

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

**CITY OF CASTLE HILLS, TEXAS**

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

**\$6,000,000\***

**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,  
SERIES 2023  
(THE "CERTIFICATES")**

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

**Bids due  
Tuesday, February 14, 2023  
at  
10:00 A.M. Central Time**

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

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

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

**OFFICIAL NOTICE OF SALE**

**\$6,000,000\***

**CITY OF CASTLE HILLS, TEXAS**

**(A political subdivision of the State of Texas located in Bexar County, Texas)  
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023**

**CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BID:** The City Council (the “City Council”) of the City of Castle Hills, Texas (the “City” or the “Issuer”) is offering for sale at competitive bid of its \$6,000,000\* Combination Tax and Revenue Certificates of Obligation, Series 2023 (the “Certificates”).

**BIDS BY INTERNET:** Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 10:00 A.M., Central Time, on Tuesday, February 14, 2023. Bidders submitting a bid by internet shall not be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System (“PARITY”) and should, as a courtesy, register with PARITY by 9:00 A.M., Central Time, on Tuesday, February 14, 2023 indicating their intent to submit a bid by internet.

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

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

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

**OPENING OF BIDS:** Bids will be opened and publicly read at 10:00 A.M., Central Time, on Tuesday, February 14, 2023, following which the bids will be evaluated by SAMCO Capital Markets, Inc. (the “Financial Advisor”) and the City Council shall provide final approval of the award at a City Council meeting later that evening. The Mayor of the City or his representative shall award the Certificates as described in the section entitled “AWARD AND SALE OF THE CERTIFICATES” below.

**AWARD AND SALE OF THE CERTIFICATES:** By 1:00 P.M., Central Time, on the date set for receipt of bids, the Mayor of the City or his representative shall tentatively award the Certificates to the **low qualified bidder (the “Winning Bidder”)**, as described in the section entitled “**CONDITIONS OF SALE – Basis of Award**” herein **subject to final approval of the City Council which will take action to adopt an ordinance (the “Ordinance”)** authorizing the issuance and awarding sale of the Certificates or will reject all bids promptly at a scheduled meeting to commence at 6:30 P.M. Central Time on Tuesday, February 14, 2023. The City reserves the right to reject any or all bids and to waive any irregularities, except time of filing.

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

## THE CERTIFICATES

**DESCRIPTION OF CERTAIN TERMS OF THE CERTIFICATES:** The Certificates will be dated February 1, 2023 (the “Dated Date”) with interest to accrue from the Dated Date and be payable initially on February 1, 2024, and semiannually on each August 1 and February 1 thereafter until the earlier of stated maturity or prior redemption. The Certificates will be issued as fully registered Certificates in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. DTC will act as securities depository (the “Securities Depository”). Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof within a stated maturity. Purchasers of the Certificates (“Beneficial Owners”) will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See “BOOK-ENTRY-ONLY SYSTEM” in the Preliminary Official Statement.) The Certificates will be stated to mature on February 1 in each of the following years in the following amounts:

### MATURITY SCHEDULE (Due February 1)

Stated Maturity	Principal Amount*	Stated Maturity	Principal Amount*
2024	\$105,000	2034	\$300,000
2025	205,000	2035	315,000
2026	215,000	2036	330,000
2027	225,000	2037	345,000
2028	235,000	2038	360,000
2029	245,000	2039	375,000
2030	255,000	2040	390,000
2031	265,000	2041	405,000
2032	275,000	2042	425,000
2033	290,000	2043	440,000

**ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES:** The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$6,000,000\*. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

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

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

**OPTIONAL REDEMPTION:** The City reserves the right, at its option, to redeem the Certificates maturing on or after February 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2032, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described in the Preliminary Official Statement.

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

**SECURITY FOR PAYMENT:** The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapters 1201 and 1502, as amended, Texas Government Code, and an ordinance (the "Ordinance") to be adopted by the City Council on February 14, 2023, and are payable primarily from an annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law. Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are further secured by a lien on and pledge of the "Surplus Revenues" of the City's municipal drainage utility system. The term "Surplus Revenues" is defined in the Ordinance to mean the surplus revenues derived by the City from the City's municipal drainage utility system remaining after (a) payment of all amounts constituting operation and maintenance expenses of said municipal drainage utility system, and (b) payment of all debt service, reserve, and other requirements and amounts required to be paid under all ordinances heretofore or hereafter adopted authorizing (i) all bonds, and (ii) all other obligations not on a parity with the Certificates, which are payable from and secured by any municipal drainage utility system revenues, and (c) payment of all amounts payable from any municipal drainage utility system revenues pursuant to contracts heretofore or hereafter entered into by the City in accordance with law. The City expects that such Surplus Revenues will be utilized to pay a portion of the debt service requirements on the Certificates. See Table 1 in Appendix A attached to the Preliminary Official Statement.

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

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

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

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

#### CONDITIONS OF SALE

**TYPES OF BIDS AND INTEREST RATES:** The Certificates will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Certificates from the Dated Date of the Certificates to the date of Initial Delivery (defined herein) of the Certificates. **No bid producing a cash premium on the Certificates that results in a dollar price of less than 102% will be considered; provided, however, that any bid is subject to adjustment as described under the caption "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS".** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest for the Certificates (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Certificates of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

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

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

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

The City intends to rely on Treasury Regulation section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of municipal Certificates), which require, among other things, that the City receives bids from at least three underwriters of municipal Certificates who have established industry reputations for underwriting new issuances of municipal Certificates (the "Competitive Sale Requirement").

In the event that the bidding process does not satisfy the Competitive Sale Requirement, Bids will **not** be subject to cancellation and the winning bidder (i) agrees to promptly report to the City the first prices at which at least 10% of each maturity of the Certificates (the "First Price Maturity") have been sold to the Public on the Sale Date (the "10% Test") (if different interest rates apply within a maturity, each separate CUSIP number within that maturity will be subject to the 10% Test) and (ii) agrees to hold-the- offering-price of each maturity of the Certificates that does not satisfy the 10% Test ("Hold-the-Price Maturity"), as described below.

In order to provide the City with information that enables it to comply with the establishment of the issue price of the Certificates under the Internal Revenue Code of 1986, as amended, the winning bidder agrees to complete, execute, and timely deliver to the City or to the City's municipal advisor, SAMCO Capital Markets, Inc. (the "City's Financial Advisor") the appropriate certification as to the Certificates' "issue price" (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Notice of Sale and Bidding Instructions, at least 5 business days before the closing date if the Competitive Sale Requirement is satisfied or within 5 business days of the date on which the 10% Test is satisfied with respect to all of the First Price Maturities. In the event the winning bidder will not reoffer any maturity of the Certificates for sale to the Public (as defined herein) by the closing date, the Issue Price Certificate may be modified in a manner approved by the City. It will be the responsibility of the winning bidder to institute such syndicate reporting requirements, to make such investigation, or otherwise to ascertain such facts necessary to enable it to make such certification with reasonable certainty. Any questions concerning such certification should be directed to Bond Counsel (identified in the Preliminary Official Statement).

For purposes of this section of this Notice of Sale and Bidding Instructions:

- (i) "Public" means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a Related Party,
- (ii) "Underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead Underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Certificates to the Public),
- (iii) "Related Party" means any two or more persons (including an individual, trust, estate, partnership, association, company, or corporation) that are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (iv) "Sale Date" means the date that the Certificates are awarded by the City to the winning bidder.

All actions to be taken by the City under this Notice of Sale and Bidding Instructions to establish the issue price of the Certificates may be taken on behalf of the City by the City's Financial Advisor, and any notice or report to be provided to the City may be provided to the City's Financial Advisor.

The City will consider any bid submitted pursuant to this Notice of Sale and Bidding Instructions to be a firm offer for the purchase of the Certificates, as specified in the bid and, if so stated, in the Official Bid Form.

By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such third-party distribution agreement, as applicable, (A) to report the prices at which it sells to the Public the unsold Certificates of each maturity allocated to it until either all such Certificates have been sold or it is notified by the winning bidder that either the 10% Test has been satisfied as to the Certificates of that maturity, (B) to promptly notify the winning bidder of any sales of Certificates that, to its knowledge, are made to a purchaser who is a Related Party to an Underwriter, and (C) to acknowledge that, unless otherwise advised by the underwriter, dealer or broker-dealer, the winning bidder will assume that based on such agreement each order submitted by the underwriter, dealer or broker-dealer is a sale to the Public; and (ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Certificates to the Public, together with the related pricing wires, contains or will contain language obligating each Underwriter that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Certificates to the Public to require each underwriter or dealer that is a party to such third-party distribution agreement to report the prices at which it sells to the Public the unsold Certificates of each maturity allocated to it until either all such Certificates have been sold or it is notified by the winning bidder or such Underwriter that either the 10% Test has been satisfied as to the Certificates of that maturity. Sales of any Certificates to any person that is a Related Party to an Underwriter shall not constitute sales to the public for purposes of this Notice of Sale and Bidding Instruction.

By submitting a bid, the winning bidder agrees, on behalf of each Underwriter participating in the purchase of the Certificates, that each Underwriter will neither offer nor sell any Hold-the-Price Maturity to any person at a price that is higher than the initial offering price to the Public during the period starting on the Sale Date and ending on the earlier of (1) the close of the fifth (5th) business day after the Sale Date; or (2) the date on which the Underwriters have sold at least 10% of that Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public. The winning bidder shall promptly advise the City when the Underwriters have sold 10% of a Hold-the-Price Maturity to the Public at a price that is no higher than the initial offering price to the Public, if that occurs prior to the close of the fifth (5th) business day after the Sale Date.

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

**GOOD FAITH DEPOSIT:** A bank cashier’s check payable to the order of “City of Castle Hills, Texas” in the amount of \$120,000, which is 2% of the par value of the Certificates (the “Good Faith Deposit”), is required. The Good Faith Deposit will be retained uncashed by the City until the Certificates are delivered, and at that time it will be returned to the Purchaser uncashed on the date of delivery of the Certificates; however, should the Purchaser fail or refuse to take up and pay for the Certificates, said Good Faith Deposit is to be cashed by the City and the proceeds accepted as full and complete liquidated damages. The above mentioned Good Faith Deposit may accompany the bid, or it may be submitted separately; however, if submitted separately, it shall be made available to the City prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Certificates has been made.

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

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

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (City of Castle Hills, Texas) and (b) item 3 - the identification number assigned to this contract by the City (Castle Hills CO2023) and description of the goods or services (Purchase of the City of Castle Hills, Texas Combination Tax and Revenue Certificates of Obligation, Series 2023). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the “Disclosure Rules”) require a non-publicly traded business entity contracting with the City to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC’s “electronic portal” to the City. The executed Disclosure Form must be sent by email to the City’s financial advisor at [mmcliney@samcocapital.com](mailto:mmcliney@samcocapital.com) and to the City’s bond counsel at [kcooper@mphlegal.com](mailto:kcooper@mphlegal.com), as soon as possible following the notification of conditional verbal acceptance and prior to the final written award.

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made “under penalty of perjury.” Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed Disclosure Form is received. If applicable, the City reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder’s obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC’s website at <https://www.ethics.state.tx.us/filinginfo/1295>.

**ADDITIONAL CONDITIONS OF AWARD - REQUIRED CERTIFICATIONS AND VERIFICATIONS BY WINNING BIDDER:**

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

Each bidder, through submittal of an executed Official Bid Form, represents that neither it nor any parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Texas Government Code, and posted on any of the following pages of such officer’s internet website: <https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>; <https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or <https://comptroller.texas.gov/purchasing/docs/fto-list.pdf>. The foregoing representation is made solely to comply with Section 2252.152, Texas

Government Code, and to the extent such Section does not contravene applicable Texas or federal law and excludes our company and each parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. Each bidder, through submittal of an executed Official Bid Form, understands "affiliate" to mean any entity that controls, is controlled by, or is under common control with our company and exists to make a profit.

Pursuant to Chapter 2274 of the Texas Government Code, as amended, the winning bidder will be required to verify in the Official Bid Form, for the purposes of such chapter, except to the extent otherwise required by applicable federal law, that at the time of execution and delivery of its bid and to the date of delivery of the Bonds, neither the winning bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the winning bidder boycotts energy companies or will boycott energy companies. The terms "boycotts energy companies" and "boycott energy companies" as used in this paragraph have the meaning assigned to the term "boycott energy company" in Section 809.001 of the Texas Government Code, as amended.

Pursuant to Chapter 2274 of the Texas Government Code, as amended, the winning bidder will be required to verify in the Official Bid Form, for the purposes of such chapter, except to the extent otherwise required by applicable federal law, that at the time of execution and delivery of its bid and to the date of delivery of the Bonds, neither the winning bidder, nor any wholly owned subsidiary, majority-owned subsidiary, parent company or affiliate of the winning bidder discriminates against a firearm entity or firearm trade association. The term "discriminates against a firearm entity or firearm trade association" as used in this paragraph has the meaning assigned to the term "discriminate against a firearm entity or firearm trade association" in Section 2274.001 of the Texas Government Code, as amended.

The bidder must have a standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General's Office as required by the All Bond Counsel Letter of the Texas Attorney General dated September 22, 2021 (the "All Bond Counsel Letter"). In submitting a bid, the bidder represents to the City that it has filed a standing letter that conforms to the requirements set forth in the All Bond Counsel Letter and it has no reason to believe that the City may not be entitled to rely on the standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General's Office. Bidder agrees that it will not rescind its standing letter at any time before the delivery of the Certificates unless same is immediately replaced with a standing letter meeting the requirements of the All Bond Counsel Letter.

The Issuer reserves the right, in its sole discretion, to reject any bid from a bidder for any reason. In the event that a bidder does not have such standing letter on file at the time of submission of a bid, the bidder agrees to file such standing letter with the Municipal Advisory Council of Texas and the Texas Attorney General's Office by the earlier of: (a) two (2) hours after submitting its bid, and (b) the deadline for bids for the Certificates. If requested by the Issuer, the Purchaser agrees to provide such further representations, certifications or assurances regarding the matters described under the subheading "CONDITIONS OF AWARD – Additional Conditions of Award – Required Certifications and Verifications by winning bidder," as of the date of delivery of the Certificates or such other date requested by the City.

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

#### OFFICIAL STATEMENT

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

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

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

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



**FINAL OFFICIAL STATEMENT:** In addition to delivering the Official Statement in a “designated electronic format”, the City will furnish to the Purchaser, within seven (7) days after the sale date, an aggregate maximum of fifty (50) copies of the Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Certificates, in accordance with Section 15c2-12(b)(3) of the Rule. The Purchaser may arrange, at its own expense, to have the Official Statement reproduced and printed if it requires more than 50 copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Certificates. The Purchaser will be responsible for providing information concerning the City and the Certificates to subsequent purchasers of the Certificates, and the City will undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The City agrees to provide, or cause to be provided, to the Purchaser the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a “designated electronic format” (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the MSRB. The City consents to the distribution of such documents in a “designated electronic format”. Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the MSRB Rule G-32. The City's obligation to supplement the Official Statement to correct key representations determined to be materially misleading, after the date of the Official Statement, shall terminate upon initial delivery of the Certificates to the Purchaser, unless the Purchaser notifies, in writing, the City that less than all of the Certificates have been sold to ultimate customers on or before such date, in which case the obligation will extend for an additional period of time (but not more than 90 days after the sale date) until all of the Certificates have been sold to ultimate customers.

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

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

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

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

#### **DELIVERY AND ACCOMPANYING DOCUMENTS**

**INITIAL DELIVERY OF INITIAL CERTIFICATES:** The initial delivery of the Certificates to the Purchaser on the “Delivery Date”, will be accomplished by the issuance of either (i) a single fully registered Certificate in the total principal amount of \$6,000,000 (preliminary, subject to change) payable in stated installments to the Purchaser and numbered T-1, or (ii) as one (1) fully registered Certificate for each year of stated maturity in the applicable principal amount and denomination, to be numbered consecutively from R-1 and upward (in either case, the "Initial Certificate"), signed by manual, electronic, or facsimile signature of the Mayor and the City Secretary approved by the Attorney General of Texas, and registered and manually or electronically signed by an authorized representative of the Comptroller of Public Accounts of the State of Texas. Initial Delivery (defined below) of the Certificates will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Certificate, they shall be immediately canceled and one Certificate for each stated maturity will be registered in the name of Cede & Co. and deposited with DTC in connection with DTC's Book-Entry-Only System. Payment for the Initial Certificate must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six (6) business days' notice of the time fixed for delivery of the Certificates. It is anticipated that Initial Delivery of the Initial Certificate can be made on or about March 15, 2023, but if for any reason the City is unable to make delivery by March 15, 2023, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional thirty (30) days its obligation to take up and pay for the Certificates. If the Purchaser does not so elect within six (6) business days thereafter, then the Good Faith

Deposit will be returned, and both the City and the Purchaser shall be relieved of further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided such failure is due to circumstances beyond the City's reasonable control.

**EXCHANGE OF INITIAL CERTIFICATES FOR DEFINITIVE CERTIFICATES:** Upon payment for the Initial Certificate at the time of such delivery, the Initial Certificate is to be canceled by the Paying Agent/Registrar and registered definitive Certificates delivered in lieu thereof, in multiples of \$5,000 for each stated maturity, in accordance with written instructions received from the Purchaser and/or members of the Purchaser's syndicate. Such Certificates shall be registered by the Paying Agent/Registrar. It shall be the duty of the Purchaser and/or members of the Purchaser's syndicate to furnish to the Paying Agent/Registrar, at least five days prior to the delivery of the Initial Certificate, final written instructions identifying the names and addresses of the registered owners, the stated maturities, interest rates, and denominations. The Paying Agent/Registrar will not be required to accept changes in such written instructions after the five day period, and if such written instructions are not received by the Paying Agent/Registrar five days prior to the delivery, the cancellation of the Initial Certificate and delivery of registered definitive Certificates may be delayed until the fifth day next following the receipt of such written instructions by the Paying Agent/Registrar.

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

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

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

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

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

#### GENERAL CONSIDERATIONS

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

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

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

**SALE OF ADDITIONAL OBLIGATIONS:** The City currently has no plans to issue additional ad valorem tax supported debt in 2023.

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

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

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

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

/s/ \_\_\_\_\_  
Mayor,  
City of Castle Hills, Texas

ATTEST:

/s/ \_\_\_\_\_  
Interim City Secretary,  
City of Castle Hills, Texas

February 7, 2023

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**OFFICIAL BID FORM**

Honorable Mayor and City Council  
 City of Castle Hills  
 209 Lemonwood  
 San Antonio, Texas 78213

February 14, 2023

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement dated February 7, 2023, which terms are incorporated by reference to this proposal (and which are agreed to as evidenced by our submission of this bid), we hereby submit the following bid for \$6,000,000 (preliminary, subject to change) CITY OF CASTLE HILLS, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023, dated February 1, 2023 (the "Certificates").

For said legally issued Certificates, we will pay you \$\_\_\_\_\_ (being a price of no less than 102% of the par value) plus accrued interest from their date to the date of delivery to us for Certificates maturing February 1 and bearing interest per annum as follows:

Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %	Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %
2024	\$105,000		2034*	\$300,000	
2025	205,000		2035*	315,000	
2026	215,000		2036*	330,000	
2027	225,000		2037*	345,000	
2028	235,000		2038*	360,000	
2029	245,000		2039*	375,000	
2030	255,000		2040*	390,000	
2031	265,000		2041*	405,000	
2032	275,000		2042*	425,000	
2033*	290,000		2043*	440,000	

*\*Maturities available for Term Certificates.*

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

**ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS:** As a condition to our submittal of this bid for the Certificates, we acknowledge the following: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$6,000,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Official Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

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

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

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

Cashier's Check of the \_\_\_\_\_ Bank, \_\_\_\_\_, Texas, in the amount of \$120,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this Bid), and is submitted in accordance with the terms as set forth in the Official Notice of Sale, said check is to be returned to the Purchaser.

We agree to accept delivery of the Certificates utilizing the Book-Entry-Only System through DTC and make payment for the Initial Certificate in immediately available funds at the Corporate Trust Division, BOKF, NA, Dallas, Texas, not later than 10:00 A.M., Central Time, on Wednesday, March 15, 2023, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale. It will be the obligation of the purchaser of the Certificates to complete and file the DTC Eligibility Questionnaire. The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" and, as evidenced thereof, agrees to complete, execute, and deliver to the City, by the Delivery Date, a certificate relating to the "issue price" of the Certificates in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the City. (See "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale.)

The undersigned hereby verifies that, at the time of execution and delivery of this bid, to the extent this Official Bid Form is a contract for goods or services, neither the bidder nor any syndicate member listed on this Official Bid Form, nor any parent company, wholly- or majority-owned subsidiaries, and other affiliates of the same, if any, boycotts Israel or will boycott Israel through the date of delivery of the Certificates. The foregoing verification is made solely to comply with Section 2271, Texas Government Code, and to the extent such Section does not contravene applicable Federal law. As used in the foregoing verification, "boycotts Israel" and "boycott Israel" means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes. The bidder understands "affiliate" to mean an entity that (i) controls, is controlled by, or is under common control with the bidder or any syndicate member listed on this Official Bid Form and (ii) exists to make a profit.

By submission of this bid, and as a condition of the award and delivery of the Certificates, the undersigned hereby represents that, neither the bidder nor any syndicate member listed on this Official Bid Form, nor any parent company, wholly- or majority-owned subsidiaries, and other affiliates of the same, if any, are companies identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Texas Government Code, and posted on any of the following pages of such officer's internet website: <https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>, <https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or <https://comptroller.texas.gov/purchasing/docs/ftolist.pdf>. The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, and to the extent such Section does not contravene applicable Federal law and excludes the bidder, any syndicate member listed on this Official Bid Form and each parent company, wholly- or majority-owned subsidiaries, and other affiliates of the same, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. The bidder understands "affiliate" to mean any entity that (i) controls, is controlled by, or is under common control with the bidder or any syndicate member listed on the Official Bid Form and (ii) exists to make a profit.

To the extent this Official Bid Form constitutes a contract for goods or services for which a written verification statement is required under Section 2274.002 (as added by Senate Bill 13 in the 87th Texas Legislative Session), Texas Government Code, as amended, the undersigned represents and verifies that it and its parent company, wholly- or majority- owned subsidiaries, and other affiliates, if any, do not boycott energy companies and, will not boycott energy companies during the term of the contract. The foregoing verification is made solely to comply with Section 2274.002, Texas Government Code, as amended, to the extent Section 2274.002, Texas Government Code does not contravene applicable Texas or federal law. As used in the foregoing verification, "boycott energy companies" shall mean, without an ordinary business purpose, refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations with a company because the company (A) engages in the exploration, production, utilization, transportation, sale, or manufacturing of fossil fuel-based energy and does not commit or pledge to meet environmental standards beyond applicable federal and state law; or (B) does business with a company described by (A) above. The undersigned bidder understands "affiliate" to mean an entity that controls, is controlled by, or is under common control with the bidder and exists to make a profit. **The bidder understands that in connection with its review of the Certificates, the Office of the Texas Attorney General make require documentation from the bidder to substantiate this verification and such documentation may include requiring the bidder to provide a written legal opinion or comfort letter**

To the extent the Official Bid Form constitutes a contract for goods or services for which a written verification statement is required under Section 2274.002 (as added by Senate Bill 19 in the 87th Texas Legislative Session, "SB 19"), Texas Government Code, as amended, the undersigned verifies that it and its parent company, wholly- or majority- owned subsidiaries, and other affiliates, if any,

- (1) do not have a practice, policy, guidance or directive that discriminates against a firearm entity or firearm trade association; and
- (2) will not discriminate during the term of the contract against a firearm entity or firearm trade association.

The foregoing verification is made solely to comply with Section 2274.002, Texas Government Code, as amended, to the extent Section 2274.002, Texas Government Code does not contravene applicable Texas or federal law. As used in the foregoing verification, "discriminate against a firearm entity or firearm trade association" (A) means, with respect to the entity or association, to (i) refuse to engage in the trade of any goods or services with the entity or association based solely on its status as a firearm entity or firearm trade association; (ii) refrain from continuing an existing business relationship with the entity or association based solely on its status as a firearm entity or firearm trade association; or (iii) terminate an existing business relationship with the entity or association based solely on its status as a firearm entity or firearm trade association; and (B) does not include: (i) the established policies of a merchant, retail seller, or platform that restrict or prohibit the listing or selling of ammunition, firearms, or firearm accessories; and (ii) a company's refusal to engage in the trade of any goods or services, decision to refrain from continuing an existing business relationship, or decision to terminate an existing business relationship: (aa) to comply with federal, state, or local law, policy, or regulations or a directive by a regulatory agency; or (bb) for any traditional business reason that is specific to the customer or potential customer and not based solely on an entity's or association's status as a firearm entity or firearm trade association. The undersigned bidder understands "affiliate" to mean an entity that controls, is controlled by, or is under common control with the bidder and exists to make a profit. **The bidder understands that in connection with its review of the Certificates, the Office of the Texas Attorney General make require documentation from the bidder to substantiate this verification and such documentation may include requiring the bidder to provide a written legal opinion or comfort letter**

IN ADDITION TO THE ABOVE VERIFICATIONS, THE UNDERSIGNED AGREES TO COOPERATE WITH THE CITY AND TAKE ANY ACTION NECESSARY TO FURTHER VERIFY AND CONFIRM COMPLIANCE WITH STATE LAW.

By submitting this bid, the Purchaser understands and agrees that if Purchaser should fail or refuse to take up and pay for the Certificates in accordance with this bid, or it is determined that after the acceptance of this bid by the City that the Purchaser was found not to satisfy the requirements described in the Notice of Sale and Bidding Instructions under the heading "CONDITIONS OF SALE" and as a result the Texas Attorney General will not deliver its approving opinion of the Certificates, then the check submitted herewith as Purchaser's Good Faith Deposit shall be cashed and accepted by the City as full and complete liquidated damages.

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

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

Bidder

By: \_\_\_\_\_

Authorized Representative

\_\_\_\_\_

Telephone Number

\_\_\_\_\_

E-mail Address

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Castle Hills, Texas, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 14<sup>th</sup> day of February 2023.

/s/ \_\_\_\_\_  
Mayor, City of Castle Hills, Texas

ATTEST:

/s/ \_\_\_\_\_  
Interim City Secretary, City of Castle Hills, Texas

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**\$6,000,000\***  
**CITY OF CASTLE HILLS, TEXAS**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,**  
**SERIES 2023**

ISSUE PRICE CERTIFICATE

(Sales where at least 3 bids are received from underwriters)

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Combination Tax and Revenue Certificates of Obligation, Series 2023 issued by the City of Castle Hills, Texas ("Issuer") in the principal amount of \$\_\_\_\_\_ ("Certificates"), hereby certifies and represents, based on its records and information, as follows:

(a) On the first day on which there was a binding contract in writing for the purchase of the Certificates by the Purchaser, the Purchaser's reasonably expected initial offering prices of each maturity of the Certificates with the same credit and payment terms (the "Expected Offering Prices") to a person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter are as set forth in the pricing wire or equivalent communication for the Certificates, as attached to this Certificate as Schedule A. The Expected Offering Prices are the prices for the Certificates used by the Purchaser in formulating its bid to purchase the Certificates.

(b) The Purchaser had an equal opportunity to bid to purchase the Certificates and it was not given the opportunity to review other bids that was not equally given to all other bidders (i.e., no last look).

(c) The bid submitted by the Purchaser constituted a firm bid to purchase the Certificates.

(d) The Purchaser has /has not  purchased bond insurance for the Certificates. The bond insurance has been purchased from \_\_\_\_\_ (the "Insurer") for a fee of \$\_\_\_\_\_ (net any nonguarantee cost, e.g., rating agency fees). The amount of such fee is set forth in the Insurer's commitment and does not include any payment for any direct or indirect services other than the transfer of credit risk, unless the compensation for those other services is separately stated, reasonable, and excluded from such fee. Such fee does not exceed a reasonable, arm's-length charge for the transfer of credit risk and it has been paid to a person who is not exempt from federal income taxation and who is not a user or related to the user of any proceeds of the Certificates. The present value of the debt service savings expected to be realized as a result of such insurance exceeds the amount of the fee set forth above. For this purpose, present value is computed using the yield on the Certificates, determined by taking into account the amount of the fee set forth above, as the discount rate. No portion of the fee payable to the Insurer is refundable upon redemption of any of the Certificates in an amount which would exceed the portion of such fee that has not been earned.

For purposes of this Issue Price Certificate, the term "Underwriter" means (1) (i) a person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, or (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (1)(i) of this paragraph (including a member of a selling group or a party to a third-party distribution agreement participating in the initial sale of the Certificates to the Public) to participate in the initial sale of the Certificates to the Public, and (2) any person who has more than 50% common ownership, directly or indirectly, with a person described in clause (1) of this paragraph.

The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the Federal Tax Certificate and with respect to compliance with the federal income tax rules affecting the Certificates, and by McCall, Parkhurst & Horton L.L.P. in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Certificates. Notwithstanding anything set forth herein, the Purchaser is not engaged in the practice of law and makes no representation as to the legal sufficiency of the factual matters set forth herein.

EXECUTED and DELIVERED as of this \_\_\_\_\_.

\_\_\_\_\_, as Purchaser

By: \_\_\_\_\_

Name: \_\_\_\_\_

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

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SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION

(Attached)

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

**NEW ISSUE - BOOK-ENTRY-ONLY**

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

**PRELIMINARY OFFICIAL STATEMENT**  
**February 7, 2023**

*In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein.*

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

**\$6,000,000\***  
**CITY OF CASTLE HILLS, TEXAS**  
**(A political subdivision of the State of Texas located in Bexar County, Texas)**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023**

**Dated Date: February 1, 2023**

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

The \$6,000,000\* City of Castle Hills, Texas Combination Tax and Revenue Certificates of Obligation, Series 2023 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, and an ordinance (the "Ordinance") to be adopted by the City Council of the City of Castle Hills, Texas (the "City" or the "Issuer") on February 14, 2023. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further secured by a lien on and pledge of the "Surplus Revenues" derived from the ownership and operation of the City's municipal drainage utility system, all as provided in the Ordinance. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)

Interest on the Certificates will accrue from February 1, 2023 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2024, until the earlier of stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by BOKF, NA, Dallas, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying all or a portion of the City's contractual obligations incurred for the purpose of (i) construct drainage improvements at various locations within the City; (ii) construct street, curb, and sidewalk improvements at various locations in the City, together with utility relocation and/or drainage improvements related or incidental thereto; and (iii) paying legal, fiscal and engineering fees in connection with such projects. (See "THE CERTIFICATES – Use of Certificate Proceeds" herein.)

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

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*The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" and "APPENDIX C – Form of Legal Opinion of Bond Counsel" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about March 15, 2023.*

**BIDS DUE TUESDAY, FEBRUARY 14, 2023, BY 10:00 A.M., CENTRAL TIME**

\* Preliminary, subject to change.

**\$6,000,000\***  
**CITY OF CASTLE HILLS, TEXAS**  
**(A political subdivision of the State of Texas located in Bexar County, Texas)**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023**

**MATURITY SCHEDULE\***

CUSIP Prefix No. 14846S<sup>(1)</sup>

<u>Stated</u> <u>Maturity</u> <u>2/1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No.</u> <u>Suffix <sup>(1)</sup></u>	<u>Stated</u> <u>Maturity</u> <u>2/1</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Initial</u> <u>Yield</u>	<u>CUSIP</u> <u>No.</u> <u>Suffix <sup>(1)</sup></u>
2024	\$ 105,000				2034	\$ 300,000			
2025	205,000				2035	315,000			
2026	215,000				2036	330,000			
2027	225,000				2037	345,000			
2028	235,000				2038	360,000			
2029	245,000				2039	375,000			
2030	255,000				2040	390,000			
2031	265,000				2041	405,000			
2032	275,000				2042	425,000			
2033	290,000				2043	440,000			

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

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2032, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. Additionally, the Purchaser may select certain consecutive maturities of the Certificates to be grouped together as one or more "Term Certificates" and such "Term Certificates" would also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

\* Preliminary, subject to change.

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

**CITY OF CASTLE HILLS TEXAS**  
**209 Lemonwood Drive**  
**Castle Hills, Texas 78213**  
**Telephone: (210) 342-2341**

**ELECTED OFFICIALS**

Name	Years Served	Term Expires (May)
JR Trevino Mayor	5	2023
Joe Izbrand Mayor Pro-Tem	3	2024
Frank Paul Place 2	5	2023
Kurt May Place 3	3	2023
Jack Joyce Place 4	3	2024
Beth Daines Place 5	Newly Elected	2024

**ADMINISTRATION**

Name	Position	Length of Service With the City (years)
Ryan Rapelye	City Manager	5
Brenda Craig	Interim City Secretary	4 months
Nora Davis	Fiscal Officer	5

**CONSULTANTS AND ADVISORS**

**Bond Counsel** .....McCall, Parkhurst & Horton L.L.P.  
San Antonio, Texas

**Certified Public Accountants**.....Martinez, Rosario & Company, LLP  
San Antonio, Texas

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

***For Additional Information Please Contact:***

Mr. Ryan Rapelye  
City Manager  
City of Castle Hills  
209 Lemonwood Drive  
San Antonio, Texas 78213  
Telephone: (210) 342-2341  
rrapelye@castlehills-tx.gov

Mr. Mark M. McLiney  
Senior Managing Director  
SAMCO Capital Markets, Inc.  
1020 Northeast Loop 410, Suite 640  
San Antonio, Texas 78209  
Telephone: (210) 832-9760  
mmcliney@samcocapital.com

Mr. Andrew Friedman  
Senior Managing Director  
SAMCO Capital Markets, Inc.  
1020 Northeast Loop 410, Suite 640  
San Antonio, Texas 78209  
Telephone: (210) 832-9760  
afriedman@samcocapital.com

**USE OF INFORMATION IN THE OFFICIAL STATEMENT**

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

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

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

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

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE PURCHASER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING EITHER THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION IS PROVIDED BY DTC, OR THE BOND INSURER, IF ANY, AND ITS MUNICIPAL BOND INSURANCE POLICY.

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

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



## SELECTED DATA FROM THE OFFICIAL STATEMENT

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

<b>The Issuer</b>	The City of Castle Hills, Texas (the "City" or the "Issuer"), a municipal corporation and political subdivision of the State of Texas. The City is surrounded by the City of San Antonio. The City operates under a Council/Manager form of government, as a Type A municipality, with a Mayor and a five member City Council. The 2022 population was approximately 4,400. (See "APPENDIX B – General Information Regarding the City of Castle Hills and Bexar County, Texas" herein.)
<b>The Certificates</b>	The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code and an ordinance (the "Ordinance") to be adopted by the City Council of the City, on February 14, 2023. (See "THE CERTIFICATES - Authority for Issuance" herein.)
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas.
<b>Security</b>	The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law. The Certificates are further secured by a lien on and pledge of the "Surplus Revenues" derived from the ownership and operation of the City's municipal drainage utility system. (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)
<b>Qualified Tax-Exempt Obligations</b>	The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)
<b>Redemption Provisions of the Certificates</b>	The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2032, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. Additionally, the Purchaser may select certain consecutive maturities of the Certificates to be grouped together as a "Term Certificate" and such "Term Certificates" would also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)
<b>Tax Matters</b>	In the opinion of McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, as Bond Counsel to the City, interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date thereof. (See "TAX MATTERS" and "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein.)
<b>Use of Certificate Proceeds</b>	Proceeds from the sale of the Certificates will be used for the purpose of paying all or a portion of the City's contractual obligations incurred for the purpose of (i) construct drainage improvements at various locations within the City; (ii) construct street, curb, and sidewalk improvements at various locations in the City, together with utility relocation and/or drainage improvements related or incidental thereto; and (iii) paying legal, fiscal and engineering fees in connection with such projects. (See "THE CERTIFICATES – Use of Certificate Proceeds" herein.)
<b>Rating</b>	A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Rating" herein.)
<b>Payment Record</b>	The City has never defaulted on the payment of its general obligation or revenue indebtedness.
<b>Future Debt Issues</b>	The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2023.
<b>Delivery</b>	When issued, anticipated on or about March 15, 2023.
<b>Legality</b>	Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel.

**PRELIMINARY OFFICIAL STATEMENT**  
relating to

**\$6,000,000\***  
**CITY OF CASTLE HILLS, TEXAS**  
**(A political subdivision of the State of Texas located in Bexar County, Texas)**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023**

**INTRODUCTORY STATEMENT**

This Official Statement provides certain information in connection with the issuance by the City of Castle Hills, Texas (the “City” or the “Issuer”) of its \$6,000,000\* Combination Tax and Revenue Certificates of Obligation, Series 2023 (the “Certificates”) identified on the cover page.

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

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

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

**INFECTIOUS DISEASE OUTBREAK – COVID-19**

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

On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in the State in response to the Pandemic which has been subsequently extended and remains in effect. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a State agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation, and phased reopening of the State. However, there are no COVID-19 operating limits for any businesses or other establishments under executive orders in effect as of the date of the Official Statement. The Governor retains the right to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

In general, the City, and the receipt of its primary revenue sources, including ad valorem taxes, sales and use taxes, and revenues from its municipal drainage utility system have not been materially negatively impacted by the Pandemic to date. With the reopening of businesses and the general upswing in economic activity throughout the State, the City does not expect the Pandemic will have a negative impact on the City or its operations and the collection of revenues from its various sources.

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\* Preliminary, subject to change.

The full extent of the ongoing impact of COVID-19 on the City's longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the duration, spread, and worsening of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted. The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition.

### **Convening of the Texas Legislature**

The 88th Texas Legislature convened on January 10, 2023 and will conclude on May 29, 2023 ("88th Regular Session"). When the regular Legislature is not in session, the Governor of Texas may call one or more special sessions, at the Governor's direction, each lasting no more than 30 days, and for which the Governor sets the agenda. During the legislative session, the Texas Legislature may consider legislation affecting City and/or its finances. The City makes no representation regarding any actions the Texas Legislature may take but intends to monitor proposed and final legislation for any developments applicable to the City.

## **THE CERTIFICATES**

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

The Certificates will be dated February 1, 2023 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2024, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by BOKF, NA, Dallas, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

### **Authority for Issuance**

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, and an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council") on February 14, 2023.

### **Security for Payment**

*Limited Pledge of Ad Valorem Taxes.* The Certificates are general obligations of the City, payable from its collection of an ad valorem tax levied annually, within the legal limitations imposed by law, upon all taxable property located in the City. (See "AD VALOREM PROPERTY TAXATION" and "TAX RATE LIMITATIONS" herein.)

*Pledge of Surplus Revenues.* To comply with Texas law allowing the Certificates to be sold for cash, the Certificates are further secured by a lien on and pledge of the "Surplus Revenues" of the City's System. The term "Surplus Revenues" is defined in the Ordinance to mean the surplus revenues derived by the City from the City's municipal drainage utility system remaining after (a) payment of all amounts constituting operation and maintenance expenses of said municipal drainage utility system, and (b) payment of all debt service, reserve, and other requirements and amounts required to be paid under all ordinances heretofore or hereafter adopted authorizing (i) all bonds, and (ii) all other obligations not on a parity with the Certificates, which are payable from and secured by any municipal drainage utility system revenues, and (c) payment of all amounts payable from any municipal drainage utility system revenues pursuant to contracts heretofore or hereafter entered into by the City in accordance with law. The City expects that such Surplus Revenues will be utilized to pay a portion of the debt service requirements on the Certificates. See Table 1 in Appendix A attached hereto.

### **Redemption Provisions of the Certificates**

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after February 1, 2033, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2032, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. In addition, two or more consecutive maturities of the Certificates may be grouped together as a "Term Certificate" by the Purchaser, and such "Term Certificates" would also be subject to mandatory sinking fund redemption. If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

### **Notice of Redemption**

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

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

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

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

The Certificates of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Certificates to be partially redeemed must be surrendered in exchange for one or more new Certificates for the unredeemed portion of the principal. If less than all of the Certificates are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to select, at random and by lot, the particular Certificates, or portion thereof, to be redeemed. If a Certificate (or any portion of the principal sum thereof) will have been called for redemption and notice of such redemption will have been given, such Certificate (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

### **Use of Certificate Proceeds**

Proceeds from the sale of the Certificates will be used for the purpose of paying all or a portion of the City's contractual obligations incurred for the purpose of (i) construct drainage improvements at various locations within the City; (ii) construct street, curb, and sidewalk improvements at various locations in the City, together with utility relocation and/or drainage improvements related or incidental thereto; and (iii) paying legal, fiscal and engineering fees in connection with such projects .

**Sources and Uses**

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

**Payment Record**

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

**Amendments**

The Issuer may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Certificates affected, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of and interest on the Certificates, reduce the principal amount thereof or the rate of interest thereon, (2) give any preference to any Certificate over any other Certificate, (3) extend any waiver of defaults to subsequent defaults, or (4) reduce the aggregate principal amount of Certificates required for consent to any such amendment, addition, or rescission.

**Defeasance**

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. City officials are authorized to restrict such eligible securities as deemed appropriate in connection with the sale of the Certificates. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

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

### **Default and Remedies**

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

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

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

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

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("*Chapter 9*"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a

general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

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

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

### **Record Date**

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

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

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

### **Future Registration**

In the event the Certificates are not in the Book-Entry-Only System, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the

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

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

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

#### **Replacement Certificates**

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

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

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

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

**INVESTMENT POLICIES**

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

**Legal Investments**

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

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

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

**Current Investments <sup>(1)</sup>**

**TABLE 1**

As of September 30, 2022, the City held investments as follows (unaudited):

<u>Type of Security</u>	<u>Market Value</u>	<u>Percentage of Total</u>
Depository Bank Accounts	\$ 3,873,765	32.00%
Money Market Funds	3,305,157	27.00%
Investment Pools	5,075,908	41.00%
Total	<u>\$ 12,254,830</u>	<u>100.00%</u>

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

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

## AD VALOREM PROPERTY TAXATION

*The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title 1 of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

### **Valuation of Taxable Property**

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

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

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

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

### **State Mandated Homestead Exemptions**

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

### **Local Option Homestead Exemptions**

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

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

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

## **Personal Property**

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

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

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

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

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

## **Other Exempt Property**

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

## **Tax Increment Reinvestment Zones**

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

## **Tax Abatement Agreements – Chapter 380 Economic Development Agreement**

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

## **Temporary Exemption for Qualified Property Damaged by a Disaster**

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% physically damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the City, adopting its tax rate for the tax year. A taxing unit, such as the City, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established by the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised. For more information on the exemption, reference is made to Section 11.35 of the Property Tax Code. On April 13, 2020, the Attorney General of Texas released his

opinion that “a court would likely conclude that the Legislature intended to limit the temporary tax exemption to apply to property physically harmed as a result of a declared disaster. Thus, purely economic, non-physical damage to property caused by the COVID-19 disaster is not eligible for the temporary tax exemption provided by section 11.35 of the Tax Code.” Tex. Atty. Gen. Op. No. KP-0299 (2020).

### **City and Taxpayer Remedies**

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

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount”, as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount was set at \$50,000,000 for the 2020 tax year, \$50,600,000 million for the 2021 tax year, and \$52,978,200 for the 2022 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

### **Levy and Collection of Taxes**

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

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

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

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

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

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

## TAX RATE LIMITATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **Debt Tax Rate Limitations**

The City operates as a Type A municipality under the Constitution and laws of the State of Texas. Article XI, Section 4 of the Constitution of the State provides that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal of and interest on the City's indebtedness must not exceed \$1.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation within the \$1.50 rate for interest and sinking fund purposes; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as the City, if its issuance produces debt service requirements exceeding that which can be paid from \$1.00 of the foregoing \$1.50 maximum tax rate calculated at 90% collection.

#### **The Property Tax Code as Applied to the City**

The City grants an exemption of \$5,000 to the market value of the residence homestead of persons 65 years of age or older.

The City does grant an additional exemption of up to 10% of the market value of residence homesteads (minimum exemption of \$5,000).

The City does not tax non-business personal property.

Bexar Central Appraisal District does not collect taxes for the City. The Bexar County Tax Assessor/Collector office performs the tax collection for the City.

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

The City does not grant the Article VIII, Section 1-j ("freeport property") exemption.

The City does not grant an exemption for "Goods-in-Transit".

The City does not participate in a Tax Increment Reinvestment Zone.

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

The City has no tax abatement agreements.

### **TAX MATTERS**

#### **Opinion**

On the date of initial delivery of the Certificates, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (i) interest on the Certificates for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (ii) the Certificates will not be treated as "specified private activity bonds", the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates (see "APPENDIX C - Form of Legal Opinion of Bond Counsel").

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the City, including information and representations contained in the City's federal tax certificate, and (b) covenants of the City contained in the Certificate documents relating to certain matters, including arbitrage and the use of the proceeds of the Certificates and the property financed therewith. Failure by the City to observe the aforementioned representations or covenants, could cause the interest on the Certificates to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Certificates in order for interest on the Certificates to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Certificates to be included in gross income retroactively to the date of the issuance of the Certificates. The opinion of Bond Counsel is conditioned on compliance by the City with the covenants and requirements described in the preceding paragraph, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Certificates.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations, and covenants. Bond Counsel's opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Certificates.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Certificates or the property financed with the proceeds of the Certificates. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of result. No assurances can be given as to whether or not the Internal Revenue Service will commence an audit of the Certificates, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Certificateholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

#### **Federal Income Tax Accounting Treatment of Original Issue Discount**

The initial public offering price to be paid for one or more maturities of the Certificates may be less than the principal amount thereof or one or more periods for the payment of interest on the Certificates may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Certificates"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the Certificates less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Certificate in the initial public offering is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificate equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see the discussion set forth below. In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Certificate prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Certificate was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Certificate is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Certificates and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Certificate for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Certificate.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Certificates which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Certificates should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Certificates and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Certificates.



## **Collateral Federal Income Tax Consequences**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Certificates. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

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

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

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

## **State, Local and Foreign Taxes**

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

## **Information Reporting and Backup Withholding**

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Certificates will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under Section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

## **Future and Proposed Legislation**

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Certificates under federal or state law and could affect the market price or marketability of the Certificates. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Certificates should consult their own tax advisors regarding the foregoing matters.

## **Qualified Tax-Exempt Obligations for Financial Institutions**

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in section 585(a)(2) of the

Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by section 265(b) of the Code, section 291 of the Code provides that the allowable deduction to a "bank," as defined in section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The City expects that the Certificates will be designated, as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the City will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Certificates as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Certificates would not be "qualified tax-exempt obligations."**

#### CONTINUING DISCLOSURE OF INFORMATION

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

#### Annual Reports

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

The City will file certain updated financial information and operating data with the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement in Table 1 hereof, Tables 1 through 10 of Appendix A to this Official Statement, and in Appendix D. The Issuer will update and provide this information within six months after the end of each fiscal year of the City beginning in the year 2022. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

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

The Issuer's current fiscal year end is December 31. Accordingly, it must provide updated information by the end of June in each year following end of its fiscal year, unless the Issuer changes its fiscal year. If the Issuer changes its fiscal year, it will notify the MSRB through EMMA of the change.

#### Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment

of the Certificates, if material; (11) rating changes;(12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. In the Ordinance, the City will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

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

#### **Availability of Information**

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

#### **Limitations and Amendments**

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

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

#### **Compliance with Prior Undertakings**

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

### **LEGAL MATTERS**

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

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court

decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel to the City, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas has reviewed (except for numerical, statistical or technical data) the information under the captions "THE CERTIFICATES" (except under the subcaptions "Use of Certificate Proceeds", "Sources and Uses" "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

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

#### **Litigation**

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

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

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

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

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

#### **FORWARD LOOKING STATEMENTS**

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

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal, and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and

legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

## **OTHER PERTINENT INFORMATION**

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

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

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

### **Rating**

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

### **Authenticity of Financial Information**

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

### **Financial Advisor**

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

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

**Winning Bidder**

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

**Certification of the Official Statement**

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) there has been no material adverse change in the financial condition of the City, since December 31, 2020, the date of the last financial statements of the City appearing in the Official Statement.

**Information from External Sources**

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

**Concluding Statement**

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

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

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

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

**CITY OF CASTLE HILLS, TEXAS**

\_\_\_\_\_  
/s/ Mayor  
City of Castle Hills, Texas

ATTEST:

\_\_\_\_\_  
/s/ Interim City Secretary  
City of Castle Hills, Texas

**APPENDIX A**

**FINANCIAL INFORMATION RELATING TO  
THE CITY OF CASTLE HILLS, TEXAS**

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**FINANCIAL INFORMATION OF THE ISSUER**

**ASSESSED VALUATION**

**TABLE 1**

2022 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 1,028,594,805
Less Exemptions:	
Optional Over-65 or Disabled Homestead.....	\$ 3,070,000
Disabled/Deceased Veterans'.....	22,627,494
Homestead.....	52,042,977
Freeport.....	3,350
10% Per Year Cap on Residential Homesteads.....	51,227,966
<b>TOTAL EXEMPTIONS .....</b>	<b>\$ 128,971,787</b>
2022 Certified Net Taxable Assessed Value of Taxable Property.....	<b>\$ 899,623,018</b>
Less: Freeze Taxable	228,670,129
Freeze Adjusted Taxable Value	<b>\$ 670,952,889</b>

Source: Bexar County Appraisal District.

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

(as of January 1, 2023)

**General Obligation Debt Principal Outstanding**

Combination Tax and Revenue Certificates of Obligation, Series 2020	\$ 7,255,000
The Certificates	<u>\$ 6,000,000</u> *
<b>Total Gross General Obligation Debt</b>	<b><u>\$ 13,255,000</u></b> *

**Less: Self Supporting Debt**

Combination Tax and Revenue Certificates of Obligation, Series 2020 (60.10% Drainage Utility)	4,360,000
The Certificates (25% Drainage Utility)	<u>1,500,000</u> *
<b>Total Self-Supporting Debt</b>	<b><u>\$ 5,860,000</u></b>
<b>Total Net General Obligation Debt Outstanding</b>	<b><u>\$ 7,395,000</u></b> *

2022 Net Assessed Valuation	\$ 899,623,018
Ratio of Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	1.47% *
Ratio of Net General Obligation Debt to Certified Net Taxable Assessed Valuation	0.82% *

Population: 2000 - 4,202; 2010 - 4,116; 2020 - 3,978; est. 2022 4,400  
Per Capita Certified Net Taxable Assessed Valuation - \$204,459.78  
Per Capita Gross General Obligation Debt Principal - \$3,012.50  
Per Capita Net General Obligation Debt Principal - \$1,680.68

\* Preliminary, subject to change.

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

**TABLE 2**

In December 2017, the City entered into a capital lease agreement with PNC Equipment Finance, LLC for the purchase of a new fire truck. The total cost of the fire truck was \$1,049,924. The City paid a down payment of \$500,000 and the remaining balance was financed over 7 years with an interest rate of 2.78% per annum. The lease calls for annual payments of \$87,536 beginning December 2018 through December 20, 2024. The fire truck is recorded as a capital asset of the City with a cost of \$1,049,924. As of December 31, 2021, \$411,220 had been recognized in accumulated depreciation.

Requirements to amortize the capital lease over the remaining life is as follows:

Year End December 31,	Amount
2022	\$ 87,536
2023	87,536
2024	<u>87,536</u>
Total minimum lease Payments	\$ 262,608
Less: Interest	\$ (13,953)
Present Value of Minimum Payments	\$ 248,655

Source: The City's Comprehensive Annual Financial Report for fiscal year ended December 31, 2021.

**PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending (9/30)	Current Total Outstanding Debt <sup>(1)</sup>	The Certificates*			Total Debt Service	Less: Self Supporting Debt Service	Total Net Debt Service *
		Principal	Interest <sup>(2)</sup>	Total			
2023	\$ 506,813	\$ -	\$ -	\$ -	\$ 506,813	\$ 289,338	\$ 217,475
2024	476,613	105,000	485,269	590,269	1,066,881	408,506	658,375
2025	476,563	205,000	451,181	656,181	1,132,744	398,963	733,781
2026	481,138	215,000	452,256	667,256	1,148,394	405,431	742,963
2027	480,338	225,000	452,906	677,906	1,158,244	401,569	756,675
2028	479,238	235,000	453,131	688,131	1,167,369	402,450	764,919
2029	482,763	245,000	452,931	697,931	1,180,694	403,000	777,694
2030	478,950	255,000	452,306	707,306	1,186,256	405,019	781,238
2031	477,988	265,000	451,256	716,256	1,194,244	398,656	795,588
2032	476,950	275,000	454,675	729,675	1,206,625	402,150	804,475
2033	480,281	290,000	457,456	747,456	1,227,738	405,044	822,694
2034	477,975	300,000	449,813	749,813	1,227,788	402,438	825,350
2035	480,000	315,000	451,744	766,744	1,246,744	404,313	842,431
2036	481,300	330,000	448,144	778,144	1,259,444	400,663	858,781
2037	482,400	345,000	449,013	794,013	1,276,413	401,806	874,606
2038	478,350	360,000	454,138	814,138	1,292,488	402,638	889,850
2039	479,150	375,000	453,519	828,519	1,307,669	403,156	904,513
2040	479,750	390,000	452,263	842,263	1,322,013	403,363	918,650
2041	-	405,000	450,369	855,369	855,369	111,263	744,106
2042	-	425,000	452,731	877,731	877,731	111,906	765,825
2043	-	440,000	449,350	889,350	889,350	112,338	777,013
Total	<u>\$ 8,656,556</u>	<u>\$ 6,000,000</u>	<u>\$ 9,074,450</u>	<u>\$ 15,074,450</u>	<u>\$ 23,731,006</u>	<u>\$ 7,474,006</u>	<u>\$ 16,257,000</u>

\* Preliminary, subject to change.

<sup>(1)</sup> Includes self-supporting debt.

<sup>(2)</sup> Interest calculated at an assumed rate for illustrative purposes only.

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

2022 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$ 670,952,889
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2040)	1,322,013 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.20106 *

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

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

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

2022 Certified Freeze Adjusted Net Taxable Assessed Valuation	\$ 670,952,889
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2040)	918,650 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.13971 *

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

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

**GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**

(As of January 1, 2022)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year	Percent of Principal Retired (%)
	Currently Outstanding <sup>(a)</sup>	The Certificates*	Total		
2023	\$ 350,000	-	\$ 350,000	12,905,000	2.64%
2024	330,000	105,000	435,000	12,470,000	5.92%
2025	340,000	205,000	545,000	11,925,000	10.03%
2026	355,000	215,000	570,000	11,355,000	14.33%
2027	365,000	225,000	590,000	10,765,000	18.79%
2028	375,000	235,000	610,000	10,155,000	23.39%
2029	390,000	245,000	635,000	9,520,000	28.18%
2030	395,000	255,000	650,000	8,870,000	33.08%
2031	400,000	265,000	665,000	8,205,000	38.10%
2032	405,000	275,000	680,000	7,525,000	43.23%
2033	415,000	290,000	705,000	6,820,000	48.55%
2034	420,000	300,000	720,000	6,100,000	53.98%
2035	430,000	315,000	745,000	5,355,000	59.60%
2036	440,000	330,000	770,000	4,585,000	65.41%
2037	450,000	345,000	795,000	3,790,000	71.41%
2038	455,000	360,000	815,000	2,975,000	77.56%
2039	465,000	375,000	840,000	2,135,000	83.89%
2040	475,000	390,000	865,000	1,270,000	90.42%
2041	-	405,000	405,000	865,000	93.47%
2042	-	425,000	425,000	440,000	96.68%
2043	-	440,000	440,000	1,695,000	100.00%
<b>Total</b>	<b>\$ 7,255,000</b>	<b>\$ 6,000,000</b>	<b>\$ 13,255,000</b>		

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

\* Preliminary, subject to change.

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2012-2022**

**TABLE 3**

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2012-13	\$ 481,370,112		0.00%
2013-14	497,367,827	15,997,715	3.32%
2014-15	532,721,669	35,353,842	7.11%
2015-16	585,209,772	52,488,103	9.85%
2016-17	640,970,485	55,760,713	9.53%
2017-18	682,455,192	41,484,707	6.47%
2018-19	712,320,183	29,864,991	4.38%
2019-20	758,393,315	46,073,132	6.47%
2020-21	810,267,441	51,874,126	6.84%
2021-22	821,818,300	11,550,859	1.43%
2022-23	899,623,018	77,804,718	9.47%

Source: Bexar County Appraisal District.

**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 4**

	<b>2022</b>	<b>% of Total</b>	<b>2021</b>	<b>% of Total</b>	<b>2020</b>	<b>% of Total</b>
Real, Residential, Single-Family	\$ 720,549,320	70.05%	\$ 602,741,291	67.31%	\$ 575,051,650	65.42%
Real, Residential, Multi-Family	10,254,080	1.00%	23,525,010	2.63%	23,017,730	2.62%
Real, Vacant Lots/Tracts	7,706,190	0.75%	6,129,930	0.68%	9,679,320	1.10%
Real, Farm and Ranch Improvements	43,460	0.00%	35,990	0.00%	35,990	0.00%
Real, Commercial	251,001,339	24.40%	222,661,704	24.87%	230,837,627	26.26%
Real & Tangible, Personal Utilities	4,212,764	0.41%	5,178,974	0.58%	6,115,796	0.70%
Tangible Personal, Commercial	34,093,974	3.31%	34,563,582	3.86%	33,674,757	3.83%
Tangible Personal, Industrial	733,678	0.07%	573,436	0.06%	629,096	0.07%
Tangible Personal, Special Inventory	-	0.00%	-	0.00%	-	0.00%
<b>Total Appraised Value</b>	<b>\$ 1,028,594,805</b>	<b>100.00%</b>	<b>\$ 895,409,917</b>	<b>100.00%</b>	<b>\$ 879,041,966</b>	<b>100.00%</b>
<b>Less:</b>						
Optional Over-65 or Disabled Homestead	\$ 3,070,000		\$ 3,125,000		\$ 3,040,000	
Disabled/Deceased Veterans'	22,627,494		18,648,883		16,280,656	
Homestead	52,042,977		47,229,701			
Freeport	3,350		1,890			
10% Per Year Cap on Res. Homesteads	51,227,966		4,586,143		49,453,869	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 899,623,018</b>		<b>\$ 821,818,300</b>		<b>\$ 810,267,441</b>	
Less: Freeze Taxable	228,670,129		210,774,705		192,447,947	
Freeze Adjusted Taxable Value	<b>\$ 670,952,889</b>		<b>\$ 611,043,595</b>		<b>\$ 617,819,494</b>	

Source: Bexar County Appraisal District.

**PRINCIPAL TAXPAYERS 2022**

**TABLE 5**

<b>Name</b>	<b>Type of Business/Property</b>	<b>2022 Net Taxable Assessed Valuation</b>	<b>% of 2022 Assessed Valuation</b>
Generations Community Federal Credit Union	Financial Institution	\$ 18,750,000	2.28%
6701 Blanco Road LP	Real Estate	15,500,000	1.89%
D2410 Partners LP	Real Estate	15,400,000	1.87%
South Elm LLC	Real Estate	14,447,410	1.76%
Bank of San Antonio	Financial Institution	11,988,740	1.46%
HEB Grocery Company LP	Grocery Store	10,968,490	1.33%
6900 Blanco LTD	Real Estate	8,400,000	1.02%
PM Partners LP	Real Estate	7,495,000	0.91%
Gov San Antonio LLC	Real Estate	6,500,000	0.79%
Westoak Office & Retail Park LTD	Real Estate	6,280,100	0.76%
		<b>\$ 115,729,740</b>	<b>14.08%</b>

**TAX RATE DISTRIBUTION****TABLE 6**

	2022	2021	2020	2019	2018
General Fund	\$ 0.480827	\$ 0.496535	\$ 0.476990	\$ 0.480600	\$ 0.501300
Interest and Sinking Fund	0.027861	0.028364	0.039048	-	-
Total Tax Rate	\$ 0.508688	\$ 0.524899	\$ 0.516038	\$ 0.480600	\$ 0.501300

Source: Bexar County Appraisal District.

**TAX DATA****TABLE 7**

Taxes are due October 1 and become delinquent after January 31. Discounts are allowed: 3% October, 2% November, and 1% if paid in December. Current collections are those taxes collected through August 31, applicable to the current year's tax levy. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent of the amount of the tax for the first calendar month it is delinquent plus one percent for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 20% of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentages of collections set forth below exclude penalties and interest.

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2012	\$ 481,370,112	\$ 0.501300	\$ 2,413,108	98.00	99.63	12/31/2013
2013	497,367,827	0.501300	2,493,305	98.40	99.99	12/31/2014
2014	532,721,669	0.501300	2,670,534	98.20	98.68	12/31/2015
2015	585,209,772	0.501300	2,933,657	98.60	99.57	12/31/2016
2016	640,970,485	0.501300	3,213,185	98.40	99.04	12/31/2017
2017	682,455,192	0.501300	3,421,148	98.30	98.10	12/31/2018
2018	712,320,183	0.501300	3,570,861	98.40	98.61	12/31/2019
2019	758,393,315	0.480600	3,644,838	94.80	96.59	12/31/2020
2020	810,267,441	0.516038	4,181,288	98.63	99.82	12/31/2021
2021	821,818,300	0.524899	4,313,716	95.95	96.35	12/31/2022
2022	899,623,018	0.508688	4,576,274	56.97	57.40	12/31/2023 *

Source: Bexar County Appraisal District.

\* Collections through December 31, 2022.

**MUNICIPAL SALES TAX COLLECTIONS**

**TABLE 8**

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development tax. The Issuer has authorized the additional one-quarter cent sales tax for street maintenance and repairs at an election held October 1, 2002 and one -quarter cent sales tax for crime control at an election held October 1, 2004. Net collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Crime Control District
2012	\$ 1,128,896	46.78%	0.235	\$ 213,860
2013	1,174,348	47.10%	0.236	223,551
2014	1,182,353	44.27%	0.222	229,872
2015	1,260,886	42.98%	0.215	245,476
2016	1,295,417	40.32%	0.202	256,455
2017	1,308,199	38.24%	0.192	256,551
2018	1,339,068	37.50%	0.188	260,139
2019	1,420,443	38.97%	0.187	278,315
2020	1,531,666	36.63%	0.189	301,424
2021	1,672,237	38.77%	0.203	331,303
2022	1,812,376	39.60%	0.201	359,518

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

**OVERLAPPING DEBT INFORMATION**

(January 1, 2023)

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

Taxing Body	Gross Debt (As of 1/1/2023)	% Overlapping	Amount Overlapping
Bexar County	\$ 2,207,225,000	0.46%	\$ 10,153,235
Bexar County Hospital District	1,168,200,000	0.46%	5,373,720
Alamo CCD	827,235,000	0.46%	3,805,281
Northeast ISD	1,358,345,000	1.83%	24,857,714
Total Gross Overlapping Debt			<u>\$ 44,189,950</u>
Castle Hills, City of			\$ 13,255,000 *
Total Gross Direct and Overlapping Debt			<u>\$ 57,444,950</u>
Ratio of Gross Direct Debt and Overlapping Debt			6.39%
Per Capita Gross Direct Debt and Overlapping Debt			\$13,055.67
Note: The above figures show Gross General Obligation Debt for the City of Castle Hills, Texas. The Issuer's Net General Obligation Debt is \$7,395,000. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:			
Total Net Direct and Overlapping Debt			\$ 51,584,950
Ratio of Net Direct and Overlapping Debt to 2022 Net Assessed Valuation			5.73%
Per Capita Net Direct and Overlapping Debt			\$11,723.85

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

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

**TABLE 9**

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

	Fiscal Year Ended				
	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
Fund Balance - Beginning of Year	\$ 4,616,052	\$ 4,473,683	\$ 5,219,279	\$ 4,603,483	\$ 5,093,354
Revenues	7,065,089	7,509,890	7,098,290	6,927,623	6,665,021
Expenditures	7,080,818	10,524,861	8,113,144	6,311,827	7,707,316
Excess (Deficit) of Revenues Over Expenditures	\$ (15,729)	\$ (3,014,971)	\$ (1,014,854)	\$ 615,796	\$ (1,042,295)
Other Financing Sources (Uses):					
Proceeds on the sale of Capital Assets	\$ -	\$ 3,157,340	\$ 33,250	\$ -	\$ 2,500
Transfers In			236,008		
Capital Lease Issued	-	-	-	-	549,924
Total Other Financing Sources (Uses):	\$ -	\$ 3,157,340	\$ 269,258	\$ -	\$ 552,424
Fund Balance - End of Year*	\$ 4,600,323	\$ 4,616,052	\$ 4,473,683	\$ 5,219,279	\$ 4,603,483

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

\*The City anticipates a general fund balance of \$5,577,399 for FYE 12/31/22.

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

Governmental Subdivision	2022 Assessed Valuation	% of Actual	2022 Tax Rate
Bexar County	\$ 205,255,689,260	100%	\$ 0.289000
Bexar County Hospital District	227,518,576,531	100%	0.276235
Alamo CCD	228,262,581,921	100%	0.149000
Northeast ISD	53,214,264,301	100%	1.182200

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

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

Issuer	Date of Authorization	Amount Authorized	Amount Issued to Date	Amount Unissued
Bexar County	11/2/1993	\$ 79,000,000	\$ 66,999,113	\$ 12,000,887
	11/4/2003	99,246,000	49,981,000	49,265,000
		\$ 178,246,000	\$ 116,980,113	\$ 61,265,887
Bexar County Hosp Dist	None			
Alamo CCD	None			
Northeast ISD	None			

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

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

**TABLE 10**

Information regarding the City's pension plan can be found within the City's audit under "NOTE 8: Employee Retirement System" in Appendix D herein.

**DRAINAGE FUND**

	Fiscal Year Ended				
	12/31/2021	12/31/2020	12/31/2019	12/31/2018	12/31/2017
Fund Balance - Beginning of Year	\$ 1,242,537	\$ 1,097,085	\$ 884,957	\$ 598,376	\$ 369,378
Revenues	\$ 516,019	\$ 380,278	\$ 506,665	\$ 293,397	\$ 290,290
Expenditures	350,165	234,826	294,537	6,816	61,292
Net Change in Fund Balance	\$ 165,854	\$ 145,452	\$ 212,127	\$ 286,581	\$ 228,998
Fund Balance - End of Year	\$ 1,408,391	\$ 1,242,537	\$ 1,097,084	\$ 884,957	\$ 598,376

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**APPENDIX B**

**GENERAL INFORMATION REGARDING THE CITY OF CASTLE HILLS  
AND BEXAR COUNTY, TEXAS**

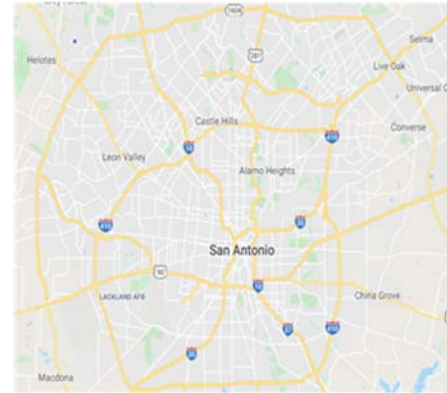
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**GENERAL INFORMATION REGARDING THE CITY OF CASTLE HILLS, TEXAS  
AND BEXAR COUNTY, TEXAS**

**The City of Castle Hills**

The City of Castle Hills, Texas (the “City”) was incorporated in 1951. The City is located inside and lies on the northeast quadrant of the City of San Antonio.

Private residential properties in the City make this community vital and vibrant with large lots and an abundance of trees. Currently the City is diverse in population with over 4,200 residents and over 600 small to medium businesses such as restaurants, churches, public and private schools and retail specialty stores.



**Bexar County**

Bexar County (the “County”) was created in 1836 from Spanish municipality named for Duke de Bexar, a colonial capital of Texas. The county is located in south central Texas and is component of the Metropolitan Statistical Area (“MSA”) of San Antonio. The San Antonio MSA is one of the nation’s largest MSAs and the third largest MSA in Texas. The principal city within the County is San Antonio, the county seat. The City was founded in the early eighteenth century and was incorporated by the Republic of Texas in 1837.

The County has a diversified economic base which is composed of financial services, healthcare, agriculture, manufacturing, construction, military, and tourism. Support for these economic activities is demonstrated by the County’s ongoing commitment to economic development projects along with ongoing infrastructure improvements to support the County’s growing population. As Bexar County has continued to add jobs it has also fared better than the nation with the current unemployment issues.

**Principal Employers for 2021**

<b>Principal Employers</b>	<b>Category</b>	<b>Total</b>	<b>Percent of County Employment</b>
Joint Base San Antonio	Government	74,289	8.65
H.E.B. Grocery Company	Retail	27,487	3.20
USAA	Finance/Insurance	18,690	2.18
Northside ISD	Services	14,567	1.70
City of San Antonio	Government	12,259	1.43
Methodist Healthcare System	Medical	9,761	1.14
University Health System	Medical	9,542	1.11
Northeast ISD	Services	8,386	0.98
Skanska	Construction	7,600	0.88
San Antonio ISD	Services	7,504	0.87

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

	<b>2022 <sup>(2)</sup></b>	<b>2021 <sup>(3)</sup></b>	<b>2020 <sup>(3)</sup></b>	<b>2019 <sup>(3)</sup></b>	<b>2018 <sup>(3)</sup></b>
Civilian Labor Force	977,520	945,855	927,557	932,179	927,183
Total Employed	943,356	895,189	856,813	902,782	895,880
Total Unemployed	34,164	50,666	70,744	29,397	31,303
%Unemployed	3.5%	5.4%	7.6%	3.2%	3.4%
% Unemployed (Texas)	3.7%	5.7%	7.7%	3.5%	3.9%
% Unemployed (United States)	3.4%	5.3%	8.1%	3.7%	3.9%

(1) Source: Texas Workforce Commission.

(2) As of November 2022.

(3) Average Annual Statistics.

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**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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*[An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Certificates, assuming no material changes in facts or law.]*

March \_\_, 2023

**CITY OF CASTLE HILLS, TEXAS**  
**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023**  
**DATED AS OF FEBRUARY 1, 2023**  
**IN THE AGGREGATE PRINCIPAL AMOUNT OF \$ \_\_\_\_\_**

**AS BOND COUNSEL FOR THE CITY OF CASTLE HILLS, TEXAS** (the "**City**"), we have examined into the legality and validity of the Certificates of Obligation described above (the "**Certificates**"), which bear interest from the dates specified in the text of the Certificates until stated maturity or prior redemption, at the rates and payable on the dates, and which mature on the dates and are subject to redemption, all in accordance with the terms and conditions stated in the text of the Certificates. Terms used herein and not otherwise defined shall have the meaning given in the ordinance of the City authorizing the issuance and sale of the Certificates (the "**Ordinance**").

**WE HAVE EXAMINED** the applicable and pertinent provisions of the Constitution and laws of the State of Texas and a transcript of certified proceedings of the City, and other pertinent instruments authorizing and relating to the issuance of the Certificates including (i) the Ordinance, (ii) one of the executed Certificates (Certificate No. T-1), and (iii) the City's Federal Tax Certificate of even date herewith.

**BASED ON SAID EXAMINATION, IT IS OUR OPINION** that the Certificates have been duly authorized, issued and delivered in accordance with law; that except as the enforceability thereof may be limited by governmental immunity and bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally or by general principles of equity which permit the exercise of judicial discretion, the Certificates constitute valid and legally binding obligations of the City; that ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Certificates have been levied and pledged for such purpose, within the limit prescribed by law; and that "**Surplus Revenues**" (as such term is defined and described in the Ordinance) received by the City from the ownership and operation of the City's municipal drainage utility system have been pledged to further secure the payment of the Certificates in the manner set forth in the Ordinance.



**IT IS FURTHER OUR OPINION**, except as discussed below, that the interest on the Certificates is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Certificates are not "specified private activity bonds" and that, accordingly, interest on the Certificates will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "**Code**"). In expressing the aforementioned opinions, we have relied on certain representations, the accuracy of which we have not independently verified, and assumed compliance with certain covenants, regarding the use and investment of the proceeds of the Certificates and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or upon a failure by the City to comply with such covenants, interest on the Certificates may become includable in gross income retroactively to the date of issuance of the Certificates.

**EXCEPT AS STATED ABOVE**, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Certificates, including the amount, accrual, or receipt of interest on, the Certificates. Owners of the Certificates should consult their own tax advisors regarding the applicability of any collateral tax consequences of owning the Certificates.

**WE CALL YOUR ATTENTION TO THE FACT** that the interest on tax-exempt obligations, such as the Certificates, may be includable in a corporation's adjusted financial statement income for purposes of determining the alternative minimum tax imposed on certain corporations by section 55 of the Code.

**WE EXPRESS NO OPINION** as to insurance policies issued with respect to the payments due for the principal of and interest on the Certificates, if any, nor as to any such insurance policies issued in the future.

**OUR OPINIONS ARE BASED ON EXISTING LAW**, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of a result and are not binding on the Internal Revenue Service (the "**Service**"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City





as the taxpayer. We observe that the City has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Certificates as includable in gross income for federal income tax purposes.

**OUR SOLE ENGAGEMENT** in connection with the issuance of the Certificates is as Bond Counsel for the City, and, in that capacity, we have been engaged by the City for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Certificates for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. 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 disclosure thereof in connection with the sale of the Certificates, and we have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the marketability of the Certificates and have relied solely on certificates executed by officials of the City as to the current outstanding indebtedness of, and assessed valuation of taxable property within, the City. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

Respectfully,

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**APPENDIX D**

**FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED DECEMBER 31, 2021**

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## INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and  
Members of City Council  
City of Castle Hills, Texas

### **Opinions**

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the City of Castle Hills (the "City"), as of and for the year ended December 31, 2021 and related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City, as of December 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinions***

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 the City and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### ***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 the City's 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 opinions. 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 the City's 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 the City's 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 on pages 4-11, Budgetary Comparison Schedules on pages 49-51, Schedule of Changes in Net Pension Liability and Related Ratios on page 52, and Schedule of Contributions and Notes to Schedule of Contributions on page 53 and the Schedule of Changes in Total OPEB Liability and Related Ratios on page 54, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the

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

### ***Supplementary Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City's basic financial statements. The supplemental and other supplemental information, 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. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the City's basic financial statements for the year ended December 31, 2020, which are not presented with the accompanying financial statements, and we expressed unmodified opinions on the respective financial statements of the governmental activities, each major fund, and the aggregate remaining fund information. That audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements as a whole.

The 2020 amounts which are included in the individual comparative financial statements are presented for comparative purposes whose report dated September 10, 2021 expressed an unmodified opinion on those statements.

*Martinez, Rosario & Company, LLP*

Martinez, Rosario & Company, LLP  
Certified Public Accountants  
San Antonio, Texas

June 27, 2022

**City of Castle Hills, Texas**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended December 31, 2021**

On behalf of the City of Castle Hills management team, we are pleased to provide an overview of the financial activities of the City for the fiscal year ended December 31, 2021. The intended purpose of this MD&A is to introduce the basic financial statements and notes to the financial statements in an easy to read format, analyzing our financial activities and which will help to determine if the City's financial position has improved or deteriorated over the past year. When referring to prior year data in this analysis, we included information from last year's audited financial reports.

**FINANCIAL HIGHLIGHTS**

- The City's total net position was \$15.5 million at December 31, 2021.
- During the year, the City's expenses were \$1.4 million less than the \$9.3 million generated in taxes and other revenues for governmental activities.
- The total cost of the City's programs increased 8.5% from the previous year.
- The general fund reported a fund balance this year of \$4.6 million.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

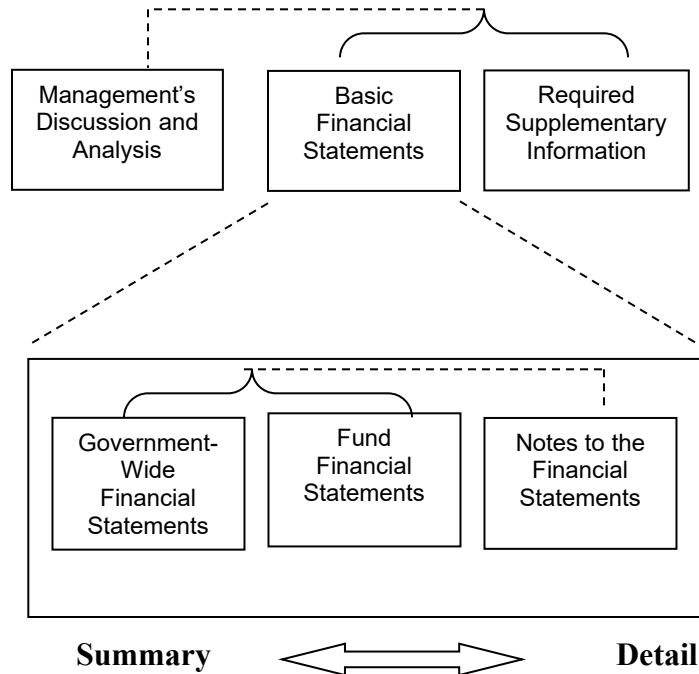
This annual report consists of three parts (1) Management's Discussion and Analysis (this section), (2) the basic financial statements and (3) required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

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

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



**Figure A-1  
Required Components of  
City of Castle Hills Annual Financial Reports**



**GOVERNMENT-WIDE STATEMENTS**

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

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

- Over time, increases or decreases in the City’s net position are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the City, one needs to consider additional nonfinancial factors such as changes in the City’s tax base.

The government-wide financial statements of the City include the Governmental activities. Most of the City’s basic services are included here, such as police, fire and general administration. Property taxes, sales taxes, franchise fees and charges for services finance most of these activities.

## **FUND FINANCIAL STATEMENTS**

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

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

The City has Governmental Funds as follows:

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

## FINANCIAL ANALYSIS OF THE CITY AS A WHOLE

The City's net position was at year end was \$15.5 million.

CITY OF CASTLE HILLS, TEXAS			
NET POSITION			
	Governmental Activities		Total Increase (Decrease)
	2021	2020	
<i>Assets:</i>			
Cash and Cash Equivalents	\$ 14,751,425	\$ 16,208,191	\$ (1,456,766)
Receivables, Net	3,363,617	2,529,242	834,375
Prepaid Expenses	127,504	115,927	11,577
Due From Others	5,772	-	5,772
Capital Assets (Net)	<u>12,648,524</u>	<u>11,205,148</u>	<u>1,443,376</u>
<b>Total Assets</b>	30,896,842	30,058,508	838,334
<i>Deferred Outflow:</i>			
Deferred Pension Related Outflows	1,167,604	1,499,468	(331,864)
Deferred OPEB Related Outflows	<u>54,087</u>	<u>30,408</u>	<u>23,679</u>
<b>Total Asset Plus Deferred Outflow of Resources</b>	<u>\$ 32,118,533</u>	<u>\$ 31,588,384</u>	<u>\$ 530,149</u>
<i>Liabilities:</i>			
Accounts Payable and Accruals	\$ 782,016	\$ 799,954	\$ (17,938)
Unearned Revenues	100,748	99,750	998
Due To Others	5,772	-	5,772
Other Current Liabilities	420,623	438,443	(17,820)
Long-Term Liabilities	<u>9,957,091</u>	<u>10,653,362</u>	<u>(696,271)</u>
<b>Total Liabilities</b>	11,266,250	11,991,509	(725,259)
<i>Deferred Inflows:</i>			
Property Taxes Levied for Future Periods	4,216,119	3,964,601	251,518
Deferred Pension Related Inflows	8,863	6,920	1,943
Deferred OPEB Related Inflows	<u>1,187,415</u>	<u>1,535,095</u>	<u>(347,680)</u>
<b>Total Liabilities Plus Deferred Inflows of Resources</b>	16,678,647	17,498,125	(819,478)
<i>Net Position:</i>			
Net Invested in			
Capital Assets	8,763,450	8,241,631	521,819
Restricted	4,905,942	3,866,947	1,038,995
Unrestricted	<u>1,770,494</u>	<u>1,981,681</u>	<u>(211,187)</u>
<b>Total Net Position</b>	<u>\$ 15,439,886</u>	<u>\$ 14,090,259</u>	<u>\$ 1,349,627</u>

## GOVERNMENTAL ACTIVITIES

*Changes in net position.* The City's total revenues were \$9.3 million, an increase of \$389 thousand. A significant portion, \$6.3 million comes from taxes, \$1.6 million relates to charges for services, and \$ 1.3 million comes from operating contributions and other revenues. The total cost of all programs and services was \$7.9 million.

**CITY OF CASTLE HILLS, TEXAS  
CHANGES IN NET POSITION  
FOR THE YEAR ENDED DECEMBER 31, 2021**

	<u>2021</u>	<u>2020</u>	<u>Total Increase(Decrease)</u>
<i>Revenues:</i>			
<i>Program Revenues:</i>			
Changes for Services	\$ 1,609,017	\$ 1,329,600	\$ 279,417
Operating Grants and Contributions	567,283	247,174	320,109
<i>General Revenues:</i>			
Property Taxes	3,711,938	3,747,192	(35,254)
Sales Taxes	2,071,312	1,893,079	178,233
Franchise Taxes	495,370	468,367	27,003
License Agreements	713,612	848,126	(134,514)
Investment Earnings	2,875	65,339	(62,464)
Miscellaneous	87,501	270,472	(182,971)
Total Revenues	9,258,908	8,869,349	389,559
<i>Expenses:</i>			
Administration	950,019	1,597,603	(647,584)
Municipal Court	349,177	305,290	43,887
Police	2,717,053	2,684,365	32,688
Fire	2,212,108	1,992,562	219,546
Streets and Drainage	916,534	727,266	189,268
Sanitation	525,239	473,380	51,859
Interest on Long-Term Debt	239,151	11,215	227,936
Total Operating Expenses	7,909,281	7,791,681	117,600
Change in Net Position	1,349,627	1,077,668	271,959
Net Position, Beginning of Year	14,090,259	13,012,591	1,077,668
Net Position, End of Year	\$ 15,439,886	\$ 14,090,259	\$ 1,349,627

The below table presents the cost of each of the City’s largest functions as well as each function’s net cost (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by local governments as well as local tax dollars.

- The cost of all governmental activities this year was \$7.9 million.
- The amount that our taxpayers paid for these activities through property taxes was \$3.8 million.
- Some of the cost, \$1.6 million, was paid by those who directly benefited from the programs.

	<u>2021</u>		<u>2020</u>	
Administration	\$ 950,019	12%	\$ 1,597,603	21%
Municipal Court	349,177	4%	305,290	4%
Police	2,717,053	34%	2,684,365	34%
Fire	2,212,108	28%	1,992,562	26%
Streets and Drainage	916,534	12%	727,266	9%
Sanitation	525,239	7%	473,380	6%
Interest on Long-Term Debt	239,151	3%	11,215	0%
	<u>\$ 7,909,281</u>		<u>\$ 7,791,681</u>	

## FINANCIAL ANALYSIS OF THE CITY’S FUNDS

Revenues from governmental fund types totaled \$9.3 million, an increase of \$582 thousand.

## CAPITAL ASSETS

The City’s net investment in capital assets at the end of the fiscal year December 31, 2021, amounted to \$12,648,524 with \$5,413,401 in accumulated depreciation. It is the City’s policy to capitalize only purchases of \$5,000 or over. Items less than \$5,000 are expensed. This investment in capital assets includes buildings, improvements, vehicles, and equipment. A more detail presentation is presented in the Notes to Financial Statements at Note 6.

**CAPITAL ASSETS AT YEAR-END**

	<u>2021</u>	<u>2020</u>
Land	\$ 383,700	\$ 383,700
Building and Improvements	3,083,664	3,069,636
Vehicle and Equipment	3,945,046	3,945,046
Infrastructure	8,273,643	8,273,643
Construction in Progress	<u>2,375,872</u>	<u>258,887</u>
 Total Capital Assets	 18,061,925	 15,930,912
 Less Accumulated Depreciation	 <u>(5,413,401)</u>	 <u>(4,725,764)</u>
 Total Capital Assets, Net	 <u>\$ 12,648,524</u>	 <u>\$ 11,205,148</u>

**LONG-TERM DEBT**

At the end of the current fiscal year, the City's had \$248,655 in capital leases and \$7,595,000 in bonds payable. A more detail presentation is presented in the Notes to Financial Statement at Note 7.

**BONDS PAYABLE**

	<u>2021</u>	<u>2020</u>
Capital Leases	\$ 248,655	\$ 327,098
Bonds Payable	<u>7,595,000</u>	<u>7,955,000</u>
 <b>TOTAL</b>	 <u>\$ 7,843,655</u>	 <u>\$ 8,282,098</u>

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2022 budget, tax rates, and fees that will be charged. The City's budget levels remain similar to previous years, with the final approval taking place prior to the onset of the COVID-19 pandemic. It is unclear what economic effect the pandemic will have on the City.

The City's largest single source of revenue in the General Fund continues to be ad valorem taxes. The adopted budget for the fiscal year 2022 utilized the approved tax rate of \$0.524899 per \$100 of taxable value. This rate consists of only a maintenance and operations (M&O) tax rate of \$0.496535 and an interest and sinking (debt service) tax rate of \$0.028364. The rate was set based on a net assessed value of \$811.8 million excluding frozen values.

The City's second largest source of revenue in the General Fund is sales tax. The City anticipates the sales tax to stabilize in anticipation of a moderate increase. The City has seen an increase in the opening of several businesses over the last year with hopes of seeing an opportunity in growth to the City's sales tax base.

### **REQUEST FOR INFORMATION**

The financial report is designed to provide our citizens, taxpayer, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, please contact:

Ryan D. Rapelye  
City Manager  
209 Lemonwood Dr.  
San Antonio, Texas 78213  
210-342-2341

**CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF NET POSITION  
AS OF DECEMBER 31, 2021**

**EXHIBIT A-1**

	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and Cash Equivalents	\$ 11,171,803
Receivables, Net	
Property Taxes	2,844,830
Sales and Franchise Fees	477,385
Garbage, Stormwater and Other Fees	41,402
Prepaid Expenses	127,504
Due From Others	5,772
Restricted Assets:	
Cash and Cash Equivalents	3,579,622
Capital Assets:	
Land	383,700
Construction in Progress	2,375,872
Building and Improvements	3,083,664
Vehicles and Equipment	3,945,046
Infrastructure	8,273,643
Accumulated Depreciation	<u>(5,413,401)</u>
Capital Assets, Net	<u>12,648,524</u>
<b>Total Assets</b>	<b>30,896,842</b>
<b>Deferred Outflows of Resources</b>	
Deferred outflows related to OPEB	54,087
Deferred Outflows Related to Pension Plan	<u>1,167,604</u>
<b>Total Deferred Outflows of Resources</b>	<b><u>1,221,691</u></b>
<b>Total Assets Plus Deferred Outflows of Resources</b>	<b>\$ <u><u>32,118,533</u></u></b>

The notes to the Financial Statements are an integral part of this statement.



**CITY OF CASTLE HILLS, TEXAS**  
**STATEMENT OF NET POSITION- Continued**  
**AS OF DECEMBER 31, 2021**

**EXHIBIT A-1**

**LIABILITIES**

Accounts Payable	\$	475,778
Wages and Salaries Payable		151,764
Due to Others		5,772
Compensated Absences		82,698
License Agreements Received in Advance		100,748
Accrued Interest Payable		71,776
Other Current Liabilities:		
Bonds Payable		340,000
Capital Lease Payable		80,623
<b>Total Current Liabilities</b>		<b>1,309,159</b>
Non-Current Liabilities:		
Bonds Payable		7,707,170
Compensated Absences		329,113
Capital Lease Obligation		168,032
OPEB Liability		298,786
Net Pension Liability		1,453,990
<b>Total Non-Current Liabilities</b>		<b>9,957,091</b>
<b>Total Liabilities</b>		<b>11,266,250</b>
<b>Deferred Inflows of Resources</b>		
Property Taxes Levied for Future Periods		4,216,119
Deferred Inflows Related to OPEB		8,863
Deferred Inflows Related to Pension Plan		1,187,415
<b>Total Deferred Inflows of Resources</b>		<b>5,412,397</b>
<b>Total Liabilities Plus Deferred Inflows of Resources</b>	\$	<b>16,678,647</b>

**NET POSITION**

Restricted for:		
Street Repair		1,176,282
Drairage Improvements		1,408,391
Police		1,642,591
Municipal Count		51,315
PEG Funds		67,843
Animal Control		5,718
American Rescue		553,802
Net Investment in Capital Assets		8,763,450
Unrestricted		1,770,494
<b>Total Net Position</b>	\$	<b>15,439,886</b>

The notes to the Financial Statements are an integral part of this statement.

CITY OF CASTLE HILLS, TEXAS  
 STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED DECEMBER 31, 2021

EXHIBIT B-1

	<u>Program Revenue</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>
<b>Primary government</b>				<u>Governmental Activities</u>
<b>GOVERNMENTAL ACTIVITIES:</b>				
Administration	\$ 950,019	\$ 239,820	\$ 564,783	\$ (145,416)
Municipal Court	349,177	676,962	-	327,785
Police	2,717,053	70,992	2,500	(2,643,561)
Fire	2,212,108	8,239	-	(2,203,869)
Streets and Drainage	916,534	148,663	-	(767,871)
Sanitation	525,239	464,341	-	(60,898)
Interest on Long-Term Debt	239,151	-	-	(239,151)
Total Governmental Activities	<u>\$ 7,909,281</u>	<u>\$ 1,609,017</u>	<u>\$ 567,283</u>	<u>\$ (5,732,981)</u>
<b>General Revenues:</b>				
Taxes:				
Property taxes				3,711,938
Sales Taxes				2,071,312
Franchise Taxes				495,370
License Agreements				713,612
Investment Income				2,875
Miscellaneous Revenue				<u>87,501</u>
Total General Revenues and Transfers				<u>7,082,608</u>
Change in Net Position				1,349,627
Net Position - Beginning				<u>14,090,259</u>
Net Position - Ending				<u>\$ 15,439,886</u>

The notes to the Financial Statements are an integral part of this statement.

**CITY OF CASTLE HILLS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
AS OF DECEMBER 31, 2021**

**EXHIBIT C-1**

	<u>General Fund</u>	<u>2020 Bond Construction</u>	<u>Street Repair Fund</u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 6,181,525	\$ -	\$ 1,132,668
Receivables, Net			
Property Taxes	2,488,848	-	-
Sales and Franchise Fees	350,267	-	63,764
Garbage and Other Fees	41,402	-	-
Due From Others	5,772	-	-
Restricted Cash:			
Cash and Cash Equivalents	-	3,579,622	-
<b>Total Assets</b>	<u>\$ 9,067,814</u>	<u>\$ 3,579,622</u>	<u>\$ 1,196,432</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 314,647	\$ 158,327	\$ -
Wages and Salaries Payable	151,764	-	-
Due to Others	-	-	-
License Agreements Received in Advance	-	-	20,150
<b>Total Liabilities</b>	466,411	158,327	20,150
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Property Tax Revenue	212,736	-	-
Property Taxes Levied for Future Periods	3,788,344	-	-
<b>Total Deferred Inflows of Resources</b>	4,001,080	-	-
Fund Balances:			
Restricted Fund Balance:			
Debt Services	-	-	-
2020 Bond Construction	-	3,421,295	-
Street Repair	-	-	1,176,282
Draiage Improvements	-	-	-
Police	-	-	-
Municipal Court	-	-	-
PEG Funds	67,843	-	-
Animal Control	-	-	-
American Rescue	-	-	-
Committed Fund Balance:			
Street Maintenance	-	-	-
Workstation Upgrade	40,238	-	-
Assigned Fund Balance:			
Major Vehicle Purchases	283,635	-	-
Improvements Projects from CIED	414,983	-	-
Unassigned Fund Balances	3,793,624	-	-
<b>Total Fund Balances</b>	<u>4,600,323</u>	<u>3,421,295</u>	<u>1,176,282</u>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<u>\$ 9,067,814</u>	<u>\$ 3,579,622</u>	<u>\$ 1,196,432</u>

The notes to the Financial Statements are an integral part of this statement.

**CITY OF CASTLE HILLS, TEXAS  
BALANCE SHEET  
GOVERNMENTAL FUNDS - Continued  
AS OF DECEMBER 31, 2021**

**EXHIBIT C-1**

	<b>Drainage Fund</b>	<b>Other Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 1,489,069	\$ 2,368,541	\$ 11,171,803
Receivables, Net			
Property Taxes	-	132,279	2,621,127
Sales and Franchise Fees	-	63,354	477,385
Garbage and Other Fees	-	-	41,402
Due From Others	-	-	5,772
Restricted Cash:			
Cash and Cash Equivalents	-	-	3,579,622
<b>Total Assets</b>	<b>\$ 1,489,069</b>	<b>\$ 2,564,174</b>	<b>\$ 17,897,111</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 80	\$ 2,724	\$ 475,778
Wages and Salaries Payable	-	-	151,764
Due to Others	-	5,772	5,772
License Agreements Received in Advance	80,598	-	100,748
<b>Total Liabilities</b>	<b>80,678</b>	<b>8,496</b>	<b>734,062</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unavailable Property Tax Revenue	-	-	212,736
Property Taxes Levied for Future Periods	-	215,039	4,003,383
<b>Total Deferred Inflows of Resources</b>	<b>-</b>	<b>215,039</b>	<b>4,216,119</b>
<b>Fund Balances:</b>			
<b>Restricted Fund Balance:</b>			
Debt Services	-	87,213	87,213
2020 Bond Construction			3,421,295
Street Repair	-	-	1,176,282
Drainage Improvements	1,408,391	-	1,408,391
Police	-	1,642,591	1,642,591
Municipal Court	-	51,315	51,315
PEG Funds	-	-	67,843
Animal Control	-	5,718	5,718
American Rescue	-	553,802	553,802
<b>Committed Fund Balance:</b>			
Street Maintenance	-	-	-
Workstation Upgrade	-	-	40,238
<b>Assigned Fund Balance:</b>			
Major Vehicle Purchases	-	-	283,635
Improvements Projects from CIED	-	-	414,983
Unassigned Fund Balances	-	-	3,793,624
<b>Total Fund Balances</b>	<b>1,408,391</b>	<b>2,340,639</b>	<b>12,946,930</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 1,489,069</b>	<b>\$ 2,564,174</b>	<b>\$ 17,897,111</b>

The notes to the Financial Statements are an integral part of this statement.

**CITY OF CASTLE HILLS, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET POSITION  
AS OF DECEMBER 31, 2021**

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**EXHIBIT C-2**

<b>Total Fund Balance - Governmental Funds</b>	\$ 12,946,930
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Assets created from expenditures paid in advance are not considered financial resources and, therefore, are not reported in the governmental funds	127,504
Capital Assets used in governmental activities are not financial resources and therefore are not reported in governmental fund financial statements	12,648,524
Property Taxes receivable are not available to pay current period expenditures and, therefore, are deferred in the fund statements	223,703
Long-term Liabilities, including bonds payable, are not due and payable in the current period and, therefore, not reported in the funds:	
Bond Payable	(7,595,000)
Premium (Discount) on Bonds	(452,170)
Capital Lease Payable	(248,655)
Compensated Absences	(411,811)
Accrued Interest Payable	(71,776)
Net Pension Asset / Liability (and related deferred inflows and outflows of resources) do not consume current financial resources, therefore, are not reported in the governmental funds.	
Net Pension Liability	(1,453,990)
Pension Related Deferred Outflows	1,167,604
Pension Related Deferred Inflows	(1,187,415)
OPEB Liability (and related deferred inflows and outflows of resources) do not consume current financial resources, therefore, are not reported in the governmental funds	
OPEB Liability	(298,786)
OPEB Related Deferred Outflows	54,087
OPEB Related Deferred Inflows	(8,863)
<b>Net Position of Governmental Activities</b>	<b>\$ <u>15,439,886</u></b>

The notes to the Financial Statements are an integral part of this statement.

**CITY OF CASTLE HILLS, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**EXHIBIT C-3**

	<u>General Fund</u>	<u>2020 Bond Construction</u>	<u>Street Repair Fund</u>
<b>REVENUES</b>			
Taxes:			
Property Taxes	\$ 3,431,368	\$ -	\$ -
General Sales and Use Taxes	1,375,690	-	358,857
Franchise Tax	495,370	-	-
Garbage Fees	464,341	-	-
Stormwater Fees	-	-	-
Building and Other Permits	239,820	-	-
Fines and Forfeitures	682,753	-	-
License Agreements	273,418	-	72,838
Investment Income	1,537	1,338	-
Grants and Contributions	-	-	-
Miscellaneous	100,792	-	-
Total Revenues	<u>7,065,089</u>	<u>1,338</u>	<u>431,695</u>
<b>EXPENDITURES</b>			
Current:			
Administration	1,089,122	-	-
Municipal Court	319,297	-	-
Police	2,538,491	-	-
Fire	2,034,780	-	-
Streets	300,782	-	436,023
Sanitation	490,972	-	-
Drainage	5,843	-	-
Debt Service:			
Capital Lease - Principal	78,443	-	-
Capital Lease - Interest	9,093	-	-
Debt Principal	-	-	-
Debt Interest	-	-	-
Capital Outlay:			
Capital Outlay	213,995	1,869,421	1,038
Total Expenditures	<u>7,080,818</u>	<u>1,869,421</u>	<u>437,061</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(15,729)</u>	<u>(1,868,083)</u>	<u>(5,366)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of Bonds	-	-	-
Premium on Issuance of Bonds	-	-	-
Proceeds from the Sale of Capital Assets	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(15,729)	(1,868,083)	(5,366)
Fund Balances - Beginning	<u>4,616,052</u>	<u>5,289,378</u>	<u>1,181,648</u>
Fund Balances - Ending	<u>\$ 4,600,323</u>	<u>\$ 3,421,295</u>	<u>\$ 1,176,282</u>

The notes to the Financial Statements are an integral part of this statement.

**CITY OF CASTLE HILLS, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES- Continued**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

**EXHIBIT C-3**

	<u>Drainage Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>REVENUES</b>			
Taxes:			
Property Taxes	\$ -	\$ 280,570	\$ 3,711,938
General Sales and Use Taxes	-	336,765	2,071,312
Franchise Tax	-	-	495,370
Garbage Fees	-	-	464,341
Stormwater Fees	148,663	-	148,663
Building and Other Permits	-	-	239,820
Fines and Forfeitures	-	49,322	732,075
License Agreements	367,356	-	713,612
Investment Income	-	-	2,875
Grants and Contributions	-	553,802	553,802
Miscellaneous	-	24,308	125,100
Total Revenues	516,019	1,244,767	9,258,908
<b>EXPENDITURES</b>			
Current:			
Administration	-	-	1,089,122
Municipal Court	-	21,316	340,613
Police	-	64,374	2,602,865
Fire	-	-	2,034,780
Streets	-	-	736,805
Sanitation	-	-	490,972
Drainage	18,038	-	23,881
Debt Service:			
Capital Lease - Principal	-	-	78,443
Capital Lease - Interest	-	-	9,093
Debt Principal	205,000	155,000	360,000
Debt Interest	94,596	63,686	158,282
Capital Outlay:			
Capital Outlay	32,531	-	2,116,985
Total Expenditures	350,165	304,376	10,041,841
Excess (Deficiency) of Revenues Over (Under) Expenditures	165,854	940,391	(782,933)
<b>OTHER FINANCING SOURCES (USES)</b>			
Issuance of Bonds	-	-	-
Premium on Issuance of Bonds	-	-	-
Proceeds from the Sale of Capital Assets	-	-	-
Transfers In	-	-	-
Transfers Out	-	-	-
Total Other Financing Sources and (Uses)	-	-	-
Net Change in Fund Balances	165,854	940,391	(782,933)
Fund Balances - Beginning	1,242,537	1,400,248	13,729,863
Fund Balances - Ending	\$ 1,408,391	\$ 2,340,639	\$ 12,946,930

The notes to the Financial Statements are an integral part of this statement.

**CITY OF CASTLE HILLS, TEXAS** **EXHIBIT C-4**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED DECEMBER 31, 2021**

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**Total Net Change in Fund Balances - Governmental Funds** \$ (782,933)

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses. This is the amount by which capital outlays exceeds depreciation.

Capital Outlays	2,116,985
Depreciation	(687,637)
Other	14,028
	1,443,376

The proceeds from notes payable provide current financial resources to governmental funds, while the repayment of principal of the debt consumes the current financial resources of governmental funds.

Accrued Interest	(71,776)
Amortization on Premium (Discount)	23,750
Principal Payments of Long-Term Debt	438,443
	390,417

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Change in Prepaid Expenses	11,577
Change in Compensated Absences	80,439
	92,016

Governmental funds report contributions to employee Pensions/OPEB plans as expenditures. However, in the Statement of Activities, the cost of the pension is recorded based on the actuarially determined cost of the plans. This is the amount that pension expense exceeded the actuarially determined contributions.

206,751
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**Change in Net Position of Governmental Activities** \$ 1,349,627



**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**REPORTING ENTITY**

In evaluating how to define the government for financial purposes, management has considered all potential component units. The definition of the reporting entity is based primarily on the concept of financial accountability. A primary government is financially accountable for the organizations that make up its legal entity. It is also financially accountable for legally separate organizations if its officials appoint a voting majority of an organization's governing body and either it is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to, or to impose specific financial burdens on, the primary government. The City has the following component unit:

The Castle Hills Crime Control and Prevention District - This entity is legally separate from the City, and was created pursuant to Section 363.051, et Seq. of the Crime Control District Act. The District was created October 1, 2004 to act on behalf of the City of Castle Hills for promotion, development, and enhancement of crime control and prevention within the City. The District is governed by a board appointed by the City Council. For financial reporting purposes, the District is reported as if it were part of the City's operations because its purpose is to benefit the citizens of the City.

**GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS**

The government-wide financial statements include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City. The effect of interfund transfers, if any, has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

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

**MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION**

Separate fund financial statements are provided for governmental funds. Four of the City's funds meet the criteria of a *major governmental fund*: General Fund, 2020 Bond Construction, Street Repair Fund, and Drainage Fund. The City has designated, Street Repair Fund, and the Drainage Fund, as a major fund due to the high-profile nature and fiscal transparency for the fund.

The City's nonmajor governmental funds are made up of several special revenue funds: Debt Service, Child Safety, Animal Control, Municipal Court Technology, Municipal Court Security, Municipal Court Efficiency, Municipal Jury, Local Truancy Prevention, Police Seizure, LEOSE, American Rescue Plan, Crime Control and Prevention District. The major funds are reflected in individual columns and the nonmajor funds are reflected in an aggregate column titled "Nonmajor Funds" in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

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

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Governmental fund level financial statements are reported using current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends.

Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as unavailable revenue. Property taxes which were levied and collected within 60 days of the fiscal period are considered revenue for the year ending December 31, 2021. Taxes receivable but not collected within 60 days are used to finance the budget of the fiscal year beginning January 1, 2022, and accordingly, have been reflected as property taxes levied for future periods (a deferred inflow of resources) in the fund financial statements at December 31, 2021.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as claims and judgments, are recorded only when the liability has matured and payment is due. The government reports the following major governmental funds:

**The General Fund** is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, sales taxes, franchise fees, garbage fees, and fines and forfeitures. Primary expenditures are for administration, police, fire, street maintenance, and sanitation.

**The 2020 Bond Construction** is used to account for major street drainage related projects.

**The Street Repair Fund** is used to account for sales tax to be specifically used on the maintenance of streets within the City.

**The Drainage Fund** is used to account for stormwater fees and electronic billboard licensing fees to be used for maintenance of the drainage system within the City.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**CASH AND CASH EQUIVALENTS AND INVESTMENTS**

Cash and cash equivalents are short-term highly liquid investments that are readily convertible to known amounts of cash and so near maturity that there is no significant risk of changes in value due to changes in interest rates. Cash equivalents include investments with original maturities of three months or less.

State statutes authorize the City to invest in (a) obligations of the United States or its agencies, and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (e).

Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations.

Investments are stated at fair value (plus accrued interest) except for money market investments and local government investment pools. Those investments are stated at share price, which approximates fair value. Fair value measurement is measured by the City using 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 the active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. All of the City's investments carried at fair value are valued using quoted market prices (Level 1 inputs).

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**ACCOUNTS RECEIVABLE**

Property taxes are levied based on taxable value at January 1, become due October 1 and are past due after the following January 31. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables are shown net of an allowance for uncollectible.

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

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts.

Revenues received in advance of the costs being incurred are recorded as unavailable revenue in the fund statements. Receivables are shown net of an allowance for uncollectible.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS**

Allowances have been established by management based on best available information for a variety of receivables as of December 31, 2021. An allowance for uncollectible accounts has been recorded in the General Fund for property taxes in the amount of \$48,707.

**BUDGET**

An operating budget is adopted each fiscal year for all City funds. The budget is adopted on the GAAP basis of accounting. Additional budgetary information is provided in the required supplementary information.

**PREPAID ITEMS**

Payments to vendors that reflect costs applicable to future periods are recognized as expenditures when paid in the fund financial statements. However, for the government-wide financial statements, these payments are recorded as prepaid expenses on the statement of net position.

**CAPITAL ASSETS**

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the governmental type activities column in the government-wide financial statements. Capital assets such as equipment are defined as assets with a cost of \$5,000 or more with an estimated useful life in excess of one year. Infrastructure assets include City-owned streets, sidewalks, and curbs. Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**CAPITAL ASSETS - Continued**

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Interest has not been capitalized during the construction period on property plant and equipment.

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

<u>Assets</u>	<u>Time Period</u>
Buildings and Improvements	10 to 35 Years
Vehicles and Equipment	3 to 15 Years
Infrastructure	25 to 30 Years

**COMPENSATED ABSENCES**

The liability for compensated absences reported in the government-wide statements consists of unpaid accumulated leave balances.

The liability has been calculated using the vesting method, in which leave amounts for employees who are eligible to receive termination payments and other employees who are expected to become eligible in the future to receive such payments upon termination are included. The City's policy is to allow vacation no more than 160 hours for regular employees and 200 hours for Fire and Police employees to be carried over from year to year. Sick leave not used during the fiscal year in which it accrues accumulates and is available for use in succeeding years, and the City will pay 160 hours on termination for any employee's unused sick leave in excess of 1,200 hours.

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES**

A deferred outflow of resources is a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category: deferred pension and OPEB related outflows reported on the government-wide statements. The deferred pension and OPEB related outflows result from contributions made after the measurement date and changes in actuarial assumptions.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES - Continued**

Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet under a modified accrual basis of reporting. Unavailable revenues from property tax revenues are recognized when they become both measurable and available in the fund statements.

Available means when due, or past due, and receivable within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Property tax revenues not expected to be available for the current period are reflected as unavailable revenue as an inflow of resource in the period the amounts become available. In addition, property taxes levied to fund future periods are recorded on the financial statements as property taxes levied for future periods. The deferred pension related inflows result from differences between expected and actual experiences and differences in between expected and actual investment return.

**LONG-TERM OBLIGATIONS**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities in the statement of net position. On new bond issues, bond premiums and discounts, are amortized over the life of the bond. Bond issuance costs are expensed as incurred.

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

**NET PENSION LIABILITY**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position



**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**NET PENSION LIABILITY - Continued**

have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**OTHER POST-EMPLOYMENT BENEFIT (OPEB) LIABILITY**

For purposes of measuring the OPEB liability, deferred outflows of resources and deferred inflows of resources related to pensions, and OPEB expense, information about the Total OPEB Liability of the Texas Municipal Retirement System (TMRS) and additions to/deletions from TMRS' Total OPEB Liability have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms.

**FUND EQUITY**

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

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

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

Committed - Represents amounts that can be used only for the specific purposes determined by a formal action (adoption of an ordinance) of the government's highest level of decision-making authority (City Council). Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned - Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. Assignments may be created by the Council or City Manager.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**FUND EQUITY - Continued**

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

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

**NET POSITION**

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

**USE OF ESTIMATES**

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

**SUBSEQUENT EVENTS**

Subsequent events were evaluated by management through June 27, 2022, which is the date the financial statements were available to be issued. Material subsequent events, if any, are disclosed in a separate note to the Financial Statements.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 2: CASH AND CASH EQUIVALENTS**

**Cash**

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

As of September 30, 2020, the City had the following cash, cash equivalents, and short-term investments:

	<u>Amount</u>
Unrestricted Cash and Cash Equivalents	\$ 11,171,803
Restricted Cash and Cash Equivalents	<u>3,579,622</u>
<b>Total</b>	<b>\$ <u>14,751,425</u></b>

*Analysis of Specific Deposit and Investment Risks*

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

a. Concentration of Credit Risk

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

b. Credit Risk

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

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 2: CASH AND CASH EQUIVALENTS - Continued**

c. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the City's name. At year end, the City was not exposed to custodial credit risk.

d. Interest Rate Risk

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

e. Foreign Currency Risk

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

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 3: RECEIVABLES**

Receivables as of December 31, 2021 are as follow:

	<u>Governmental Funds</u>			<u>Totals</u>
	<u>General Fund</u>	<u>Street Repair Fund</u>	<u>Non-Major Funds</u>	
<i>Receivables:</i>				
Property Taxes	\$ 2,537,555	\$ -	\$ 132,279	\$ 2,669,834
Sales and Franchise Fees	350,267	63,764	63,354	477,385
Garbage and Other Fees	<u>41,402</u>	<u>-</u>	<u>-</u>	<u>41,402</u>
Gross Receivables	2,929,224	63,764	195,633	3,188,621
Less: Allowance for Uncollectible Accounts	<u>(48,707)</u>	<u>-</u>	<u>-</u>	<u>(48,707)</u>
<i>Net Total Receivables</i>	<u>\$ 2,880,517</u>	<u>\$ 63,764</u>	<u>\$ 195,633</u>	<u>\$ 3,139,914</u>

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 4:      PROPERTY TAXES**

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Bexar County Appraisal District. Assessed values are reduced by lawful exemptions to arrive at taxable values. The City uses the October 1 levy to fund the operations of the City for the following calendar year. Since the City has an enforceable legal claim to the property taxes, the receivable is recognized in the year of the levy, but the revenue is recognized in the fiscal year for which it is budgeted. Thus, property tax revenue recognized on these 2021 financials is from the collections on the 2020 and prior levies. For the fund financial statements, the City accrues property tax collections received within 60 days of year end as this is considered available financial resources to fund current operations.

The total taxable value as of January 1, 2021, upon which the fiscal 2021 levy (2020 tax year) was \$817,360,407 (i.e., market value less exemptions). The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt.

The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended December 31, 2021, was \$0.524899 per \$100 of assessed value, which means that the City has a tax margin of \$1.983962 for each \$100 of assessed value and could increase its annual levy by approximately \$11.6 million based upon present assessed valuation before the limit is reached. However, the City may not adopt a tax rate that exceeds the tax rate calculated in accordance with the Texas Property Code without holding a public hearing. The Property Tax Code subjects an increase in the effective tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than three point five percent (3.5%) of the previous year's effective tax rate. The current year delinquent tax receivable is \$48,707.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

**NOTE 5: CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2021 was as follows:

	<u>Balance</u> <u>December 31, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>December 31, 2021</u>
<i>Governmental Activities:</i>				
Capital assets, not being depreciated:				
Land	\$ 383,700	\$ -	\$ -	\$ 383,700
Construction In Progress	258,887	2,116,985	-	2,375,872
Total capital assets not being depreciated, net	642,587	2,116,985	-	2,759,572
Capital assets, being depreciated:				
Buildings and Improvements	3,069,636	14,028	-	3,083,664
Vehicles and Equipments	3,945,046	-	-	3,945,046
Infrastructure	8,273,643	-	-	8,273,643
Total assets being depreciated	15,288,325	14,028	-	15,302,353
Less accumulated depreciation:				
Buildings and Improvements	1,753,855	93,447	-	1,847,302
Vehicles and Equipment	2,254,625	318,217	-	2,572,842
Infrastructure	717,284	275,973	-	993,257
Total accumulated depreciation	4,725,764	687,637	-	5,413,401
Total capital assets being depreciated, net	10,562,561	(673,609)	-	9,888,952
Government activities capital assets, net	\$ 11,205,148	\$ 1,443,376	\$ -	\$ 12,648,524

Depreciation Expense was charged to the governmental function as follows:

Administration	\$ 100,441
Municipal Court	5,300
Police	177,873
Fire	194,197
Streets and Drainage	169,876
Sanitation	39,950
<b>Total Depreciation Expense</b>	<b>\$ 687,637</b>

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

**NOTE 6: LONG-TERM DEBT**

Changes in the City’s long-term debt during the fiscal year ended December 31, 2021, were as follows:

	Balance, December 31, 2020	Additions	Reductions	Balance, December 31, 2021	Due Within One Year
<i>Governmental Activities</i>					
Bonds:					
Tax and Revenue - C.O. Series 2020	\$ 7,955,000		\$ 360,000	\$ 7,595,000	\$ 340,000
Premium Issuance	475,920		23,750	452,170	23,750
Capital Lease	327,098	-	78,443	248,655	80,623
Compensated absences	492,250	-	80,438	411,812	82,699
OPEB Liability	253,409	45,377	-	298,786	-
Net Pension Liability	1,668,566	-	214,576	1,453,990	-
Governmental Activities -Long-Term Liabilities	<u>\$ 11,172,243</u>	<u>\$ 45,377</u>	<u>\$ 757,207</u>	<u>\$ 10,460,413</u>	<u>\$ 527,072</u>

In December 2017, the City entered into a capital lease agreement with PNC Equipment Finance, LLC for the purchase of a new fire truck. The total cost of the fire truck was \$1,049,924. The City paid a down payment of \$500,000 and the remaining balance was financed over 7 years with an interest rate of 2.78% per annum. The lease calls for annual payments of \$87,536 beginning December 20, 2018 through December 20, 2024. The fire truck is recorded as a capital asset of the City with a cost of \$1,049,924. As of December 31, 2021, \$411,220 had been recognized in accumulated depreciation.

Requirements to amortize the capital lease over the remaining life is as follows:

Year End December 31,	Amount
2022	87,536
2023	87,536
2024	87,536
<b>Total Minimum Lease Payments</b>	<u>262,608</u>
<b>Less: Interest</b>	<u>(13,953)</u>
<b>Present Value of Minimum Payments</b>	<u><u>\$ 248,655</u></u>



**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 6: LONG-TERM DEBT - Continued**

In September 2020, the City issued Series 2020 of “Combination Tax and Revenue Certificates of Obligation” in the amount of \$7,955,000. The Series 2020 funds are being used for construction and improvements of streets and drainage system in the City. The interest rate ranges from 0.25% - 3% and the obligation matures in December 2040.

Year Ended September 30,	Principal	Interest	Total
2022	340,000	167,163	507,163
2023	350,000	156,813	506,813
2024	330,000	146,613	476,613
2025	340,000	136,563	476,563
2026	355,000	126,137	481,137
2027-2031	1,925,000	474,275	2,399,275
2032-2036	2,110,000	286,506	2,396,506
2037-2040	1,845,000	74,650	1,919,650
<b>Total</b>	<b>\$ 7,595,000</b>	<b>\$ 1,568,719</b>	<b>\$ 9,163,719</b>

**NOTE 7: LICENSE AGREEMENTS**

The City is leasing four billboards for a period of 25 years each. These agreements are staggered from 2015 through 2045. The license is paid in annual installments. The Lessee has the right to remove the billboards at any time or within 120 days following the termination of such rights to use or possess the billboards. If the value or utilization of the billboard is reduced, the Lessee may terminate the agreement and receive any prepaid license payments from the City. License payments received in advance are shown as license agreements received in advance on the Balance Sheet and the Statement of Net Position. The future minimum lease revenues under the license are as follows:

Year End December 31,	Billboard License
2022	\$ 242,481
2023	245,823
2024	261,862
2025	265,571
2026-2030	1,357,588
2031-2035	1,413,059
2036-2040	1,517,291
2041-2045	645,445
	<u>\$ 5,949,120</u>

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 8: EMPLOYEE RETIREMENT SYSTEM**

**Texas Municipal Retirement System**

**Plan Description**

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

**Benefits Provided**

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits with interest were used to purchase an annuity.

Members may choose to receive their retirement benefit in one of seven payment options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member's deposits and interest.

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

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 8: EMPLOYEE RETIREMENT SYSTEM - Continued**

<u>Type of Employee</u>	<u>2019</u>	<u>2020</u>
Inactive employees or beneficiaries currently receiving benefits	55	55
Inactive employees entitled to but not yet receiving benefits	47	51
Active Employees	<u>60</u>	<u>62</u>
<b>TOTAL</b>	<u><u>162</u></u>	<u><u>168</u></u>

**Contributions**

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

For the year ending December 31, 2021, employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 13.35% and 12.03% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended December 31, 2021 were \$487,539 and were \$35,297 less than the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 8: EMPLOYEE RETIREMENT SYSTEM - Continued**

**Actuarial Assumptions**

The Total Pension Liability in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year.
Salary Increases	3.50% to 11.50% including inflation.
Investment Rate of Return *	6.75%

\* Presented net of pension plan investment expense, including inflation.

For calculating the actuarial liability and the retirement contribution rates, the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. Based on the size of the city, rates are multiplied by an additional factor of 100.0%.

For calculating the actuarial liability and the retirement contribution rates, the mortality tables for healthy retirees are used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019, actuarial valuation.

The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013, valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 8: EMPLOYEE RETIREMENT SYSTEM - Continued**

**Actuarial Assumptions (Cont.)**

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate Return (Arithmetic)
Global Equity	30.00%	5.30%
Core Fixed Income	10.00%	1.25%
Non-Core Fixed Income	20.00%	4.14%
Real Return	10.00%	3.85%
Real Estate	10.00%	4.00%
Absolute Return	10.00%	3.48%
Private Equity	10.00%	7.75%
	100%	

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

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

**NOTE 8: EMPLOYEE RETIREMENT SYSTEM - Continued**

<b>Changes in the Net Pension Liability</b>	<b>Increase (Decrease)</b>		
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
<b>Balance at 12/31/2019</b>	\$ 19,559,175	\$ 17,890,609	\$ 1,668,566
Changes for the year:			
Service cost	563,706	-	563,706
Interest	1,307,886	-	1,307,886
Change of benefit terms	-	-	-
Difference between expected and actual experience	(29,753)	-	(29,753)
Changes of assumptions	-	-	-
Contributions - employer	-	452,242	(452,242)
Contributions - employee	-	255,732	(255,732)
Net investment income	-	1,357,571	(1,357,571)
Benefit payments, including refunds of employee contributions	(929,891)	(929,891)	-
Administrative expense	-	(8,787)	8,787
Other changes	-	(343)	343
<b>Net changes</b>	<u>911,948</u>	<u>1,126,524</u>	<u>(214,576)</u>
<b>Balance at 12/31/2020</b>	\$ <u>20,471,123</u>	\$ <u>19,017,133</u>	\$ <u>1,453,990</u>

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

**NOTE 8: EMPLOYEE RETIREMENT SYSTEM - Continued**

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

	<b>1% Decrease in Discount Rate (5.75%)</b>	<b>Discount Rate (6.75%)</b>	<b>1% Increase in Discount Rate (7.75%)</b>
City's Net Pension Liability \$	4,352,985	\$ 1,453,990	\$ (912,395)

**Pension Plan Fiduciary Net Position**

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

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

For the year ended December 31, 2021, the City recognized pension expense of \$250,899. Also as of December 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

<u>Source</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ 1,159,438	\$ 651,002
Changes in Actuarial Assumptions	-	19,577
Net difference between projected and actual Investment Earnings	27,977	9,486
Contributions subsequent to the measurement date of December 31, 2019	N/A	487,539
<b>Total</b>	<b>\$ 1,187,415</b>	<b>\$ 1,167,604</b>

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 8: EMPLOYEE RETIREMENT SYSTEM - Continued**

Deferred outflows of resources in the amount of \$487,539 are related to contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2021.

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

<u>Year Ended September 30,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2021	\$ (183,095)
2022	17,878
2023	(312,142)
2024	(29,991)
2025	-
Thereafter	<u>-</u>
<b>TOTAL</b>	<b>\$ <u>(507,350)</u></b>

**NOTE 9: OTHER POST EMPLOYMENT BENEFITS**

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.



**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

Membership in the plan at December 31, 2020, the valuation and measurement date, consisted of:

<u>Type of Employee</u>	<u>Number</u>
Inactive employees or beneficiaries currently receiving benefits	42
Inactive employees entitled to but not yet receiving benefits	5
Active Employees	<u>62</u>
<b>TOTAL</b>	<u>109</u>

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

<u>For the Plan Year Ended</u> <u>December 31,</u>	<u>Total SDBF</u> <u>Contribution Rate</u>	<u>Retiree Portion of</u> <u>SDBF Contribution Rate</u>
2020	0.17%	0.06%
2021	0.26%	0.18%

These contribution rates are based on actuarial assumptions developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation.

The postretirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

The assumptions are summarized below:

Inflation	2.5% per year
Salary Increases	3.5% to 11.50%, including inflation
Discount Rate *	2.00%
Administrative Expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality Rates - Service Retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality Rates - Disabled Retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. These rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

\* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index"

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

**NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

The City's Total OPEB Liability (TOL), based on the actuarial factors, as of December 31, 2020 was calculated as follows:

<u>Changes in the Total OPEB Liability</u>	
<b>Balance at 12/31/2019</b>	\$ 253,409
Changes for the year:	
Service cost	8,403
Interest on Total OPEB Liability	7,054
Change of benefit terms including TMRS plan participation	-
Difference between expected and actual experience	(4,480)
Changes in assumptions or other inputs	36,592
Benefits payments *	<u>(2,192)</u>
<b>Net changes</b>	<u>45,377</u>
<b>Balance at 12/31/2020</b>	<u>\$ 298,786</u>

\* Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions

A separate trust is not maintained to fund this Total OPEB Liability. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

The following presents the TOL of the City, calculated using the discount rate of 2% as well as what the City's TOL would be if it were calculated using a discount rate that is 1-percentage point lower (1%) and 1-percentage point higher (3%) than the current rate:

	<b>1% Decrease in Discount Rate (1%)</b>	<b>Discount Rate (2%)</b>	<b>1% Increase in Discount Rate (3%)</b>
Total	\$ <u>359,191</u>	\$ <u>298,786</u>	\$ <u>251,444</u>

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 9: OTHER POST EMPLOYMENT BENEFITS (OPEB) - Continued**

For the year ended December 31, 2020, the City recognized OPEB expense of \$23,641. Also as of December 31, 2020, the City reported deferred outflows and deferred inflows of resources related to OPEB from the following sources:

<u>Source</u>	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Differences between expected and actual economic experience	\$ 8,863	\$ -
Change of assumptions	<u>-</u>	<u>54,087</u>
<b>Total</b>	<b>\$ <u>8,863</u></b>	<b>\$ <u>54,087</u></b>

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

<u>Year Ended September 30,</u>	<u>Net Deferred Outflows (Inflows) of Resources</u>
2021	\$ 11,006
2022	11,006
2023	8,934
2024	9,471
2025	4,807
Thereafter	<u>-</u>
<b>TOTAL</b>	<b>\$ <u>45,224</u></b>

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 10: CONTINGENCIES**

Litigation

On November 26, 2019, a lawsuit was filed against the City alleging violations of the First and Fourteenth Amendments of the United States Constitution. The parties were ordered to mediation, which occurred on April 7, 2020. In mediation, the City agreed to pay \$55,000 in attorney's fees to the plaintiff, which was fully covered by the City's insurance company.

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

**NOTE 11: CONTRACTS AND COMMITMENTS**

The City has contract with architects for the improvement of the Drainage System in several locations throughout the City. There is an active contract totaling \$1,966,964. As of December 31, 2021, the City had incurred \$975,720 of construction expenses related to these contracts, leaving a commitment of \$991,244 at December 31, 2021.

The City contracted with RL Jones for construction costs of \$2,031,610. As of December 31, 2021, the City had incurred \$578,132 of construction expenses related to this contract, leaving a commitment of \$1,453,478 at December 31, 2021.

**NOTE 12: RISK MANAGEMENT**

The City has identified possible risk of losses arising from events such as the following: torts; theft of, damage to, or destruction of assets; errors and omissions; job-related illnesses or injuries to employees; acts of God.

The City contracts with the Texas Municipal League (TML) to provide insurance coverage for identified liability risks. TML is a multi-employer group that provides for a combination of modified self-insurance and stop-loss coverage. Contributions are set annually by TML. Liability by the City is generally limited to the contributed amounts up to coverage limits. Annual contributions for the plan year ending October 31, 2021, were \$72,530.

**CITY OF CASTLE HILLS, TEXAS**  
**NOTES TO FINANCIAL STATEMENTS - Continued**  
**For the Year Ended December 31, 2021**

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**NOTE 12: RISK MANAGEMENT - Continued**

For risks related to workers compensation, the City participates in the Deep East Texas Self Insurance Fund, a public entity risk pool, which is self-sustained through member contributions. The Fund reinsures to statutory limits through commercial companies for claims in excess of \$850,000 for the plan year ending October 31, 2021. The Fund contracts with independent actuaries to determine the adequacy of reserves and fully funds those reserves.

The members of Deep East Texas Self Insurance Fund have no known premium liabilities for workers' compensation coverage excess of their contracted annual premium. However, if the assets of the Fund were to be exhausted, members would be liable for their portion of the Fund's liabilities.

This would indicate that members would be contingently liable for the portion of the liability applicable to their political entity. Independent auditors conduct a financial audit at the close of each plan year and as of the most recent audit, the Fund has adequate assets to more than cover more than 100% of all liabilities. Annual contributions for the plan year ending October 31, 2021, were \$57,500.

**NOTE 13: EXPENDITURES IN EXCESS OF APPROPRIATIONS**

Departmental expenditures exceeded appropriations as follows:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Excess</u>
<b><i>General Fund</i></b>			
Administration	\$ 1,022,652	\$ 1,089,122	\$ (66,470)
Fire	1,901,074	2,034,780	(133,706)
Capital Outlay	94,568	213,995	(119,427)
<b><i>Street Repair Fund</i></b>			
Street	267,000	436,023	(169,023)

**REQUIRED SUPPLEMENTARY  
INFORMATION – OTHER THAN  
MD&A - UNAUDITED**

**CITY OF CASTLE HILLS, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - GENERAL FUND  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**EXHIBIT G-1**

	<b>Budget Amounts</b>		<b>Actual Amounts</b>	<b>Variance With Final Budget- Positive (Negative)</b>
	<b>Original</b>	<b>Final</b>		
<b>REVENUES</b>				
Property Tax	\$ 3,653,235	\$ 3,653,235	\$ 3,431,368	\$ (221,867)
Sales Taxes	1,125,365	1,156,365	1,375,690	219,325
Franchise Fees	480,236	480,236	495,370	15,134
Garbage Fees	458,362	469,621	464,341	(5,280)
Building and Other Permits	197,856	18,613	239,820	221,207
Fines and Forfeitures	470,829	483,443	682,753	199,310
License Agreements	589,631	607,194	273,418	(333,776)
Investment Income	62,032	62,955	1,537	(61,418)
Miscellaneous	145,236	132,632	100,792	-31,840
<b>TOTAL REVENUES</b>	<b>7,182,782</b>	<b>7,064,294</b>	<b>7,065,089</b>	<b>795</b>
<b>EXPENDITURES</b>				
<i>Current:</i>				
Administration	1,036,295	1,022,652	1,089,122	(66,470)
Municipal Court	321,928	272,781	319,297	(46,516)
Police	2,368,829	2,601,136	2,538,491	62,645
Fire	1,716,352	1,901,074	2,034,780	(133,706)
Streets	384,445	391,396	300,782	90,614
Sanitation	516,102	525,374	490,972	34,402
Drainage	2,356	5,000	5,843	(843)
Capital Outlay:				
Capital Outlay	94,568	94,568	213,995	(119,427)
Debt Service:				
Principal	76,321	76,321	78,443	(2,122)
Interest	11,215	11,215	9,093	2,122
<b>TOTAL EXPENDITURES</b>	<b>6,528,411</b>	<b>6,901,517</b>	<b>7,080,818</b>	<b>(179,301)</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>654,371</u>	<u>162,777</u>	<u>(15,729)</u>	<u>(178,506)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In (Out)	<u>(95,000)</u>	<u>(95,000)</u>	<u>-</u>	<u>95,000</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>(95,000)</b>	<b>(95,000)</b>	<b>-</b>	<b>95,000</b>
Net Change in Fund Balance	559,371	67,777	(15,729)	(83,506)
Fund Balance - January 1	4,616,052	4,616,052	4,616,052	-
Fund Balance - December 31	<u>\$ 5,175,423</u>	<u>\$ 4,683,829</u>	<u>\$ 4,600,323</u>	<u>\$ (83,506)</u>



**CITY OF CASTLE HILLS, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL - STREET REPAIR FUND  
FOR THE YEAR ENDED DECEMBER 31, 2021**

**EXHIBIT G-2**

	<u>Budget Amounts</u>		<u>Actual Amounts</u>	<u>Variance With Final Budget- Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
<b>REVENUES</b>				
Sales Taxes	\$ 275,000	275,000	\$ 358,857	\$ 83,857
License Agreements	63,189	63,189	72,838	9,649
<b>TOTAL REVENUES</b>	<u>338,189</u>	<u>338,189</u>	<u>431,695</u>	<u>93,506</u>
<b>EXPENDITURES</b>				
<i>Current:</i> Streets	267,000	267,000	436,023	(169,023)
Capital Outlay	-	-	1,038	(1,038)
<b>TOTAL EXPENDITURES</b>	<u>267,000</u>	<u>267,000</u>	<u>437,061</u>	<u>(170,061)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>71,189</u>	<u>71,189</u>	<u>(5,366)</u>	<u>(76,555)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	71,189	71,189	(5,366)	(76,555)
Fund Balance - January 1	1,181,648	1,181,648	1,181,648	-
Fund Balance - December 31	<u>\$ 1,252,837</u>	<u>1,252,837</u>	<u>\$ 1,176,282</u>	<u>\$ (76,555)</u>

CITY OF CASTLE HILLS, TEXAS  
 REQUIRED SUPPLEMENTARY INFORMATION  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL - DRAINAGE FUND  
 FOR THE YEAR ENDED DECEMBER 31, 2021

EXHIBIT G-3

	Budget Amounts		Actual Amounts	Variance With Final Budget-
	Original	Final		Positive (Negative)
<b>REVENUES</b>				
Stormwater Fees	\$ 138,600	\$ 138,600	\$ 148,663	\$ 10,063
License Agreements	252,751	252,751	367,356	114,605
<b>TOTAL REVENUES</b>	<u>391,351</u>	<u>391,351</u>	<u>516,019</u>	<u>124,668</u>
<b>EXPENDITURES</b>				
Drainage	389,360	389,360	18,038	371,322
Capital Outlay:				
Capital Outlay	30,523	30,523	32,531	(2,008)
Debt Service:				
Principal	215,000	215,000	205,000	10,000
Interest	95,765	95,765	94,596	1,169
<b>TOTAL EXPENDITURES</b>	<u>730,648</u>	<u>730,648</u>	<u>350,165</u>	<u>380,483</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(339,297)</u>	<u>(339,297)</u>	<u>165,854</u>	<u>505,151</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(339,297)	(339,297)	165,854	505,151
<b>Fund Balance - January 1</b>	<u>1,242,537</u>	<u>1,242,537</u>	<u>1,242,537</u>	<u>-</u>
<b>Fund Balance - December 31</b>	<u>\$ 903,240</u>	<u>\$ 903,240</u>	<u>\$ 1,408,391</u>	<u>\$ 505,151</u>

SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
 LAST 10 YEARS (will ultimately be displayed)

Measurement Year Actuarial Valuation Date	2021 12/31/2020	2020 12/31/2019	2019 12/31/2018	2018 12/31/2017	2017 12/31/2016	2016 12/31/2015	2015 12/31/2014
<b>Total Pension Liability</b>							
Service Cost	\$ 563,706	\$ 535,770	\$ 527,993	\$ 543,595	\$ 519,906	\$ 475,976	\$ 373,750
Interest (on the Total Pension Liability)	1,307,886	1,251,508	1,203,461	1,143,903	1,076,375	1,069,749	1,039,608
Changes of benefit terms	-	-	-	-	-	-	-
Difference between expected and actual experience	(29,753)	(8,695)	(3,985)	88,526	91,064	(302,567)	(417,323)
Changes of assumptions	-	37,787	-	-	-	-	(1,015)
Benefit payments, including refunds of employee contributions	(929,891)	(1,060,324)	(978,783)	(793,003)	(604,541)	(595,341)	(637,785)
<b>Net Change in Total Pension Liability</b>	911,948	756,046	748,686	983,021	1,082,804	646,802	358,250
<b>Total Pension Liability - Beginning</b>	19,559,175	18,803,129	18,054,443	17,071,422	15,988,618	15,341,816	14,983,566
<b>Total Pension Liability - Ending (a)</b>	\$ 20,471,123	\$ 19,559,175	\$ 18,803,129	\$ 18,054,443	\$ 17,071,422	\$ 15,988,618	\$ 15,341,816
<b>Plan Fiduciary Net Position</b>							
Contributions - Employer	\$ 452,242	\$ 396,408	\$ 411,903	\$ 423,323	\$ 420,366	\$ 433,297	\$ 380,234
Contributions - Employee	255,732	242,587	249,053	255,895	242,785	228,052	209,084
Net Investment Income	1,357,571	2,453,667	(500,201)	2,048,055	932,351	20,251	745,640
Benefit payments, including refunds of employee contributions	(929,891)	(1,060,324)	(978,784)	(793,003)	(604,541)	(595,341)	(637,785)
Administrative Expense	(8,787)	(13,865)	(9,668)	(10,614)	(10,531)	(12,335)	(7,786)
Other	(343)	(417)	(505)	(538)	(567)	(610)	(640)
<b>Net Change in Plan Fiduciary Net Position</b>	1,126,524	2,018,056	(828,202)	1,923,118	979,863	73,314	688,747
<b>Plan Fiduciary Net Position - Beginning</b>	17,890,609	15,872,553	16,700,755	14,777,637	13,797,774	13,724,460	13,035,713
<b>Plan Fiduciary Net Position - Ending (b)</b>	\$ 19,017,133	\$ 17,890,609	\$ 15,872,553	\$ 16,700,755	\$ 14,777,637	\$ 13,797,774	\$ 13,724,460
<b>Net Pension Liability (Asset) - Ending (a) - (b)</b>	\$ 1,453,990	\$ 1,668,566	\$ 2,930,576	\$ 1,353,688	\$ 2,293,785	\$ 2,190,844	\$ 1,617,356
<b>Plan Fiduciary Net Position as a Percentage of the Total Pension Liability</b>	93%	91%	84%	93%	87%	86%	89%
<b>Covered-Employee Payroll</b>	\$ 3,653,309	\$ 3,465,527	\$ 3,557,903	\$ 3,655,649	\$ 3,468,354	\$ 3,257,881	\$ 2,986,911
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	40%	48%	82%	37%	66%	67%	54%

Fiscal Year	SCHEDULE OF CONTRIBUTIONS LAST 10 YEARS (will ultimately be displayed)							
	2021	2020	2019	2018	2017	2016	2015	2014
Actuarially Determined Contribution	\$ 452,242	\$ 396,408	\$ 395,417	\$ 411,648	\$ 423,129	\$ 420,402	\$ 433,317	\$ 380,831
Contributions in relation to the actuarially determined contribution.	487,539	416,955	394,897	411,970	423,129	420,402	433,317	380,831
Contribution Deficiency (excess)	\$ (35,297)	\$ (20,547)	\$ 520	\$ (322)	\$ -	\$ -	\$ -	\$ -
Covered Employee Payroll	\$ 3,653,309	\$ 3,465,527	\$ 3,465,529	\$ 3,557,903	\$ 3,655,649	\$ 3,468,354	\$ 3,257,881	\$ 2,986,911
Contributions as a Percentage of Covered Employee Payroll	13.35%	12.03%	11.39%	11.58%	11.57%	12.12%	13.30%	12.75%

NOTES TO SCHEDULE OF CONTRIBUTIONS

**Valuation Date:**

Notes

Actuarially determined contribution rates are calculated as of December 31 and become effective in January 13 months later.

**Methods and Assumptions Used to Determine Contribution Rates:**

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.5% to 11.5% including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 - 2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB (10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

**Other Information:**

Notes

There were no benefit changes during the year

**RETIREE HEALTH PLAN**  
**SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS**  
 LAST 10 YEARS (will ultimately be displayed)

Measurement Year Actuarial Date	2021 <u>12/31/2020</u>	2020 <u>12/31/2019</u>	2019 <u>12/31/2018</u>	2018 <u>12/31/2017</u>
<b>Total OPEB Liability</b>				
Service Cost	\$ 8,403	\$ 5,545	\$ 7,116	\$ 6,580
Interest on the total OPEB liability	7,054	8,039	7,101	7,046
Effect of plan changes	-	-	-	-
Difference between expected and actual experience	(4,480)	(11,617)	4,986	-
Effect of assumption changes or inputs	36,592	38,403	(14,520)	16,051
Benefit payments	<u>(2,192)</u>	<u>(1,733)</u>	<u>(1,779)</u>	<u>(1,828)</u>
<b>Net Change in Total OPEB Liability</b>	45,377	38,637	2,904	27,849
<b>Total OPEB Liability - Beginning</b>	<u>253,409</u>	<u>214,772</u>	<u>211,868</u>	<u>184,019</u>
<b>Total OPEB Liability - Ending</b>	<u>\$ 298,786</u>	<u>\$ 253,409</u>	<u>\$ 214,772</u>	<u>\$ 211,868</u>
<b>Pensionable Covered Payroll</b>	<u>\$ 3,653,309</u>	<u>\$ 3,465,527</u>	<u>\$ 3,557,903</u>	<u>\$ 3,655,649</u>
<b>Net Pension OPEB liability as a Percentage of Covered Payroll</b>	<u>8.18%</u>	<u>7.31%</u>	<u>6.04%</u>	<u>5.80%</u>

Note: The schedule above reflects the changes in the net pension liability for the current year and previous plan year. GASB Statement No. 75 requires 10 years of data to be provided in this schedule. The City will build this schedule over the 10-year period beginning December 31, 2017 as data becomes available.

Notes to Schedule of Changes: No assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75 to pay related benefits.

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS  
 AS OF DECEMBER 31, 2021 AND 2020

EXHIBIT H-1

	Debt Services	Child Safety	Animal Control	Municipal Court Technology
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 169,973	\$ 82,887	\$ 5,718	\$ (5,570)
Receivables, Net				
Property Taxes	132,279	-	-	-
Sales and Franchise Fees	-	-	-	-
Total Assets	<u>\$ 302,252</u>	<u>\$ 82,887</u>	<u>\$ 5,718</u>	<u>\$ (5,570)</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Others	-	-	-	-
Total Liabilities	-	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Property Taxes Levied for Future Periods	215,039	-	-	-
Total Deferred Inflows of Resources	215,039	-	-	-
Fund Balances:				
Restricted Fund Balance:	87,213	82,887	5,718	(5,570)
Total Fund Balances	<u>87,213</u>	<u>82,887</u>	<u>5,718</u>	<u>(5,570)</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 302,252</u>	<u>\$ 82,887</u>	<u>\$ 5,718</u>	<u>\$ (5,570)</u>

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS- Continued  
 AS OF DECEMBER 31, 2020 AND 2019

EXHIBIT H-1

	Municipal Court Security	Municipal Court Efficiency	Municipal Jury	Local Truancy Prevention
<b>ASSETS</b>				
Cash and Cash Equivalents	\$ 46,375	\$ 10,154	\$ 356	\$ 18,081
Receivables, Net	-	-	-	-
Property Taxes	-	-	-	-
Sales and Franchise Fees	-	-	-	-
Total Assets	<u>\$ 46,375</u>	<u>\$ 10,154</u>	<u>\$ 356</u>	<u>\$ 18,081</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable	\$ -	\$ -	\$ -	\$ -
Due to Others	-	-	-	-
Total Liabilities	-	-	-	-
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable Revenue	-	-	-	-
Total Deferred Inflows of Resources	-	-	-	-
Fund Balances:				
Restricted Fund Balance:	46,375	10,154	356	18,081
Total Fund Balances	<u>46,375</u>	<u>10,154</u>	<u>356</u>	<u>18,081</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 46,375</u>	<u>\$ 10,154</u>	<u>\$ 356</u>	<u>\$ 18,081</u>

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE BALANCE SHEET  
 NONMAJOR GOVERNMENTAL FUNDS- Continued  
 AS OF DECEMBER 31, 2021 AND 2020

EXHIBIT H-1

	Police Seizure	LEOSE	Crime Control and Prevention District	American Rescue Plan	2021 Total Nonmajor Governmental Funds	2020 Total Nonmajor Governmental Funds
<b>ASSETS</b>						
Cash and Cash Equivalents	\$ 432,910	\$ 9,138	\$ 1,044,717	\$ 553,802	\$ 2,368,541	\$ 1,400,390
Receivables, Net	-	-	-	-	132,279	-
Property Taxes	-	-	63,354	-	63,354	51,718
Sales and Franchise Fees	-	-	-	-	-	-
Total Assets	<u>\$ 432,910</u>	<u>\$ 9,138</u>	<u>\$ 1,108,071</u>	<u>\$ 553,802</u>	<u>\$ 2,564,174</u>	<u>\$ 1,452,108</u>
<b>LIABILITIES AND FUND BALANCES</b>						
Liabilities:						
Accounts Payable	\$ -	\$ -	\$ 2,724	\$ -	\$ 2,724	\$ 1,628
Due to Others	-	-	5,772	-	5,772	-
Total Liabilities	-	-	8,496	-	8,496	1,628
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenue	-	-	-	-	215,039	-
Total Deferred Inflows of Resources	-	-	-	-	215,039	-
Fund Balances:						
Restricted Fund Balance:	432,910	9,138	1,099,575	553,802	2,340,639	1,450,480
Total Fund Balances	<u>432,910</u>	<u>9,138</u>	<u>1,099,575</u>	<u>553,802</u>	<u>2,340,639</u>	<u>1,450,480</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 432,910</u>	<u>\$ 9,138</u>	<u>\$ 1,108,071</u>	<u>\$ 553,802</u>	<u>\$ 2,564,174</u>	<u>\$ 1,452,108</u>



CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

EXHIBIT H-2

	Debt Services	Child Safety	Animal Control	Municipal Court Technology
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ 280,570	\$ -	\$ -	\$ -
General Sales and Use Taxes	-	-	-	-
Fines and Forfeitures	-	-	-	14,875
Investment Income	-	-	-	-
Grants and Contributions	-	-	-	-
Miscellaneous	-	9,657	165	-
Total Revenues	280,570	9,657	165	14,875
<b>EXPENDITURES</b>				
Current:				
Municipal Court	-	-	-	21,316
Police	-	-	-	-
Debt Service:				
Bond Principal	155,000	-	-	-
Bond Interest	63,686	-	-	-
Capital Outlay:				
Capital Outlay	-	-	-	-
Total Expenditures	218,686	-	-	21,316
Excess (Deficiency) of Revenues Over (Under) Expenditures	61,884	9,657	165	(6,441)
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of Bonds	-	-	-	-
Proceeds from the Sale of Capital Assets	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	61,884	9,657	165	(6,441)
Fund Balances - Beginning	25,329	73,230	5,553	871
Fund Balances - Ending	\$ 87,213	\$ 82,887	\$ 5,718	\$ (5,570)

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS- Continued  
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

EXHIBIT H-2

	Municipal Court Security	Municipal Court Efficiency	Municipal Jury	Local Truancy Prevention
<b>REVENUES</b>				
Taxes:				
Property Taxes	\$ -	\$ -	\$ -	-
General Sales and Use Taxes	-	-	-	-
Fines and Forfeitures	15,879	1,888	248	-
Investment Income	-	-	-	-
Grants and Contributions	-	-	-	-
Miscellaneous	-	-	-	12,684
Total Revenues	15,879	1,888	248	12,684
<b>EXPENDITURES</b>				
Current:				
Municipal Court	-	-	-	-
Police	-	-	-	-
Debt Service:				
Bond Principal	-	-	-	-
Bond Interest	-	-	-	-
Capital Outlay:				
Capital Outlay	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over (Under)				
Expenditures	15,879	1,888	248	12,684
<b>OTHER FINANCING SOURCES (USES)</b>				
Issuance of Bonds	-	-	-	-
Proceeds from the Sale of Capital Assets	-	-	-	-
Transfers Out	-	-	-	-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	15,879	1,888	248	12,684
Fund Balances - Beginning	30,496	8,266	108	5,397
Fund Balances - Ending	\$ 46,375	\$ 10,154	\$ 356	\$ 18,081

CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS- Continued  
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020

EXHIBIT H-2

	Police Seizure	LEOSE	Crime Control and Prevention District	American Rescue Plan	2021 Total Nonmajor Governmental Funds	2020 Total Nonmajor Governmental Funds
<b>REVENUES</b>						
Taxes:						
Property Taxes	\$ -	\$ -	\$ -	\$ -	\$ 280,570	\$ 15,269
General Sales and Use Taxes	-	-	336,765	-	336,765	307,597
Fines and Forfeitures	16,432	-	-	-	49,322	56,211
Investment Income	-	-	-	-	-	3,848
Grants and Contributions	-	-	-	553,802	553,802	-
Miscellaneous	25	1,777	-	-	24,308	30,034
Total Revenues	16,457	1,777	336,765	553,802	1,244,767	412,959
<b>EXPENDITURES</b>						
Current:						
Municipal Court	-	-	-	-	21,316	17,125
Police	5,644	-	58,730	-	64,374	56,777
Debt Service:						
Bond Principal	-	-	-	-	155,000	-
Bond Interest	-	-	-	-	63,686	-
Capital Outlay:						
Capital Outlay	-	-	-	-	-	432,826
Total Expenditures	5,644	-	58,730	-	304,376	506,728
Excess (Deficiency) of Revenues Over (Under) Expenditures	10,813	1,777	278,035	553,802	940,391	(93,769)
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of Bonds	-	-	-	-	-	10,060
Proceeds from the Sale of Capital Assets	-	-	-	-	-	33,900
Transfers Out	-	-	-	-	-	(423)
Total Other Financing Sources (Uses)	-	-	-	-	-	43,537
Net Change in Fund Balances	10,813	1,777	278,035	553,802	940,391	(50,232)
Fund Balances - Beginning	422,097	7,361	821,540	-	1,400,248	1,450,480
Fund Balances - Ending	\$ 432,910	\$ 9,138	\$ 1,099,575	\$ 553,802	\$ 2,340,639	\$ 1,400,248

**OTHER SUPPLEMENTAL  
INFORMATION**

**CITY OF CASTLE HILLS, TEXAS  
COMPARATIVE BALANCE SHEETS  
GENERAL FUND  
AS OF DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 6,181,525	\$ 6,914,773
Investments	-	-
Receivables, Net		
Property Taxes	2,488,848	1,691,366
Sales and Franchise Fees	350,267	310,189
Garbage and Other Fees	41,402	69,154
Due From Others	5,722	-
Total Assets	<u>\$ 9,067,764</u>	<u>\$ 8,985,482</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts Payable	\$ 314,647	\$ 573,024
Wages and Salaries Payable	151,764	114,049
Total Liabilities	<u>466,411</u>	<u>687,073</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unavailable Property Tax Revenue	212,736	219,982
Property Taxes Levied for Future Periods	3,788,344	3,462,375
Total Deferred Inflows of Resources	<u>4,001,080</u>	<u>3,682,357</u>
Fund Balances:		
Restricted Fund Balance:		
PEG Funds	67,843	67,843
Committed Fund Balance:		
Street Maintenance	-	35,901
Workstation Upgrade	40,238	29,136
Assigned Fund Balance:		
Major Vehicle Purchases	283,635	346,949
Improvements Projects from CIED	414,983	431,076
Unassigned Fund Balances	3,793,624	3,705,147
Total Fund Balances	<u>4,600,323</u>	<u>4,616,052</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 9,067,814</u>	<u>\$ 8,985,482</u>

**CITY OF CASTLE HILLS, TEXAS**  
**COMPARATIVE STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND**  
**BALANCE GENERAL FUND**  
**FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

	<u>2021</u>	<u>2020</u>
<b>REVENUES</b>		
Taxes:	\$	\$
Property Taxes	3,431,368	3,731,923
General Sales and Use Taxes	1,375,690	1,254,694
Franchise Tax	495,370	468,367
Garbage Fees	464,341	459,893
Building and Other Permits	239,820	164,900
Fines and Forfeitures	682,753	495,085
License Agreements	273,418	564,926
Investment Income	1,537	39,050
Miscellaneous	100,792	331,052
Total Revenues	<u>7,065,089</u>	<u>7,509,890</u>
 <b>EXPENDITURES</b>		
Current:		
Administration	1,089,122	1,223,748
Municipal Court	319,297	239,222
Police	2,538,491	2,463,996
Fire	2,034,780	1,849,217
Streets	300,782	333,776
Sanitation	490,972	439,933
Drainage	5,843	1,570
Debt Service:		
Bond Principal	78,443	76,321
Bond Interest	9,093	11,215
Capital Outlay:		
Capital Outlay	<u>213,995</u>	<u>3,885,863</u>
Total Expenditures	<u>7,080,818</u>	<u>10,524,861</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(15,729)</u>	<u>(3,014,971)</u>
 <b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In	-	3,157,340
Proceeds from Sale of Capital Asstes	<u>-</u>	<u>-</u>
Total Other Financing Sources and (Uses)	<u>-</u>	<u>3,157,340</u>
Net Change in Fund Balances	(15,729)	142,369
Fund Balances - Beginning	<u>4,616,052</u>	<u>4,473,683</u>
Fund Balances - Ending	<u>\$ 4,600,323</u>	<u>\$ 4,616,052</u>

**CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE BALANCE SHEETS  
 STREET REPAIR FUND  
 AS OF DECEMBER 31, 2021 AND 2020**

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	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,132,668	\$ 1,143,244
Receivables, Net		
Sales and Franchise Fees	63,764	58,354
Total Assets	<u>\$ 1,196,432</u>	<u>\$ 1,201,598</u>
 <b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
License Agreements Received in Advance	\$ 20,150	\$ 19,950
Total Liabilities	<u>20,150</u>	<u>19,950</u>
 Fund Balances:		
Restricted Fund Balance:		
Street Repair	1,176,282	1,181,648
Total Fund Balances	<u>1,176,282</u>	<u>1,181,648</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,196,432</u>	<u>\$ 1,201,598</u>

**CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND  
 BALANCE STREET REPAIR FUND  
 FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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	<u>2021</u>	<u>2020</u>
<b>REVENUES</b>		
Taxes:		
General Sales and Use Taxes	\$ 358,857	\$ 330,788
License Agreements	72,838	41,440
Total Revenues	<u>431,695</u>	<u>372,228</u>
 <b>EXPENDITURES</b>		
Current:		
Streets	436,023	232,936
Capital Outlay:		
Capital Outlay	<u>1,038</u>	<u>-</u>
Total Expenditures	<u>437,061</u>	<u>232,936</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(5,366)</u>	<u>139,292</u>
 <b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In	<u>-</u>	<u>-</u>
Total Other Financing Sources and (Uses)	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(5,366)	139,292
Fund Balances - Beginning	<u>1,181,648</u>	<u>1,042,356</u>
Fund Balances - Ending	<u>\$ 1,176,282</u>	<u>\$ 1,181,648</u>



**CITY OF CASTLE HILLS, TEXAS  
 COMPARATIVE BALANCE SHEETS  
 DRAINAGE FUND  
 AS OF DECEMBER 31, 2021 AND 2020**

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	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 1,489,069	\$ 1,324,389
Total Assets	<u>1,489,069</u>	<u>1,324,389</u>
 <b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts Payable	\$ 80	\$ 2,052
License Agreements Received in Advance	<u>80,598</u>	<u>79,800</u>
Total Liabilities	80,678	81,852
 Fund Balances:		
Restricted Fund Balance:		
Draiangne Improvements	1,408,391	1,242,537
Total Fund Balances	<u>1,408,391</u>	<u>1,242,537</u>
 Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 1,489,069</u>	<u>\$ 1,324,389</u>

**CITY OF CASTLE HILLS, TEXAS  
COMPARATIVE STATEMENTS OF REVENUE, EXPENDITURES AND CHANGES IN FUND  
BALANCE DRAINAGE FUND  
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020**

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	<u>2021</u>	<u>2020</u>
<b>REVENUES</b>		
Taxes:	\$	\$
Stormwater Fees	148,663	138,518
License Agreements	367,356	241,760
Total Revenues	<u>516,019</u>	<u>380,278</u>
<b>EXPENDITURES</b>		
Current:		
Drainage	18,038	9,451
Debt Service:		
Debt Principal	205,000	-
Interest Interest	94,596	-
Capital Outlay:		
Capital Outlay	32,531	-
Total Expenditures	<u>350,165</u>	<u>9,451</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>165,854</u>	<u>370,827</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers Out	-	(200,971)
Total Other Financing Sources and (Uses)	<u>-</u>	<u>(200,971)</u>
Net Change in Fund Balances	165,854	169,856
Fund Balances - Beginning	<u>1,242,537</u>	<u>1,097,085</u>
Fund Balances - Ending	<u>\$ 1,408,391</u>	<u>\$ 1,266,941</u>



Financial Advisory Services  
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