the System. The balance in the Construction Fund at December 31, 2021 and 2020, consisted of cash of \$3,739,437 and \$7,328,996, respectively.

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

As a result of winter storm Uri, during February 2021, the cost of purchased power increased dramatically. The supplier for the majority of FELPS' purchased power is currently filing dispute over the prices of power during this time period and has agreed to forbear billing the full amount for the purchase and delivery of electric power and energy, ancillary services and regulatory charges for the February 2021 billing period.

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

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An initial amount of \$10,269,474 was paid during 2021 as part of the standstill and tolling agreement that expires on August 25, 2022, at which time the deferred billing will come due within 90 days of receipt of invoice. Based on facts and circumstances known at the date of the financial statements, it is more than probable that FELPS will have to pay between approximately \$5,000,000 and \$29,106,051 related to this invoice at the expiration date of the standstill agreement. Given the fact that a reduction to any specific amount within this range is not more probable than any other, the full invoice amount has been accrued. As of December 31, 2021, FELPS has collected \$4,657,872 from customers to pay toward the final invoice. Additionally, \$2,172,629 is available in its rate stabilization fund, and if it should be necessary, the City of Floresville will issue bonds or approve rate increases sufficient to meet the five-year payback period, per the City of Floresville bond ordinances issued in conjunction with past borrowing from the City.

Note 12: Regulatory Assets and Liabilities

Debt Issuance Costs

Under GASB 65, debt issuance costs are required to be expensed in the period incurred rather than amortized over the life of the related debt. In order to provide recovery for debt issuance costs through rates, the Board approved the use of GASB 62, to recognize debt issuance costs as a regulatory asset and to amortize these costs over the life of the associated debt. Unamortized debt issuance costs included in regulatory assets were \$866,644 and \$778,622 as of December 31, 2021 and 2020, respectively.

Pension Contribution Expense Recognition

FELPS records pension contributions as pension expense under GASB 62, since the pension contribution amount is known at the time of budget preparation and rate setting. The amortization amount will be included in pension expense for each year calculated. The regulatory asset for unamortized pension expense was (\$290,802) and \$1,011,088 as of December 31, 2021 and 2020, respectively.

Note 13: Concentrations of Credit Risk

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

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2021 and 2020

Note 14: Risk Management

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

Note 15: Future Change in Accounting Principles

GASB issued its Statement No. 87 (GASB 87), *Leases*. The statement requires recognition of certain lease assets and liabilities for leases that were previously classified as operating leases and recognized as inflows or resources and outflows of resources based on the payment provisions of the contract. This statement establishes a single model for lease accounting on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee will be required to recognize a lease liability and an intangible right to use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The System expects to first apply GASB 87 during the year beginning after December 31, 2021. The impact of applying the statement has not been determined.

GASB issued its Statement No. 96 (GASB 96), *Subscription-Based Information Technology Arrangements*. This statement addresses the accounting for the costs related to cloud computing agreements. The standard defines a subscription-based information technology arrangements (SBITA), establishes that a SBITA would result in a right-to-use (RTU) asset and a corresponding liability, provides capitalization criteria, and requires new note disclosures. The statement's language and concepts closely mirror the lease guidance provided in Statement No. 87, *Leases*. This statement requires governments report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs. The requirements of this statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The changes should be applied retroactively by restating financial statements, if practicable, for all prior fiscal years presented. If restatement is not practicable, the cumulative effect, if any, should be reported as a restatement of beginning net position for the earliest fiscal year restated. In the first fiscal year the amendments are applied, note disclosure is required for the nature of the restatement and its effect, as well as the reason for not restating prior fiscal years presented, if applicable. SBITA assets and liabilities should be recognized and measured using the facts and circumstances at the beginning of the fiscal year of implementation.

Floresville Electric Light and Power System

A Component Unit of the City of Floresville, Texas

Notes to Financial Statements

December 31, 2021 and 2020

If applied to earlier fiscal years, those assets and liabilities should be recognized and measured using the facts and circumstances at the beginning of the earliest fiscal year restated. Governments are permitted—but not required—to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation.

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APPENDIX D

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

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December 29, 2022

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FINAL

IN REGARD to the authorization and issuance of the “City of Floresville, Texas Electric Light and Power System Improvement Revenue Bonds, Series 2022” (the *Bonds*), dated November 15, 2022, in the aggregate principal amount of \$13,365,000, we have reviewed the legality and validity of the issuance thereof by the City of Floresville, Texas (the *City*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. The Bonds have Stated Maturities of August 15 in each of the years 2023 through 2037, August 15, 2039, August 15, 2041, August 15, 2043, August 15, 2045 and August 15, 2047, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the City, the Board of Trustees of the System, the City Council of the City of Poth, Texas, and the City Council of the City of Stockdale, Texas in connection with the issuance of the Bonds, including the Ordinance; (2) customary certifications and opinions of officials of the City and the System; (3) certificates executed by officers of the City and the System relating to the expected use and investment of proceeds of the Bonds and certain other funds of the City and the System, and to certain other facts solely within the knowledge and control of the City and the System; and (4) such other documentation, including an examination of the Bond executed and delivered initially by the City, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained

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Legal Opinion of Norton Rose Fulbright US LLP of San Antonio, Texas in connection with the authorization and issuance of “CITY OF FLORESVILLE, TEXAS ELECTRIC LIGHT AND POWER SYSTEM IMPROVEMENT REVENUE BONDS, SERIES 2022”

in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

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

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

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

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective.

Legal Opinion of Norton Rose Fulbright US LLP of San Antonio, Texas in connection with the authorization and issuance of “CITY OF FLORESVILLE, TEXAS ELECTRIC LIGHT AND POWER SYSTEM IMPROVEMENT REVENUE BONDS, SERIES 2022”

Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Norton Rose Fulbright US LLP

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APPENDIX E

The information contained in Appendix E consists of the Specimen Municipal Bond Insurance Policy.

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MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

AGM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to AGM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to AGM and shall not be deemed received until received by both and (b) all payments required to be made by AGM under this Policy may be made directly by AGM or by the Insurer's Fiscal Agent on behalf of AGM. The Insurer's Fiscal Agent is the agent of AGM only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of AGM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, AGM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100



Capital
Markets