

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

**CITY OF WATAUGA, TEXAS**

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



**\$8,950,000\***

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

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

**Bids due  
Monday, September 11, 2023  
at  
11:00 A.M., Central Time**

\*Preliminary, subject to change based on bid structures. See "THE CERTIFICATES - MATURITY SCHEDULE" and "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**

**\$8,950,000\***

**CITY OF WATAUGA, TEXAS**

**(A political subdivision of the State of Texas located in Tarrant County, Texas)**

**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023**

**CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BID:** The City Council (the “City Council”) of the City of Watauga, Texas (the “City” or the “Issuer”) is offering for sale at competitive bid its \$8,950,000\* Combination Tax and Limited Pledge 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 11:00 A.M., Central Time, on Monday, September 11, 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 Monday, September 11, 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](mailto: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 11:00 A.M., Central Time, on Monday, September 11, 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 12:00 P.M. Noon, Central Time, on the date set for receipt of bids, the Mayor of the City or his representative shall 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 6:00 P.M. Central Time on Monday, September 11, 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 September 15, 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	\$ 1,390,000	2034	\$ 375,000
2025	310,000	2035	395,000
2026	325,000	2036	415,000
2027	155,000	2037	430,000
2028	345,000	2038	450,000
2029	360,000	2039	470,000
2030	380,000	2040	495,000
2031	330,000	2041	515,000
2032	345,000	2042	540,000
2033	360,000	2043	565,000

**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 \$8,950,000\*. 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), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council on September 11, 2023, and the City's Home Rule Charter and are payable primarily from an annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law, and are further secured by a lien on and pledge of the Pledged Revenues being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the "System") not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues that may be pledged to the payment of any Prior Lien Obligations, Junior Lien Obligations or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereafter issued by the Issuer. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations which are payable in part from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance the City retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations, while the Certificates are Outstanding, without limitations as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

**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.

#### 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:**

- (a) The Winning Bidder shall assist the City in establishing the issue price of the Certificates and shall execute and deliver to the City by the Delivery Date an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Winning Bidder, the City, and Norton Rose Fulbright US LLP, the City's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Certificates under applicable federal regulations). All actions to be taken by the City under this Official Notice of Sale 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.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining “competitive sale” for purposes of establishing the issue price of the Certificates) will apply to the initial sale of the Certificates (the “competitive sale requirements”) because:

- (1) the City shall disseminate this Official Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;
- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Certificates to the bidder who submits a firm offer to purchase the Certificates at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Certificates, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied, the City shall so advise the Winning Bidder. In such event, the City intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Certificates as the issue price of that maturity (the “hold-the-offering-price rule”). The City shall promptly advise the Winning Bidder, at or before the time of award of the Certificates, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Certificates. **Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies.** In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the City.

(d) By submitting a bid, the Winning Bidder shall (i) confirm that the underwriters have offered or will offer the Certificates to the public on or before the date of award at the offering price or prices (the “initial offering price”), or at the corresponding yield or yields, set forth in the bid submitted by the Winning Bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Certificates, that the underwriters will neither offer nor sell unsold Certificates of any maturity to which the hold-the-offering-price rule applies 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 the following:

- (1) the close of the fifth (5<sup>th</sup>) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

The Winning Bidder will advise the City promptly after the close of the fifth (5<sup>th</sup>) business day after the sale date whether it has sold 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

(e) The City acknowledges that, in making the representations set forth above, the Winning Bidder will rely on (i) the agreement of each underwriter to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Certificates to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a retail or other third-party distribution agreement that was employed in connection with the initial sale of the Certificates to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering price rule, if applicable to the Certificates, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail or other third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Certificates.

(f) 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 retail or other third-party distribution agreement, as applicable, to comply with

the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder and as set forth in the related pricing wires, (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 or dealer 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 broker-dealer that is a party to such third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder or the underwriter and as set forth in the related pricing wires.

(g) Sales of any Certificates to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this section of the Official Notice of Sale entitled "ESTABLISHMENT OF ISSUE PRICE":

- (1) "public" means any person other than an underwriter or a related party,
- (2) "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 retail or other third-party distribution agreement participating in the initial sale of the Certificates to the public),
- (3) a purchaser of any of the Certificates is a "related party" to an underwriter if the underwriter and the purchaser 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
- (4) "sale date" means the date that the Certificates are awarded by the City to the Winning Bidder.

**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 Watauga, Texas" in the amount of \$179,000, 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. Additionally, if it is determined after the acceptance of its bid by the City that the winning bidder was found not to satisfy the requirement described below under "Texas Attorney General Standing Letter" or the Texas Attorney General refuses to accept such previously filed verification, and as a result the Texas Attorney General will not deliver its approving opinion on the Certificates, then said check shall be cashed and accepted by the City as full and complete liquidated damages.

#### **ADDITIONAL CONDITIONS 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 Watauga, Texas) and (b) item 3 - the identification number assigned to this contract by the City (Watauga CO2023 – Bid Form) and description of the goods or services (Purchase of the City of Watauga, Texas Combination Tax and Limited Pledge 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), as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Stephanie Leibe, c/o Norton Rose Fulbright US LLP, 98 San Jacinto Blvd, Suite 1100, Austin, Texas 78701, along with a PDF executed version sent to [stephanie.leibe@nortonrosefulbright.com](mailto:stephanie.leibe@nortonrosefulbright.com).

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/whatsnew/elf\\_info\\_form1295.htm](https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm).

*Verification Regarding Israel Boycott.* 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, 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.

*Verification Regarding Terrorist List.* 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 the following page of such officer's internet website: <https://comptroller.texas.gov/purchasing/publications/divestment.php>. 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.

*Verification Regarding Discrimination Against Firearm Entity or Trade Association.* 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, (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 agreement against a firearm entity or firearm trade association. The foregoing verification is made solely to comply with Section 2274.002 (as added by Senate Bill 19 in the 87th Texas Legislature, Regular Session), 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" shall have the meaning assigned to such term in Section 2274.001(3), Texas Government Code. Each 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.

As used in the foregoing verification and the following definitions,

- (a) 'discriminate against a firearm entity or firearm trade association,' a term defined in Section 2274.001(3), Texas Government Code (as enacted by such Senate Bill), (A) means, with respect to the firearm entity or firearm trade association, to (i) refuse to engage in the trade of any goods or services with the firearm entity or firearm trade association based solely on its status as a firearm entity or firearm trade association, (ii) refrain from continuing an existing business relationship with the firearm entity or firearm trade association based solely on its status as a firearm entity or firearm trade association, or (iii) terminate an existing business relationship with the firearm entity or firearm trade 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,
- (b) 'firearm entity,' a term defined in Section 2274.001(6), Texas Government Code (as enacted by such Senate Bill), means a manufacturer, distributor, wholesaler, supplier, or retailer of firearms (defined in Section 2274.001(4), Texas Government Code, as enacted by such Senate Bill, as weapons that expel projectiles by the action of explosive or expanding gases), firearm accessories (defined in Section 2274.001(5), Texas Government Code, as enacted by such Senate Bill, as devices specifically designed or adapted to enable an individual to wear, carry, store, or



mount a firearm on the individual or on a conveyance and items used in conjunction with or mounted on a firearm that are not essential to the basic function of the firearm, including detachable firearm magazines), or ammunition (defined in Section 2274.001(1), Texas Government Code, as enacted by such Senate Bill, as a loaded cartridge case, primer, bullet, or propellant powder with or without a projectile) or a sport shooting range (defined in Section 250.001, Texas Local Government Code, as a business establishment, private club, or association that operates an area for the discharge or other use of firearms for silhouette, skeet, trap, black powder, target, self-defense, or similar recreational shooting), and

- (c) 'firearm trade association,' a term defined in Section 2274.001(7), Texas Government Code (as enacted by such Senate Bill), means any person, corporation, unincorporated association, federation, business league, or business organization that (i) is not organized or operated for profit (and none of the net earnings of which inures to the benefit of any private shareholder or individual), (ii) has two or more firearm entities as members, and (iii) is exempt from federal income taxation under Section 501(a), Internal Revenue Code of 1986, as an organization described by Section 501(c) of that code.

*Verification Regarding Energy Company Boycotts.* 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 energy companies and, will not boycott energy companies during the term of the agreement. The foregoing verification is made solely to comply with Section 2274.002, Texas Government Code, as amended, to the extent Section 2274.002 (as added by Senate Bill 13 in the 87th Texas Legislature, Regular Session), Texas Government Code does not contravene applicable Texas or federal law. As used in the foregoing verification, "boycott energy companies," a term defined in Section 2274.001(1), Texas Government Code (as enacted by such Senate Bill) by reference to Section 809.001, Texas Government Code (also as enacted by such Senate Bill), 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. Each 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.

*Texas Attorney General Standing Letter.* The winning bidder represents that it has, as of the date bids are due on the Certificates and as of Closing, on file with the Texas Attorney General a standing letter addressing the representations and verifications hereinbefore described in this Notice of Sale in a form accepted by the Texas Attorney General (a "Standing Letter"). In addition, if the winning bidder or the parent company, a wholly- or majority-owned subsidiary or another affiliate of such winning bidder receives or has received a letter from the Texas Comptroller of Public Accounts or the Texas Attorney General seeking written verification of the representations and certifications contained in the winning bidder's Standing Letter (a "Request Letter"), the winning bidder shall promptly notify the City and Bond Counsel (if it has not already done so) and provide to the City or Bond Counsel, two business days prior to Closing and additionally upon request by the City or Bond Counsel, written verification to the effect that its Standing Letter described in the preceding sentence remains in effect and may be relied upon by the City and the Texas Attorney General (the "Bringdown Verification"). The Bringdown Verification shall also confirm that the winning bidder (or the parent company, a wholly- or majority-owned subsidiary or other affiliate of the winning bidder that received the Request Letter) intends to timely respond or has timely responded to the Request Letter. The Bringdown Verification may be in the form of an e-mail. The City reserves the right, in its sole discretion, to reject any bid from a bidder that does not satisfy the foregoing requirements as of the deadline for bids for the Certificates.

**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) 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 Issuer has complied in all material respects with its continuing disclosure agreements 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 \$8,950,000 (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 or facsimile signature of the Mayor and the City Secretary approved by the Attorney General of Texas, and registered and manually 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 October 11, 2023, but if for any reason the City is unable to make delivery by October 11, 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.

**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" in the Preliminary Official Statement).

#### **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.



**OFFICIAL BID FORM**

Honorable Mayor and City Council  
 City of Watauga  
 7105 Whitley Road  
 Watauga, Texas 76148

September 11, 2023

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement dated September 1, 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 \$8,950,000 (preliminary, subject to change) CITY OF WATAUGA, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023, dated September 15, 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	\$ 1,390,000		2034*	\$ 375,000	
2025	310,000		2035*	395,000	
2026	325,000		2036*	415,000	
2027	155,000		2037*	430,000	
2028	345,000		2038*	450,000	
2029	360,000		2039*	470,000	
2030	380,000		2040*	495,000	
2031	330,000		2041*	515,000	
2032	345,000		2042*	540,000	
2033*	360,000		2043*	565,000	

\*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 \$8,950,000. 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 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 as follows:

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 \$179,000, 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, October 11, 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.)

Through submittal of this executed Official Bid Form, the undersigned verifies that, except to the extent otherwise required by applicable Texas or Federal law, it (1) does not and will not “boycott Israel”, (2) is not a company on the Texas Comptroller’s list concerning “foreign terrorist organizations” prepared and maintained thereby under applicable Texas law, (3) does not and will not “discriminate against a firearm entity or firearm trade association”, (4) does not and will not “boycott energy companies”, and (5) it has, as of the date of this official bid form and as of Closing on file with the Texas Attorney General a standing letter addressing the representations and verifications in (1) through (4), all as more fully provided in the Official Notice of Sale under the heading “ADDITIONAL CONDITIONS OF 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.

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@samcocapital.com and Bond Counsel at stephanie.leibe@nortonrosefulbright.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.

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 Watauga, Texas, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 11<sup>th</sup> day of September 2023.

/s/ \_\_\_\_\_  
 Mayor,  
 City of Watauga, Texas

ATTEST:

/s/ \_\_\_\_\_  
 City Secretary,  
 City of Watauga, Texas

**\$8,950,000\***  
**CITY OF WATAUGA, TEXAS**  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION,**  
**SERIES 2023**

**ISSUE PRICE CERTIFICATE**

The undersigned, on behalf of \_\_\_\_\_, \_\_\_\_\_, \_\_\_\_\_ (the "Purchaser"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "Obligations") of the City of Watauga, Texas (the "Issuer").

**1. Reasonably Expected Initial Offering Price.**

(a) As of the Sale Date, the reasonably expected initial offering prices of the Obligations to the Public by \_\_\_\_\_ are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Obligations used by the "Purchaser" in formulating its bid to purchase the Obligations. Attached as Schedule B is a true and correct copy of the bid provided by the "Purchaser" to purchase the Obligations.

(b) \_\_\_\_\_ was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by \_\_\_\_\_ constituted a firm offer to purchase the Obligations.

**2. Defined Terms.**

(a) *Maturity* means Obligations with the same credit and payment terms. Obligations with different maturity dates, or Obligations with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is September 11, 2023.

(d) *Underwriter* means (i) any 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 Obligations to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Obligations to the Public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Obligations to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. 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 tax certificate with respect to the Obligations and with respect to compliance with the federal income tax rules affecting the Obligations, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Obligations 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 Obligations.

\_\_\_\_\_  
By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Dated: October 11, 2023

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

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**SCHEDULE A**

**EXPECTED OFFERING PRICES**

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**SCHEDULE B**

**COPY OF UNDERWRITER'S BID**

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**PRELIMINARY OFFICIAL STATEMENT**  
**September 1, 2023**

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

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

**\$8,950,000\***  
**CITY OF WATAUGA, TEXAS**  
**(A political subdivision of the State of Texas located in Tarrant County, Texas)**  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023**

**Dated Date: September 15, 2023**

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

The \$8,950,000\* City of Watauga, Texas Combination Tax and Limited Pledge 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 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, an ordinance (the "Ordinance") to be adopted by the City Council of the City of Watauga, Texas (the "City" or the "Issuer") on September 11, 2023, and the City's Home Rule Charter. (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 payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "AD VALOREM PROPERTY TAXATION" herein.)

Interest on the Certificates will accrue from September 15, 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 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 contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and traffic safety signalization and signage incidental thereto; (2) the purchase of materials, supplies, equipment, digital signage, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (3) the purchase of public safety vehicles; and (4) payment for professional and employee services relating to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects and (5) paying for the costs of issuance of the Certificates. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

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

*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 Norton Rose Fulbright US LLP, Austin, 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" as "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 October 11, 2023.*

**BIDS DUE MONDAY, SEPTEMBER 11, 2023 BY 11:00 A.M., CENTRAL TIME**

\* Preliminary, subject to change

**\$8,950,000\***  
**CITY OF WATAUGA, TEXAS**  
(A political subdivision of the State of Texas located in Tarrant County, Texas)  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023**

**MATURITY SCHEDULE\***  
**(Due February 1)**

**CUSIP Prefix No. 941097<sup>(1)</sup>**

<b>Stated Maturity 2/1</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP No. Suffix <sup>(1)</sup></b>	<b>Stated Maturity 2/1</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Initial Yield</b>	<b>CUSIP No. Suffix <sup>(1)</sup></b>
2024	\$ 1,390,000				2034	\$ 375,000			
2025	310,000				2035	395,000			
2026	325,000				2036	415,000			
2027	155,000				2037	430,000			
2028	345,000				2038	450,000			
2029	360,000				2039	470,000			
2030	380,000				2040	495,000			
2031	330,000				2041	515,000			
2032	345,000				2042	540,000			

**(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 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.)

\* Preliminary, subject to change.

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of the owner of the Certificates. CUSIP Global Services ("CGS") is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright(c) 2023 CUSIP Global Services. All rights reserved. CUSIP data herein is provided by CGS. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP numbers are provided for convenience of reference only. None of the City, the Financial Advisor, or the Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.

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**CITY OF WATAUGA, TEXAS  
7105 Whitley Road  
Watauga, Texas 76148**

**ELECTED OFFICIALS**

Name	Position	Term Expires (May)
Arthur L. Miner	Mayor	2025
Lovie Downey	Council Member Place 3	2025
Pat Shelbourne	Councilmember, Place 1	2024
Tom Snyder	Councilmember, Place 2	2024
Andrew Neal	Councilmember, Place 4	2024
Malissa Minucci	Councilmember, Place 5	2025
Mark Taylor	Councilmember, Place 6	2024
Jan Hill	Mayor Pro Tem, Councilmember, Place 7	2024

**ADMINISTRATION**

Name	Position	Length of Service (Years)
Joshua Jones	City Manager	1
Linda Proskey	City Secretary	1
Sandra Gibson	Director of Finance	18

**CONSULTANTS AND ADVISORS**

**Bond Counsel**..... Norton Rose Fulbright US LLP  
Austin, Texas

**Certified Public Accountants**.....Weaver and Tidwell, L.L.P.  
Fort Worth, Texas

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

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

Mr. Joshua Jones  
City Manager  
Ms. Sandra Gibson  
Director of Finance  
**City of Watauga**  
7105 Whitley Road  
Watauga, Texas 76148  
Phone: (817) 514-5800  
joshjones@wataugatx.org  
sgibson@wataugatx.org

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

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 THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM AS SUCH INFORMATION IS PROVIDED BY DTC.

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.

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 Watauga, Texas (the "City" or "Issuer") is located in Tarrant County, Texas, approximately 10 miles northeast of downtown Fort Worth, Texas and 25 miles northwest of downtown Dallas, Texas. The City's Home Rule Charter was adopted on January 19, 1980 and last amended on November 12, 2019. The City operates under a Mayor-Council-City Manager form of government, with the City Council comprised of eight members including the Mayor. The City's 2023 population estimate is 23,653 (See "APPENDIX B – General Information Regarding the City of Watauga and Tarrant 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, an ordinance (the "Ordinance") to be adopted by the City Council of the City, on September 11, 2023, and the City's Home Rule Charter. (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, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise. (See "THE CERTIFICATES - Security for Payment" and "AD VALOREM PROPERTY TAXATION" 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 Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS". (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" 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.)

**Use of Certificate Proceeds**

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and traffic safety signalization and signage incidental thereto; (2) the purchase of materials, supplies, equipment, digital signage, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (3) the purchase of public safety vehicles; and (4) payment for professional and employee services relating to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects and (5) paying for the costs of issuance of the Certificates.. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

**Ratings**

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 - Ratings" herein.)

**Payment Record**

The City has never defaulted on the payment of its general obligation or revenue indebtedness.

**Future Debt Issues**

The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2023.

**Delivery**

When issued, anticipated on or about October 11, 2023.

**Legality**

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 Norton Rose Fulbright US LLP, Austin, Texas, Bond Counsel.

*(The remainder of this page intentionally left blank.)*

**PRELIMINARY OFFICIAL STATEMENT**

relating to

**\$8,950,000\***

**CITY OF WATAUGA, TEXAS**

**(A political subdivision of the State of Texas located in Tarrant County, Texas)**

**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023**

**INTRODUCTORY STATEMENT**

This Official Statement, including the appendices hereto, provides certain information in connection with the issuance by the City of Watauga, Texas (the "City" or the "Issuer") of its \$8,950,000\* Combination Tax and Limited Pledge 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 and its Home Rule Charter. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the 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 NE 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.

**THE CERTIFICATES**

**General Description of the Certificates**

The Certificates will be dated September 15, 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, an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council") on September 11, 2023, and the City's Home Rule Charter.

*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" herein.)

\*Preliminary, subject to change.

## **Security for Payment**

*Limited Revenue Pledge Benefiting the Certificates.* 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 Pledged Revenues (being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the "System") not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereinafter issued by the Issuer. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise.

## **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. 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 or 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 contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and traffic safety signalization and signage incidental thereto; (2) the purchase of materials, supplies, equipment, digital signage, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; (3) the purchase of public safety vehicles; and (4) payment for professional and employee services relating to the design, construction, project management, inspection, consultant services, and financing of the aforementioned projects and (5) paying for the costs of issuance of the Certificates.

**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	_____
Certificate 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) change the date specified as the date on which the principal of or any installment of interest on any Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the redemption price or amounts, change the place or places at or the coin or currency in which any Certificate or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, (3) extend any waiver of default to subsequent defaults, or (4) reduce the aggregate principal amount of Certificates required for consent to any amendment, change, modification, or waiver.

**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. 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* for a second time and issued an opinion on October 5, 2018, clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

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

DTC will act as securities depository for the 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.

**Investment Policies**

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

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

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

**TABLE 1**

As of March 31, 2023 the City held investments as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Percentage</u>
Cash, Money Markets, and Certificates of Deposit	\$37,497,624	79.81%
Investment Pools	<u>9,488,603</u>	<u>20.19%</u>
Total	<u>\$46,986,227</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 I of the Texas Tax Code, as amended (the “Property Tax Code”), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.*

**Valuation of Taxable Property**

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the “Appraisal Review Board”) responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Tarrant Appraisal District (“Appraisal District”).

Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

### **State Mandated Homestead Exemptions**

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

### **Local Option Homestead Exemptions**

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

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

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

### **Personal Property**

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

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

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first

tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

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

### **Other Exempt Property**

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

### **Tax Increment Reinvestment Zones**

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

### **Tax Abatement Agreements**

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

### **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 \$52.9 million for the 2022 tax year and 57,216,456 for the 2023 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

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

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

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

Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists

in favor of each taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### **2023 Texas Legislative Session**

The Texas Legislature meets in regular session in odd numbered years for 140 days. When the Texas Legislature is not in session, the Governor of Texas (the "Governor") may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the City. The 88th Texas Legislature began on January 10, 2023, and ended on May 29, 2023 (the "88th Regular Legislative Session").

Immediately after the conclusion of the 88th Regular Legislative Session, the Governor called the First Special Session on May 29, 2023 to request the Texas Legislature to consider legislation regarding property tax relief and border security; shortly after the conclusion of the First Special Session, the Governor called the Second Special Session on June 27, 2023 to consider additional legislation regarding property tax relief. The First Special Session adjourned on June 27, 2023 without any legislation being passed.

During the Second Special Session, the Texas Legislature passed Senate Bill 2 ("SB 2"), which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the "subjected property") whose appraised values are not more than \$5 million dollars (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the subjected property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the subjected property for the preceding tax year; (b) the appraised value of the subjected property for the preceding tax year; and (c) the market value of all new improvements to the subjected property (collectively, the "appraisal cap"). After the 2024 tax year, through December 31, 2026, the appraisal cap may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value. SB 2 was signed into law by the Governor on July 24, 2023.

The City is in the process of analyzing the effect of legislation adopted during the regular session. The City can make no representations or predictions regarding any actions the Legislature may take during any special session of the 88th Texas legislative session concerning the substance or the effect of any legislation that may be passed in the future or how such legislation could affect the City.

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

The City has not elected to grant an exemption of up to 20% of the appraised value of residence homesteads (but not less than \$5,000).

The City has elected to grant a Local Option Homestead Exemption of at least \$3,000 of the appraised value of the residence homestead of persons 65 year of age or older and the disabled, up to a maximum of \$40,000.

On December 1, 2003, the City approved an election granting the Local Option Freeze for the elderly or disabled.

On December 17, 2011, the City Council took official action to again tax Goods-in-Transit.

The City does not allow split payments but does allow discounts for early payment of ad valorem property taxes.

### **TAX MATTERS**

#### **Tax Exemption**

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

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

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

#### **Tax Changes**

Existing law may change to reduce or eliminate the benefit to Certificate holders of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

#### **Ancillary Tax Consequences**

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

### **Tax Accounting Treatment of Discount Certificates**

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

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations" herein), life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Certificate was held) is includable in gross income.

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

### **Tax Accounting Treatment of Premium Certificates**

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

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

### **Qualified Tax-Exempt Obligations**

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

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

### **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 shall provide annually to the MSRB (1) within six months after the end of each fiscal year of the City beginning in the year 2023, financial information and operating data with respect to the City of the general type included in the body of this Official Statement under "Investment Authority and Investment Practices of the Issuer - Current Investments" and in Tables 1 through 14 of "Appendix A - Financial Information of the Issuer" to this Official Statement (the "Annual Financial Information"), and (2) within six months after the end of each fiscal year of the City beginning in the year 2023, the audited financial statements of the City (the "Audited Financial Statements"). If the audit of such financial statements is not complete within six (6) months after any such fiscal year end, then the City shall file unaudited financial statements by the required time and audited financial statements for the applicable fiscal year, when and if the audit report becomes available. Any financial statements to be provided shall be prepared in accordance with the accounting principles described in APPENDIX D to this Official Statement, or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and shall be in substantially the form included in this Official Statement as APPENDIX D.

The 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 September 30. Accordingly, it must provide updated information by the end of March 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/registrars or the change of name of a paying agent/registrars, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such Financial Obligation of the City, any of which reflect financial difficulties. In the Ordinance, the City will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. 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 Agreements**

During the past five years, the City has complied in all material respects in accordance with SEC Rule 15c2-12.

## **LEGAL MATTERS**

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

The Issuer will furnish the Purchasers 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, Norton Rose Fulbright US LLP, Austin, 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 Agreements" 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 – Ratings" 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.

#### **Ratings**

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 September 30, 2022, 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 WATAUGA, TEXAS**

*/s/* \_\_\_\_\_  
Mayor  
City of Watauga, Texas

ATTEST:

*/s/* \_\_\_\_\_  
City Secretary  
City of Watauga, Texas

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**APPENDIX A**

**FINANCIAL INFORMATION RELATING TO  
THE CITY OF WATAUGA, TEXAS**

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**FINANCIAL INFORMATION OF THE ISSUER**

**ASSESSED VALUATION**

**TABLE 1**

2023 Actual Certified Market Value of Taxable Property (100% of Market Value).....	\$ 2,384,007,851
Less Exemptions:	
Optional Over-65 or Disabled.....	\$ 70,397,843
Veterans' Exemptions.....	16,745,076
Pollution Control.....	2,639,224
Absolute Exempt.....	262,614,990
Misc. Personal Property.....	6,531,697
Nominal Value.....	646,178
<b>TOTAL EXEMPTIONS</b> .....	<u>359,575,008</u>
2023 Assessed Value of Taxable Property.....	<u>\$ 2,024,432,843</u>

Source: Tarrant Appraisal District.

**GENERAL OBLIGATION BONDED DEBT**

(as of August 1, 2023)

**General Obligation Debt Principal Outstanding**

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007	\$ 960,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2014	1,225,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016	4,095,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017	5,590,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	4,905,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019	7,485,000
Tax Notes, Series 2020	195,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020	2,475,000
General Obligation Refunding Bonds, Series 2020	1,040,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2021	4,000,000
General Obligation Refunding Bonds, Series 2021	3,835,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022	<u>3,755,000</u>
	\$ 39,560,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2023 (the "Certificates")	\$ 8,950,000 *
Total Gross General Obligation Debt	<u>\$ 48,510,000 *</u>
<b>Less: Self Supporting Debt</b>	
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017 (100% Utility)	\$ 5,590,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (23.14% EDC)	1,135,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (97.60% Utility)	7,305,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020 (13.74% EDC)	340,000
General Obligation Refunding Bonds, Series 2020 (66.83% Utility)	695,000
General Obligation Refunding Bonds, Series 2021 (100% Utility)	3,835,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022 (11.72% UF)	<u>440,000</u>
Total Self-Supporting Debt	<u>\$ 19,340,000</u>
Total Net General Obligation Debt Outstanding	<u>\$ 29,170,000 *</u>
2023 Net Assessed Valuation	\$ 2,024,432,843
Ratio of Gross General Obligation Debt Principal to Certified Net Taxable Assessed Valuation	2.40% *
Ratio of Net General Obligation Debt to Certified Net Taxable Assessed Valuation	1.44% *

Population: 2000 -21,908; 2010 - 23,497; 2020 - 23,650; est. 2023 - 23,653  
Per Capita Certified Net Taxable Assessed Valuation - \$85,588.84  
Per Capita Gross General Obligation Debt Principal - \$2,050.90  
Per Capita Net General Obligation Debt Principal - \$1,233.25

\* Preliminary, subject to change.

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

**TABLE 2**

(As of September 30, 2022)

Note payable to City of North Richland Hills annual installments of \$63,068, including interest at 4.5%, maturing October 2024.	\$ 118,105.00
Total Notes Payable	<u>\$ 118,105.00</u>

Source: The Issuer's Annual Comprehensive Financial Report.

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

**TABLE 3**

Fiscal Year Ending (9/30)	Current Total Outstanding Debt <sup>(1)</sup>	The Certificates*			Total Combined Debt Service*	Less: Self Supporting Debt Service	Total Net Debt Service *
		Principal	Interest	Total			
2024	\$ 4,211,980	\$ 1,390,000	\$ 355,813	\$ 1,745,813	\$ 5,957,793	\$ 1,947,240	\$ 4,010,552
2025	4,156,628	310,000	333,225	643,225	4,799,853	1,949,574	2,850,279
2026	4,048,294	325,000	318,938	643,938	4,692,232	1,950,325	2,741,907
2027	3,698,450	155,000	308,138	463,138	4,161,587	1,852,725	2,308,862
2028	3,161,588	345,000	296,888	641,888	3,803,475	1,679,700	2,123,775
2029	3,162,344	360,000	281,025	641,025	3,803,369	1,680,925	2,122,444
2030	3,137,216	380,000	264,375	644,375	3,781,591	1,683,550	2,098,041
2031	3,065,894	330,000	248,400	578,400	3,644,294	1,633,225	2,011,069
2032	3,022,275	345,000	233,213	578,213	3,600,488	1,629,750	1,970,738
2033	2,542,247	360,000	217,350	577,350	3,119,597	1,150,350	1,969,247
2034	2,554,664	375,000	200,813	575,813	3,130,477	1,154,624	1,975,853
2035	2,416,623	395,000	183,488	578,488	2,995,110	1,152,429	1,842,681
2036	2,408,957	415,000	165,263	580,263	2,989,219	1,149,204	1,840,016
2037	2,047,524	430,000	146,250	576,250	2,623,774	1,154,774	1,469,000
2038	1,559,578	450,000	126,450	576,450	2,136,028	666,403	1,469,625
2039	1,139,991	470,000	105,750	575,750	1,715,741	561,591	1,154,150
2040	578,600	495,000	84,038	579,038	1,157,638	-	1,157,638
2041	439,750	515,000	61,313	576,313	1,016,063	-	1,016,063
2042	214,200	540,000	37,575	577,575	791,775	-	791,775
2043	-	565,000	12,713	577,713	577,713	-	577,713
<b>Total</b>	<b>\$ 47,566,801</b>	<b>8,950,000</b>	<b>\$ 3,981,013</b>	<b>\$ 12,931,013</b>	<b>\$ 60,497,813</b>	<b>\$ 22,996,388</b>	<b>\$ 37,501,425</b>

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

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

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

2023 Certified Net Taxable Value	\$ 2,024,432,843
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2024)	5,957,793 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.30030 *

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

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

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

2023 Certified Net Taxable Value	\$ 2,024,432,843
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2024)	4,010,552 *
Anticipated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.20215 *

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

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

**INTEREST AND SINKING FUND MANAGEMENT INDEX**

Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2022	\$ 782,058
FY 2022-23 Interest and Sinking Fund Tax Levy at 98% Collections Produce <sup>(1)</sup>	<u>3,574,674</u>
Total Available for General Obligation Debt	<u>\$ 4,356,732</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/23	<u>\$ 3,460,434</u>
Estimated Surplus at Fiscal Year Ending 9/30/2023 <sup>(1)</sup>	<u>\$ 896,298</u>

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

**GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**

(As of August 1, 2023)

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*		
2024	\$ 3,110,000	\$ 1,390,000	\$ 4,500,000	\$ 44,010,000	9.28%
2025	3,155,000	310,000	3,465,000	40,545,000	16.42%
2026	3,145,000	325,000	3,470,000	37,075,000	23.57%
2027	2,900,000	155,000	3,055,000	34,020,000	29.87%
2028	2,460,000	345,000	2,805,000	31,215,000	35.65%
2029	2,540,000	360,000	2,900,000	28,315,000	41.63%
2030	2,585,000	380,000	2,965,000	25,350,000	47.74%
2031	2,580,000	330,000	2,910,000	22,440,000	53.74%
2032	2,600,000	345,000	2,945,000	19,495,000	59.81%
2033	2,180,000	360,000	2,540,000	16,955,000	65.05%
2034	2,250,000	375,000	2,625,000	14,330,000	70.46%
2035	2,170,000	395,000	2,565,000	11,765,000	75.75%
2036	2,220,000	415,000	2,635,000	9,130,000	81.18%
2037	1,915,000	430,000	2,345,000	6,785,000	86.01%
2038	1,475,000	450,000	1,925,000	4,860,000	89.98%
2039	1,090,000	470,000	1,560,000	3,300,000	93.20%
2040	550,000	495,000	1,045,000	2,255,000	95.35%
2041	425,000	515,000	940,000	1,315,000	97.29%
2042	210,000	540,000	750,000	565,000	98.84%
2043	-	565,000	565,000	-	100.00%
<b>Total</b>	<b>\$ 39,560,000</b>	<b>\$ 8,950,000</b>	<b>\$ 48,510,000</b>		

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

\* Preliminary, subject to change.

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2014-2024**

**TABLE 4**

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2014-15	\$ 956,468,332	-	-
2015-16	1,016,667,348	\$ 60,199,016	5.92%
2016-17	1,031,936,059	15,268,711	1.48%
2017-18	1,099,930,546	67,994,487	6.18%
2018-19	1,349,511,853	249,581,307	18.49%
2019-20	1,573,355,021	223,843,168	14.23%
2020-21	1,597,254,264	23,899,243	1.50%
2021-22	1,641,651,039	44,396,775	2.70%
2022-23	1,870,452,941	228,801,902	12.23%
2023-24	2,024,432,843	153,979,902	7.61%

Source: Tarrant Appraisal District.

**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 5**

	<b>2023</b>	<b>% of Total</b>	<b>2022</b>	<b>% of Total</b>	<b>2021</b>	<b>% of Total</b>
Real, Residential, Single-Family	\$ 1,913,844,416	80.28%	\$ 1,662,872,443	79.55%	\$ 1,486,457,154	78.46%
Real, Residential, Multi-Family	21,274,698	0.89%	18,700,000	0.89%	17,600,000	0.93%
Real, Vacant Lots/Tracts	9,010,764	0.38%	22,188,591	1.06%	9,878,032	0.52%
Real, Acreage (Land Only)	1,898	0.00%	1,946	0.00%	1,994	0.00%
Real, Commercial and Industrial	354,861,808	14.89%	308,772,965	14.77%	306,714,687	16.19%
Oil and Gas	3,340,634	0.14%	2,074,026	0.10%	480,453	0.03%
Real & Tangible, Personal Utilities	21,320,805	0.89%	23,561,540	1.13%	21,298,163	1.12%
Tangible Personal, Commercial & Industrial	53,302,523	2.24%	49,800,735	2.38%	50,285,817	2.65%
Personal, Mobile Home	21,023	0.00%	21,372	0.00%	21,721	0.00%
Residential Inventory	6,006,000	0.25%	105,000	0.01%	140,000	0.01%
Real Property, Inventory	1,023,282	0.04%	2,308,335	0.11%	1,775,072	0.09%
<b>Total Appraised Taxable Value</b>	<b>\$ 2,384,007,851</b>	<b>100.00%</b>	<b>\$ 2,090,406,953</b>	<b>100.00%</b>	<b>\$ 1,894,653,093</b>	<b>100.00%</b>
<b>Less:</b>						
Optional Over-65 or Disabled	\$ 70,397,843		\$ 69,469,812		\$ 66,297,508	
Veterans' Exemptions	16,745,076		13,856,209		12,446,362	
Pollution Control	2,639,224		1,194,729		96,655	
Absolute Exempt	262,614,990		126,810,706		164,563,022	
Misc. Personal Property	6,531,697		8,161,575		9,445,855	
Nominal Value	646,178		460,981		152,652	
<b>Total Exemptions</b>	<b>359,575,008</b>		<b>219,954,012</b>		<b>253,002,054</b>	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 2,024,432,843</b>		<b>\$ 1,870,452,941</b>		<b>\$ 1,641,651,039</b>	

Source: Tarrant Appraisal District

**PRINCIPAL TAXPAYERS**

**TABLE 6**

<b>Name</b>	<b>Type of Business/Property</b>	<b>2022 Net Taxable Assessed Valuation</b>	<b>% of 2022 Assessed Valuation</b>
Inland Western Watauga LP	Shopping Mall	\$ 32,995,062	1.76%
Watauga Towne Crossing LLP	Apartments	25,444,246	1.36%
Park Vista Townhomes	Apartments	16,600,000	0.89%
Brookwillow Watauga LLC	Apartments	15,493,612	0.83%
Dayton Hudson Corp	Retail Center	14,019,977	0.75%
Oncor Electric Delivery Co LLC/Oncor Electric Del	Electric Utility	9,546,219	0.51%
Woodcrest Marketplace LP	Shopping Center	8,909,555	0.48%
PS LPT Property Investors	Property	7,533,354	0.40%
FKH SFR Propco B-HLD LP	Residential Property	5,895,219	0.32%
Watauga Assoc	Storage Units	5,006,224	0.27%
		<b>\$ 141,443,468</b>	<b>7.56%</b>

Based on 2022 Net Taxable Assessed Valuation of \$1,870,452,941.

Note: 2023 Top 10 Taxpayers unavailable at the time of printing.

Source: Tarrant Appraisal District.

**TAX RATE DISTRIBUTION****TABLE 7**

	2022-23	2021-22	2020-21	2019-20	2018-19
General Fund	\$ 0.375187	\$ 0.395400	\$ 0.400700	\$ 0.405884	\$ 0.420628
I&S Fund	0.195013	0.185000	0.179700	0.174616	0.181160
Total Tax Rate	<u>\$ 0.570200</u>	<u>\$ 0.580400</u>	<u>\$ 0.580400</u>	<u>\$ 0.580500</u>	<u>\$ 0.601788</u>

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Tarrant Appraisal District, the Issuer's Annual Comprehensive Financial Report.

**TAX DATA****TABLE 8**

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 delinquent taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage 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	
2014	\$ 956,468,332	0.591200	\$ 5,654,641	99.01	99.81	9/30/2015
2015	1,016,667,348	0.591216	6,010,700	99.37	99.81	9/30/2016
2016	1,031,936,059	0.618411	6,381,606	99.24	99.75	9/30/2017
2017	1,099,930,546	0.601788	6,619,250	99.67	99.78	9/30/2018
2018	1,349,511,853	0.601788	8,121,200	99.32	99.75	9/30/2019
2019	1,573,355,021	0.580500	9,133,326	99.20	99.20	9/30/2020
2020	1,597,254,264	0.580500	8,883,546	99.59	100.00	9/30/2021
2021	1,641,651,039	0.580400	9,440,143	99.29	99.55	9/30/2022
2022	1,870,452,941	0.570200	9,994,389	99.86	99.96	9/30/2023*
2023	2,024,432,843					

Source: Tarrant Appraisal District and the Issuer.

\*As of June 30, 2023

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 City's total sales tax rate is 2%. The Watauga Parks Development Corporation Sales Tax Fund was established to account for a 1/2¢ sales tax increase approved by voters in May 1994. The 1/2¢ sales tax for Crime Control became effective on April 1, 1996. In November 2010, the voters approved a ten-year extension for Crime Control, which now expires in 2021. On May 12, 2012, the voters approved an Ordinance decreasing the sales and use tax benefiting the Parks Development Corporation to 1/4¢. Additionally, the voters adopted a local sales and use tax of 1/4¢ to provide revenues for the maintenance and repair of municipal streets. Net collections on calendar year basis are as follows.

Calendar Year	Total Collected	% of Ad Valorem Tax Levy <sup>(1)</sup>	Equivalent of Ad Valorem Tax Rate	Crime Control District
2014	\$ 4,452,920	78.75%	0.4656	\$ 1,477,698
2015	4,650,930	77.38%	0.4575	1,544,160
2016	4,320,708	67.71%	0.4187	1,432,773
2017	4,298,869	64.94%	0.3908	1,429,767
2018	4,383,453	53.98%	0.3248	1,443,556
2019	4,437,153	48.58%	0.2820	1,463,214
2020	4,455,441	50.15%	0.2789	1,464,806
2021	4,578,750	48.50%	0.2789	1,711,420
2022	5,562,968	55.66%	0.2974	1,840,926
2023*	3,290,769	(As of July 2023)		1,091,776

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

**OVERLAPPING DEBT INFORMATION**

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 8/1/2023)	% Overlapping	Amount Overlapping
Birdville ISD	\$ 515,125,000	7.66%	\$ 39,458,575
Keller ISD	824,104,989	2.82%	23,239,761
Tarrant County	376,120,000	0.73%	2,745,676
Tarrant County College District	610,315,000	0.73%	4,455,300
Tarrant County Hospital District	448,410,000	0.73%	3,273,393
Total Gross Overlapping Debt			<u>\$ 73,172,704</u>
Watauga, City of			\$ 48,510,000 *
Total Gross Direct and Overlapping Debt			<u>\$ 121,682,704</u> *
Ratio of Gross Direct Debt and Overlapping Debt			6.01% *
Per Capita Gross Direct Debt and Overlapping Debt			\$5,144.49 *

Note: The above figures show Gross General Obligation Debt for the City of Watauga, Texas. The Issuer's Net General Obligation Debt is \$29,170,000\*. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt	\$ 102,342,704 *
Ratio of Net Direct and Overlapping Debt to 2023 Net Assessed Valuation	5.06% *
Per Capita Net Direct and Overlapping Debt	\$4,326.84 *

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

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

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

**TABLE 10**

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

	Fiscal Year Ended				
	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018
Fund Balance - Beginning of Year	\$ 7,035,161	\$ 5,339,364	\$ 4,418,341	\$ 4,571,559	\$ 4,531,955
Revenues	\$ 15,599,138	\$ 13,894,322	\$ 12,797,016	\$ 12,260,736	\$ 11,881,382
Expenditures	13,895,136	12,854,306	12,691,285	12,910,940	12,106,108
Excess (Deficit) of Revenues Over Expenditures	\$ 1,704,002	\$ 1,040,016	\$ 105,731	\$ (650,204)	\$ (224,726)
Other Financing Sources (Uses):					
Proceeds from sale of Assets	\$ -	\$ -			
Operating Transfers In	779,300	755,781	815,292	544,486	563,100
Operating Transfers Out	(1,115,000)	(100,000)	-	(47,500)	(298,770)
Total Other Financing Sources (Uses):	\$ (335,700)	\$ 655,781	\$ 815,292	\$ 496,986	\$ 264,330
Fund Balance - End of Year	\$ 8,403,463	\$ 7,035,161	\$ 5,339,364	\$ 4,418,341	\$ 4,571,559

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

\* City administration expects to end the fiscal year ending September 30, 2023 with an unaudited General Fund balance of approximately \$8,477,000.

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

Governmental Subdivision	2022		2022 Tax Rate
	Assessed Valuation	% of Actual	
Birdville ISD	\$ 14,400,219,015	100%	\$ 1.280000
Keller ISD	24,471,184,376	100%	1.273000
Tarrant County	262,706,197,581	100%	0.224000
Tarrant County College District	264,445,356,368	100%	0.130000
Tarrant County Hospital District	263,143,297,871	100%	0.225000

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	Purpose	Amount Authorized	Amount Issued to Date	Amount Unissued
Birdville ISD	11/8/2022	School Building Athletics	\$ 284,714,315	\$ 135,183,924	\$ 149,530,391
		School Building Technology	\$ 16,061,775	\$ 16,061,775	\$ -
			\$ 300,776,090	\$ 151,245,699	\$ 149,530,391
Keller ISD	None				
Tarrant County	8/8/1998 8/8/1998 5/13/2006 11/2/2021	Healthcare Facility	\$ 9,100,000	\$ 1,000,000	\$ 8,100,000
		Justice Center	70,600,000	63,100,000	7,500,000
		County Buildings	62,300,000	47,300,000	15,000,000
		Street & Bridge	400,000,000	225,000,000	175,000,000
			542,000,000	336,400,000	205,600,000
Tarrant County College District	11/5/2019	College Facility	825,000,000	700,000,000	125,000,000
Tarrant County Hospital District	11/6/2018	Hospital	\$ 800,000,000	\$ 450,000,000	\$ 350,000,000

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

The City of Watauga, Texas participates as one of 901 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at [www.tmrs.com](http://www.tmrs.com).

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

For more information see the Issuer's Annual Comprehensive Financial Report for the Year Ended September 30, 2022, Note 7, page 58.

*Source: The Issuer's Annual Comprehensive Financial Report.*



**UTILITY PLANT IN SERVICE**

**TABLE 11**

(As of September 30, 2022)

Land	\$ 91,000
Construction in Progress	1,631,999
Buildings	3,353,778
Right-to-use assets	38,060
Equipment	1,997,494
Street and Drainage Improvements	21,366,572
Waterworks and Sanitary Sewer System	29,861,230
<b>Total</b>	<u>\$ 58,340,133</u>
Less: Accumulated Depreciation	<u>(19,946,780)</u>
<b>Net Property, Plant and Equipment</b>	<u>\$ 38,393,353</u>

Source: The Issuer's Annual Comprehensive Financial Report for the fiscal year ended September 30, 2022.

**WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT**

**TABLE 12**

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

	Fiscal Year Ended				
	9/30/2022	9/30/2021	9/30/2020	9/30/2019	9/30/2018
Revenues	\$ 10,018,650	\$ 8,976,433	\$ 9,267,957	\$ 8,441,266	\$ 8,381,344
Expenses	<u>6,783,110</u>	<u>6,280,645</u>	<u>6,626,286</u>	<u>7,204,282</u>	<u>5,830,065</u>
Net Revenue Available for Debt Service	<u>\$ 3,235,540</u>	<u>\$ 2,695,788</u>	<u>\$ 2,641,671</u>	<u>\$ 1,236,984</u>	<u>\$ 2,551,279</u>

Source: The Issuer's Annual Comprehensive Financial Report.

**WATER RATES**

**TABLE 13**

**Rates Effective October 1, 2022**

1. Billing policy where only one user or building is tied to the same meter:

(A) The monthly bill will be computed as follows: The minimum bill taken from Schedule A plus a volume charge of \$5.16 per 100 cubic

(B) Residential customers who have attained the age of 65 and reside in owner occupied property within the City will be eligible for a

**Schedule A**

Meter Size (Inches)	¾"	1"	1-1/4"	1-1/2"	2"	3"	4"	6"/8"
Minimum Bill*	\$18.23	\$24.68	\$32.89	\$67.05	\$87.10	\$159.22	\$264.18	\$673.26
Volume	267	345	460	937	1,300	2,400	4,000	10,000

\*Volume included in minimum bill (base charge)

Source: City of Watauga, Texas website.

**Rates Effective October 1, 2022:**

Sewer rates are based on winter average water use for existing residential customers. New residential customers will have a base rate of 900 cubic feet until a winter average can be established. Rates are \$20.52 base plus volume at \$3.17 per 100 cubic feet.

**Sewer Average**

The winter month's water billed consumption on the December, January and February billings are used to calculate the sewer average for residential customers. To figure your sewer average add the three amounts of water consumption and divide by 3. This will be the consumption used for your new sewer average for the upcoming year. Your sewer average for the year will be used starting with your April bill.

Senior citizens (over-65) and reside in owner occupied property within the City are eligible for a \$5.00 discount for sewer service on their monthly bill once proof of eligibility is provided to the City.

Commercial rates are based on actual usage (no winter average) at the regular residential rates of \$20.52 base plus volume at \$3.17 per 100 cubic feet.

Drainage rates are \$11.00 per household with a corresponding increase for commercial customers

**Residential/Senior/ and Commercial 3/4 Inch Rates**

Amount of Water	Base Rate
0 to 267 cubic feet of water	\$18.23
Per 100 cubic feet	\$5.16

Other Commercial Meters Utilize These Same Rates but with the following Base Amounts

Amount of Water	Base Rate	
1 inch meter 0-345 cubic feet of water	\$	24.68
1.25 inch meter 0-460 cubic feet of water	\$	32.89
1.5 inch meter 0-937 cubic feet of water	\$	67.05
2 inch meter 0-1,300 cubic feet of water	\$	87.10
3 inch meter 0-2,400 cubic feet of water	\$	159.22
4 inch meter 0-4,000 cubic feet of water	\$	264.18
6 and 8 inch meters 0-10,000 cubic feet of water	\$	673.26

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Source: City of Watauga, Texas website.

**APPENDIX B**

**GENERAL INFORMATION REGARDING THE CITY OF WATAUGA  
AND TARRANT COUNTY, TEXAS**

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**GENERAL INFORMATION REGARDING THE CITY OF WATAUGA, TEXAS  
AND TARRANT COUNTY, TEXAS**

The City of Watauga, Texas (the “City” or “Issuer”) is located in North Central Texas in Northeast Tarrant County, and is surrounded by the cities of Keller, Fort Worth, Haltom City, and North Richland Hills. The City’s corporate boundary comprises a total of approximately 4 square miles. Officially founded in 1877 when the Texas and Pacific Railroad came to town, “Watauga” in Cherokee means either “Beautiful Stream,” “Valley of the Happy Spring,” or “Village of Land of Many Springs.”

The City’s Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and last amended November 12, 2019. The City operates under a Mayor-Council-Manager form of government, with the City Council comprised of eight members including the Mayor. The City Council is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and appointing the City Manager, City Attorney, as well as members of boards and commissions. The City Manager is responsible to the Council for appointing and supervising employees of the City (except for those appointed by the Council), and for preparing and administering the annual budget and capital improvement program.

The primary government provides a full range of services including general government administration, police and fire protection, emergency ambulance service, street maintenance, building inspection services, community development, library services, park and recreational activities, and the maintenance and operations of City-owned buildings.

**Economy**

The economy of the area is based upon diversified manufacturing and service industries, and agriculture. The North Texas Commission reports that DFW is the 4th largest region in the U.S., and has experienced tremendous growth in the past decade, becoming the fastest growing region in the U.S. With its highly diversified economy, Dallas-Ft. Worth has a population of over 7.7 million, a Gross Metropolitan Product of \$535 billion, a labor force of over 4.1 million, an 8.1% job growth rate, twenty-five Fortune 500 Firms, and college enrollment of over 367,000.

Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrated its 48th anniversary in 2022, covers approximately twenty-seven square miles and represents one of the largest facilities of its kind in the world. The airport provides in excess of 228,000 jobs and contributes over \$37 billion to the local economy, and \$12.5 billion in payroll. (SOURCE: DFW website [www.dfwairport.com](http://www.dfwairport.com) Fast Facts.)

**Economic and Demographic Information**

Year	Population	Per Capita Personal Income	Unemployment Rate
2013	23,331	23,307	7.0
2014	23,510	22,809	5.8
2015	23,500	23,846	5.0
2016	23,600	25,147	4.1
2017	24,228	24,417	4.1
2018	23,610	25,280	3.7
2019	23,770	35,050	3.3
2020	23,770	51,661	3.5
2021	23,770	41,114	4.1
2022	23,770	32,586	3.5

*Source: The Issuer’s audited financial statements for fiscal year ended September 30, 2022.*

## TARRANT COUNTY, TEXAS

Tarrant County, Texas (the “County”) is an urban county located in the north central part of Texas with approximately 2,157,740 citizens. The City of Fort Worth, Texas which began as an army post in 1849 serves as the county seat. The County is one of the fastest growing urban counties in the United States today. Twenty-five other incorporated cities are located wholly within the County, and seven other incorporated county-line cities are located largely within the County’s boundaries. The thirteen county Dallas-Fort Worth Metroplex has a total population of almost 7.6 million people, making it the largest metropolitan area in the South and the fourth-largest in the United States.

The County’s roots lie in the ‘Old West’ and much of its heritage can be traced to the era of the cowboy and cattle drives that passed through the County. The County is one of 254 counties in Texas which were originally set up by the State of Texas to serve as decentralized administrative divisions providing state services and collecting state taxes.

Historically, the County's economic environment has been characterized by steady, yet modest growth. This has been in part because of the diverse nature of the business sectors making up the local economy, without an overwhelming dominance by any one industry. Similarly, local real estate values have demonstrated steady yet modest increases over the past decade. Other segments of the local economy include aircraft, automobile and electronic manufacturing, tourism, entertainment, livestock and agri-business, transportation including major railroad services, and financial services. Because of this diversity, the outlook for stable economic conditions seems favorable.

### Principal Employers

Employer	Entity	2022 Employees	2022 Percentage of Total Tarrant County Employment
AMR Corp./American Airlines	Commercial Airline	40,600	30.83%
Lockheed Martin Aeronautics Company	Aircraft Manufacturer	18,200	13.82%
Texas Health Resources	Health Care	12,776	9.70%
Fort Worth Independent School District	School District	10,683	8.11%
Naval Air Station Fort Worth JRB	Naval Station	10,500	7.97%
Cook Children’s Health Care System	Health Care	8,777	6.66%
Arlington Independent School District	School District	8,344	6.34%
University of Texas at Arlington	Higher Education	7,562	5.74%
JPS Health Network	Health Care	7,132	5.42%
City of Fort Worth	Municipal Government	7,129	5.41%

*Source: Tarrant County audited financial statements for fiscal year ended September 30, 2022.*

### Principal Taxpayers (Amounts in thousands)

Taxpayer	Fiscal Year 2022	
	Taxable Assessed Value	Percentage of Taxable Assessed Value
Oncor Electric Delivery	\$ 1,520,811	0.67%
American Airlines Inc	1,125,017	0.49%
Winner LLC	793,414	0.35%
General Motors LLC	578,705	0.25%
Atmos Energy/Mid Tex Division	560,025	0.25%
Alcon Laboratories Inc	459,313	0.20%
Bell Helicopter Textron Inc	445,500	0.20%
Wal-Mart Real Estate Bus. Trust	389,583	0.17%
Amazon.com Services LLC	320,855	0.14%
Opryland Hotel	290,000	0.13%

*Source: Tarrant County Appraisal District.*

<b>Labor Force Statistics – Tarrant County, Texas <sup>(1)</sup></b>				
	<u>2023 <sup>(2)</sup></u>	<u>2022 <sup>(3)</sup></u>	<u>2021 <sup>(3)</sup></u>	<u>2020 <sup>(3)</sup></u>
Civilian Labor Force	1,179,991	1,140,773	1,099,856	1,082,822
Total Employed	1,134,233	1,099,642	1,041,556	1,003,269
Total Unemployed	45,758	41,131	58,300	79,553
% Unemployment	3.9	3.6	5.3	7.3%
Texas Unemployment	4.2	3.9	5.7	8.9%

(1) Source: Texas Workforce Commission.

(2) June 2023.

(3) Average Annual Statistics.

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**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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October 11, 2023

Norton Rose Fulbright US LLP  
98 San Jacinto Boulevard, Suite 1100  
Austin, Texas 78701-4255  
United States

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nortonrosefulbright.com

**DRAFT**

IN REGARD to the authorization and issuance of the “City of Watauga, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2023” (the *Certificates*), dated September 15, 2023 in the aggregate principal amount of \$\_\_\_\_, we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Watauga, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 20\_\_ through 20\_\_, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

WE HAVE EXAMINED, the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the Certificates, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Certificates and certain other funds of the Issuer and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Certificate executed and delivered initially by the Issuer and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion

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**Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF WATAUGA, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023”**

concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Certificates are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Certificates are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property within the Issuer and are additionally payable from and secured by a lien on and pledge of the Pledged Revenues, being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the *System*), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge thereof providing for the payment and security of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer. The Issuer has previously authorized the issuance of the Limited Pledge Obligations that are payable in part from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in accordance with the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the Issuer reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

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

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

**Legal Opinion of Norton Rose Fulbright US LLP, Austin and San Antonio, Texas, in connection with the authorization and issuance of “CITY OF WATAUGA, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023”**

individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Norton Rose Fulbright US LLP

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**APPENDIX D**

**FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2022**

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements – not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.)

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**City of Watauga, Texas**

**Annual Comprehensive Financial Report**

**For the Fiscal Year Ended  
September 30, 2022**

**Prepared By  
The City of Watauga  
Finance Department**

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**City of Watauga, Texas**  
 Annual Comprehensive Financial Report  
 For the Fiscal Year Ended September 30, 2022  
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# Introductory Section

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March 13, 2023

**TO: Honorable Mayor Arthur L. Miner and  
Members of the City Council  
Citizens of the City of Watauga, Texas**

The City Manager's Office and the Finance Department are pleased to submit the City of Watauga's Annual Comprehensive Financial Report (ACFR) for the fiscal year ended September 30, 2022. We encourage you to thoroughly read this report and take the opportunity to discuss some of the important items it addresses.

As required by City of Watauga Charter Section 9.06 (C) and various other obligations including, but not limited to, bond covenants, "At the close of each fiscal year, and at such time as it may be deemed necessary, the Council shall cause an independent audit to be made of all accounts of the City by a certified public accountant. Upon completion of the audit, the results thereof in a summary form shall be placed on file in the City Secretary's office as a public record." Financial statements are presented in conformity with generally accepted accounting principles (GAAP) and audited in accordance with generally accepted auditing standards by an independent firm of licensed certified public accountants.

This report provides the City Council, City staff, our citizens, our bondholders and other interested parties with detailed information concerning the financial condition and activities of the City government. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To provide a reasonable basis for making these representations, management of the City of Watauga has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the financial statements in conformity with GAAP. Because the cost of internal controls should not outweigh their benefit, the City of Watauga's comprehensive framework of internal controls has been designed to provide reasonable assurance, rather than absolute assurance, that the financial statements will be free from material misstatements. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

Weaver and Tidwell, L.L.P., a firm of licensed certified public accountants audited the City of Watauga financial statements. The goal of the independent auditors was to provide reasonable assurance that the financial statements of the City of Watauga for the fiscal year ended September 30, 2022, are free of material misstatements. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Based upon the audit, the independent auditors concluded that there was a reasonable basis for rendering an unmodified ("clean") opinion that the City of Watauga's financial statements for the fiscal year ended September 30, 2022, are fairly presented in conformity with GAAP. The independent auditor's report is located at the front of the financial section of this report. Additionally, the City has an Audit Committee as a subcommittee of the City Council that hears and reviews all recommendations made by the independent auditors.

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. This letter of transmittal is designed to complement the MD&A, and the two should be read in conjunction with each other. This report includes all of the funds and account groups of the City. It also includes all activities over which the City is considered to be financially accountable.

The Birdville and the Keller Independent School Districts (ISDs) provide elementary and secondary education services within the City. The City is not financially accountable for the districts and, accordingly, financial data for the school districts are not included in this report.

### **Profile of the City of Watauga, Texas**

The City of Watauga is located in Tarrant County, one of the fastest growing counties in Texas, approximately 10 miles northeast of downtown Fort Worth and 25 miles northwest of downtown Dallas. The City's corporate boundary comprises a total of approximately 4 square miles and is approximately 96% developed. Watauga's population as established by the 2010 U.S. Census was 23,650 and was estimated by the North Central Texas Council of Governments at 23,660 as of January 2022.

The City of Watauga Home Rule charter was adopted on January 19, 1980. The city operates under a Council-Manager form of government, with the Governing Body comprised of eight members including the Mayor. The Governing Body is responsible for adopting ordinances and regulations governing the City, adopting the budget, determining policies, and appointing the City Manager, City Attorney, Municipal Court Judge, City Secretary, Department Heads, as well as members of boards and commissions. The City Manager is responsible to the Governing Body and is responsible for the daily management of the city.

### **Services Provided**

The primary government provides a full range of services including general government administration, police and fire protection, emergency ambulance service, street maintenance, building inspection services, community development, library services, park and recreational activities, and the maintenance and operations of City-owned buildings. The City also has two enterprise funds for operations and management of its Drainage and Water/Sewer Systems. Private contractors, through franchise agreements, provide solid waste and recycling collections and disposal services for the city.

### **Accounting System and Budgetary Control**

The City's accounting records for general government operations are maintained on a modified accrual basis, with the revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received, and the liabilities are incurred. Accounting records for the City's proprietary activities are maintained on an accrual basis.

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures/expenses. The various funds are grouped by type in the financial statements. As of September 30, 2022, there were thirty-four (34) funds, of which some are combined for reporting purposes bringing the number to seventeen (17) funds. A description of the major funds and their purpose can be found in Note 1 of the Notes to General Purpose Financial Statements.



The City Charter requires the City Manager to submit a proposed budget for the fiscal year beginning October 1 to the City Council by August 1 each year, and provides for Council adoption of the budget by September 15. Prior to August 1, the City Manager and City department heads prepare expenditure/expense estimates for the remainder of the current fiscal year and for the ensuing fiscal year, and these are compared to estimates of revenue for the same periods. Included in the assessment is the Capital Improvements Projects or CIP program. This program is a five-year plan of major capital programs which may include infrastructure, equipment, buildings, land, or other major expenditures. Adjustments are made to the departmental expenditure/expense estimates as necessary to ensure that the proposed budget is balanced within total estimated income as required by the City Charter.

Following adoption of the budget by the City Council, the City Manager and department heads monitor expenditures/expenses and revenues throughout the year to ensure that the integrity of the budget is maintained. The Charter allows the City Manager to transfer appropriation balances among programs within a department and provides for transfers of appropriation balances from one department to another upon approval of an ordinance by the City Council. The City Council may make amendments to the budget for unforeseen needs or emergencies. The City Manager is required to make monthly reports to the Council concerning the financial condition of the City.

### **Economic Outlook and Financial Condition**

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

Like the rest of the nation, the Dallas-Fort Worth Metroplex (DFW) economy was greatly affected by the COVID-19 pandemic. The nation and DFW experienced a severe contraction in the spring of 2020, followed by a slow recovery for the remainder of 2020. However, in 2021, the economy showed robust expansion with gains across all sections and continued through 2022. In December, 2022, the Federal Reserve Bank of Dallas reported in their Dallas-Ft. Worth Economic Indicators update that:

*Dallas–Fort Worth’s economy expanded in November. Payroll employment grew broadly. Unemployment dipped, and the Dallas and Fort Worth business-cycle indexes expanded. Apartment demand fell again, and home prices and single-family construction weakened due to a sharp pullback in housing demand.*

*DFW employment grew an annualized 5.3 percent in the three months ending in November. Payrolls rose 6.7 percent in Dallas, 1.8 percent in Fort Worth and 3.9 percent statewide. DFW payroll gains were widespread over the three-month period, with growth led by construction and mining, followed closely by the leisure and hospitality and professional and business services sectors. Employment in information services and government declined. DFW average hourly earnings dipped to \$33.50 in November but were up 1.9 percent over the 12-month period. The DFW unemployment rate dipped to 3.4 percent in November, remaining below the Texas and U.S. jobless rates of 4.0 percent and 3.6 percent, respectively. The metro-area labor force rose an annualized 3.4 percent in November—its 11th consecutive increase. The [Dallas](#) and [Fort Worth](#) business-cycle indexes continued to expand strongly in November, buoyed by sustained job growth and low unemployment. The Dallas index climbed an annualized 10.4 percent—marking the 30th straight month of growth—and was up 16.2 percent from its pre-pandemic peak (Chart 3). The Fort Worth index rose an annualized 4.8 percent, 8.7 percent above its pre-pandemic high.*

Watauga is located in North Central Texas in Northeast Tarrant County, and is surrounded by the cities of Keller, Fort Worth, Haltom City, and North Richland Hills. The economy of the area is based upon diversified manufacturing and service industries, and agriculture. The North Texas Commission reports that DFW is the 4<sup>th</sup> largest region in the U.S., and has experienced tremendous growth in the past decade, becoming the fastest growing region in the U.S. With its highly diversified economy, Dallas-Ft. Worth has a population of over 7.7 million, a Gross Metropolitan Product of \$535 billion, a labor force of over 4.1 million, an 8.1% job growth rate, twenty-five Fortune 500 Firms, and college enrollment of over 367,000.

Economic conditions in the Metroplex continue to be influenced by the development and operation of the Dallas-Fort Worth International Airport, which is located only 10 miles to the southeast of Watauga. The airport, which celebrated its 48th anniversary in 2022, covers approximately twenty-seven square miles and represents one of the largest facilities of its kind in the world. The airport provides more than 228,000 jobs and contributes over \$37 billion to the local economy, and \$12.5 billion in payroll. (SOURCE: DFW website [www.dfwairport.com](http://www.dfwairport.com) Fast Facts).

The Alliance Texas development in North Fort Worth is a 27,000-acre master-planned, mixed-use community which is home to more than 550 companies, 63,000 plus employees, and is anchored by the inland port known as the Alliance Global Logistics Hub. This area offers a variety of commercial real estate options, industrial space, office space, and retail facilities and had a \$100.6 billion impact in North Texas since its inception, with \$.66 billion economic impact in 2021. ([www.alliancetexas.com](http://www.alliancetexas.com) Alliance Texas Facts).

Fiscal year 2022 was a year of recovery for the City and the City's financial position is strong. Total certified taxable value, not including estimated value for property under protest, for all residential and commercial property in the City was approximately \$1.9 billion for fiscal year 2022, a 7% increase from the previous year. Future development includes a 70-home single family residential development and additional commercial developments are in the planning phase. The City's general fund, economic development corporation fund, and crime control sales tax funds experienced sales tax increases during fiscal year 2022. Additionally, in May 2021, voters approved a ballot measure that authorized the quarter cent sales tax that was previously dedicated for street maintenance to the City's General Fund for general government purposes. The recovery of this ¼ cent sales tax to the General Fund, combined with increased economic activity, resulted in a 17% overall increase of sales tax receipts this year in comparison to fiscal year 2021. Sales tax receipts for all funds came in at \$7.4 million in fiscal year 2022, representing an increase of approximately \$1.1 million in collections in comparison to the previous fiscal year.

### **Future Economic Outlook**

Through November 2022 (Fiscal Year 2023) sales taxes have increased by 3.7% compared to the same period in Fiscal Year 2022. The increase is attributable to economic recovery, new businesses in Watauga, and the increase of on-line sales tax receipts.

For Fiscal Year 2023, property valuations increased 11% from prior year. According to the Emerging Trends in Real Estate for 2022 report from PricewaterhouseCoopers and the Urban Land Institute, the Dallas-Ft. Worth Metroplex ranked as the second highest market for overall real estate prospects in 2023 out of 80 other cities nationwide.

Watauga's economic future is not without challenges. New development in Watauga is expected to be minimal as the city is approximately 96% developed. The city has entered a phase where revenue growth will be slow, while requests for services and infrastructure replacement for streets and utility needs will increase. The near build-out status of the city requires a strategic approach to attracting new development and revitalization. The City Council has adopted Strategic Initiatives that will enable the city to move in a positive direction. These strategic initiatives include maintaining the financial strength of the City, developing a sustainable economic development effort through business retention and attraction efforts, and strengthening future planning.

The economic outlook for the region and for the City of Watauga is strong. However, the harmful actions of the Texas State Legislature in passing City-related bills during the 2019 session had a long-term and significant impact on the City's revenues. These include Property Tax legislation, the banning of Photographic Enforcement cameras, Cable and Telecom Franchise Fee reductions, and various unfunded mandates. The City is looking at other sources of revenues to replace those lost due to the passing of these bills, as well as the reduction of expenditures through the evaluation of programs and the leveraging of technology for more efficient operations.

### **Long-Term Financial Planning**

The City Council has adopted a series of financial standards and policies for operating and debt management. Management of the City has made every effort to comply with these standards and policies. The City has maintained its fund balances to ensure that the needed resources are available to provide for current operations and unexpected situations. Fiscal policies provide for the General Fund reserve to not go below 25% of the General Fund expenditure budget. At the end of the current year, the City was in compliance with this policy with the reserve at 53% of next year's budgeted expenditures.

The City continued the use of its long-term financial planning tools in FY2023 and beyond. These tools include:

- 1) A 5-year Capital Improvement Plan that details current and future infrastructure projects;
- 2) A Multi-year Capital Outlay Plan that provides a 5-year plan to identify timing of replacement and sources of funding for major equipment, vehicles, and technology City-wide;
- 3) A Personnel Improvement Plan to identify personnel staffing needs and year of possible funding;
- 4) A Multi-year Financial Forecast which forecasts revenue trends and expenditure estimates in a 5-year Plan; and
- 5) A Succession Plan to ensure continuity of operations in the future for all positions, promote a defined path for employees desiring to move into higher level positions, and ensure that training and resources are in place.

Such strategic planning has allowed the City Council to fund several major infrastructure upgrades, park enhancements, capital purchases, and personnel needs in a systematic manner while considering the full impact to the operating budget and tax requirements. The City of Watauga intends to continue with an orderly and well-planned program of community service in FY2023 and subsequent years. Working within the framework of current financial constraints, the City will focus on infrastructure needs such as upgrades/maintenance of the water/sewer system, street projects, drainage projects and revitalization/redevelopment projects in the upcoming fiscal year and beyond.

Standard & Poor's Rating Services, a subsidiary of the McGraw-Hill Companies, Inc. rates the City's general obligation debt at AA. Moody's Investor Service, Inc. rates the general obligation debt at Aa3. Additional information about the rating agencies or the significance of the ratings provided may be obtained from each agency's web site.

## **Major Initiatives**

The city has completed several projects in the past year and has many others underway. The city believes it is critical that the street, water, wastewater, and drainage systems are properly maintained and systematically upgraded. The city's 5-year Capital Improvement Plan (CIP) addresses the infrastructure needs throughout the city. Over the past several years, water and wastewater improvement projects have been completed and more projects are underway. These projects include replacement of aging wastewater lines throughout the city that have a high amount of inflow and infiltration. Major street and drainage projects that are in progress include Whitley Road, a major thoroughfare in the city that was planned as a multi-year project and will be completed in five phases. The city was recently awarded grant funding from Tarrant County that will provide partial funding for the Whitley Road Phase 4 project. The project will begin in Fiscal Year 2023.

The City's Parks Master Plan focuses on improving the quality of life for the community, including park amenities and upgrades, trails, and facilities such as the expansion of the Senior Center that was completed in 2017. Other projects funded by the Economic Development Corporation include the design and construction of a food business park that is designed to spur economic development and entrepreneurship in the city.

The Green Ribbon Beautification Project for Highway 377 continues and will help to improve the image of Watauga as well as properties along the highway. The City has been awarded its third Texas Department of Transportation (TXDOT) Green Ribbon Landscape grant to beautify the western portion of the Denton Highway right-of-way.

## **Awards and Acknowledgements.**

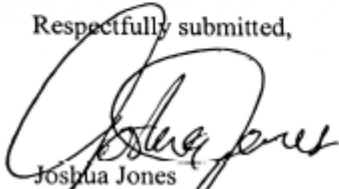
The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Watauga for its annual comprehensive financial report for the fiscal year ended September 30, 2021. The Certificate of Achievement is a prestigious national award-recognizing conformance with the highest standard for preparation of state and local government financial reports. In order to receive the Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The City of Watauga has received a Certificate of Achievement for the last thirty-four consecutive years. We believe that our current annual comprehensive financial report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to GFOA for review.

The City of Watauga also received the GFOA's Distinguished Budget Presentation Award for our annual budget document for the fiscal year beginning October 1, 2021. This is the thirty-second consecutive year that the city has received this prestigious award. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories, including as a policy document, a financial plan, an operations guide, and a communications device.

In conclusion, we would like to thank the City Council for their continued leadership and support in planning and conducting the financial operations of our city in a responsible and efficient manner. Appreciation is expressed to the city employees throughout the organization who have instrumental in the successful completion of this annual comprehensive financial report. And finally, we wish to express our appreciation to each City employee for his or her loyalty and dedication, as demonstrated during this past fiscal year.

Respectfully submitted,



Joshua Jones  
City Manager



Sandra Gibson, CGFO, CGFM  
Director of Finance

**City of Watauga, Texas**  
Principal Officials  
As of September 30, 2022

<b><u>Elected Officials</u></b>	<b><u>Position</u></b>	<b><u>Term Expires</u></b>
Arthur L. Miner	Mayor	2023
Lovie Downey	Mayor Pro Tem, Council Member Place 3	2023
Patrick Shelbourne	Council Member Place 1	2023
Tom Snyder	Council Member Place 2	2024
Andrew Neal	Council Member Place 4	2024
Malissa Minucci	Council Member Place 5	2023
Mark Taylor	Council Member Place 6	2024
Jan Hill	Council Member Place 7	2024

<b><u>Appointed Officials</u></b>	<b><u>Position</u></b>
Joshua Jones	City Manager
Sandra Gibson	Director of Finance
Linda Proskey	City Secretary
Robert Parker	Police Chief
Shawn Fannan	Fire Chief
David Berman	City Attorney
Paul Hackleman	Public Works Director
Julie Rodriguez	Director of Human Resources & Civil Service
Lana Ewell	Library Director
Timothy Hamilton	Parks and Community Services Director



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of Watauga  
Texas**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

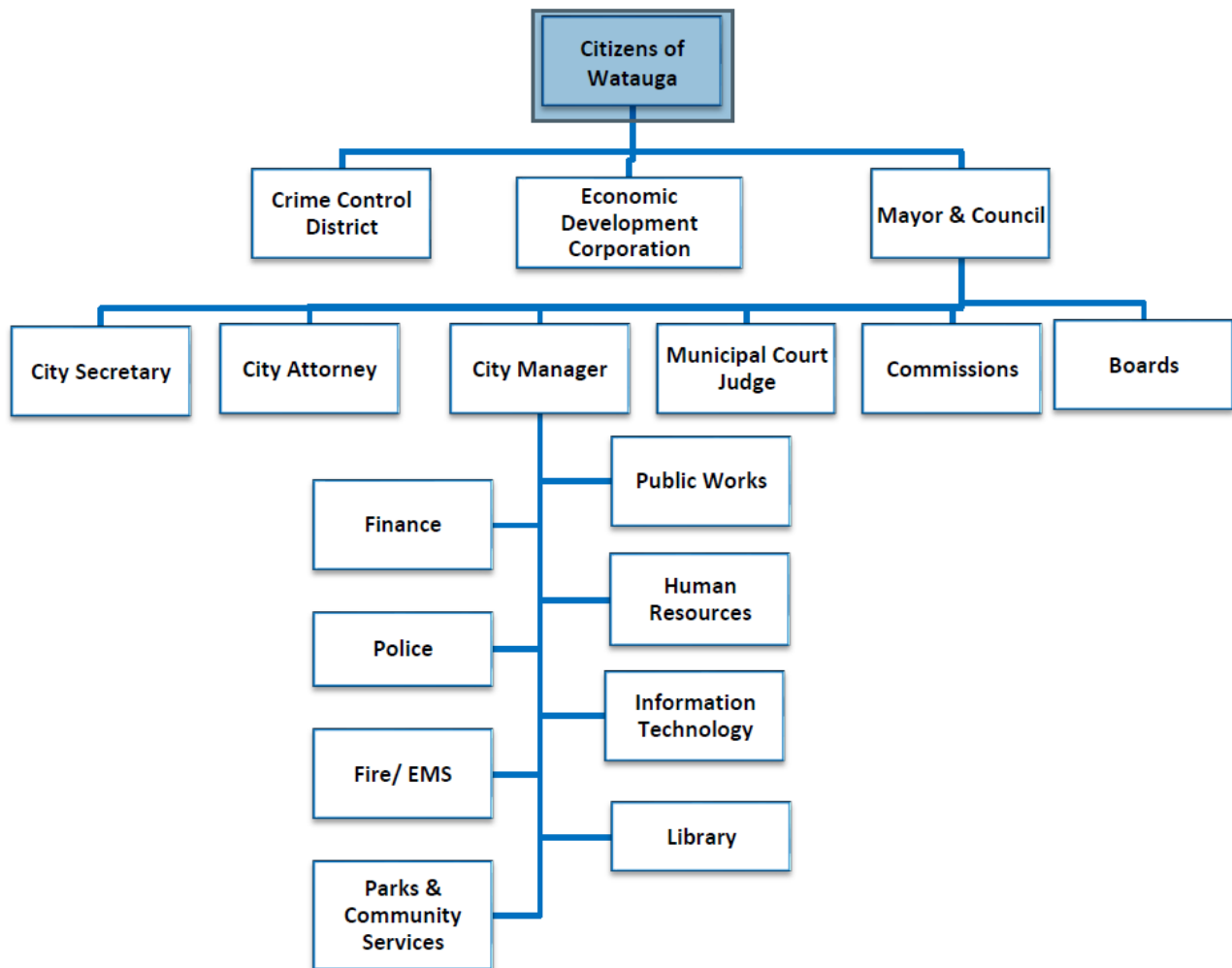
September 30, 2021

*Christopher P. Morill*

Executive Director/CEO

# Organizational Chart

## City of Watauga





# **Financial Section**

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## Independent Auditor's Report

To the Honorable Mayor and  
Members of City Council  
City of Watauga, Texas

### Report on the Audit of the Financial Statements

#### **Opinions**

We have audited the accompanying financial statements of the governmental activities, business-type activities, each major fund and the aggregate remaining fund information of the City of Watauga, Texas (the "City") as of and for the year ended September 30, 2022, and the 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 accompany financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

#### **Basis for Opinions**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. 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.

#### **Emphasis of Matter**

As discussed in Note 1 to the basic financial statements, during the year ended September 30, 2022, the City implemented Governmental Accounting Standards Board (GASB) Statement No. 87, Leases. Our opinions are not modified with respect to this matter.

#### **Responsibilities of Management for the Financial Statements**

The City's management is responsible for the preparation and fair presentation of the 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.

The Honorable Mayor and  
Members of City Council  
City of Watauga, Texas

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 twelve 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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.

The Honorable Mayor and  
Members of City Council  
City of Watauga, Texas

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, Texas Municipal Retirement System pension schedules, Texas Municipal Retirement System OPEB schedule, and budgetary comparison information on pages 7 through 16 and 71 through 76 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 the City's basic financial statements. The combining and individual fund financial statements, schedules and *schedule of expenditures of federal awards, as required by Title 2 U.S. Code of Federal Regulations, Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and schedules are 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 combining and individual fund financial statements, schedules and *schedule of expenditures of federal awards* are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

**Other Information Included in the Annual Comprehensive Financial Report (ACFR)**

Management is responsible for the other information included in the ACFR. The other information comprises the introductory section and statistical section but does not include the financial statements and our auditor's report thereon. Our opinions on the financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

The Honorable Mayor and  
Members of City Council  
City of Watauga, Texas

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2023 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

Fort Worth, Texas  
March 13, 2023

**CITY OF WATAUGA, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Year Ended September 30, 2022**

On behalf of City Council, we, as management of the City of Watauga, offer readers of the city's financial statements this narrative overview and analysis of the financial activities and financial position of the city for the fiscal year ended September 30, 2022. In the broadest context, the financial well-being of a government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically so that the City's tax base, service levels, City assets, and the City's desirability will be maintained not just for the current year but well into the future.

Financial reporting is limited in its ability to provide the "big picture" but rather focus on financial position and changes in financial position. In other words, are revenues and/or expenditures higher or lower than the previous year? Have net position or fund balances of the government been maintained? Readers are encouraged to consider the information presented here in conjunction with our Letter of Transmittal and the Statistical Section which can be found on pages i-v and pages 100-120 of this report respectively. Also, you may review additional information on the annual budget and other community facts and figures on the City's website at [www.cowtx.org](http://www.cowtx.org).

Please note that the Report of Independent Auditors describes the auditor's association with the various sections of this report and that all of the additional information from the website and other City sources is unaudited.

**FINANCIAL HIGHLIGHTS**

- At September 30, 2022, Government-Wide Total Assets and Deferred Outflows of Resources exceeded Total Liabilities and Deferred Inflows of Resources by \$86,613,643 (Net position). The vast majority of the City's net position of \$70,760,218 (81.7%) is net investment in capital assets and most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totaled \$4,861,148 (5.6%). The remaining \$10,992,277 (12.7%) net position is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased \$3,644,261 from the prior year.
- The City's total capital assets (net of accumulated depreciation/amortization) increased by \$1,734,593 which is primarily attributed to current year capital improvement projects and other asset additions exceeding depreciation expense and asset retirements.
- The City's total long-term debt increased by \$1,804,857, or 3.8%, due to an issuance of Combination Tax and Limited Pledge Revenue Certificates of Obligation in the amount of \$4,930,000 for capital improvements, less scheduled principal payments.
- The City's long-term liabilities decreased \$1,655,523, or 3%, during the fiscal year primarily due to the issuance of debt as discussed in preceding paragraph and that the City experienced a decrease in the net pension liability and net OPEB liability. The accounting standards for pensions will reflect more volatility in the amount of the liability recorded in the financial statements from year to year.
- Governmental activities realized an increase in total net position of \$4,263,804 and business-type activities realized an increase in total net position of \$2,132,597 bringing the total increase in net position for the City to \$6,396,401.

- Total Governmental Fund ending fund balance was \$27,624,828, an increase of \$3,980,776 in comparison to the prior year. This was due primarily to debt issuance proceeds received during the year in the Capital Projects fund for \$4.385 million, increases in sales tax revenues, and lower than anticipated expenses due to salary savings in the General Fund. The Unassigned General Fund balance increased \$1,352,959 over prior year and at year-end the balance was \$8,364,124 or 60% of total Fiscal Year 2022 General Fund expenditures.

## OVERVIEW OF THE FINANCIAL STATEMENTS

We intend this discussion and analysis to serve as an introduction to the City of Watauga's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide Financial Statements** - The government-wide financial statements are designed to provide readers with a broad overview of the City of Watauga's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflow of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both government-wide financial statements distinguish functions of the City of Watauga that are 1) principally supported by taxes and intergovernmental revenues (governmental activities), and 2) functions that are intended to recover all or a significant portion of their costs through their user fees and charges (proprietary or business-type activities). The governmental activities of the City include General Government, Police, Fire/EMS, Culture and Recreation, Economic Development and Public Works. The proprietary or business-type activities of the City include Water/Sewer and Drainage System activities.

The government-wide financial statements include not only the City of Watauga itself (known as the primary government), but also include the Watauga Economic Development Corporation (WEDC) and the Watauga Crime Control and Prevention District (WCCPD), which are legally separate but financially accountable to the City. A blended presentation is used to report the financial information of these component units. The financial information for the individual component units is available from the City.

The government-wide financial statements can be found on pages 21-22 of this report.

**Fund Financial Statements** - A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: (1) governmental, (2) proprietary, and (3) internal service.



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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the Governmental Fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains thirteen individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, and Capital Project Funds, which are considered to be major funds. Data from the other ten governmental funds are combined into a single, aggregated presentation.

The City adopts an annual appropriated budget. Budgetary comparison schedules have been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 25-28 of this report.

**Proprietary Funds** - The City maintains two major proprietary or enterprise funds. The enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its Water/Sewer and Drainage activities. Internal Service Funds are an accounting device used to accumulate and allocate cost for some of its equipment replacement. Because these services predominately benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for Water/Sewer and Drainage, both of which are considered to be major funds of the City. The Internal Service Fund is a single presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages 31-34 of this report.

**Notes to the financial statements** - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 35-68 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other post-employment benefits to its employees. Required Supplementary Information (RSI) can be found on pages 73-76 of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and supporting schedules can be found on pages 82-95 of this report.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Total Assets of the City are \$149,924,716. Capital Assets, net of depreciation, represent the largest portion of the City's assets (\$93,118,650 or 62.1%) and include land, buildings, improvements, equipment, infrastructure, and construction-in-progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

As noted earlier, Net Position may serve as a useful indicator of a government's financial position. As of September 30, 2022, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$86,613,643 (Net Position).

At year end, the City's Net Investment in Capital Assets was \$70,760,218. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other resources, since the capital assets themselves cannot be used to liquidate these liabilities.

Restricted net position is \$4,861,148 or 5.6% of total net position and represents resources that are subject to external restrictions on how they may be used. The remaining balance of total net position is unrestricted (\$10,992,277 or 12.7%) and may be used to meet the government's ongoing obligations to citizens and creditors.

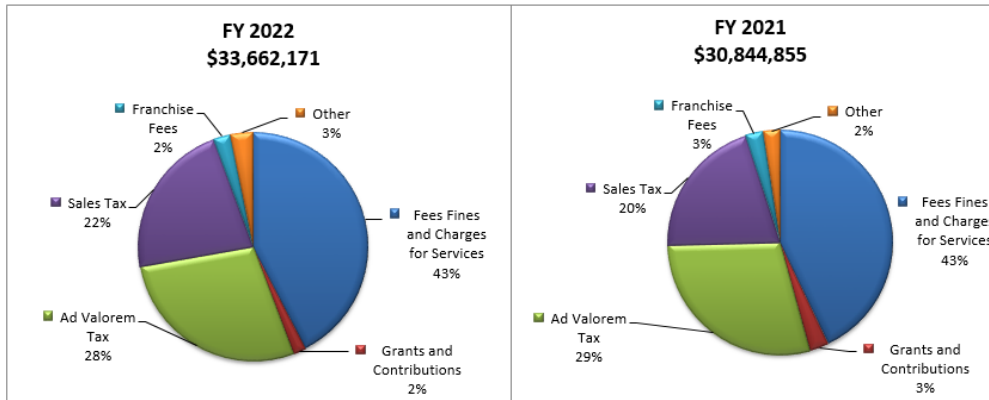
Overall, there was an increase of \$6,396,401 in total net position during the fiscal year as a result of the City's operations. Governmental activities showed an increase of \$4,263,804, while Business-type activities showed an increase of \$2,132,597 as a result of the City's operations.

### Condensed Statement of Net Position

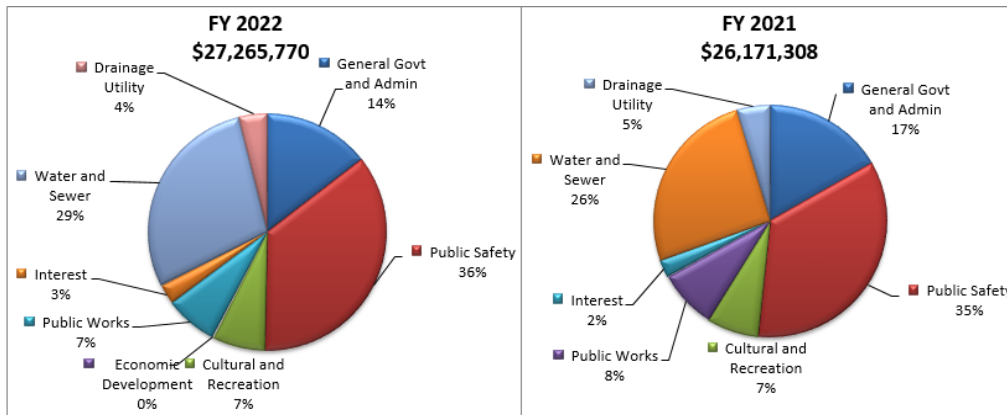
	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Current and other assets	\$ 36,732,660	\$ 30,970,069	\$ 20,073,406	\$ 18,622,561	\$ 56,806,066	\$ 49,592,630
Capital assets	54,395,281	52,327,563	38,723,369	39,056,494	93,118,650	91,384,057
Total assets	91,127,941	83,297,632	58,796,775	57,679,055	149,924,716	140,976,687
Deferred outflows of resources	1,234,182	1,311,689	235,083	249,847	1,469,265	1,561,536
Long-term liabilities outstanding	31,540,661	31,924,340	20,871,259	22,143,103	52,411,920	54,067,443
Other liabilities	7,247,507	5,175,527	1,374,535	1,475,322	8,622,042	6,650,849
Total liabilities	38,788,168	37,099,867	22,245,794	23,618,425	61,033,962	60,718,292
Deferred inflows of resources	3,146,956	1,346,259	599,420	256,430	3,746,376	1,602,689
Net position:						
Net investment in capital assets	42,373,991	39,716,524	28,386,227	27,856,495	70,760,218	67,573,019
Restricted	4,861,148	5,296,207	-	-	4,861,148	5,296,207
Unrestricted	3,191,860	1,150,464	7,800,417	6,197,552	10,992,277	7,348,016
<b>Total net position</b>	<b>\$ 50,426,999</b>	<b>\$ 46,163,195</b>	<b>\$ 36,186,644</b>	<b>\$ 34,054,047</b>	<b>\$ 86,613,643</b>	<b>\$ 80,217,242</b>

As of September 30, 2022, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities.

**Changes in Net Position - Revenue by Major Category  
Governmental and Business-Type Activities (excluding transfers)**



**Changes in Net Position - Expense by Major Category  
Governmental and Business-Type Activities (excluding transfers)**



**Governmental activities.** Governmental activities experienced a total increase in net position of \$4,263,804 or an 8.6% increase from prior year. Key elements of activity changes from the prior year are as follows:

- Total revenues increased by \$1,857,983 or 9.2% from the prior year. In general revenues, property taxes increased \$481,714 due to an increase in assessed property valuations. Sales tax increased by \$1,175,208 or 18.6% due to an additional one-quarter cent approved by voters and increased economic activity during the fiscal year. Grant revenues decreased due to the end of the CARES grant funding and a decrease in the percentage of salary reimbursements in the SAFER grant to fund firefighter/paramedic positions. The American Rescue Plan Act grant funding of certain programs did not begin until August of 2022 and an increase in grant revenues are expected in FY2023 for this grant. Interest income increased by \$161,814 due to investment yields increasing during the fourth quarter of the fiscal year. Fees, fines, and services revenues increased by \$179,619 over prior year, primarily due to an increase in ambulance revenues as a result of an additional medic unit operating in the city. Additionally, general fund services revenue increases were realized due to resuming some program activities at the community center that had been cancelled last year due to pandemic related restrictions.

- Expenses increased by \$220,829 or 1.2%. These increases are primarily due to changes in personnel costs and staffing. Increases include positions filled this year that were vacant in the prior year, increased personnel costs due to the SAFER grant reimbursement percentage decrease in the fiscal year (75% reimbursement reduced to a 35% reimbursement). Culture and recreation expenses increased by \$44,409, or 2.4% due to increases in staffing and programs that were reinstated that had been unfunded in the 2021 budget as a cost saving measure. Economic development expenses derived from the WEDC fund, which totaled \$73,669 and previously was classified under culture and recreation. Additionally, Public Safety expenditures increased by \$636,062, or 6.5% due to the increased personnel costs due to salary increases, as well as payouts of compensated absences for personnel retirements. Other general cost decreases were realized due to the change in City Attorney and decreased travel due to the continued covid restrictions.

**Business-type activities** - Business-type activities increased the City's net position by \$2,132,597, or 5.9% increase from the prior year. Significant changes from the prior year include:

- Total revenues increased by \$959,333 due to an increase in water and sewer rates and increased water consumption. Additionally, there was an increase in the interest earnings on investments in comparison to prior year.
- Total expenses increased by \$873,633. This was due to an increase in wastewater treatment costs and an increase in water purchase costs due to higher consumption in comparison to prior year.

The following table provides a summary of the City's operations for year ended September 30, 2022 with comparative totals for year ended September 30, 2021.

### Condensed Statement of Change in Net Position

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Revenues						
Program revenues						
Fees, fines and charges for services	\$ 2,882,053	\$ 2,702,434	\$ 11,406,820	\$ 10,535,764	\$ 14,288,873	\$ 13,238,198
Operating grant and contributions	609,979	848,051	-	-	609,979	848,051
General revenues						
Property Taxes	9,407,900	8,926,186	-	-	9,407,900	8,926,186
Sales taxes	7,481,865	6,306,657	-	-	7,481,865	6,306,657
Franchise taxes	817,374	783,430	-	-	817,374	783,430
Payment in lieu of taxes	502,600	503,500	-	-	502,600	503,500
Penalties and interest	42,467	43,240	-	-	42,467	43,240
Interest on investments	206,167	44,353	145,849	78,637	352,016	122,990
Miscellaneous	135,254	69,825	23,843	2,778	159,097	72,603
Total revenues	<u>22,085,659</u>	<u>20,227,676</u>	<u>11,576,512</u>	<u>10,617,179</u>	<u>33,662,171</u>	<u>30,844,855</u>
Expenses						
General government	3,954,225	4,384,354	-	-	3,954,225	4,384,354
Public safety	9,772,773	9,136,711	-	-	9,772,773	9,136,711
Culture and recreation	1,922,770	1,878,361	-	-	1,922,770	1,878,361
Economic development	73,669	-	-	-	73,669	-
Public works	1,949,260	2,131,872	-	-	1,949,260	2,131,872
Interest on long-term debt	732,657	653,227	-	-	732,657	653,227
Water and sewer	-	-	7,806,865	6,770,160	7,806,865	6,770,160
Drainage utility	-	-	1,053,551	1,216,623	1,053,551	1,216,623
Total expenses	<u>18,405,354</u>	<u>18,184,525</u>	<u>8,860,416</u>	<u>7,986,783</u>	<u>27,265,770</u>	<u>26,171,308</u>
Increase (decrease) in net position before transfers	3,680,305	2,043,151	2,716,096	2,630,396	6,396,401	4,673,547
Transfers	583,499	592,500	(583,499)	(592,500)	-	-
Increase (decrease) in net position after transfers	4,263,804	2,635,651	2,132,597	2,037,896	6,396,401	4,673,547
Net position - beginning of year	46,163,195	43,527,544	34,054,047	32,016,151	80,217,242	75,543,695
Net position - end of year	<u>\$ 50,426,999</u>	<u>\$ 46,163,195</u>	<u>\$ 36,186,644</u>	<u>\$ 34,054,047</u>	<u>\$ 86,613,643</u>	<u>\$ 80,217,242</u>

## FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

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

At the end of the current fiscal year, the City of Watauga's governmental funds reported a combined ending fund balance of \$27,624,828, which is an increase of \$3,980,776 from the prior year. Unassigned fund balance is \$8,364,124 or 30.3% of the total governmental fund balance and is available for spending at the government's discretion. The remainder of fund balance is in the form of 1) non-spendable for inventories (\$16,138) and prepaid items (\$24,366), 2) restricted for capital acquisitions and contractual obligations (\$14,296,410), retirement of fund indebtedness (\$782,058), culture and recreation (\$62,126), economic development (\$1,732,091), public works (\$726,237) and public safety (\$1,621,278). Some highlights are listed below:

- The General Fund is the primary operating fund of the City. The fund balance has increased by a net \$1,368,302 over the prior year, to \$8,403,463. This was due primarily to increased sales tax revenue recovery this fiscal year, an increase in property tax revenues, and lower than budgeted expenses due to salary savings attributable to unfilled positions during the year.
- The G.O. Debt Service fund balance increased by \$23,369 over the prior year, to \$782,058, as a result of increased property tax receipts.
- The Capital Projects fund saw an increase of \$3,017,201 in ending fund balance primarily due to issuance of debt in the amount of \$4.385 million, which was offset by capital outlay expenditures in the amount of \$2,712,134 for capital equipment, street improvements, park projects, and various other capital projects. Fund balance at the end of the year is \$14,266,064.
- The non-major governmental funds showed a combined \$428,096 decrease in fund balance from the prior year. This is primarily due to the Street Maintenance Fund showing a decrease of \$861,894 due to a planned drawdown of fund balance this fiscal year. The Street Maintenance sales tax was discontinued as a result of a ballot measure that abolished this quarter-cent sales tax effective January 1, 2021. This decrease was offset by the other sales tax funds that showed increases in fund balances. Fund balance increased by \$318,760 in the Crime Control and Prevention District and by \$102,162 in the WEDC Sales Tax Fund due to a combination of the sales tax revenue recovery and expenditures coming in lower than budget for both of these special revenue funds.

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

The unrestricted net positions of the respective proprietary funds are Water/Sewer at \$4,029,297 and Drainage Utility at \$3,771,120. The proprietary funds had a combined net position increase of \$2,184,891 as a result of operations. The Water/Sewer fund had an increase in net position of \$1,777,923 while the Drainage Utility Fund had a net position increase of \$406,968 as a result of operations. The total change in net position of business-type activities is \$2,132,597 after adjustment of internal service fund activities relating to enterprise funds in the amount of (\$52,294).

**General Fund Budgetary Highlights** – In September 2022, City Council took action to amend the budget based on staff's revised estimates of revenues and expenditures. The original budget for sales tax was based on a slower expected recovery in 2021-2022. However, sales tax recovery was stronger than anticipated and a budget amendment was made to increase sales tax revenues by 12%, or \$500,000. Actual revenues exceeded management's amended estimate of the General Fund revenues by \$589,488 due primarily to sales tax exceeding expectations, increased permit fee receipts due to the Whitley Road Elementary school building project, and an increase in ambulance fee revenue due to a second ambulance operating in the City. Expenditures were \$1,096,739 less than budget due to unfilled positions during the year, most notably in the police department and recreation department. The general fund balance increased from \$7,035,161 to \$8,403,463, or to 60% of operating expenditures.

### CAPITAL ASSETS

The City's investment in capital assets for its governmental and business type activities as of September 30, 2022, amount to \$93,118,650 (net of accumulated depreciation/amortization). This investment in capital assets includes land, buildings, improvements, right-to-use leases, machinery and equipment, infrastructure and construction in progress. The total increase in the City's capital asset investment for the current fiscal year was \$1,734,593, or 1.9%. This was primarily due to substantial progress made on the Whitley Road street and water/sewer project Phase 4 and the purchase of various capital outlay items.

#### Schedule of Capital Assets (Net of Accumulated Depreciation/Amortization)

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
Land	\$ 19,394,600	\$ 19,019,600	\$ 91,000	\$ 91,000	\$ 19,485,600	\$ 19,110,600
Construction in progress	816,602	3,263,987	1,631,999	3,806,772	2,448,601	7,070,759
Buildings and Improvements	15,885,202	15,299,309	1,909,116	1,972,791	17,794,318	17,272,100
Right-to-use leased assets	531,991	-	30,448	-	562,439	-
Improvements other than buildings	659,525	674,776	-	-	659,525	674,776
Equipment	6,554,669	6,241,698	943,627	1,097,935	7,498,296	7,339,633
Drainage improvements	-	-	10,310,913	10,235,849	10,310,913	10,235,849
Infrastructure	10,552,692	7,828,193	-	-	10,552,692	7,828,193
Waterworks and sanitary sewer system	-	-	23,806,266	21,852,147	23,806,266	21,852,147
<b>Total capital assets</b>	<b>\$ 54,395,281</b>	<b>\$ 52,327,563</b>	<b>\$ 38,723,369</b>	<b>\$ 39,056,494</b>	<b>\$ 93,118,650</b>	<b>\$ 91,384,057</b>

Major capital asset events during the current fiscal year included:

- Projects that were included in Construction in Progress in FY2021 which were completed this fiscal year include the following:
  - Fire Station remodel and expansion in an amount of \$993,148
  - Street projects - Whitley Road Phase Three and Bowie Street in the amount of \$3,205,891
  - Storm Drain project - Hightower Rain Gardens in the amount of \$96,490
  - Water and Sewer Project CDBG 46th Year in an amount of \$350,730
  - Water and Sewer Project Meadowlark Lane East, in the amount of \$1,655,384
- New Projects that began in FY2021-2022 and were added to Construction in Progress included:
  - Street project Whitley Road Phase Five added \$281,880 to Construction in Progress
  - Water and Sewer project CDBG 48th Year added \$30,856 to Construction in Progress

- Prior Year Projects that increased the Construction in Progress included:
  - The Wastewater Phase Two (North) total CIP for the project is \$197,909
  - The Whiley Road- Phase Four Street Project increased by \$53,200, bringing the total CIP for the project to \$658,350
  - Sanitary Sewer Evaluation Project CIP total remains at \$224,688
  - Business Food Park project CIP total remains at \$43,550
  - CDBG 46th Year Project continued with an increase of \$20,616, bringing the total in CIP to \$53,286
  - Water & Wastewater Projects added \$207,770, bringing the total to \$952,810
  - Park Vista Park added \$770, bringing the total to \$22,715
  - Arcadia Trail project total remains \$33,347
  
- Other projects that were completed in FY2021-2022 for a total of \$3,156,726 include:
  - Street repairs, street overlays, and sidewalk repairs for a total of \$1,416,433
  - Land purchases made by the Watauga Economic Development Corporation (WEDC) for a total of \$375,000
  - Swings & Picnic Areas located at Capp Smith Park for a total of \$110,259
  - Technology upgrades to include servers and switches in the amount of \$293,966 and Council Chambers WebEx addition in the amount of \$25,597
  - LED display monument sign located on Hightower in the amount of \$97,975
  - Police station, parks building, and City Hall roof repairs for a total of \$25,260
  - Water tower, animal shelter, and fleet shop HVAC replacements in the amount of \$127,470, and HVAC and fire alarm system replacement in the amount of \$59,750
  - Other capital outlay items include vehicle purchases for police, code, animal control, and public works for a total of \$408,536; public works heavy equipment purchases to include a jet trailer and mini excavator for a total of \$154,266; continuation of the water meter replacement program in the amount of \$29,875, purchase of a narcotics testing system for police in the amount of \$24,839 and a forceable entry device for the Fire Department in the amount of \$7,500.

Additional information on the City's capital assets can be found in Note 4 of this report.

### **DEBT ADMINISTRATION**

**Long-term debt** - At the end of the current fiscal year, the City had total debt outstanding of \$43,755,000. This entire amount comprises debt backed by the full faith and credit of the government.

Other debt includes \$118,105 owed to the City of North Richland Hills for the City's portion of a joint agreement on street repair, and \$3,225,436 in Compensated Absences for employee earned, but unpaid, vacation and sick leave.

During the current fiscal year, the City's total debt increased by \$1,804,857, which was due to an issuance of \$4,930,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022, offset by regularly scheduled debt service payments. An issuance of \$4,200,000 in General Obligation Bonds was used to advance refund the Series 2012 Certificates of Obligation Bonds for a gross savings of \$419,775.

Standard & Poor's Rating Services, a subsidiary of the McGraw-Hill Companies, Inc. rates the City's general obligation debt at AA. In their 2022 Credit Rating, S&P cited a healthy tax base growth, strong financial management with consistent budget monitoring and long-term financial planning to address future budgetary challenges. Moody's Investor Service, Inc. rates the general obligation debt at Aa3.

## Schedule of Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2022	2021	2022	2021	2022	2021
General Obligation Bonds	\$ 650,000	\$ 960,000	\$ 5,120,000	\$ 1,140,000	\$ 5,770,000	\$ 2,100,000
Certificates of Obligation	23,670,000	21,395,000	14,030,000	18,865,000	37,700,000	40,260,000
Tax Notes	285,000	375,000	-	-	285,000	375,000
Lease Payable	490,841	-	30,040	-	520,881	-
Notes Payable	118,105	173,371	-	-	118,105	173,371
Compensated Absences	2,922,486	2,826,898	302,950	292,574	3,225,436	3,119,472
Unamortized Bond Premium	1,073,408	956,531	944,303	847,902	2,017,711	1,804,433
<b>Total</b>	<b>\$ 29,209,840</b>	<b>\$ 26,686,800</b>	<b>\$ 20,427,293</b>	<b>\$ 21,145,476</b>	<b>\$ 49,637,133</b>	<b>\$ 47,832,276</b>

Additional information on the City's long-term debt can be found in Note 5.

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In the Fiscal Year 2023 Budget, General Fund revenues are expected to increase approximately 10% from the Fiscal Year 2022 original budget. Revenue increases are attributable to forecasted sales tax revenue recovery and an increase in ad valorem property tax revenue. Ad valorem taxes make up 40% of General Fund budgeted revenues. Certified assessed valuations, including estimated values on properties under protest, increased 11% for the fiscal year 2023 budget. The ad valorem tax rate for FY2023 is \$0.5702/\$100 valuation, a decrease of \$0.0102 from last year's rate. Sales tax makes up 30% of the City's general operating revenue. The city has seen an increase in sales tax in FY2023 from prior year, but at a slower pace. Interest income is expected to increase substantially due to increased yield on investments.

Capital improvements continue in the City and many projects are underway. Major street projects such as Whitley Road and various parks projects that began last fiscal year continue. Several major water and wastewater system projects continue for next year and beyond that are funded with the 2019 Certificates of Obligation proceeds.

The Water and Sewer Operating Fund has performed well the past couple of years with revenues exceeding expenditures. Fund balance has increased and has now been restored to meet financial policy standards of 25% of operating expenditures. Rate increases were put in place in Fiscal Year 2022 to cover the escalating costs of water distribution and wastewater treatment. A rate review is planned for Fiscal Year 2023 as these costs continue to increase.

### REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors, and creditors with a general overview of the City's finances. If you have questions about this report or need additional information, contact the Finance Department, Attn: Director of Finance, 7105 Whitley Road, Watauga, Texas 76148, by phone at 817-514-5822, or by email at [financedirector@cowtx.org](mailto:financedirector@cowtx.org).



# **Basic Financial Statements**

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# **Government-Wide Financial Statements**

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**City of Watauga, Texas**  
Statement of Net Position  
September 30, 2022

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-Type</b>	<b>Total</b>
	<b>Activities</b>	<b>Activities</b>	
<b>ASSETS</b>			
Cash and cash equivalents	\$ 17,685,699	\$ 4,168,693	\$ 21,854,392
Investments	16,939,569	14,074,298	31,013,867
Receivables, net of allowance for uncollectibles	2,066,888	1,829,834	3,896,722
Inventories	16,138	581	16,719
Prepaid items	24,366	-	24,366
Capital assets:			
Land and construction in progress	20,211,202	1,722,999	21,934,201
Other capital assets, net of accumulated depreciation/amortization	34,184,079	37,000,370	71,184,449
Total capital assets	54,395,281	38,723,369	93,118,650
Total assets	91,127,941	58,796,775	149,924,716
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred outflows - OPEB	122,889	23,408	146,297
Deferred outflows - pension	1,111,293	211,675	1,322,968
Total deferred outflows of resources	1,234,182	235,083	1,469,265
<b>LIABILITIES</b>			
Accounts payable	670,856	402,765	1,073,621
Accrued liabilities	6,431,510	44,156	6,475,666
Accrued interest	128,438	92,548	220,986
Customer deposits	16,703	835,066	851,769
Long-term liabilities:			
Due within one year	3,231,517	1,320,073	4,551,590
Due in more than one year	25,978,323	19,107,220	45,085,543
Due in more than one year - total OPEB liability	1,462,811	278,631	1,741,442
Due in more than one year - net pension liability	868,010	165,335	1,033,345
Total liabilities	38,788,168	22,245,794	61,033,962
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows - OPEB	85,374	16,261	101,635
Deferred inflows - pension	3,061,582	583,159	3,644,741
Total deferred inflows of resources	3,146,956	599,420	3,746,376
<b>NET POSITION</b>			
Net investment in capital assets	42,373,991	28,386,227	70,760,218
Restricted for:			
Capital improvements	30,346	-	30,346
Debt service	689,070	-	689,070
Culture and recreation	62,126	-	62,126
Economic development	1,732,091	-	1,732,091
Public works	726,237	-	726,237
Public safety	1,621,278	-	1,621,278
Unrestricted	3,191,860	7,800,417	10,992,277
Total net position	\$ 50,426,999	\$ 36,186,644	\$ 86,613,643

The Notes to Basic Financial Statements are an integral part of these statements.

**City of Watauga, Texas**  
Statement of Activities  
For the Fiscal Year Ended September 30, 2022

Functions/Programs	Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental activities:						
General government	\$ 3,954,225	\$ -	\$ -	\$ (3,710,408)	\$ -	\$ (3,710,408)
Public safety	9,772,773	604,579	-	(7,725,676)	-	(7,725,676)
Culture and recreation	1,922,770	5,400	-	(1,757,442)	-	(1,757,442)
Economic development	73,669	-	-	(73,419)	-	(73,419)
Public works	1,949,260	-	-	(913,720)	-	(913,720)
Interest on long-term debt	732,657	-	-	(732,657)	-	(732,657)
Total governmental activities	18,405,354	609,979	-	(14,913,322)	-	(14,913,322)
Business-type activities:						
Water and Sewer	7,806,865	-	-	-	2,095,158	2,095,158
Drainage Utility	1,053,551	-	-	-	451,246	451,246
Total business-type activities	8,860,416	-	-	-	2,546,404	2,546,404
<b>TOTAL GOVERNMENT</b>	<b>\$ 27,265,770</b>	<b>\$ 609,979</b>	<b>\$ -</b>	<b>(14,913,322)</b>	<b>2,546,404</b>	<b>(12,366,918)</b>
General revenues:						
Taxes						
Property taxes, levied for general purposes				9,407,900	-	9,407,900
Sales taxes				7,481,865	-	7,481,865
Franchise taxes				817,374	-	817,374
Payment in lieu of taxes				502,600	-	502,600
Penalties and interest				42,467	-	42,467
Interest on investments				206,167	145,849	352,016
Miscellaneous revenue				135,254	23,843	159,097
Transfers				583,499	(583,499)	-
Total general revenues and transfers				19,177,126	(413,807)	18,763,319
Change in net position				4,263,804	2,132,597	6,396,401
Net position - beginning of year				46,163,195	34,054,047	80,217,242
<b>Net position - end of year</b>				<b>\$ 50,426,999</b>	<b>\$ 36,186,644</b>	<b>\$ 86,613,643</b>

The Notes to Basic Financial Statements are an integral part of these statements.

# **Fund Financial Statements Governmental Funds**

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**City of Watauga, Texas**  
**Balance Sheet - Governmental Funds**  
**September 30, 2022**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>COVID-19 Grant</u>	<u>Non Major Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 5,207,995	\$ 673,686	\$ 1,414,169	\$ 5,698,971	\$ 3,192,889	\$ 16,187,710
Investments	3,137,131.00	120,437	13,054,919	-	627,082	16,939,569
Receivables, net of allowance for uncollectibles						
Property taxes	91,743	41,325	-	-	-	133,068
Accounts receivable	1,446,289	-	-	-	487,531	1,933,820
Prepaid items	23,201	-	-	-	1,165	24,366
Inventory of supplies	16,138	-	-	-	-	16,138
<b>TOTAL ASSETS</b>	<b>\$ 9,922,497</b>	<b>\$ 835,448</b>	<b>\$ 14,469,088</b>	<b>\$ 5,698,971</b>	<b>\$ 4,308,667</b>	<b>\$ 35,234,671</b>
<b>LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES</b>						
<b>LIABILITIES</b>						
Accounts payable	\$ 371,848	\$ 400	\$ 186,541	\$ 938	\$ 110,096	\$ 669,823
Accrued liabilities	674,126	17,540	16,483	5,698,033	25,328	6,431,510
Deposits	16,703	-	-	-	-	16,703
Total liabilities	1,062,677	17,940	203,024	5,698,971	135,424	7,118,036
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable revenue - property taxes	97,308	35,450	-	-	-	132,758
Unavailable revenue - EMS	359,049	-	-	-	-	359,049
Total deferred inflows of resources	456,357	35,450	-	-	-	491,807
<b>Fund balances:</b>						
Nonspendable						
Inventory	16,138	-	-	-	-	16,138
Prepays items	23,201	-	-	-	1,165	24,366
Restricted:						
Capital acquisitions and contractual obligations	-	-	14,266,064	-	30,346	14,296,410
Debt service	-	782,058	-	-	-	782,058
Culture and recreation	-	-	-	-	62,126	62,126
Economic development	-	-	-	-	1,732,091	1,732,091
Public works	-	-	-	-	726,237	726,237
Public safety	-	-	-	-	1,621,278	1,621,278
Unassigned	8,364,124	-	-	-	-	8,364,124
Total fund balances	8,403,463	782,058	14,266,064	-	4,173,243	27,624,828
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 9,922,497</b>	<b>\$ 835,448</b>	<b>\$ 14,469,088</b>	<b>\$ 5,698,971</b>	<b>\$ 4,308,667</b>	<b>\$ 35,234,671</b>

The Notes to Basic Financial Statements are an integral part of these statements.

**City of Watauga, Texas**

Reconciliation of the Governmental Funds Balance Sheet  
to the Statement of Net Position  
September 30, 2022

<b>TOTAL FUND BALANCE - GOVERNMENTAL FUND</b>	<b>\$ 27,624,828</b>
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities, excluding ISF capital assets, are not current financial resources and therefore are not reported in the governmental funds balance sheet.	52,853,503
Deferred outflows related to OPEB	122,889
Deferred outflows related to pension	1,111,293
Interest payable on long-term debt does not require current financial resources; therefore, interest payable is not reported as a liability in the governmental funds balance sheet.	(128,438)
Revenues earned but not available within sixty days of the year end are not recognized as revenue on the fund financial statements.	491,807
Deferred inflows related to OPEB	(85,374)
Deferred inflows related to Pension	(3,061,582)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:	
General obligation bonds	(650,000)
Certificate of obligations	(23,670,000)
Tax Notes	(285,000)
Premiums on issuance	(1,073,408)
Notes payable	(118,105)
Compensated absences	(2,922,486)
Right-to-use Leases	(490,841)
Net pension liability	(868,010)
Total OPEB liability	(1,462,811)
Total long-term liabilities	<u>(31,540,661)</u>
Internal service funds are used by management to charge the cost of certain activities, such as fleet management, to individual funds. The net position of the internal service fund is net of the amount allocated to business-type activities, deferred charges, capital assets and long-term liabilities.	<u>3,038,734</u>
<b>TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<b>\$ <u>50,426,999</u></b>

The Notes to Basic Financial Statements are an integral part of these statements.

**City of Watauga, Texas**  
Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds  
For The Fiscal Ended September 30, 2022

	General	Debt Service	Capital Projects	COVID-19 Grant	Non Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Taxes and franchise fees	\$ 11,970,251	\$ 3,012,232	\$ -	\$ -	\$ 2,775,771	\$ 17,758,254
Licenses and permits	741,399	-	-	-	-	741,399
Charges for services	1,114,631	-	-	-	-	1,114,631
Fines and forfeitures	638,906	-	-	-	-	638,906
Interest income	76,081	5,113	81,823	-	32,982	195,999
Intergovernmental	502,600	-	-	383,725	-	886,325
Miscellaneous	555,270	-	-	-	185,180	740,450
Total revenues	15,599,138	3,017,345	81,823	383,725	2,993,933	22,075,964
<b>EXPENDITURES</b>						
Current:						
General government	3,608,866	-	-	-	-	3,608,866
Public safety	7,827,804	-	-	383,725	1,574,639	9,786,168
Culture and recreation	1,729,285	-	-	-	8,561	1,737,846
Economic development	-	-	-	-	73,669	73,669
Public works	649,855	-	-	-	69,499	719,354
Capital outlay	10,713	-	2,534,988	-	1,204,311	3,750,012
Debt service:						
Principal	60,677	2,510,000	55,266	-	58,924	2,684,867
Interest and other charges	7,936	631,054	121,880	-	9,548	770,418
Total expenditures	13,895,136	3,141,054	2,712,134	383,725	2,999,151	23,131,200
Excess (deficiency) of revenues over expenditures	1,704,002	(123,709)	(2,630,311)	-	(5,218)	(1,055,236)
<b>OTHER FINANCING SOURCES (USES)</b>						
Issuance of debt	-	-	4,385,000	-	-	4,385,000
Premium on bond issuance	-	-	177,512	-	-	177,512
Transfers in	779,300	147,078	1,085,000	-	375,000	2,386,378
Transfers out	(1,115,000)	-	-	-	(797,878)	(1,912,878)
Total other financing sources (uses)	(335,700)	147,078	5,647,512	-	(422,878)	5,036,012
Net change in fund balances	1,368,302	23,369	3,017,201	-	(428,096)	3,980,776
Fund Balance, beginning	7,035,161	758,689	11,248,863	-	4,601,339	23,644,052
<b>FUND BALANCE, ending</b>	<b>\$ 8,403,463</b>	<b>\$ 782,058</b>	<b>\$ 14,266,064</b>	<b>\$ -</b>	<b>\$ 4,173,243</b>	<b>\$ 27,624,828</b>

The Notes to Basic Financial Statements are an integral part of these statements.

**City of Watauga, Texas**

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities  
For the Fiscal Year Ended September 30, 2022

**TOTAL NET CHANGE IN FUND BALANCE - GOVERNMENTAL FUND** \$ 3,980,776

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

Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period.	3,686,292
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.	(2,422,931)
The issuance of long-term debt (e.g. bonds) (\$4,385,000) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt of \$2,510,000 consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of premiums, discounts, and similar items of \$60,635, when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,817,010)
Current year changes in long-term liability for compensated absences do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(95,588)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.	(43,468)
Certain unavailable revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	(46,122)
Current year changes in the net pension liability, deferred inflows of resources and deferred outflows of resources in the pension plan. The net effect of these items decreased net position.	1,106,394
Current year changes in the net pension liability, deferred inflows of resources and deferred outflows of resources in the OPEB plans. The net effect of these items decreased net position.	(77,879)
Internal service funds are used by management to charge the costs of certain activities, such as fleet management, to individual funds. The net revenue of the internal service funds is reported with business-type activities.	(6,660)
<b>CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES</b>	<u>\$ 4,263,804</u>

The Notes to Basic Financial Statements are an integral part of these statements.

# **Fund Financial Statements Proprietary Funds**

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**City of Watauga, Texas**  
Statement of Net Position  
Proprietary Funds  
September 30, 2022

	<u>Business-Type Activities</u>			<u>Governmental</u>
	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>	<u>Activities - Internal Service Fund</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,482,409	\$ 2,686,284	\$ 4,168,693	\$ 1,497,989
Investments	12,807,380	1,266,918	14,074,298	-
Accounts receivable and unbilled revenue less allowance for uncollectibles	1,723,758	106,076	1,829,834	-
Inventories	581	-	581	-
Prepaid items	-	-	-	-
Total current assets	<u>16,014,128</u>	<u>4,059,278</u>	<u>20,073,406</u>	<u>1,497,989</u>
Non-current assets:				
Capital Assets:				
Land	91,000	-	91,000	-
Construction in Progress	1,557,742	74,257	1,631,999	-
Buildings	3,246,847	106,931	3,353,778	154,068
Right-to-use assets	38,060	-	38,060	-
Equipment	1,786,048	211,446	1,997,494	4,185,150
Drainage improvements	-	21,366,572	21,366,572	-
Waterworks and sanitary sewer system	29,861,230	-	29,861,230	-
	<u>36,580,927</u>	<u>21,759,206</u>	<u>58,340,133</u>	<u>4,339,218</u>
Less Accumulated depreciation/amoritization	(8,741,377)	(11,205,403)	(19,946,780)	(2,467,424)
Capital assets net of depreciation/amoritization	<u>27,839,550</u>	<u>10,553,803</u>	<u>38,393,353</u>	<u>1,871,794</u>
Total assets	<u>43,853,678</u>	<u>14,613,081</u>	<u>58,466,759</u>	<u>3,369,783</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred outflows - OPEB	17,556	5,852	23,408	-
Deferred outflows - pension	158,756	52,919	211,675	-
Total deferred outflows	<u>176,312</u>	<u>58,771</u>	<u>235,083</u>	<u>-</u>

The Notes to the Basic Financial Statements are an integral part of these statements.

**City of Watauga, Texas**  
Statement of Net Position – Continued  
Proprietary Funds  
September 30, 2022

	<u>Water and Sewer</u>	<u>Drainage Utility</u>	<u>Total Enterprise Funds</u>	<u>Governmental Activities - Internal Service Fund</u>
<b>LIABILITIES</b>				
Current liabilities:				
Payable from current assets				
Accounts payable	\$ 389,555	\$ 13,210	\$ 402,765	\$ 1,033
Accrued liabilities	36,514	7,642	44,156	-
Current portion of right-to-use leases	8,264	-	8,264	-
Current portion of compensated absences	24,083	2,726	26,809	-
Current portion of bonds payable	1,285,000	-	1,285,000	-
Deposits	835,066	-	835,066	-
Payable from restricted assets				
Accrued interest	92,548	-	92,548	-
Total current liabilities	<u>2,671,030</u>	<u>23,578</u>	<u>2,694,608</u>	<u>1,033</u>
Noncurrent liabilities:				
Right-to-use leases	21,776	-	21,776	-
Bonds payable	18,809,303	-	18,809,303	-
Compensated absences	213,637	62,504	276,141	-
Total OPEB liability	208,973	69,658	278,631	-
Net pension liability	124,001	41,334	165,335	-
Total non-current liabilities	<u>19,377,690</u>	<u>173,496</u>	<u>19,551,186</u>	<u>-</u>
Total liabilities	<u>22,048,720</u>	<u>197,074</u>	<u>22,245,794</u>	<u>1,033</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred inflows - OPEB	12,196	4,065	16,261	-
Deferred inflows - pension	437,369	145,790	583,159	-
Total deferred outflows	<u>449,565</u>	<u>149,855</u>	<u>599,420</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	17,502,408	10,553,803	28,056,211	1,871,794
Unrestricted	4,029,297	3,771,120	7,800,417	1,496,956
<b>TOTAL NET POSITION</b>	<u>\$ 21,531,705</u>	<u>\$ 14,324,923</u>	<u>35,856,628</u>	<u>\$ 3,368,750</u>
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			<u>330,016</u>	
Net position of business-type activities			<u>\$ 36,186,644</u>	

The Notes to the Basic Financial Statements are an integral part of these statements.



# City of Watauga, Texas

## Statement of Revenues, Expenses and Changes in Fund Net Position

### Proprietary Funds

For the fiscal year ended September 30, 2022

	Business-Type Activities			Governmental
	Water and Sewer	Drainage Utility	Total Enterprise Funds	Activities - Internal Service Fund
<b>Operating revenues</b>				
Water service	\$ 5,180,921	\$ -	\$ 5,180,921	\$ -
Sewer service	4,098,737	-	4,098,737	-
Drainage fees	-	1,477,397	1,477,397	-
Service fees and miscellaneous	622,365	27,400	649,765	87,721
Total operating revenues	9,902,023	1,504,797	11,406,820	87,721
<b>Operating expenses</b>				
Personnel services	1,227,294	285,428	1,512,722	-
Supplies	95,004	18,187	113,191	-
Maintenance	41,783	10,284	52,067	-
Contractual services	5,404,944	136,903	5,541,847	-
Capital outlay	14,085	158,399	172,484	40,423
Payments on right-to-use leases	-	-	-	-
Depreciation and amortization	575,064	444,350	1,019,414	292,662
Total operating expenses	7,358,174	1,053,551	8,411,725	333,085
Operating income (loss)	2,543,849	451,246	2,995,095	(245,364)
<b>Non-operating revenues (expenses)</b>				
Investment income	116,627	29,222	145,849	10,168
Gain (loss) on disposal of capital assets	23,843	-	23,843	66,243
Interest expense	(396,397)	-	(396,397)	-
<b>Total Non-operating revenue (expenses), net</b>	<b>(255,927)</b>	<b>29,222</b>	<b>(226,705)</b>	<b>76,411</b>
Income (loss) before transfers	2,287,922	480,468	2,768,390	(168,953)
Transfers in	-	-	-	109,999
Transfers out	(509,999)	(73,500)	(583,499)	-
Change in net position	1,777,923	406,968	2,184,891	(58,954)
<b>Total net position - beginning of the year</b>	<b>19,753,782</b>	<b>13,917,955</b>		<b>3,427,704</b>
<b>Total net position - ending of the year</b>	<b>\$ 21,531,705</b>	<b>\$ 14,324,923</b>		<b>\$ 3,368,750</b>
Reconciliation to government-wide statement of net position				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(52,294)	
Change in net position of business-type activities			\$ 2,132,597	

The Notes to the Basic Financial Statements are an integral part of these statements.

**City of Watauga, Texas**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the fiscal year ended September 30, 2022**

	<b>Business-Type Activities</b>			<b>Governmental</b>
	<b>Water and Sewer</b>	<b>Drainage Utility</b>	<b>Total Enterprise Funds</b>	<b>Activities - Internal Service Fund</b>
<b>OPERATING ACTIVITIES</b>				
Cash received from customers	\$ 10,039,739	\$ 1,562,348	\$ 11,602,087	\$ 87,721
Cash payments to suppliers for goods and services	(5,549,987)	(338,507)	(5,888,494)	(62,590)
Cash payments to employees for services	(1,512,822)	(359,111)	(1,871,933)	-
Net cash provided by operating activities	2,976,930	864,730	3,841,660	25,131
<b>NONCAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	-	-	-	109,999
Transfers to other funds	(509,999)	(73,500)	(583,499)	-
Net cash used in noncapital financing activities	(509,999)	(73,500)	(583,499)	109,999
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Proceeds on issuance of debt	1,140,000	-	1,140,000	-
Proceeds from the sale of equipment	106,946	-	106,946	73,650
Purchase of capital assets	(703,587)	(80,039)	(783,626)	(462,284)
Repayment of debt	(2,100,000)	-	(2,100,000)	-
Bond issuance costs	201,401	-	201,401	-
Interest paid on debt	(400,555)	-	(400,555)	-
Net cash used in capital and related financing activities	(1,755,795)	(80,039)	(1,835,834)	(388,634)
<b>INVESTING ACTIVITIES</b>				
Sale of investments	(1,037,718)	(1,266,918)	(2,304,636)	-
Investment income	116,627	29,222	145,849	10,168
Net cash provided by (used in) investing activities	(921,091)	(1,237,696)	(2,158,787)	10,168
<b>Net change in cash and cash equivalents</b>	<b>(209,955)</b>	<b>(526,505)</b>	<b>(736,460)</b>	<b>(243,336)</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,692,364</b>	<b>3,212,789</b>	<b>4,905,153</b>	<b>1,741,325</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 1,482,409</b>	<b>\$ 2,686,284</b>	<b>\$ 4,168,693</b>	<b>\$ 1,497,989</b>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ 2,543,849	\$ 451,246	\$ 2,995,095	\$ (245,364)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation and amortization	575,064	444,350	1,019,414	292,662
Change in assets and liabilities				
Accounts receivable and unbilled revenue	62,209	55,122	117,331	-
Deferred outflows - OPEB	23,522	7,841	31,363	-
Deferred outflows - pension	(12,449)	(4,150)	(16,599)	-
Accounts payable	33,448	(12,305)	21,143	(22,167)
Accrued liabilities	(150,248)	(15,412)	(165,660)	-
Deposits	47,888	-	47,888	-
Compensated absences	19,671	(9,295)	10,376	-
Right-to-use asset	(8,020)	-	(8,020)	-
Net pension liability	(410,268)	(136,756)	(547,024)	-
Total OPEB liability	(4,978)	(1,659)	(6,637)	-
Deferred inflows - OPEB	(7,419)	(2,473)	(9,892)	-
Deferred inflows - pension	264,661	88,221	352,882	-
<b>Net cash provided by operating activities</b>	<b>\$ 2,976,930</b>	<b>\$ 864,730</b>	<b>\$ 3,841,660</b>	<b>\$ 25,131</b>

The Notes to the Basic Financial Statements are an integral part of these statements.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### Note 1. Summary of Significant Accounting Policies

The City of Watauga (the City) Home Rule Charter was adopted by the voters at an election held on January 19, 1980 and amended January 19, 1985, August 8, 1987, August 11, 1990, January 15, 1994, August 10, 1996, August 8, 1998, September 14, 2002, May 7, 2005, November 6, 2007, May 11, 2013 and November 5, 2019. The City operates under a Council-Manager form of government. The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments.

The City prepares its basic financial statements in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the City are described below.

##### A. Financial Reporting Entity

The basic financial statements of the City include the primary government and its component units, entities for which the primary government is financially accountable and other entities for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

The definition of the reporting entity is based primarily on the notion 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. A primary government may also be financially accountable for governmental organizations that are fiscally dependent on it.

A primary government has the ability to impose its will on an organization if it can significantly influence the programs, projects, or activities of, or the level of services performed or provided by, the organization. A financial benefit or burden relationship exists if the primary government (a) is entitled to the organization's resources; (b) is legally obligated or has otherwise assumed the obligation to finance the deficits of, or provide financial support to, the organization; or (c) is obligated in some manner for the debt of the organization.

The following entities were found to be component units of the City and are included in the basic financial statements:

The Watauga Economic Development Corporation (WEDC) was created to encourage the development and advancement of City businesses, development and parks within the City. It provides services that entirely benefits the City. The WEDC is funded through a ¼ cent sales tax and is a Type B corporation. The WEDC's governing board is appointed by the City Council the City Council is the final authority for approving of funding of projects and the WEDC annual budget. The WEDC is composed of two funds: a special revenue fund and a capital projects fund.

The Watauga Crime Control and Prevention District Fund's (WCCPD) sole purpose is to act on behalf of the City in the accumulation and use of resources to add law enforcement officers and purchase additional equipment and supplies for law enforcement purposes. It provides services that entirely benefits the City. The WCCPD's governing board is appointed by the City Council and the City Council is the final authority for approval of funding of projects and the WCCPD's annual budget. The WCCPD is reported as a special revenue fund.

## **City of Watauga, Texas**

### Notes to the Basic Financial Statements

A blended presentation has been used to report the financial information of these component units. The financial information for the individual component units is available from the City.

#### **B. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its blended component units. For the most part the effect of interfund activity has been removed from these statements. Interfund services provided and used are not eliminated in the process of consolidation. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates 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 or segment. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### **C. Fund Financial Statements**

The City segregates transactions related to certain functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Separate statements are presented for governmental and proprietary activities. These statements present each major fund as a separate column on the fund financial statements; all non-major funds are aggregated and presented in a single column.

Governmental funds are those funds through which most governmental functions typically are financed. The measurement focus of governmental funds is on the sources, uses and balance of current financial resources. The City has presented the following major governmental funds:

##### **General Fund**

The General Fund is the main operating fund of the City. This fund is used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund.

##### **Debt Service Fund**

The Debt Service Fund is used to account for the accumulation of financial resources for the payment of principal, interest and related costs on general long-term debt paid primarily from taxes levied by the City. The fund balance of the Debt Service Fund is restricted exclusively for debt service expenditures.

##### **Capital Projects Fund**

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment. Financing is provided primarily by the sale of tax notes, general obligation and contractual obligation bonds.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### **COVID-19 Grant Fund**

The COVID-19 Grant Fund is used to account for the CARES Grant Interlocal Agreement with Tarrant County passed through the federal government for Coronavirus relief. The eligible expenses include expenses related to COVID-19 response, including payroll and benefits costs, public health and safety, telework enhancements, etc. The City received American Rescue Plan Act funding in 2021 and 2022 that was deposited to this fund for future use.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position and cash flow. All assets and liabilities are included on the Statement of Net Position.

The City has presented the following major proprietary funds:

#### **Water and Sewer Fund**

The Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly, at least annually, and adjusted if necessary to ensure integrity of the funds.

#### **Drainage Utility Fund**

The Drainage Utility Fund is used to account for the user fees charged per residential and commercial unit to enhance drainage of properties within the City. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations and maintenance.

Additionally, the City reports an Internal Service Fund, which was established in 1997 for the purpose of replacing equipment. Departments are charged user fees to accumulate funds to be used in replacing existing equipment as needed.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personnel and contractual services, supplies and depreciation on capital assets.

All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

#### **D. Measurement Focus, Basis of Accounting and Financial Statement Presentation**

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide statements and fund financial statements for proprietary funds are reported using the economic resources measurement focus and the accrual basis of accounting. The economic resources measurement focus means all assets and liabilities (whether current or non-current) are included on the statement of net position and the operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recognized when earned, including unbilled water and sewer services, which are accrued. Expenses are recognized at the time the liability is incurred.

## **City of Watauga, Texas**

### Notes to the Basic Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual, i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers revenues as available if they are collected within 60 days after year end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when payment is due.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income and intergovernmental revenues. Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received.

#### **E. Deposits and Investments**

Substantially all operating cash, deposits, and short-term investments are maintained in consolidated cash accounts or individual fund investment accounts. Related interest income is allocated to the various funds based primarily on ownership by each fund of specific investments. Cash equivalents consist of highly liquid investments with original maturities of three months or less.

For purposes of the statement of cash flows, the City considers all highly liquid investments to be cash equivalents. Certificates of Deposit are reported at cost plus accrued interest. All other investments are reported at fair value.

State statutes authorize the City to invest in obligations of the U.S. Government or its agencies; obligations of the State of Texas or its agencies; and certain other obligations, repurchase agreements, money market mutual funds, and certificates of deposits within established criterion. During the year ended September 30, 2021, the City did not own any types of securities other than those permitted by statute.

#### **F. Receivables**

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property taxes are levied for appropriation for the fiscal year beginning on October 1, are due October 1, attach as an enforceable lien on property as of January 1, and become delinquent on February 1. Property taxes are accrued based on the period for which they are levied and available. Delinquent taxes estimated not to be available are treated as deferred revenue in the governmental fund financial statements. Property taxes for cities, including those applicable to debt service, are limited by the Texas Constitution to \$2.50 per \$100 of assessed valuation. The City's current tax rate is \$0.580400 per \$100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

#### **G. Prepaid Items**

Prepaid items indicate payments made by the City in the current year to provide services occurring in a subsequent fiscal year. The consumption approach provides for the initial reporting of the item as an asset while recognition of the expenditure when the item is actually used or consumed.

# City of Watauga, Texas

## Notes to the Basic Financial Statements

### H. Inventories

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out method). Inventories consist primarily of expendable supplies. Inventories are offset by a fund balance reserve account in applicable governmental funds to indicate the inventory values are not available for appropriation and are not expendable financial resources.

### I. Interfund Receivables and Payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

### J. Transfers Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both governmental and proprietary funds. Interfund transfers in the fund statements are reported as other financing sources (uses) in governmental funds and after non-operating revenues (expenses) in the proprietary funds.

### K. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for proprietary funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized. Interest has not been capitalized during the construction period on property, plant, equipment, and infrastructure assets.

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over five years of useful life. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings and improvements	50 years
Improvements other than buildings	50 years
Equipment	10 years
Drainage Improvements	50 years
Infrastructure	9-50 years
Waterworks and sanitary sewer system	50 years

### L. Leases

The City is a lessee for non-cancellable leases of property and equipment. The City recognizes a lease liability, reported with long-term debt, and a right-to-use lease asset (lease asset), reported with other capital assets, in the government-wide financial statements.

At the commencement of a lease, the City initially measures the lease liability at the present value of payments expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payments made. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over the shorter of the lease term or its useful life.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

Key estimates and judgments related to leases include how the City determined (1) the discount rate it uses to discount the expected lease payments to present value, (2) lease term, and (3) lease payments.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the non-cancellable period of the lease.
- Lease payments included in the measurement of the lease receivable are composed of fixed payments from the lessee, variable payments from the lessee that are fixed in substance or that depend on an index or a rate, residual value guarantee payments from the lessee that are fixed in substance, and any lease incentives that are payable to the lessee.

The City monitors changes in circumstances that would require a re-measurement of its leases and will re-measure the lease asset and liability if certain changes occur that re expected to significantly affect the amount of the lease liability.

#### **M. Compensated Absences**

City employees are granted vacation, sick and other compensated time pay in varying amounts. In the event of termination, an employee hired before 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 60 days, or an employee hired after 10/1/2013 is reimbursed for accumulated unused vacation days up to a maximum of 30 days if the employee has completed their probationary period of six months for a non-civil service employee or at least one year for civil service employees. Employees hired before 10/1/2013 are reimbursed up to 100% of 90 days for accumulated sick leave. Non-civil service employees hired after 10/1/2013 are no longer reimbursed for unpaid sick leave. The current and long-term liabilities for accumulated vacation and sick leave are reported on the government-wide financial statements and in the proprietary fund financial statements. The total liability for compensated absences at September 30, 2022 was \$3,225,435, including \$ 302,950 of proprietary fund balances which are included in current and non-current liabilities on the proprietary fund statement of net position.

On January 1, 2023 various changes in the accruals for vacation and sick leave were implemented that are expected to reduce the compensated absence liability.

The estimated vacation liability expected to be satisfied with available financial resources is included in accrued salaries and wages in the governmental funds.

#### **N. Deferred Inflows and Outflows of Resources**

The statement of net position includes a separate section, in addition to assets, for deferred outflows of resources. Deferred outflows of resources, represents a consumption of net assets that applies to future periods and therefore will not be recognized as an expense/expenditure until that time. In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. Deferred inflows of resources, represents an acquisition of net assets that applies to future periods and so will not be recognized as revenue until that time.

The City has the following items that qualify for reporting as deferred outflows or inflows of resources:

- Difference in projected and actual earnings on pension assets – this difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension and OPEB experience – this difference is deferred and amortized over a closed period that approximates the estimated average remaining lives of all members on the measurement date.
- Difference in pension and OPEB actuarial assumption changes – this difference is deferred and amortized over a closed period that approximates the estimated average remaining lives of all members on the measurement date.
- Pension and OPEB contributions after measurement date – these contributions are deferred and recognized in the following fiscal year.



## City of Watauga, Texas

### Notes to the Basic Financial Statements

- Emergency medical services and property taxes are recognized in the period the amount becomes available.

#### **O. Fund Balance**

The City reports fund balances in accordance with GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Non-spendable fund balance – amounts that are not in spendable form or are required to be maintained intact. As such, the inventory and prepaid items have been classified as non-spendable in the Governmental Funds Balance Sheet.

Restricted fund balance – amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors. Restrictions for capital acquisitions and contractual obligations, debt service and other purpose and state restrictions have been properly classified in the Governmental Funds Balance Sheet.

Committed fund balance – amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies and rescinds) fund balance commitments by passage of a resolution by City Council. Once the resolutions or ordinances are adopted, the limitation imposed remains in place until a similar action is taken (the adoption of another resolution or ordinance) to remove or revise the limitation. There were no committed fund balances as of September 30, 2022.

Assigned fund balance – amounts the City intends to use for a specific purpose. Intent can be expressed by the City or by an official or body to which the City Council delegates the authority. Per the City's fund balance policy, assigned fund balance amounts are established by the City Manager. There were no assigned fund balances as of September 30, 2022.

Unassigned fund balance – amounts that are available for any purpose. The general fund is the only fund that reports a positive unassigned fund balance amount. However, in governmental funds other than the general fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

When multiple categories of fund balance are available for expenditure, the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

#### **P. Net Position**

Net position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources. The City's net investment in capital assets consists of capital assets, net of accumulated depreciation/amortization, 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 legislations adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### **Q. Encumbrances**

Encumbrances for goods or purchased services are documented by purchase orders or contracts. Since under Texas law, appropriations lapse at fiscal year-end, outstanding encumbrances are appropriately provided for in the subsequent years' budget to provide for the liquidation of the prior commitments. As of September 30, 2022, the City had no encumbrances in the General Fund that rolled over into the new fiscal year.

#### **R. Pension**

For purposes of measuring the net pension liability, pension related deferred outflows and inflows resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS.

For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, GRS Retirement Consulting, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

#### **S. Other Post-Employment Benefits**

The City provides its retirees the opportunity to maintain health insurance coverage by participating in the City's self-insurance plan. The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. The actual cost recorded in the governmental fund financial statements is the cost of the health benefits incurred on behalf of the retirees less the premiums collected from the retirees.

Information regarding the City's total liability for this plan is obtained through a report prepared by GRS Retirement Consulting, the City's third-party actuary, in compliance with GASB Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.

Additionally, the City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). The City reports the total liability for this plan on the government-wide and proprietary fund financial statements. Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, GRS Retirement Consulting, in compliance with GASB Statement No. 75.

#### **T. New Accounting Pronouncements**

The GASB pronouncements effective in fiscal years 2022 and beyond are listed as follows:

GASB Statement No. 87, Leases (GASB 87), establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2019; however, issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95), extended the effective date of GASB 87 to reporting periods beginning after June 15, 2021, with earlier application encouraged. GASB 87 was implemented in the City's 2022 financial statements with no impact to amounts reported under previous standards.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

GASB Statement No. 91, Conduit Debt Obligations (GASB 91), provides a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with 1) commitments extended by issuers, 2) arrangements associated with conduit debt obligations, and 3) related note disclosures. The requirements of this statement were originally effective for reporting periods beginning after December 15, 2020; however, issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95), extended the effective date of GASB 91 to reporting periods beginning after December 15, 2021, with earlier application encouraged. GASB 91 will be implemented in the City's fiscal year 2023 financial statements and the impact has not yet been determined.

GASB Statement No. 92, Omnibus 2020 (GASB 92), enhances comparability in accounting and financial reporting by addressing practice issues that have been identified during implementation and application of certain GASB pronouncements. The requirements for parts of this statement were originally effective for reporting periods beginning after June 15, 2020; however, issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95), extended the effective date of GASB 92 to reporting periods beginning after June 15, 2021, with earlier application encouraged. GASB 92 was implemented in the City's fiscal year 2022 financial statements with no impact to amounts previously reported.

GASB Statement No. 93, Replacement of Interbank Offered Rates (GASB 93), addresses accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR). The requirements of this statement were originally effective for reporting periods beginning after June 15, 2020; however, issuance of GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance (GASB 95), extended the effective date of GASB 93 to reporting periods beginning after June 15, 2021, with earlier application encouraged. GASB 93 was implemented in the City's fiscal year 2022 financial statements with no impact to amounts previously reported.

GASB Statement No. 94, Public-Private and Public-Public Partnerships and Availability Payment Arrangements (GASB 94), improves financial reporting by addressing issues related to public-private and public-public partnership arrangements and provides guidance for accounting and financial reporting for availability payment arrangements. The requirements of this statement are effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. GASB 94 will be implemented in the City's fiscal year 2023 financial statements and the impact has not yet been determined.

GASB Statement No. 97, Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans (GASB 97), increases consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform. It also provides for 1) mitigation of costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements and 2) enhances the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans that meet the definition of a pension plan and for benefits provided through those plans. The requirements of paragraph 4 of this statement are were effective immediately upon issuance in June 2020. All other requirements of this statement are effective for reporting periods beginning after June 15, 2021, with earlier application encouraged. GASB 97 was implemented in the City's fiscal year 2022 financial statements with no impact to amounts previously reported.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

GASB Statement No. 96, Subscription-Based Information Technology Arrangements (GASB 96), provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users. This statement 1) defines a SBITA; 2) establishes that a SBITA results in a right-to-use subscription asset – an intangible asset - and a corresponding subscription liability; 3) provides the capitalization criteria for outlays other than subscription payments; and 4) requires note disclosures regarding a SBITA. The requirements of this statement are effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. GASB 96 will be implemented in the City's fiscal year 2023 financial statements and the impact has not yet been determined.

GASB Statement No. 99, Omnibus 2022 (GASB 99), enhances comparability in accounting and financial reporting and improves consistency of authoritative literature by addressing 1) practice issues that have been identified during implementation and application of certain GASB statements and 2) accounting and financial reporting for financial guarantees. The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. These requirements were implemented in the City's fiscal year 2022 financial statements with no impact to amounts previously reported. The requirements related to leases were implemented in the City's fiscal year 2022 financial statements in conjunction with GASB 87 as discussed in Note 1. The requirements related to PPPs and SBITAs are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. These requirements for GASB 99 will be implemented in the City's fiscal year 2023 financial statements and the impact has not yet been determined. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023, and all reporting periods thereafter. The requirements for GASB 99 will be implemented in the City's fiscal year 2024 financial statements and the impact has not yet been determined.

GASB Statement No. 100, Accounting Changes and Error Corrections (GASB 100), enhances accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement 1) defines accounting changes and corrections of errors; 2) prescribes the accounting and financial reporting for each type of accounting change and error corrections; and 3) clarifies required note disclosures. The requirements of this statement are effective for reporting periods beginning after June 15, 2023, with earlier application encouraged. GASB 100 will be implemented in the City's fiscal year 2024 financial statements and the impact has not yet been determined.

GASB Statement No. 101, Compensated Absences (GASB 101), improves the information needs of financial statements users by updating the recognition and measurement guidance for compensated absences under a unified model and amending certain previously required disclosures. The requirements of this statement are effective for reporting periods beginning after December 15, 2023, with earlier application encouraged. GASB 101 will be implemented in the City's fiscal year 2025 financial statements and the impact has not yet been determined.

### **Note 2. Deposits (Cash) and Investments**

The Public Funds Investment Act (Government Code Chapter 2256) (the Act) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the City 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, (9) and bid solicitation preferences for certificates of deposit.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

Statutes and the City's investment policy authorized the City to invest in the following investments as summarized in the following table:

<u>Authorized Investment Type</u>	<u>Final Stated Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Public funds investment	N/A	100%	None
Certificates of deposit	5 years	100%	None
U.S. Treasury obligations	5 years	100%	None
No-load money market	5 years	50%	None
Repurchase agreements	5 years	50%	None
State of Texas securities	5 years	50%	None
U.S. agency obligations	5 years	50%	None
Commercial paper	5 years	10%	None

The Act also requires the City to have independent auditors perform test procedures related to investment practices as provided by the Act. The City is in substantial compliance with the requirements of the Act and with local policies.

Deposits and investments as of September 30, 2022, are classified in the accompanying financial statements as follows:

Governmental Activities	\$ 34,625,268
Business Type Activities	<u>18,242,991</u>
	<u>\$ 52,868,259</u>

Deposits and investments as of September 30, 2022, consist of the following:

Deposits with financial institutions	\$ 7,500,699
Investments	<u>45,367,560</u>
	<u>\$ 52,868,259</u>

\$10,000 of the deposits with financial institutions listed above are in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

Some of items above are classified as short-term investments and are included in cash and cash equivalents.

For the purposes of the statement of cash flows, the City considers all highly liquid investments with maturities at the date of purchase of three months or less to be cash equivalents.

#### A. Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by investing mainly in investment pools which purchase a combination of shorter term investments with an average maturity of less than 365 days thus reducing the interest rate risk. The City monitors the

## City of Watauga, Texas

### Notes to the Basic Financial Statements

interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

As of September 30, 2022, the City had the following investments:

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity</u>
TexPool	\$ 3,744,796	25 days
TexPool Prime	1,254,603	14 days
TexasTERM	475,009	26 days
LOGIC	311,523	19 days
Money Market	33,548,684	Daily
CDs	6,032,945	224 days
	<u>\$ 45,367,560</u>	

\$1,297,079 of the investments listed above are in a joint use facility fund with the City of North Richland Hills. The funds are to be used to maintain a water and sewer transfer station.

As of September 30, 2022, the City did not invest in any securities which are highly sensitive to interest rate fluctuations.

#### B. Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's investment policy or debt agreements and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Carrying Value</u>	<u>Minimum Rating Required</u>	<u>Actual Investment Rating</u>
TexPool	\$ 3,744,796	AAA	AAAm
TexPool Prime	1,254,603	AAA	AAAm
TexasTerm	475,009	AAA	AAAmmf
LOGIC	311,523	AAA	AAAm
Money Market	33,548,684	N/A	N/A
CDs	6,032,945	N/A	N/A
	<u>\$ 45,367,560</u>		

#### C. Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer. As of September 30, 2022, other than external investment pools and securities guaranteed by the United States Government, the City did not have 5% or more of its investments with one issuer.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### D. Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Public Funds Investment Act and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The Public Funds Investment Act requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance of \$250,000 at all times.

At September 30, 2022, the carrying amount of the City's cash on hand and deposits was \$7,500,699 and the bank balance was \$8,045,438. Of the bank balance, \$250,000 was covered by federal depository insurance while the remaining \$7,805,438 was secured with securities held by the pledging financial institution's trust department or agent in the City's name.

The City is a voluntary participant in the TexPool, LOGIC and TexasTERM external investment pools.

The State Comptroller of Public Accounts exercises responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both Participants in TexPool and other persons who do not have a business relationship with TexPool. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool Shares.

LOGIC is governed by a six member board and is an AAA-rated investment program tailored to the investment needs of local governments within the state of Texas and is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. LOGIC assists governments across Texas making the most of taxpayer dollars by allowing local officials to improve the return on their invested balances by pooling their money with other entities to achieve economies of scale in a conservative fund. LOGIC is a "Constant Dollar" net asset value pool and is in full compliance with the Texas Public Funds Investment Act.

TexasTERM is organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. A seven-member advisory board governs the Pool. As required by the Public Funds Investment Act, the Advisory Board is composed of participants in the Pool and other persons who do not have a business relationship with the Pool. Under agreement with the TexasTERM Advisory Board, PFM Asset Management LLC provides administrative and investment services to the pool. The Pool purchases only investments of the type in which Texas local governments are permitted to invest their own funds. The fair value of the position in TexasTERM is the same as the value of TexasTERM shares.

The City's external pooled funds are reported at amortized cost or net asset value as permitted by GASB Statement No. 79, Certain External Investment Pools and Pool Participants. External investment pools are exempt from fair value reporting and are, therefore, excluded from the fair value hierarchy. In addition, The City's investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity fees or redemption gates.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, Fair Value Measurement and Application provides a framework for measuring fair value which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Market values of money market accounts are based on quoted market values using Level 2 inputs. Certificates of deposit are recorded at cost plus accrued interest, and are exempt from the fair value hierarchy.

### Note 3. Receivables

Accounts receivable balances for the year ended September 30, 2022, was as follows:

Governmental Funds:

	General	Debt Service	Nonmajor Governmental	Total
Receivables:				
Property taxes	\$ 156,932	\$ 71,422	\$ -	\$ 228,354
Sales tax	939,552	-	479,678	1,419,230
Garbage	97,960	-	-	97,960
Ambulance	904,101	-	-	904,101
Franchise fees	-	-	-	-
Other	181,217	311	7,853	189,381
	<hr/>	<hr/>	<hr/>	<hr/>
Gross receivables	2,279,762	71,733	487,531	2,839,026
Less: allowance for uncollectibles	(741,730)	(30,408)	-	(772,138)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total net receivables</b>	<u>\$ 1,538,032</u>	<u>\$ 41,325</u>	<u>\$ 487,531</u>	<u>\$ 2,066,888</u>



**City of Watauga, Texas**  
Notes to the Basic Financial Statements

Proprietary Funds:

	Water and Sewer	Drainage Utility	Total
Receivables:			
Customer accounts	\$ 2,604,006	\$ 154,877	\$ 2,758,883
Other	0.00	-	-
Gross receivables	2,604,006	154,877	2,758,883
Less: allowance for uncollectibles	(880,248)	(48,801)	(929,049)
<b>Total net receivables</b>	<b>\$ 1,723,758</b>	<b>\$ 106,076</b>	<b>\$ 1,829,834</b>

**Note 4. Capital Assets**

Capital asset activity for the year ended September 30, 2022, was as follows:

	Balance, September 30, 2021	Additions/ Completions	Retirements	Transfers	Balance, September 30, 2022
Governmental activities					
Capital assets, not being depreciated					
Land	\$ 19,019,600	\$ 375,000	-	\$ -	\$ 19,394,600
Construction in progress	3,263,987	341,822	-	(2,789,207)	816,602
Total capital assets, not being depreciated	22,283,587	716,822	-	(2,789,207)	20,211,202
Capital assets being depreciated					
Buildings and improvements	21,895,844	1,018,408	-	-	22,914,252
Right-to-use leased assets	-	610,442	-	-	610,442
Improvements other than buildings	762,536	-	-	-	762,536
Equipment	17,022,271	1,329,210	(532,404)	-	17,819,077
Infrastructure	35,503,385	1,054,361	-	2,789,207	39,346,953
Total capital assets, being depreciated/amortized	75,184,036	4,012,421	(532,404)	2,789,207	81,453,260
Less accumulated depreciation					
Buildings and improvements	6,596,535	432,515	-	-	7,029,050
Right-to-use leased assets	-	78,451	-	-	78,451
Improvements other than buildings	87,760	15,251	-	-	103,011
Equipment	10,780,573	1,016,239	(532,404)	-	11,264,408
Infrastructure	27,675,192	1,119,069	-	-	28,794,261
Total accumulated depreciation/amortization	45,140,060	2,661,525	(532,404)	-	47,269,181
Total capital assets being depreciated/amortized, net	30,043,976	1,350,896	-	2,789,207	34,184,079
<b>Governmental activities capital assets, net</b>	<b>\$ 52,327,563</b>	<b>\$ 2,067,718</b>	<b>-</b>	<b>-</b>	<b>\$ 54,395,281</b>

**City of Watauga, Texas**  
Notes to the Basic Financial Statements

	Balance, September 30, 2021	Additions/ Completions	Retirements	Transfers	Balance, September 30, 2022
<b>Business-type Activities:</b>					
Capital assets, not being depreciated:					
Land	\$ 91,000	\$ -	\$ -	\$ -	\$ 91,000
Construction in progress	3,806,772	256,868	-	(2,431,641)	1,631,999
Total capital assets, not being depreciated	3,897,772	256,868	-	(2,431,641)	1,722,999
Capital assets, being depreciated:					
Buildings and improvements	3,353,778	-	-	-	3,353,778
Right-to-use leased assets	-	38,060	-	-	38,060
Equipment	2,692,399	29,875	(178,014)	-	2,544,260
Street and drainage improvements	20,872,735	74,038	-	419,799	21,366,572
Waterworks and sewer system	27,473,707	376,639	-	2,011,842	29,862,188
Total capital assets, being depreciated/amortized	54,392,619	518,612	(178,014)	2,431,641	57,164,858
Less accumulated depreciation					
Buildings and improvements	1,380,987	63,675	-	-	1,444,662
Right-to-use leased assets	-	7,612	-	-	7,612
Equipment	1,594,464	149,061	(142,892)	-	1,600,633
Street and drainage improvements	10,636,886	418,773	-	-	11,055,659
Waterworks and sewer system	5,621,560	434,362	-	-	6,055,922
Total accumulated depreciation/amortization	19,233,897	1,073,483	(142,892)	-	20,164,488
Total capital assets being depreciated/amortized, net	35,158,722	(554,871)	(35,122)	2,431,641	37,000,370
<b>Business-type activities capital assets, net</b>	<b>\$ 39,056,494</b>	<b>\$ (298,003)</b>	<b>\$ (35,122)</b>	<b>\$ -</b>	<b>\$ 38,723,369</b>

Depreciation expense was charged as direct expense to programs of the primary government as follows:

General government	\$ 578,288
Public safety	373,080
Culture and recreation	266,291
Public works	1,205,273
Internal Service Fund	238,593
	<hr/>
<b>Total depreciation/amortization expense - Governmental Activities</b>	<b>\$ 2,661,525</b>
	<hr/>
Business-type activities	
Water and wastewater	\$ 575,064
Drainage	444,350
Internal Service Fund	54,069
	<hr/>
<b>Total depreciation/amortization expense - Business-type Activities</b>	<b>\$ 1,073,483</b>
	<hr/>

During the year ended September 30, 2022, \$1,587,451 and \$284,247 of internal service fund capital assets were recorded in governmental activities and business-type activities, respectively, on the accompanying statement of net position. Additionally, \$238,593 and \$54,069 of internal service fund depreciation expense were recorded in governmental activities and business-type activities, respectively, on the accompanying statement of activities.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

Construction in progress and remaining commitments under construction related construction contracts at September 30, 2022 are as follows:

Project Name	Remaining Commitment	Total in Progress
<b>Governmental Activities</b>		
Whitley Road - Phase 4	\$ 4,388	\$ 432,612
Whitley Road - Phase 5	501,120	281,880
Park Vista Park	15,785	22,715
Arcadia Trail	-	35,846
Business Incubator Project	21,450	43,550
<b>Total governmental activities</b>	<b>\$ 542,743</b>	<b>\$ 816,603</b>
<b>Business-type Activities:</b>		
Water, Sewer and Drainage Projects	\$ 180,190	\$ 952,807
Whitley Road - Phase 4	2,261	225,739
Sanitary Sewer Evaluation Study - Phase Two	312	224,688
CDBG 48TH Year	22,344	30,856
Wastewater Phase Two (North)	2,091	197,909
<b>Total business-type activities</b>	<b>\$ 207,198</b>	<b>\$ 1,631,999</b>

#### Note 5. Long-Term Debt

Compensated absences, OPEB and pension liabilities are generally liquidated by the General Fund, Water and Sewer Fund, and the Drainage Utility Fund.

During the fiscal year ended September 30, 2022, the City issued \$4,200,000 in General Obligation Refunding Bonds with an interest rate of 2 to 4%. and was used to advance refund the outstanding Series 2012 Certification of Obligation Bonds in the Debt Service Fund. The net proceeds of \$4,018,398 (after payment of issuance costs) and City contribution of \$62,150 were used to pay the outstanding balance on the refunded bonds. As a result, the refunded bond is considered defeased, and the liability for those bonds has been removed from the government-wide and proprietary statements. There is no remaining principal at September 30, 2022 related to the refunded bond. The refunding resulted in a net present value savings of \$395,197 and a gross savings of \$419,775.

During the fiscal year ended September 30, 2022, the City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2022 in amount of \$4,385,000 for governmental activities and \$545,000 for business type activities with an interest rate of 4% and premiums in the amount of \$117,512 and \$22,051, respectively. The proceeds for both issuances will be used for street, utility, and park improvement projects as well as capital equipment replacements.

# City of Watauga, Texas

## Notes to the Basic Financial Statements

The following is a summary of long-term debt transactions of the City for the year ended September 30, 2022:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
<b>Governmental activities:</b>					
General obligation bonds	\$ 960,000	\$ -	\$ (310,000)	\$ 650,000	\$ 305,000
Certificates of obligation	21,395,000	4,385,000	(2,110,000)	23,670,000	2,515,000
Tax Notes	375,000	-	(90,000)	285,000	90,000
Lease Payable		610,442	(119,601)	490,841	85,146
Unamortized bond premium	956,531	177,512	(60,635)	1,073,408	-
Note payable	173,371	-	(55,266)	118,105	57,753
Compensated absences	2,826,898	261,464	(165,876)	2,922,486	178,618
Net Pension liability	3,739,886	4,916,840	(7,788,716)	868,010	-
Net OPEB liability	1,497,654	150,524	(185,367)	1,462,811	-
<b>Total governmental activities</b>	<b>31,924,340</b>	<b>10,501,782</b>	<b>(10,885,461)</b>	<b>31,540,661</b>	<b>3,231,517</b>
<b>Business-type activities:</b>					
General obligation bonds	1,140,000	4,200,000	(220,000)	5,120,000	590,000
Certificates of obligation	18,865,000	545,000	(5,380,000)	14,030,000	695,000
Lease Payable	-	38,060	(8,020)	30,040	8,264
Unamortized bond premium	847,902	390,528	(294,127)	944,303	-
Compensated absences	292,574	46,043	(35,667)	302,950	26,809
Net Pension liability	712,359	936,541	(1,483,565)	165,335	-
Net OPEB liability	285,268	28,671	(35,308)	278,631	-
<b>Total business-type activities</b>	<b>22,143,103</b>	<b>6,184,843</b>	<b>(7,456,687)</b>	<b>20,871,259</b>	<b>1,320,073</b>
<b>Total government-wide activities</b>	<b>\$ 54,067,443</b>	<b>\$ 16,686,625</b>	<b>\$ (18,342,148)</b>	<b>\$ 52,411,920</b>	<b>4,551,590</b>

### A. General Obligation Bonds and Certificates of Obligation

General Obligation Bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General Obligation Bonds and Certificates of Obligation require the City to compute, at the time other taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

General obligations bonds and certificates of obligation payable at September 30, 2022, are comprised of the following individual issues:

	<u>Governmental</u>	<u>Business-type</u>
\$3,400,000 Series 2007 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$65,000 to \$255,000 through February 1, 2027; interest at 4.11%.	\$ 1,180,000	\$ -
\$2,145,000 Series 2013 General Obligation Refunding Bonds due in annual installments of \$125,000 to \$270,000 through February 1, 2023; interest at 2.25%.	190,000	-
\$3,500,000 Series 2014 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$85,000 to \$900,000 through February 2034; interest at 2.25% to 3.50%.	1,325,000	-
\$5,885,000 Series 2016 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$285,000 to \$355,000 through February 2036; interest at 2.125% to 4.00%	4,360,000	-
\$7,325,000 Series 2017 Certificates of Obligation due in annual installments of \$245,000 to \$480,000 through February 1, 2037; interest at 3.00%.	-	5,905,000
\$6,780,000 Series 2018 Certificates of Obligation due in annual installments of \$245,000 to \$480,000 through February 1, 2038; interest at 3.00% to 5.00%.	5,235,000	-
\$8,490,000 Series 2019 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$195,000 to \$555,000 through February 1, 2039; interest at 2.00% to 5.00%	235,000	7,580,000
\$2,910,000 Series 2020 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$115,000 to \$205,000 through February 1, 2040; interest at 1.50% to 3.00%	2,675,000	-
\$1,715,000 Series 2020 General Obligation Refunding Bonds due in annual installments of \$115,000 to \$235,000 through February 1, 2026; interest at 1.17%.	460,000	920,000
\$4,540,000 Series 2021 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$185,000 to \$295,000 through February 1, 2041; interest at 2.00% - 4.00%.	4,275,000	-
\$4,200,000 Series 2021 General Obligation Refunding Bonds due in annual installments of \$365,000 to \$470,000 through February 1, 2032; interest at 2.00% -4.00%.	-	4,200,000
\$4,930,000 Series 2022 Combination Tax and Limited Pledge Revenue Certificates of Obligation due in annual installments of \$105,000 to \$1,070,000 through February 1, 2042; interest at 4.00%.	4,385,000	545,000
<b>Total bonds payable</b>	<u>\$ 24,320,000</u>	<u>\$ 19,150,000</u>

## City of Watauga, Texas

### Notes to the Basic Financial Statements

Notes payable at September 30, 2022, are comprised of the following:

	<u>Governmental</u>
Note payable to City of North Richland Hills annual installments of \$63,068, including interest at 4.5%, maturing October 2024.	\$ <u>118,105</u>
Total notes payable	\$ <u><u>118,105</u></u>

Tax notes at September 30, 2022, are comprised of the following individual issues:

	<u>Governmental</u>
\$450,000 Series 2020 Tax Note due in annual installments of \$75,000 to \$100,000 through February 1, 2025; interest at 3.50%	\$ <u>285,000</u>
Total tax notes	\$ <u><u>285,000</u></u>

#### B. Annual Requirements to Retire Debt Obligations

The annual aggregate maturities for each type of debt obligation for the years subsequent to September 30, 2022, are as follows:

##### General Obligation Bonds

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2023	305,000	6,847	590,000	122,448	1,024,295
2024	115,000	3,364	605,000	106,815	830,179
2025	115,000	2,018	620,000	92,649	829,667
2026	115,000	673	635,000	78,125	828,798
2027	-	-	415,000	64,525	479,525
2028-2032	-	-	2,255,000	135,150	2,390,150
	<u>\$ 650,000</u>	<u>\$ 12,902</u>	<u>\$ 5,120,000</u>	<u>\$ 599,712</u>	<u>\$ 6,382,614</u>

**City of Watauga, Texas**

Notes to the Basic Financial Statements

**Certificates of Obligation**

	Governmental Activities		Business-type Activities		Total
	Principal	Interest	Principal	Interest	
2023	\$ 2,515,000	\$ 688,365	\$ 695,000	\$ 398,300	\$ 4,296,665
2024	1,580,000	615,291	715,000	371,348	3,281,639
2025	1,580,000	558,138	740,000	347,073	3,225,211
2026	1,630,000	502,724	765,000	321,773	3,219,497
2027	1,550,000	446,528	935,000	287,398	3,218,926
2028-2032	6,255,000	1,623,255	4,255,000	1,024,913	13,158,168
2033-2037	5,910,000	782,889	4,825,000	452,126	11,970,015
2038-2042	2,650,000	155,875	1,100,000	26,244	3,932,119
	<u>\$ 23,670,000</u>	<u>\$ 5,373,065</u>	<u>\$ 14,030,000</u>	<u>\$ 3,229,175</u>	<u>\$ 46,302,240</u>

**Tax Notes**

	Governmental Activities		Total
	Principal	Interest	
2023	90,000	8,400	98,400
2024	95,000	5,163	100,163
2025	100,000	1,750	101,750
	<u>\$ 285,000</u>	<u>\$ 15,313</u>	<u>\$ 300,313</u>

**Notes Payable**

	Governmental Activities		Total
	Principal	Interest	
2023	57,753	5,315	63,068
2024	60,352	2,716	63,068
	<u>\$ 118,105</u>	<u>\$ 8,031</u>	<u>\$ 126,136</u>

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### Lease Payable

The City has entered into multiple lease agreements as lessee. The leases allow the right-to-use equipment over the term of the lease. The City is make monthly or annual payments at its incremental borrowing rate or the interest rate stated or implied within the leases. The lease rate, term and ending liability are as follows:

<u>Governmental activities</u>	<u>Interest Rate</u>	<u>Liability at Commencement</u>	<u>Ending Balance</u>
Office leases	3%	\$ 610,442	\$ 490,841

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2023	\$ 85,146	\$ 13,870	\$ 99,016
2024	87,727	11,290	99,016
2025	90,385	8,631	99,016
2026	62,818	6,076	68,894
2027	25,463	4,941	30,404
Thereafter	139,301	12,779	152,080
	<u>\$ 490,841</u>	<u>\$ 57,587</u>	<u>\$ 548,428</u>

The value of the right-to-use assets at the end of the current fiscal year was \$292,166 with accumulated amortization of \$58,433.

<u>Business-type activities</u>	<u>Interest Rate</u>	<u>Liability at Commencement</u>	<u>Ending Balance</u>
Office leases	3%	\$ 38,060	\$ 30,040

<u>Years</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Requirements</u>
2023	\$ 8,264	\$ 788	\$ 9,052
2024	8,515	537	9,052
2025	8,774	278	9,052
2026	4,487	39	4,526
	<u>\$ 30,040</u>	<u>\$ 1,642</u>	<u>\$ 31,682</u>

The value of the right-to-use assets at the end of the current fiscal year was \$38,060 with accumulated amortization of \$7,612.



**City of Watauga, Texas**

Notes to the Basic Financial Statements

**Note 6. Interfund Receivables, Payables, and Transfers**

All interfund transfers between the various funds are approved supplements to the operations of those funds. At September 30, 2022, transfers in/out for governmental and proprietary funds are as follows:

Transfers In	Transfers Out	Amounts
General Fund	Nonmmajor Fund	\$ 245,800
General Fund	Drainage Utility Fund	73,500
General Fund	Nonmmajor Fund	30,000
General Fund	Water and Sewer Fund	430,000
Capital Projects Fund	General Fund	1,085,000
Debt Service Fund	Nonmmajor Fund	147,078
WEDC Sales Tax Fund	WEDC Construction Fund	375,000
Internal service fund	General Fund	30,000
Internal service fund	Water and Sewer Fund	79,999
		<u>\$ 2,496,377</u>

Transfers are primarily used to move funds to:

- General Fund from Nonmajor Fund for general and administration charges. The General Fund pays for these services and the amount of transfer is calculated annually by an estimate of personnel hours that spent on economic development projects and tasks.
- Debt Service Fund from Nonmajor Fund for the payment of debt service requirements for authorized WEDC funded projects.
- General Fund from Drainage Utility Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.
- General Fund from Nonmajor Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services used also by other funds.
- General Fund from Water and Sewer Fund for General and Administrative charges. A percent of fund revenues (less interest income) to pay for general charges that the General Fund pays for but services are also used by other funds.
- Capital Projects Fund from the General Fund for the payment of sidewalk replacements and street repairs and overlays.
- WEDC Sales Tax Fund to WEDC Construction Fund for the payment of land purchases for economic development purposes.
- Internal Service Fund from the General Fund for the payment of capital outlay items.
- Internal Service Fund from the Water and Sewer Fund for payment of general and administrative charges.

# City of Watauga, Texas

## Notes to the Basic Financial Statements

### Note 7. Pension Plan

The City of Watauga, Texas participates as one of 901 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report(Annual Report) that can be obtained at [www.tMrs.com](http://www.tMrs.com).

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

#### A. 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 Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

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

Employee deposit rate .....	7.00%
Matching ration (city to employee) .....	2 to 1
Years required for vesting.....	5
Updated Service Credit .....	100% Repeating Transfers
Annuity Increase (to retirees) .....	70% of CPI Repeating

Members can retire at ages 60 and above with 5 or more years of service or with 20 years of service regardless of age.

#### B. Employees covered by benefit terms

At the December 31, 2021 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	130
Inactive employees entitled to but not yet receiving benefits	175
Active employees	143
	<hr/>
	448
	<hr/> <hr/>

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### C. Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the Member's total compensation, 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 city's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City were required to contribute 7.00% of their annual compensation during the fiscal year. The contribution rates for the City were 14.79% and 14.74% in calendar years 2021 and 2022, respectively. The city's contributions to TMRS for the year ended September 30, 2022 were \$1,653,540, and were equal to the required contributions.

#### D. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2021, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

##### Actuarial assumptions

The Total Pension Liability in the December 31, 2021 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.05% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income in order to satisfy the short-term and long-term funding needs of TMRS.

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.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	35.0%	7.55%
Core Fixed Income	6.0%	2.00%
Non-Core Fixed Income	20.0%	5.68%
Other Public and Private Ma	12.0%	7.22%
Real Estate	12.0%	6.85%
Hedge Funds	5.0%	5.35%
Private Equity	10.0%	10.00%
<b>Total</b>	<b>100.0%</b>	

#### Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that Member 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 Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

#### Changes in Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2020	\$ 58,878,136	\$ 54,425,891	\$ 4,452,245
Changes for the year:			
Service cost	1,716,818	-	1,716,818
Interest (on the Total Pension Liability)	3,963,566	-	3,963,566
Difference between expected and actual experience	140,168	-	140,168
Changes of assumptions	-	-	-
Contributions - employer	-	1,479,088	(1,479,088)
Contributions - employee	-	696,276	(696,276)
Net investment income	-	7,096,692	(7,096,692)
Benefit payments, including refunds of employee contributions	(2,034,085)	(2,034,085)	-
Administrative expense	-	(32,829)	32,829
Other	-	225	(225)
<b>Balance at December 31, 2021</b>	<b>\$ 62,664,603</b>	<b>\$ 61,631,258</b>	<b>\$ 1,033,345</b>

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### Sensitivity of the net pension liability to changes in the discount rate

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

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
City's net pension liability	\$ 10,612,595	\$ 1,033,345	\$ (6,721,292)

#### E. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position by Participating City. That report may be obtained at [www.tnrs.com](http://www.tnrs.com).

#### F. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2022 the city recognized pension expense of \$318,497.

At September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	\$ 85,396	\$ -
Difference in assumption changes	18,713	-
Difference in projected and actual earnings on pension plan investments	-	(3,644,741)
Employer contributions made after the measurement date	1,218,859	-
<b>Totals</b>	<b>\$ 1,322,968</b>	<b>\$ (3,644,741)</b>

\$1,218,859 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the measurement year ending December 30, 2022 (i.e. recognized in the City's financial statements for the year ending September 30, 2023.)

**City of Watauga, Texas**

Notes to the Basic Financial Statements

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

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2023	\$ (597,957)
2024	(1,496,883)
2025	(761,201)
2026	(684,591)
<b>Totals</b>	<b>\$ (3,540,632)</b>

**Note 8. Other Postemployment Benefits**

**A. TMRS Supplemental Death Benefits Plan**

**Benefit Plan Description**

The City contributes to a single-employer defined benefit group term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered another postemployment benefit (OPEB) and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

Membership in the plan as of the measurement date of December 31, 2021 was as follows:

Inactive employees or beneficiaries currently receiving benefits	79
Inactive employees entitled to but not yet receiving benefits	30
Active employees	<u>143</u>
Total	<u><u>252</u></u>

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### Contributions

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city (currently 0.17% of covered payroll). The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

#### Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 1.84% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2021.

#### Actuarial Assumptions

The City's Total OPEB Liability (TOL) was measured at December 31, 2021 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Inflation	2.50%
Salary Increases	3.50% to 11.50% including inflation
Discount Rate	1.84%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables and due to the size of the City, rates are multiplied by an additional factor of 100%. . The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is 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. Mortality rates for pre-retirement were based on the PUB(10) mortality tables, with the Public Safety table used for males and General Employee table used for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### Changes in Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2020	\$ 645,670
Changes for the year:	
Service cost	29,840
Interest (on the Total OPEB Liability)	13,122
Difference between expected and actual experience	(9,270)
Changes of assumptions	20,923
Benefit payments	(8,952)
<b>Balance at December 31, 2021</b>	<b>\$ 691,333</b>

#### Sensitivity Analysis

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 1.84%, as well as what the City's Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (.84%) or 1 percentage point higher (2.84%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

1% Decrease .84%	Current Single Rate Assumption 1.84%	1% Increase 2.84%
\$ 843,073	\$ 691,333	\$ 572,989

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$138,754, which included \$66,609 relating to the SDBF plan and \$72,145 relating to the WHCP plan.

As of September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to SDBF OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	\$ -	\$ (33,281)
Differences in assumption changes	109,127	-
Employer contributions made after the measurement date	8,223	-
	-	-
<b>Totals</b>	<b>\$ 117,350</b>	<b>\$ (33,281)</b>

The \$8,223 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the measurement year ending December 30, 2022 (i.e. recognized in the City's financial statements for the year ending September 30, 2023.)



## City of Watauga, Texas

### Notes to the Basic Financial Statements

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2023	\$ 22,051
2024	19,912
2025	23,686
2026	9,274
2027	923
<b>Total</b>	<b>\$ 75,846</b>

#### B. City of Watauga Retiree Health Care Plan

##### Plan description

The City's defined benefit OPEB plan, City of Watauga Retiree Health Care Plan (WHCP), provides OPEB through an implicit healthcare premium for retirees for all permanent full-time employees of the City. WHCP is a single-employer defined benefit OPEB plan administered by the City. At this time, no assets are accumulated in a trust to fund the future requirements of the WHCP.

##### Benefits provided

WHCP provides access to post retirement employees by offering a "blended premium" structure, that is, the overall health care premiums for active employees and non-Medicare retirees, are stated in terms of a single "blended premium". The difference between the underlying retiree claims and the blended overall health care premium is referred to as an "implicit" subsidy. Because the underlying claims costs for a non-Medicare retiree are on average higher than the blended premium, there is a positive implicit subsidy for the non-Medicare retirees.

Employees covered by benefit terms. At September 30, 2022, the following employees were covered by the benefit terms:

Retirees and beneficiaries	5
Active members	136
<b>Total</b>	<b>141</b>

##### Total OPEB Liability

The City's total OPEB liability of \$1,050,109 was measured as of December 31, 2021, and was determined by an actuarial valuation as of December 31, 2020 rolled forward to the measurement date.

##### Actuarial Assumptions

The total OPEB liability in the December 31, 2020 actuarial valuation (rolled forward to December 31, 2021) was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry-Age
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Discount Rate	1.84%

## City of Watauga, Texas

### Notes to the Basic Financial Statements

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables and due to the size of the City, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate is 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. Mortality rates for pre-retirement were based on the PUB(10) mortality tables, with the Public Safety table used for males and General Employee table used for females. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements.

#### Discount Rate

Because the WHCP is unfunded or pay-as-you go, the discount rate is based on 20 year tax-exempt AA or higher Municipal Bonds or 1.84% as of the measurement date of December 31, 2021 based on the 20 Year Bond GO Index published by bondbuyer.com.

#### Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2020	\$ 1,137,252
Changes for the year:	
Service cost	56,718
Interest (on the Total OPEB Liability)	22,931
Difference between expected and actual experience	65,854
Changes of assumptions	(194,560)
Benefit payments	(38,086)
<b>Balance at December 31, 2021</b>	<b>\$ 1,050,109</b>

Changes of assumptions reflect a change in the discount rate from 2.00% as of December 31, 2020 to 1.84% as of December 31, 2021, revised TMRS demographic and salary increase assumptions, and updates to the health care trend assumption to better reflect the plan's anticipated experience.

#### Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the plan's total OPEB liability, calculated using a discount rate of 1.84%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

1% Decrease 1.84%	Current Single Rate Assumption 1.84%	1% Increase 2.84%
\$ 1,161,422	\$ 1,050,109	\$ 949,043

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
\$ 918,676	\$ 1,050,109	\$ 1,206,999

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

For the year ended September 30, 2022, the City recognized OPEB expense of \$138,754, which included \$66,609 relating to the SDBF plan and \$72,145 relating to the WHCP plan. On September 30, 2022, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual experience	\$ -	\$ (26,896)
Differences in assumption changes	-	(41,458)
Employer contributions made after the measurement date	28,947	-
<b>Totals</b>	<b>\$ 28,947</b>	<b>\$ (68,354)</b>

The \$28,947 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the measurement year ending December 30, 2022 (i.e. recognized in the City's financial statements for the year ending September 30, 2023.)

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Fiscal Year	Net Deferred Outflows (Inflows) of Resources
2023	\$ (7,504)
2024	(7,504)
2025	(7,504)
2026	(10,354)
2027	(10,324)
Thereafter	(25,164)
<b>Total</b>	<b>\$ (68,354)</b>

## City of Watauga, Texas

### Notes to the Basic Financial Statements

#### Note 9. Risk Management

The City is exposed to various risks of loss related to torts such as: theft of, damage to, and destruction of assets, errors and omissions, injuries to employees, and natural disasters. The City participates in the Texas Municipal League Intergovernmental Risk Pool (Risk Pool) to provide general liability and property insurance and workers' compensation.

The City, along with other participating entities, contributes annual amounts determined by the Risk Pool. Contributions to the Risk Pool for workers' compensation are based on the City's payroll. As claims arise they are submitted to and paid by the Risk Pool.

The liability of the Texas Municipal League Intergovernmental Risk Pool is limited to a \$2,000,000 annual aggregate for general liability, errors and omissions, and law enforcement. The automobile liability limit for the risk pool is \$1,000,000 for each occurrence.

There have been no significant changes in insurance coverage as compared to last year. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

#### Note 10. Litigation

Various claims and lawsuits are pending against the City of Watauga. In the opinion of the City's Legal Counsel and Management, the potential losses will not have a material effect on the City's financial statements.

#### Note 11. Fund Balance Restrictions

Amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors are classified as restricted fund balance. A summary of restricted fund balance in the governmental funds at September 30, 2022, follows:

	Debt Service Funds	Capital Projects Fund	Non Major Governmental Funds	Total
Capital acquisitions and contractual obligations	\$ -	\$ 14,266,064	\$ 30,346	\$ 14,296,410
Debt service	782,058	-	-	782,058
Economic Development	-	-	1,732,091	1,732,091
Culture and recreation: Library purposes	-	-	62,126	62,126
	-	-	62,126	62,126
Public works: PEG Fees	-	-	86,221	86,221
Street maintenance	-	-	640,016	640,016
	-	-	726,237	726,237
Public safety: Law enforcement	-	-	1,363,252	1,363,252
Municipal court operations	-	-	258,026	258,026
	-	-	1,621,278	1,621,278
<b>Total</b>	<b>\$ 782,058</b>	<b>\$ 14,266,064</b>	<b>\$ 4,172,078</b>	<b>\$ 19,220,200</b>

## **Required Supplementary Information**

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**City of Watauga, Texas**  
 Budgetary Comparison Schedule  
 General Fund  
 For the fiscal year ended September 30, 2022

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
<b>Revenues</b>				
Taxes and franchise fees	\$ 11,304,500	\$ 11,804,500	\$ 11,970,251	\$ 165,751
Licenses and permits	569,000	569,000	741,399	172,399
Charges for services	831,000	1,021,000	1,114,631	93,631
Fines and forfeitures	564,900	564,900	638,906	74,006
Interest income	25,000	25,000	76,081	51,081
Intergovernmental	502,600	502,600	502,600	-
Miscellaneous	522,650	522,650	555,270	32,620
Total revenues	<u>14,319,650</u>	<u>15,009,650</u>	<u>15,599,138</u>	<u>589,488</u>
<b>Expenditures</b>				
Current:				
Administration	672,625	547,625	419,461	128,164
Non-departmental	763,615	763,615	646,609	117,006
Human resources	222,980	222,980	203,559	19,421
Finance	552,420	552,420	538,293	14,127
Information Technology	548,590	548,590	495,878	52,712
Municipal Court	399,255	399,255	369,708	29,547
Library	946,500	946,500	865,203	81,297
Recreation and community services	1,055,060	1,055,060	866,593	188,467
Police	4,629,780	4,629,780	4,417,806	211,974
Fire/EMS	3,409,330	3,494,330	3,417,498	76,832
Public works	734,710	734,710	598,271	136,439
Fleet maintenance	262,470	262,470	254,853	7,617
Buildings	834,540	834,540	801,404	33,136
Total expenditures	<u>15,031,875</u>	<u>14,991,875</u>	<u>13,895,136</u>	<u>1,096,739</u>
Excess (deficiency) of revenues over expenditures	<u>(712,225)</u>	<u>17,775</u>	<u>1,704,002</u>	<u>1,686,227</u>
<b>Other Financing Sources (Uses)</b>				
Transfers in	788,300	788,300	779,300	-
Transfers out	<u>(215,000)</u>	<u>(1,115,000)</u>	<u>(1,115,000)</u>	<u>-</u>
<b>Total other financing sources and uses</b>	<u>573,300</u>	<u>(326,700)</u>	<u>(335,700)</u>	<u>-</u>
Net change in fund balances	(138,925)	(308,925)	1,368,302	1,686,227
<b>Fund balance, beginning of year</b>	<u>7,035,161</u>	<u>7,035,161</u>	<u>7,035,161</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 6,896,236</u>	<u>\$ 6,726,236</u>	<u>\$ 8,403,463</u>	<u>\$ 1,686,227</u>

## City of Watauga, Texas

Notes to Required Supplementary Budget Information

For the fiscal year ended September 30, 2022

### **BUDGETARY CONTROLS AND PROCEDURES**

The City Charter follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures/expenses and the means of financing them.
- The proposed budget and all supporting schedules are filed with the City Secretary when submitted to City Council.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to September 15, the budget is adopted by affirmative vote of at least two thirds of the members of the City Council.
- The City Manager is authorized to transfer budgeted amounts between programs within a department; however, any revisions that alter the total expenditures of any department must be approved by the City Council.
- If at any time during a fiscal year, it is estimated by the City Manager that current year's expenditures in any fund will exceed available revenues (including fund balance at the start of the year), the City Manager shall recommend measures to the City Council to ensure that a positive fund balance is maintained.
- Budgets for the General, WEDC Sales Tax, Watauga Crime Control and Prevention, Library Donation, Municipal Court Security, Municipal Court Technology, Municipal Court Truancy, Traffic Safety, Street Maintenance Sales Tax, PEG, Debt Service and Enterprise funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as amended by the City Council. Such appropriations lapse at year-end.
- Budgetary data for the Capital Projects Fund has not been presented in the accompanying financial statements as such funds are budgeted over the life of the respective project and not on an annual basis. Accordingly, formal budgetary integration of the Capital Projects Fund is employed and comparison of actual results of operations to budgetary data for such funds is not presented.
- Formal budgetary integration is employed as a management control device during the year for the General Fund, Special Revenue Funds, Debt Service Funds and Enterprise Funds. Budgetary control is maintained at the departmental level.
- Budgetary data for the Enterprise Funds has not been presented since the reporting on such budgets is not legally required. Budgetary control is maintained at the departmental level.



**City of Watauga, Texas**  
**Schedule of Changes in Net Pension Liability and Related Ratios**  
**Last Seven Measurement Years**

	Year Ended December 31							
	2014	2015	2016	2017	2018	2019	2020	2021
<b>TOTAL PENSION LIABILITY</b>								
Service cost	\$ 1,278,209	\$ 1,484,819	\$ 1,513,714	\$ 1,531,337	\$ 1,577,540	\$ 1,705,104	\$ 1,745,597	\$ 1,716,818
Interest (on the total pension liability)	2,632,122	2,804,072	2,907,277	3,067,400	3,256,548	3,483,534	3,748,335	3,963,566
Difference between expected and actual experience	(422,782)	(273,667)	(570,355)	(100,072)	22,136	441,878	(140,317)	140,168
Changes of assumptions	-	60,403	-	-	-	188,822	-	-
Benefit payments, including refunds of employee contributions	(1,197,706)	(1,071,136)	(1,083,810)	(1,890,714)	(1,548,423)	(1,566,087)	(2,267,132)	(2,034,085)
Net change in total pension liability	2,289,843	3,004,491	2,766,826	2,607,951	3,307,801	4,253,251	3,086,483	3,786,467
Total pension liability, beginning	37,561,490	39,851,333	42,855,824	45,622,650	48,230,601	51,538,402	55,791,653	58,878,136
<b>TOTAL PENSION LIABILITY, ending (a)</b>	<b>\$ 39,851,333</b>	<b>\$ 42,855,824</b>	<b>\$ 45,622,650</b>	<b>\$ 48,230,601</b>	<b>\$ 51,538,402</b>	<b>\$ 55,791,653</b>	<b>\$ 58,878,136</b>	<b>\$ 62,664,603</b>
<b>PLAN FIDUCIARY NET POSITION</b>								
Contributions - employer	\$ 1,115,845	\$ 1,245,119	\$ 1,197,145	\$ 1,259,752	\$ 1,289,939	\$ 1,342,209	\$ 1,450,407	\$ 1,479,088
Contributions - employee	609,276	652,873	636,779	642,263	664,427	695,961	714,990	696,276
Net investment income	1,871,755	51,790	2,428,960	5,418,502	(1,332,865)	6,732,579	3,849,392	7,096,692
Benefit payments, including refunds of employee contributions	(1,197,706)	(1,071,136)	(1,083,810)	(1,890,714)	(1,548,423)	(1,566,087)	(2,267,132)	(2,034,085)
Administrative expense	(19,541)	(31,544)	(27,433)	(28,079)	(25,758)	(38,033)	(24,904)	(32,829)
Other	(1,607)	(1,558)	(1,478)	(1,423)	1,155	(3,642)	(972)	225
Net change in plan fiduciary net position	2,378,022	845,544	3,150,163	5,400,301	(951,525)	7,162,987	3,721,781	7,205,367
Plan fiduciary net position, beginning	32,718,618	35,096,640	35,942,184	39,092,347	44,492,648	43,541,123	50,704,110	54,425,891
<b>PLAN FIDUCIARY NET POSITION, ending (b)</b>	<b>\$ 35,096,640</b>	<b>\$ 35,942,184</b>	<b>\$ 39,092,347</b>	<b>\$ 44,492,648</b>	<b>\$ 43,541,123</b>	<b>\$ 50,704,110</b>	<b>\$ 54,425,891</b>	<b>\$ 61,631,258</b>
<b>NET PENSION LIABILITY/ (ASSET), ending (a) - (b)</b>	<b>\$ 4,754,693</b>	<b>\$ 6,913,640</b>	<b>\$ 6,530,303</b>	<b>\$ 3,737,953</b>	<b>\$ 7,997,279</b>	<b>\$ 5,087,543</b>	<b>\$ 4,452,245</b>	<b>\$ 1,033,345</b>
Plan fiduciary net position as a percentage of total pension liability	88.07%	83.87%	85.69%	92.25%	84.48%	90.88%	92.44%	98.35%
Covered Payroll	\$ 8,703,943	\$ 9,326,755	\$ 9,096,836	\$ 9,175,179	\$ 9,491,816	\$ 9,942,297	\$ 10,214,144	\$ 9,946,803
Net pension liability as a percentage of covered payroll	54.63%	74.13%	71.79%	40.74%	84.25%	51.17%	43.59%	10.39%

Only eight years of data is presented in accordance with GASB 68, paragraph 138. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement. Additional years' information will be displayed as it becomes available."

**City of Watauga, Texas**  
**Schedule of Pension Contributions**  
**Last Ten Fiscal Years**

	Year Ended September 30										
	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Actuarially Determined Contribution	\$ 1,129,470	\$ 1,082,831	\$ 1,108,798	\$ 1,190,315	\$ 1,194,583	\$ 1,259,325	\$ 1,274,565	\$ 1,332,221	\$ 1,459,430	\$ 1,462,002	\$ 1,653,540
Contributions in relation to the actuarially determined contribution	1,129,470	1,082,831	1,108,798	1,190,315	1,194,583	1,259,325	1,274,565	1,332,221	1,459,430	1,462,002	1,653,540
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 8,852,583	\$ 8,473,213	\$ 8,638,774	\$ 9,005,317	\$ 9,040,337	\$ 9,169,310	\$ 9,351,625	\$ 9,849,847	\$ 10,293,449	\$ 9,877,694	\$ 10,990,394
Contributions as a percentage of covered payroll	12.76%	12.78%	12.84%	13.22%	13.21%	13.73%	13.63%	13.53%	14.18%	14.80%	15.05%

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

**City of Watauga, Texas**  
Schedule of Pension Contributions  
Last Ten Fiscal Years

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

Actuarial Cost Method	Entry Age Normal
Amortization Method Level	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 Years (longest amortization ladder)
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50% 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.

## City of Watauga, Texas

### Schedule of Changes in Total OPEB Liability and Related Ratios Last Five Measurement Years

#### Texas Municipal Retirement System - Supplemental Death Benefit Plan

	Year Ended December 31				
	2017	2018	2019	2020	2021
<b>Total OPEB Liability</b>					
Service cost	\$ 20,185	\$ 24,679	\$ 20,879	\$ 27,578	\$ 29,840
Interest	14,766	15,283	16,178	15,117	13,122
Difference between expected and actual experience	-	(28,476)	(12,399)	(17,439)	(9,270)
Change in assumptions	36,678	(32,318)	88,671	86,019	20,923
Benefit payments, including refunds of employee contributions	(2,753)	(2,848)	(2,983)	(3,064)	(8,952)
Net change in total OPEB liability	68,876	(23,680)	110,346	108,211	45,663
Total OPEB liability, beginning	381,917	450,793	427,113	537,459	645,670
<b>Total OPEB Liability, ending</b>	<b>\$ 450,793</b>	<b>\$ 427,113</b>	<b>\$ 537,459</b>	<b>\$ 645,670</b>	<b>691,333</b>
Covered-employee Payroll	\$ 9,175,179	\$ 9,491,816	\$ 9,942,297	\$ 10,214,144	\$ 9,946,803
Total OPEB liability as a percentage of covered payroll	4.91%	4.50%	5.41%	6.32%	6.95%

#### City of Watauga, Texas Retiree Health Plan

	Year Ended December 31				
	2017	2018	2019	2020	2021
<b>Total OPEB Liability</b>					
Service cost	\$ 36,285	\$ 41,530	\$ 40,468	45,223	56,718
Interest	35,912	34,038	37,486	27,887	22,931
Difference between expected and actual experience	-	(10,983)	(134,664)	10,060	65,854
Change in assumptions	49,341	(40,515)	101,448	86,582	(194,560)
Benefit payments, including refunds of employee contributions	(32,844)	(43,918)	(39,042)	(47,893)	(38,086)
Net change in total OPEB liability	88,694	(19,848)	5,696	121,859	(87,143)
Total OPEB liability, beginning	940,851	1,029,545	1,009,697	1,015,393	1,137,252
<b>Total OPEB Liability, ending</b>	<b>\$ 1,029,545</b>	<b>\$ 1,009,697</b>	<b>\$ 1,015,393</b>	<b>\$ 1,137,252</b>	<b>\$ 1,050,109</b>
Covered-employee Payroll	\$ 9,013,440	\$ 9,791,192	\$ 9,769,698	\$ 10,128,852	\$ 9,931,940
Total OPEB liability as a percentage of covered payroll	3.89%	3.89%	10.39%	11.23%	10.57%

GASB 75, Paragraph 97, requires that the information on this schedule be data from the period corresponding with the period covered as of the measurement date of December 31, 2021 - the period from January 1, 2021 - December 31, 2022.

Only five years of data is presented in accordance with GASB 75 paragraph 245. "The information for all periods for the 10-year schedules that are required to be presented as required supplementary information may not be available initially. In these cases, during the transition period, that information should be presented for as many years as are available. The schedules should not include information that is not measured in accordance with the requirements of this Statement. Additional years' information will be displayed as it becomes available."

There are no assets accumulated in a trust that meets the criteria for GASB codification P22.101 or P52.1010 to pay related benefits for the OPEB plans.

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