

**OFFICIAL STATEMENT**

**Dated August 18, 2020**

**Ratings:**  
**Moody's: "Aaa"**  
**S&P: "AAA"**  
**(See "Other Information - Ratings" herein)**

**NEW ISSUE - Book-Entry-Only**

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein.

THE BONDS ARE NOT DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



**\$12,220,000**  
**CITY OF KELLER, TEXAS**  
**(Tarrant County)**  
**GENERAL OBLIGATION REFUNDING AND**  
**IMPROVEMENT BONDS, SERIES 2020**

**Dated Date: August 15, 2020**  
**Interest Accrues from Delivery Date**

**Due: February 15, as shown below**

**PAYMENT TERMS** . . . Interest on the \$12,220,000 City of Keller, Texas General Obligation Refunding and Improvement Bonds, Series 2020 (the "Bonds") will accrue from the delivery date (the "Delivery Date"), will be payable February 15 and August 15 of each year until maturity or prior redemption, commencing February 15, 2021, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "The Bonds - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company N.A., Dallas, Texas (see "The Bonds - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Chapters 1207 and 1331, Texas Government Code, as amended, pursuant to an election held on November 6, 2018 (with respect to the new money portion of the Bonds) and an ordinance adopted by the City Council (the "Ordinance") and constitute direct obligations of the City of Keller, Texas (the "City"), payable from an annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Ordinance (see "The Bonds - Authority for Issuance").

**PURPOSE** . . . Proceeds from the sale of the Bonds will be used for (i) constructing a new senior activity center, (ii) refund a portion of the City's outstanding obligations described in Schedule I attached hereto (the "Refunded Obligations") to achieve debt service savings, and (iii) paying all or a portion of costs of issuance and legal, fiscal and engineering fees in connection with these projects and the Bonds.

**MATURITY SCHEDULE**

**CUSIP Prefix: 487685<sup>(1)</sup>**

Principal Amount	February 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>	Principal Amount	February 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>
\$ 1,380,000	2021	2.000%	0.170%	AW9	\$ 940,000	2029	5.000%	0.780%	BE8
1,335,000	2022	5.000%	0.210%	AX7	990,000	2030	5.000%	0.840% <sup>(2)</sup>	BF5
735,000	2023	5.000%	0.240%	AY5	495,000	2031	5.000%	0.890% <sup>(2)</sup>	BG3
770,000	2024	5.000%	0.280%	AZ2	520,000	2032	4.000%	1.010% <sup>(2)</sup>	BH1
800,000	2025	2.000%	0.350%	BA6	540,000	2033	4.000%	1.090% <sup>(2)</sup>	BJ7
825,000	2026	2.000%	0.440%	BB4	565,000	2034	4.000%	1.170% <sup>(2)</sup>	BK4
845,000	2027	5.000%	0.590%	BC2	590,000	2035	4.000%	1.220% <sup>(2)</sup>	BL2
890,000	2028	5.000%	0.690%	BD0					

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor or the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown is yield to first call date February 15, 2029.

**REDEMPTION** . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds - Optional Redemption").

**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the Underwriter of the Bonds and subject to the approving opinion of the Attorney General of Texas and the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, Dallas, Texas (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Norton Rose Fulbright US, LLP, Dallas, Texas, Counsel for the Underwriters.

**DELIVERY** . . . It is expected that the Bonds will be available for delivery through DTC on September 22, 2020.

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

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

*The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the representation, promise, or guarantee of the Financial Advisor or the Underwriter. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "Other Information - Continuing Disclosure of Information" for a description of the City's undertaking to provide certain information on a continuing basis.*

*None of the City, its Financial Advisor, or the Underwriter make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.*

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

*The cover page of this Official Statement contains certain information for general reference only and is not intended as a summary of the offering. Investors should read the entire Official Statement, including all schedules and appendices hereto, to obtain information essential to making an informed investment decision.*

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

*This Official Statement contains "Forward-Looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties, and other factors which may cause the actual results, performance, and achievements to be different from future results, performance, and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements.*

*The Bonds are exempt from registration with the United States Securities and Exchange Commission and consequently have not been registered therewith. The registration, qualification, or exemption of the Bonds in accordance with applicable securities law provisions of the jurisdiction in which the Bonds have been registered, qualified or exempted should not be regarded as a recommendation thereof.*

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

**OFFICIAL STATEMENT SUMMARY**

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

- THE CITY**..... The City of Keller, Texas (the "City"), is a political subdivision and home rule municipal corporation of the State, located in Tarrant County, Texas. The City covers approximately 18.17 square miles (see "INTRODUCTION - Description of the City").
  
- THE BONDS** ..... The \$12,220,000 General Obligation Refunding and Improvement Bonds, Series 2020 are to mature on February 15 in the years 2021 through 2035 (see "The Bonds - Description of the Bonds").
  
- PAYMENT OF INTEREST** ..... Interest on the Bonds accrues from the Delivery Date, and is payable February 15, 2021, and each August 15 and February 15 thereafter until maturity or prior redemption (see "The Bonds - Description of the Bonds" and "The Bonds - Optional Redemption").
  
- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Chapters 1207 and 1331, Texas Government Code, as amended, an election held on November 6, 2018 (with respect to the new money portion of the Bonds), and an Ordinance adopted by the City Council of the City (see "The Bonds - Authority for Issuance").
  
- SECURITY FOR THE BONDS** ..... The Bonds constitute direct obligations of the City, payable from an annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance (see "The Bonds - Security and Source of Payment").
  
- REDEMPTION** ..... The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "The Bonds – Optional Redemption").
  
- TAX EXEMPTION** ..... In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law subject to the matters described under "Tax Matters" herein.
  
- USE OF PROCEEDS** ..... Proceeds from the sale of the Bonds will be used for (i) constructing a new senior activity center, (ii) to refund a portion of the City’s outstanding obligations described on Schedule I attached hereto (the "Refunded Obligations") to achieve debt service savings and (iii) paying all or a portion of costs of issuance and legal, fiscal and engineering fees in connection with these projects and the Bonds.
  
- RATINGS** ..... The Bonds and the presently outstanding tax supported debt of the City are rated "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") (see "OTHER INFORMATION – Ratings").
  
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the **Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating** members of DTC for subsequent payment to the beneficial owners of the Bonds (see "The Bonds - Book-Entry-Only System").
  
- PAYMENT RECORD** ..... The City has never defaulted in payment of its general obligation tax debt.

**SELECTED FINANCIAL INFORMATION**

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation <sup>(3)</sup>	Per Capita Taxable Assessed Valuation	Net Tax Supported Debt Outstanding at End of Year <sup>(4)</sup>	Per Capita Funded Tax Debt	Ratio Funded Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2016	42,890 <sup>(2)</sup>	\$ 4,482,783,378	\$ 104,518	\$ 31,734,000	\$ 740	0.71%	99.96%
2017	44,050 <sup>(2)</sup>	4,991,173,391	113,307	25,299,533	574	0.51%	96.53%
2018	44,620 <sup>(2)</sup>	5,234,466,178	117,312	25,698,113	576	0.49%	96.09%
2019	44,940 <sup>(2)</sup>	5,788,817,004	128,812	23,379,092	520	0.40%	99.35%
2020	45,090 <sup>(2)</sup>	6,075,545,228	134,743	18,366,207 <sup>(5)</sup>	407	0.30%	95.70% <sup>(6)</sup>

(1) Source: North Central Texas Council of Governments.

(2) Estimate provide by City officials.

(3) Taxable assessed values, with the exception of fiscal year ending 2020, are as reported in the City’s comprehensive annual financial report. The fiscal year ending 2020 taxable assessed value is as reported by the Tarrant Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

(4) Excludes self-supporting debt. See Tables 1 and 10 herein for more detailed information on the City’s general obligation self-supporting debt. The City’s policy to pay such self-supporting general obligation debt from other revenues is subject to change in the future. In the event the City changes it policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(5) Projected, includes the Bonds, excludes the Refunded Obligations and other Self-Supporting Debt.

(6) Collections for part year only, through June 1, 2020.

**CITY OFFICIALS, STAFF, AND CONSULTANTS**

**ELECTED OFFICIALS**

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Pat McGrail Mayor	2 Years	May, 2020 <sup>(1)</sup>	Retired Executive
Mitch Holmes Councilmember, Place 1	1 Year	May, 2021	Civil Engineer
Sean Hicks Councilmember, Mayor Pro Tem	1 Year	May, 2021	Chief Executive Officer
Sheri Almond Councilmember, Place 3	1 Month	May, 2022	Executive Director
Beckie Paquin Councilmember, Place 4	1 Month	May, 2022	Primary Assistant Principal
Chris Whatley Councilmember, Place 5	2 Years	May, 2020 <sup>(1)</sup>	Self-Employed
Tag Green Councilmember, Place 6	2 Years	May, 2020 <sup>(1)</sup>	Broker/Business Owner

(1) Terms scheduled to expire in May 2020, but due to COVID-19 the City Council election has been rescheduled to November 2020 and terms of those positions will holdover until that election.

**SELECTED ADMINISTRATIVE STAFF**

<u>Name</u>	<u>Position</u>	<u>Length of Service With City</u>
Mark Hafner	City Manager	19 Years
Aaron Rector	Director of Administrative Services	4 Years
Kelly Ballard	City Secretary	7 Years

**CONSULTANTS AND ADVISORS**

Auditors ..... Weaver and Tidwell, LLP  
Fort Worth, Texas

Bond Counsel ..... McCall, Parkhurst & Horton L.L.P.  
Dallas, Texas

Financial Advisors ..... Hilltop Securities Inc.  
Fort Worth, Texas

For additional information regarding the City, please contact:

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Keller, Texas 76244	(817) 332-9710
(817) 743-4007	

## OFFICIAL STATEMENT

### RELATING TO

**\$12,220,000**

### **GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2020**

#### INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$12,220,000 City of Keller, Texas, General Obligation Refunding and Improvement Bonds, Series 2020 (the "Bonds"). The Bonds are authorized for issuance by an ordinance adopted by the City Council of the City on August 18, 2020 (the "Ordinance"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

There follow in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc. ("HilltopSecurities"), Fort Worth, Texas.

**DESCRIPTION OF THE CITY . . .** The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City first adopted its Home Rule Charter in 1982. The City operates under the Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The term of office is three years with the terms of the Mayor and two of the Councilmembers' terms expiring in 2020, two Councilmembers terms expiring in 2021, and the term of the other two Councilmembers expiring in 2022. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police, fire protection and emergency medical services), street maintenance, water, sanitary sewer and drainage utilities, library services, parks and recreation, community development (planning and zoning), and general administrative services. The 2010 Census population for the City was 39,627, while the estimated 2020 population is 45,090. The City covers approximately 18.17 square miles.

#### **INFECTIOUS DISEASE OUTBREAK – COVID-19**

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

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance of Executive Order GA-28 and GA-29 on June 26, 2020, and July 2, 2020, respectively, which, among other things, required Texans to (i) close bars; (ii) reduce maximum restaurant occupancy from 75 percent to 50 percent; (iii) limit outdoor gatherings to 100 people, subject to certain exceptions, and (iv) wear face coverings over the nose and mouth in public or places open to the public when it is not feasible to maintain six feet of social distance, subject to certain exceptions. Under Executive Order GA-28, for the remainder of the 2019-2020 school year, public schools may resume operations in the summer under protocols outlined in guidance from the Texas Education Agency. Executive Order GA-28 and GA-29 will remain in effect and in full force unless it is modified, amended, rescinded, or superseded by the Governor.

In addition to the actions by the state and federal officials, certain local officials previously declared a local state of disaster and public health emergency and in many instances have issued "shelter-in-place" orders. Many of the federal, state and local actions and policies under the aforementioned disaster declarations and shelter-in-place orders have focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue to negatively affect economic output worldwide. These negative impacts may reduce or otherwise negatively affect future property

values and/or the collection of sales and other excise taxes, charges, and fees within the City as well as the assets of City's pension funds. See "AD VALOREM PROPERTY TAXATION". The Bonds are secured, by an ad valorem tax (within the limits prescribed by law), and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds and the City's operations and maintenance expenses.

The financial and operating data contained herein are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City operations and financial condition, and the effect could be material.

## PLAN OF FINANCING

**PURPOSE . . .** Proceeds from the sale of the Bonds will be used for (i) constructing a new senior activity center, (ii) to refund a portion of the City's outstanding obligations described on Schedule I attached hereto (the "Refunded Obligations") to achieve debt service savings and (iii) paying all or a portion of costs of issuance and legal, fiscal and engineering fees in connection with these projects and the Bonds.

**REFUNDED OBLIGATIONS . . .** A description and identification of the Refunded Obligations appears on Schedule I attached hereto. The Refunded Obligations are being called for redemption on September 23, 2020 (the "Redemption Date"). The principal and interest due on the Refunded Obligations are to be paid on the Redemption Date from funds to be deposited with the paying agent/registrars for the Refunded Obligations (the "Refunded Obligations Paying Agent"). The Ordinance will provide that, with respect to the Refunded Obligations, a portion of the proceeds from the sale of the Bonds will be irrevocably deposited with the Refunded Obligations Paying Agent on the Redemption Date. The Bank of New York Mellon Trust Company, in its capacity as Paying Agent for the Refunded Obligations, will certify as to the sufficiency of the amounts initially deposited with it to pay the principal of and interest on the Refunded Obligations when due at the scheduled date of redemption. Such funds will be held uninvested by the Refunded Obligations Paying Agent in a trust clearing account pending their disbursement to redeem the Refunded Obligations on the Redemption Date. By the deposit with the Refunded Obligations Paying Agent in such trust clearing account, the City will have effected the defeasance of all the Refunded Obligations in accordance with the applicable law.

**SOURCES AND USES OF PROCEEDS . . .** The proceeds from the sale of the Bonds will be applied as follows:

	The Bonds
<u>Sources of Funds</u>	
Par Amount	\$ 12,220,000.00
Reoffering Premium	2,269,371.35
Total Sources of Funds	\$ 14,489,371.35
<u>Uses of Funds</u>	
Deposit to Escrow Fund	\$ 6,296,881.04
Deposit to Construction Fund	8,000,000.00
Cost of Issuance <sup>(1)</sup>	192,490.31
Total Uses of Funds	\$ 14,489,371.35

(1) Includes Underwriters' Discount.

## THE BONDS

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated August 15, 2020 (the "Dated Date"), and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the Delivery Date, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15 of each year, commencing February 15, 2021, and until maturity or prior redemption. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of The Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of The Bonds. See "Book-Entry-Only System" herein.



Interest on the Bonds shall be paid to the Registered Owners appearing on the registration books of the Paying Agent/Registrar (the "Registered Owners") at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the Registered Owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the Registered Owner. Principal of the Bonds will be paid to the Registered Owner at their stated maturity or upon earlier redemption upon presentation to designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the Registered Owner of the Bonds, all payments will be made as described under "The Bonds - Book-Entry-Only System" herein. If the date for any payment on the Bonds shall be a Saturday, a Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of 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.

**AUTHORITY FOR ISSUANCE . . .** The Bonds are being issued pursuant to the Constitution and general laws of the State, including particularly Chapters 1207 and 1331, Texas Government Code, as amended, and an Ordinance adopted by the City Council of the City and at an election held November 6, 2018 (see "The Bonds - Authority for Issuance").

**SECURITY AND SOURCE OF PAYMENT . . .** The principal of and interest on the Bonds is payable from a direct and continuing annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City as provided in the Ordinance.

**TAX RATE LIMITATION . . .** All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City adopts the constitutionally authorized maximum tax rate of \$2.50 per \$100 Taxable Assessed Valuation.

**OPTIONAL REDEMPTION . . .** The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2030, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2029, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of the Bonds, to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds, are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

With respect to any optional redemption of the Bonds, unless certain prerequisites to such redemption required by the Ordinance have been met and money sufficient to pay the principal of and premium, if any, and interest on the Bonds, to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption will, at the option of the City, be conditional upon the satisfaction of such prerequisites and receipt of such money by the Paying Agent/Registrar on or prior to the date fixed for such redemption or upon any prerequisite set forth in such notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption are not fulfilled, such notice will be of no force and effect, the City will not redeem such Bonds, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that such Bonds, have not been redeemed.

**NOTICE OF REDEMPTION . . .** Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Registered Owners of the Bonds to be redeemed, in whole or in part, at the address of the Registered Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. If an Obligation (or any portion of its principal sum) shall have been duly called for redemption and any other condition to redemption satisfied, then upon the redemption date such Obligation (or the portion of its principal sum to be redeemed) shall become due and payable, and, if moneys for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption are held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable from and after the redemption date on the principal amount redeemed.

**DEFEASANCE . . .** The Ordinance provides that any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding (a "Defeased Bond") within the meaning of the Ordinance when payment of the principal of such Bond, plus interest thereon to the due date either (i) shall have been made or caused to be made in accordance with the terms thereof, or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar for such payment (1) lawful money of the United States of America sufficient to make such payment or (2) Government Obligations which mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to provide for such payment, and when proper arrangements have been

made by the City with the Paying Agent/Registrar for the payment of its services until all Defeased Bonds shall have become due and payable, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Government Obligations. At such time as an Bonds shall be deemed to be a Defeased Bond hereunder, as aforesaid, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes herein levied and pledged as provided in the Ordinance, and such principal and interest shall be payable solely from such money or Government Obligations.

Any moneys so deposited with the Paying Agent/Registrar may at the written direction of the City also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from such Government Obligations received by the Paying Agent/Registrar which is not required for the payment of the Obligations and interest thereon, with respect to which such money has been so deposited, shall be turned over to the City, or deposited as directed in writing to the City. The Ordinance provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, and including obligations that are unconditionally guaranteed by the United States of America and (b) noncallable obligations of an agency or instrumentality of the United States of America, and including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council approves such defeasance, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent.

Upon such deposit as described above, such Defeased Bonds shall no longer be regarded to be outstanding obligations payable from ad valorem taxes levied by the City, but will be payable only from the funds and Government Obligations deposited in escrow and will not be considered debt of the City for any purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; and (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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

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

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities Bonds. 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 Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

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

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

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

Payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

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

**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 Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "The Bonds - Transfer, Exchange and Registration" below.

**PAYING AGENT/REGISTRAR . . .** The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each Registered Owner of the Bonds affected by the changes by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

In the event the use of the Book-Entry-Only system is discontinued, principal of the Bonds is payable to the Registered Owner at the designated corporate trust office of the Paying Agent/Registrar upon surrender of the Bonds for payment; provided, however, that so long as Cede & Co. (or other DTC nominee) is the Registered Owner of the Bonds, all payments will be made as described under "The Bonds - Book-Entry-Only System" herein. Interest on the Bonds is payable to the Register Owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (identified below) and such interest shall be paid by the Paying Agent/Registrar by check mailed, first class postage prepaid, to the Register Owner or by such other arrangement, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the Registered Owner. If the date for the payment of the principal of or interest on the Bonds and Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the designated corporate office of the Paying Agent/Registrar is located is authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

**TRANSFER, EXCHANGE AND REGISTRATION . . .** In the event the Book-Entry-Only System should be discontinued, printed Bonds will be delivered to the Registered Owners and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender of such printed Bonds to the Paying Agent/Registrar and such transfer or exchange 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, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new Registered Owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the Registered Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See "The Bonds—Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Registered Owner of the uncalled balance of a Bond.

**RECORD DATE FOR INTEREST PAYMENT . . .** The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which 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 Bond to be paid on the Special Payment Date that appears 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.

**AMENDMENTS . . .** In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder of the Bonds for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the holders, (ii) grant additional rights or security for the benefit of the holders, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the holders, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the holders.

The Ordinance further provides that the Registered Owner of the Bonds, as applicable, aggregating in principal amount a majority of the outstanding Bonds, as the case may be, shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the holders in original principal amount of the then outstanding Bonds so affected, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

**REMEDIES . . .** The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners thereof, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any Registered Owner of a respective Bond is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the owners of the respective Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. The Texas Supreme Court has 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*, No. 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 the 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 State's immunity is not an efficient way to ensure efficient allocation of State resources". While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held the Proprietary-Governmental Dichotomy applies in contract-claims context. 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. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, owners of Obligations may not be able to bring such a suit against the City for breach of the Obligations or Ordinance covenants in the absence of City action. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the Registered Owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds or the Bonds. 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 opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, by principles of governmental immunity, and by general principles of equity which permit the exercise of judicial discretion.

Initially, the only Registered Owner of the Bonds will be Cede & Co., as DTC's nominee. See "The Bonds - Book-Entry-Only System" herein for a description of the duties of DTC with regard to ownership of the Bonds.

## TAX INFORMATION

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

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

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.

For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM PROPERTY TAXATION – City Application of Tax Code" herein.

**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.

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

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the 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 Bonds.**

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

**PROPERTY ASSESSMENT AND TAX PAYMENT . . .** Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

**PENALTIES AND INTEREST . . .** Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7	2	9
April	8	3	11
May	9	4	13
June	10	5	15
July	12	6	18

After July, penalty remains at 12%, and interest accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, a taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may provide for a fee up to 20% of the amount of delinquent tax, penalty, and interest collected. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action 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.

**CITY APPLICATION OF TAX CODE . . .** The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$40,000.

The City grants an exemption of \$10,000 to the market value of the residence homestead of disabled persons.

The City has historically granted an additional exemption of 4% of the market value of residence homesteads; minimum exemption of \$5,000. On June 20, 2017, the City Council increased the additional exemption to 8% of the market value of residence homesteads, effective beginning in the 2017/18 fiscal year.

On June 19, 2018, the City Council increased the additional exemption to 10% of the market value of residence homesteads, effective for the 2018/19 fiscal year.

For tax year 2020, the City Council increased the additional exemption to 14% of the market value of residence homestead.

On August 3, 2004, the City Council adopted a resolution to implement the tax freeze for the residence homestead of the disabled and persons sixty-five years of age or older, and their spouses. The freeze was effective with the January 1, 2004 tax roll and the tax levied for the 2005/06 fiscal year.

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

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property; and the Tarrant County Tax Assessor/Collector collects taxes for the City.

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

The City has taken action to tax freeport property.

The City does not collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City does tax goods in transit.

The City has adopted a tax abatement policy but has not entered into any tax abatement agreements. Under the policy, a project may qualify for an abatement if it is expected to result in an increase in the appraised value of the property and is expected to prevent the loss of or retain employment or create new employment. Abatements may be granted up to 50% of the additional value generated by the project for a maximum of ten years, with the amount of abatement depending on expected capital investment by the applicant and the number of jobs to be created and applied on a declining scale after the first year.

**CHAPTER 380 AGREEMENTS . . .** The City has six Chapter 380 Agreements with property tax rebates. All agreements will begin with completion of certain construction milestones such as receipt of Certificate of occupation. The first agreement relates to current and future rolls which includes grants from legally available funds equal to the property taxes received by the City in excess of the base value that are attributed to the completed improvements at 100% first three years, 75% the fourth year, and 50% the fifth year and is anticipated to begin with tax year 2019. The second agreement relates to current and future rolls which includes grants from legally available funds equal to the property taxes received by the City in excess of the base value that are attributed to the completed improvements at 100% for the first two years, 75% the third year, and 50% the fourth year. The third agreement relates to current and future rolls which includes grants from legally available funds equal to the property taxes received by the City in excess of the base value that are attributed to the completed improvements at 50% of the property taxes received by the City the first year, 40% the second year, and 30% the third year and begin with tax year 2018. This agreement has a maximum total property tax rebate of \$10,320. The fourth agreement relates current and future rolls which includes grants from legally available funds equal to the property taxes received by the City in excess of the base value that are attributed to the completed improvements at 100% of the first year, 80% the second year, 70% the third year, 60% the fourth year, and 50% the fifth year and is anticipated to begin with tax year 2019. This agreement has a maximum total property tax rebate of \$297,540. The fifth agreement relates to current and future rolls which includes grants from legally available funds equal to the property taxes received by the City in excess of the base value that are attributed to the completed improvements at 100% for the first year, 90% the second year, 80% the third year, 70% the fourth year, and 60% the fifth year and is anticipated to begin with tax year 2020. This agreement has a maximum total property tax rebate of \$38,064. The sixth agreement relates to current and future rolls which includes grants from legally available funds equal to the property taxes received by the City in excess of the base value that are attributed to the completed improvements at 100% for the first year, 90% the second year, 80% the third year, 70% the fourth year, and 60% the fifth year and is anticipated to begin with tax year 2020. This agreement has a maximum total property tax rebate of \$72,332.

**TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT**

2019/20 Market Valuation Established by Tarrant Appraisal District (includes incomplete and arb values, excludes totally exempt property)		\$ 7,540,160,893
Less Exemptions/Reductions at 100% Market Value:		
Residence Homestead Exemptions	\$ 592,721,555	
Over 65 Years of Age/Disabled	119,614,869	
Disabled Veterans Exemptions	39,118,783	
Agricultural Deferral	106,325,839	
Cap Loss	245,534,640	
Solar	1	
Nominal Value	11,107	
Pollution	135,946	
Miscellaneous	33,152,752	
Totally Exempt	<u>328,000,173</u>	<u>1,464,615,665</u>
2019/20 Taxable Assessed Valuation		<u>\$ 6,075,545,228</u>
City Funded Debt Payable from Ad Valorem Taxes (as of 4-1-20)		
General Obligation Bonds	\$ 17,285,000 <sup>(1)</sup>	
Tax and System Debt	27,185,000 <sup>(1)</sup>	
The Bonds	<u>12,220,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 56,690,000
Less Self-Supporting Debt: <sup>(2)</sup>		
Crime Control District	\$ 3,675,000	
Development Corporation General Obligation Debt	8,105,000	
Water and Sewer System General Obligation Debt	<u>26,148,793 <sup>(3)</sup></u>	<u>37,928,793</u>
Net Funded Debt Payable from Ad Valorem Taxes		\$ 18,761,207
Interest and Sinking Fund as of 6-1-20		\$ 4,006,341
Ratio Total Funded Debt to Taxable Assessed Valuation . . . . .		0.93%
Ratio Net Funded Debt to Taxable Assessed Valuation . . . . .		0.31%

2020 Estimated Population - 45,090  
Per Capita Taxable Assessed Valuation - \$134,743  
Per Capita Total Funded Debt - \$1,257  
Per Capita Net Funded Debt - \$416

- (1) Excludes the Refunded Obligations.  
(2) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.  
(3) Includes a portion of the Bonds and excludes a portion of the Refunded Obligations.

**TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY (1)(2)**

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2020		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 5,998,037,919	79.55%	\$ 5,409,341,929	83.88%	\$ 4,901,809,744	84.31%
Real, Residential, Multi-Family	260,195,406	3.45%	196,654,424	3.05%	189,120,890	3.25%
Real, Vacant Lots/Tracts	93,861,020	1.24%	67,202,230	1.04%	73,123,106	1.26%
Real, Acreage (Land Only)	106,546,577	1.41%	315,024	0.00%	245,064	0.00%
Real, Farm and Ranch Improvements	28,904,188	0.38%	22,553,713	0.35%	21,253,076	0.37%
Real, Commercial and Industrial	842,373,894	11.17%	552,431,901	8.57%	463,050,154	7.96%
Real, Oil, Gas and Mineral Reserve	368,690	0.00%	305,430	0.00%	208,990	0.00%
Real and Tangible Personal, Utilities	69,279,923	0.92%	77,343,280	1.20%	58,681,344	1.01%
Tangible Personal, Commercial	109,854,004	1.46%	97,683,885	1.51%	86,740,871	1.49%
Tangible Personal, Industrial	2,049,294	0.03%	1,869,230	0.03%	1,858,394	0.03%
Tangible Personal, Mobile Homes	36,791	0.00%	55,331	0.00%	98,625	0.00%
Real Property, Inventory	28,653,187	0.38%	23,442,213	0.36%	18,041,509	0.31%
Total Appraised Value Before Exemptions	\$ 7,540,160,893	100.00%	\$ 6,449,198,590	100.00%	\$ 5,814,231,767	100.00%
Adjustments	-		10,296,079		(129,211,285)	
Plus: Minimum Value of Protests	-		-		-	
Less: Total Exemption/Reductions	(1,464,615,665)		(670,677,665)		(450,554,304)	
Taxable Assessed Value	<u>\$ 6,075,545,228</u>		<u>\$ 5,788,817,004</u>		<u>\$ 5,234,466,178</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 4,512,174,518	85.26%	\$ 4,072,168,540	83.08%
Real, Residential, Multi-Family	174,733,862	3.30%	160,892,289	3.28%
Real, Vacant Lots/Tracts	73,647,068	1.39%	64,836,054	1.32%
Real, Acreage (Land Only)	254,621	0.00%	795,404	0.02%
Real, Farm and Ranch Improvements	14,769,700	0.28%	143,201	0.00%
Real, Commercial and Industrial	417,163,588	7.88%	408,398,080	8.33%
Real, Oil, Gas and Mineral Reserve	279,050	0.01%	977,260	0.02%
Real and Tangible Personal, Utilities	24,257,516	0.46%	52,604,219	1.07%
Tangible Personal, Commercial	57,791,877	1.09%	86,064,502	1.76%
Tangible Personal, Industrial	1,703,538	0.03%	1,683,183	0.03%
Tangible Personal, Mobile Homes	27,172	0.00%	61,500	0.00%
Real Property, Inventory	15,287,872	0.29%	52,912,914	1.08%
Total Appraised Value Before Exemptions	\$ 5,292,090,382	100.00%	\$ 4,901,537,146	100.00%
Adjustments	(376,835,653)		(300,426,321)	
Plus: Minimum Value of Protests	343,274,546		45,193,798	
Less: Total Exemptions/Reductions	(267,355,885)		(163,521,245)	
Taxable Assessed Value	<u>\$ 4,991,173,391</u>		<u>\$ 4,482,783,378</u>	

- (1) Valuations shown are certified assessed values reported by the Tarrant Appraisal District to the State Comptroller of Public Accounts.
- (2) Net taxable assessed values, with the exception of fiscal year ending 2020, are as reported in the City's comprehensive annual financial report. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records. Includes incomplete values and values in arbitration.

**TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

Fiscal Year Ended 9/30	Estimated Population <sup>(1)</sup>	Taxable Assessed Valuation <sup>(2)</sup>	Taxable Assessed Valuation Per Capita	Net Tax Supported Debt Outstanding at End of Year <sup>(3)</sup>	Ratio of Tax Supported Debt to Taxable Assessed Valuation	Tax Supported Debt Per Capita
2016	42,890	\$ 4,482,783,378	\$ 104,518	\$ 31,734,000	0.71%	\$ 740
2017	44,050	4,991,173,391	113,307	25,299,533	0.51%	574
2018	44,620	5,234,466,178	117,312	25,698,113	0.49%	576
2019	44,940	5,788,817,004	128,812	23,379,092	0.40%	520
2020	45,090	6,075,545,228	134,743	18,366,207 <sup>(4)</sup>	0.30%	407

(1) Estimate provide by City officials.

(2) Taxable assessed values, with the exception of fiscal year ending 2020, are as reported in the City’s comprehensive annual financial report. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

(3) Excludes self-supporting debt. See Tables 1 and 10 herein for more detailed information on the City’s general obligation self-supporting debt. The City’s policy to pay such self-supporting general obligation debt from other revenues is subject to change in the future. In the event the City changes it policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Projected, includes the Bonds and excludes the Refunded Obligations.

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

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% Current Collections	% Total Collections
		General Fund	Interest and Sinking Fund			
2016	\$ 0.43469	\$ 0.336380	\$ 0.098310	\$ 20,367,131	99.54%	99.96%
2017	0.43000	0.313580	0.116420	22,198,977	96.05%	96.53%
2018	0.42750	0.318980	0.108520	22,209,513	96.09%	96.09%
2019	0.41325	0.332940	0.080310	23,613,830	99.35%	99.35%
2020	0.39990	0.318276	0.081624	24,296,105	95.70% <sup>(1)</sup>	95.70% <sup>(1)</sup>

(1) Collections for part year only, through June 1, 2020.

**TABLE 5 - TEN LARGEST TAXPAYERS**

Name of Taxpayer	Nature of Property	2019/20 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
WW 1300 Keller Parkway LLC	Commercial	\$ 105,700,000	1.74%
Conservatory Senior Housing	Residential Land	56,093,580	0.92%
T Arthouse TX LLC	Commercial	37,000,000	0.61%
Grand Estates at Keller LP	Apartments	25,000,000	0.41%
Regency Centers LP	Retail Shopping Center/Town Center	19,449,972	0.32%
JAHCO Keller Crossing LLC	Retail Shopping Center/Town Center	19,306,880	0.32%
Atmos Energy/Mid-Tex Div.	Oil & Gas	18,645,880	0.31%
Bear Creek Plaza Ltd.	Retail Shopping Center	17,068,307	0.28%
Keller Senior Community LP	Senior Housing Development	13,600,000	0.22%
Charter Communications Operating LLC	Telecommunications	13,248,454	0.22%
		<u>\$ 325,113,073</u>	<u>5.35%</u>

**GENERAL OBLIGATION DEBT LIMITATION . . .** No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (however, see "The Bonds - Tax Rate Limitation").

**TABLE 6 - TAX ADEQUACY <sup>(1)</sup>**

2020 Net Debt Service Requirement <sup>(1)</sup>	\$ 3,701,567
\$0.0616 Tax Rate at 99.00% Collection Produces	\$ 3,705,111
Net Maximum Debt Service Requirement, 2020 <sup>(1)</sup>	\$ 3,701,567
\$0.0616 Tax Rate at 99.00% Collection Produces	\$ 3,705,111
2020 Total Debt Service Requirement	\$ 9,063,474
\$0.1507 Tax Rate at 99.00% Collection Produces	\$ 9,064,288
Gross Maximum Total Debt Service Requirement, 2020	\$ 9,063,474
\$0.1507 Tax Rate at 99.00% Collection Produces	\$ 9,064,288

(1) Excludes the Bonds and other self-supporting debt.

**TABLE 7 - ESTIMATED OVERLAPPING DEBT**

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

Taxing Jurisdiction	2019/20 Taxable Assessed Value	2019/20 Tax Rate	Total Tax Supported Debt	Estimated % Applicable	City's Overlapping Tax Supported Debt As of 6-1-20	Authorized But Unissued Debt As Of 6-1-20
City of Keller	\$ 6,075,545,228	\$ 0.399900	\$ 18,761,207	100.00%	\$ 18,761,207 <sup>(1)</sup>	\$ -
Carroll Independent School District	9,729,427,446	1.300000	347,155,000	0.58%	2,013,499	-
Keller Independent School District	20,477,206,838	1.408000	929,041,727	32.09%	298,129,490	-
Northwest Independent School District	19,661,365,375	1.420000	901,314,781	0.16%	1,442,104	199,000,000
Tarrant County	211,499,174,386	0.234000	266,375,000	3.13%	8,337,538	30,600,000
Tarrant County Hospital District	211,985,667,192	0.224000	16,135,000	3.13%	505,026	-
Total Direct and Overlapping Tax Supported Debt					\$ 329,188,863	
Ratio of Direct and Overlapping Tax Supported Debt to Taxable Assessed Valuation					5.42%	
Per Capita Overlapping Tax Supported Debt					\$ 6,480.32	

(1) Includes the Bonds, excludes the Refunded Obligations and net of self-supporting debt.

**TABLE 8 - GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year Ended 9/30	Outstanding Debt Service <sup>(1)</sup>		The Bonds <sup>(2)</sup>			Total Debt Service Requirements	Less: Development Corporation Requirements	Less: Crime Control Prevention District Requirements	Less: Water and Sewer System Requirements <sup>(3)</sup>	Total Net Debt Service Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest	Total						
2020	\$ 7,425,000	\$ 1,638,474	\$ -	\$ -	\$ -	\$ 9,063,474	\$ 1,582,419	\$ 524,950	\$ 3,254,538	\$ 3,701,567	
2021	5,620,000	1,285,745	1,380,000	433,645	1,813,645	8,719,390	1,582,494	524,950	2,949,089	3,662,857	
2022	5,830,000	1,109,415	1,335,000	437,725	1,772,725	8,712,140	1,581,419	528,825	2,964,053	3,637,843	
2023	6,015,000	924,636	735,000	385,975	1,120,975	8,060,611	1,589,044	526,575	2,676,305	3,268,687	
2024	4,765,000	751,911	770,000	348,350	1,118,350	6,635,261	249,794	528,075	2,681,618	3,175,775	53.16%
2025	2,770,000	635,313	800,000	321,100	1,121,100	4,526,413	249,319	528,600	1,857,795	1,890,699	
2026	2,850,000	554,963	825,000	304,850	1,129,850	4,534,813	253,619	523,750	1,862,395	1,895,050	
2027	2,640,000	471,748	845,000	275,475	1,120,475	4,232,223	252,694	528,125	1,553,755	1,897,650	
2028	2,185,000	396,394	890,000	232,100	1,122,100	3,703,494	251,619	-	1,550,751	1,901,124	
2029	2,265,000	324,640	940,000	186,350	1,126,350	3,715,990	255,319	-	1,559,497	1,901,175	79.86%
2030	1,450,000	267,045	990,000	138,100	1,128,100	2,845,145	258,719	-	1,560,827	1,025,600	
2031	1,505,000	224,556	495,000	100,975	595,975	2,325,531	261,819	-	1,467,737	595,975	
2032	1,245,000	183,091	520,000	78,200	598,200	2,026,291	259,694	-	1,168,398	598,200	
2033	905,000	148,313	540,000	57,000	597,000	1,650,313	262,188	-	791,125	597,000	
2034	940,000	117,566	565,000	34,900	599,900	1,657,466	269,141	-	788,425	599,900	94.22%
2035	705,000	89,850	590,000	11,800	601,800	1,396,650	-	-	794,850	601,800	
2036	725,000	65,400	-	-	-	790,400	-	-	790,400	-	
2037	755,000	40,075	-	-	-	795,075	-	-	795,075	-	
2038	445,000	20,475	-	-	-	465,475	-	-	465,475	-	
2039	460,000	6,900	-	-	-	466,900	-	-	466,900	-	100.00%
	<u>\$ 51,500,000</u>	<u>\$ 9,256,511</u>	<u>\$ 12,220,000</u>	<u>\$ 3,346,545</u>	<u>\$ 15,566,545</u>	<u>\$ 76,323,056</u>	<u>\$ 9,159,297</u>	<u>\$ 4,213,850</u>	<u>\$ 32,931,382</u>	<u>\$ 30,018,527</u>	

- (1) "Outstanding Debt" does not include lease/purchase obligations. Includes self-supporting debt and excludes the Refunded Obligations.  
(2) Average life of the issue - 6.389 years. Interest on the Bonds has been calculated at the rates stated on the cover page hereof.  
(3) Includes a portion of the Bonds and excludes a portion of the Refunded Obligations.

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

Projected Tax Supported Debt Service Requirements, Fiscal Year Ending 9-30-20 . . . . .		\$ 3,701,567 <sup>(1)</sup>
Interest and Sinking Fund, 9-30-19 . . . . .	\$ 2,736,902	
Budget Interest and Sinking Fund Tax Levy . . . . .	4,327,596	
Estimated Investment Income . . . . .	<u>10,686</u>	<u>7,075,184</u>
Estimated Balance, 9-30-20 . . . . .		<u>\$ 3,373,618</u>

(1) Net of self-supporting debt.

**TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT <sup>(1)</sup>**

Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-19 . . . . .	\$ 5,731,962	
System General Obligation Bond Requirements, 2020 Fiscal Year . . . . .		<u>3,254,538</u>
Balance . . . . .		<u>\$ 2,477,424</u>
Percentage of System General Obligation Bonds, Self-Supporting . . . . .		100.00%
Gross Revenue Available for Debt Service from Keller Development Corporation (KDC), Fiscal Year Ended 9-30-19 . . . . .	\$ 2,556,291	
KDC General Obligation Bond Requirements, 2020 Fiscal Year . . . . .		<u>1,582,419</u>
Balance . . . . .		<u>\$ 973,872</u>
Percentage of KDC General Obligation Bonds, Self-Supporting . . . . .		100.00%
Gross Revenue Available for Debt Service from Keller Crime Control Prevention District, Fiscal Year Ended 9-30-19 . . . . .	\$ 1,856,909	
System General Obligation Bond Requirements, 2020 Fiscal Year . . . . .		<u>524,950</u>
Balance . . . . .		<u>\$ 1,331,959</u>
Percentage of System General Obligation Bonds, Self-Supporting . . . . .		100.00%

(1) It is the City’s current policy to provide these payments from the respective revenue sources shown above; this policy is subject to change in the future.

**TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION DEBT**

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Being Issued <sup>(1)</sup></u>	<u>Unissued Balance</u>
Senior Citizen Center	11/6/2018	\$ 8,000,000	\$ 8,000,000	\$ -

(1) Includes \$1,310,000 of premium received on the Bonds and allocated to voter authorization.

**ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . .** The City anticipates the issuance of approximately \$4,060,000 of Certificates of Obligation to the Texas Water Development Board in November of 2020.



**TABLE 12 – OTHER OBLIGATIONS**

The City has no unfunded debt outstanding as of September 30, 2019.

**PENSION FUND** . . . The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

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

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

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee’s accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee’s accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee’s salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee’s accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	161
Inactive Employees Entitled to But Not Yet Receiving Benefits	214
Active Employees	<u>285</u>
	660

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.51% in calendar years 2018 and 15.45% in calendar year 2019, respectively. The City’s contributions to TMRS for the year ended September 30, 2019 were \$2,984,650, and were equal to the required contributions.

**Net Pension Liability** . . . The city’s Net Pension Liability (NPL) was measured as of December 31, 2018, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

**Actuarial Assumptions** . . . The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	10 year smooth market; 15% soft corridor

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

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2014 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2016. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation. After the Asset Allocation Study Analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

The target allocation and best estimates of real rates of return for each major asset class are summarized as follows:

<u>Asset Class</u>	<u>Allocation</u>	<u>(Arithmetic)</u>
Domestic Equity	17.5%	4.30%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
None-Core Fixed Income	20.0%	3.39%
Real Return	10.0%	3.78%
Real Estate	10.0%	4.44%
Absolute Return	10.0%	3.56%
Private Equity	5.0%	7.75%
Total	100.0%	

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

*Allocations* . . . The City's net pension liability, pension expense, and deferred outflows of resources related to TMRS have been allocated between governmental activities, business-type activities, and the internal service fund using a contribution-based method. The internal service fund portion of the pension activity is recorded within governmental activities at the governmental wide financial statements.

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(a)	(b)	(a) - (b)
Balance at 12/31/2017	\$ 97,999,863	\$ 85,872,450	\$ 12,127,413
Changes for the year:			
Service cost	3,212,200	-	3,212,200
Interest	6,584,504	-	6,584,504
Change of benefit terms	-	-	-
Difference between expected and actual experience	134,966	-	134,966
Changes of assumptions	-	-	-
Contributions - employer	-	2,898,267	(2,898,267)
Contributions - employee	-	1,308,051	(1,308,051)
Net investment income	-	(2,574,087)	2,574,087
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(4,115,526)	(4,115,526)	-
Administrative expense	-	(49,714)	49,714
Other changes	-	(2,558)	2,558
Net changes	<u>5,816,144</u>	<u>(2,535,567)</u>	<u>8,351,711</u>
Balance at 12/31/2018	<u>\$ 103,816,007</u>	<u>\$ 83,336,883</u>	<u>\$ 20,479,124</u>

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability	\$ 36,297,347	\$ 20,479,124	\$ 7,631,034

For more detailed information concerning the TMRS, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note 8.

For the year ended September 30, 2019, the City recognized pension expense of \$4,341,262.

At September 30, 2019, 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 between expected and actual economic experience	\$ 106,492	\$ 491,803
Changes in actuarial assumptions	268,985	-
Difference between projected and actual investment earnings	4,437,824	-
Contributions subsequent to the measurement date	<u>2,275,142</u>	<u>-</u>
Total	\$ 7,088,443	\$ 491,803

The \$2,275,142 reported as deferred outflows of resources related to pensions result from contributions subsequent to the measurement date and will reduce the net pension liability during the fiscal year ended September 30, 2020. The other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended December 31:	Total
2020	\$ 1,461,368
2021	589,541
2022	576,016
2023	<u>1,694,573</u>
Total	<u>\$ 4,321,498</u>

**OTHER POST-EMPLOYMENT BENEFITS . . .** The City provides for two other post-employment benefits (OPEB) plans; one provides for post-employment health insurance benefits through a single-employer defined benefit medical plan (City of Keller Retiree Health Care Plan), and the other is The Texas Municipal Retirement System Supplemental Death Benefits Fund, a single employer defined benefit OPEB plan.

The City provides other postemployment benefits (OPEB) in the form of health insurance benefits through a single-employer defined benefit medical plan. Regular full-time employees retiring from the City with 20 years of service or five years of service if over 60, have the option to continue medical insurance coverage for themselves and their families until the retiree becomes eligible for Medicare or is eligible to be covered under another medical plan. The retired employee pays 100% of the premium which was \$779 to \$2,131 depending on what plan the retiree chooses. A third-party administrator is utilized to provide claims administration and payment of claims.

The Plan does not issue a separate financial report.

The following table provides a summary of the number of participants in the plan as of December 31, 2018:

Inactive Employees or Beneficiaries Currently Receiving Benefits	2
Inactive Employees Entitled to But Not Yet Receiving Benefits	-
Active Employees	<u>276</u>
	278

Contributions . . . The City’s plan is a pay-as-you-go plan in which the City does not contribute to a trust to fund future benefits. The City’s contributions during the fiscal year ending September 30, 2019 of \$46,752 all of which were for the benefit payments and were paid by the City using its own assets. The benefit payments were determined in a manner similar to how the benefit payments for the measurement period were developed. The City through its budgeting process determines the annual contributions to the Plan based on the actuarially determined contribution and the availability of funds.

Total OPEB liability reported at September 30, 2018 was measured as of December 31, 2018, and based on actuarial valuation as of December 31, 2017. Update procedures were performed to roll-forward the OPEB liability to December 31, 2018.

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method: Individual Entry-Age Norma

Discount rate: 3.71% as of December 31, 2018

Inflation: 2.50%

Salary increases: 3.50% to 10.50%, including inflation

Demographic assumptions: Based on the experience study covering the four-year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System.

Mortality: For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

Healthcare cost trend rates: Initial rate of 7.50% declining to an ultimate rate of 4.25% after 15 years

Participation rates: 17% for employees retiring on or after the age of 50 and 0 % for employees retiring before age 50

Changes in the Total OPEB Liability:

	Total OPEB Liability
Balance at 12/31/2017	\$ 1,406,455
Changes for the year:	
Service cost	75,886
Interest on the total OPEB liability	47,242
Difference between expected and actual experience	8,944
Changes of assumptions	(58,608)
Benefit payments	(34,269)
Net changes	<u>39,195</u>
Balance at 12/31/2018	<u>\$ 1,445,650</u>

The benefit payments during the measurement period were determined as follows:

Age-adjusted premiums (retiree contributions * 1.733)	\$ 81,021
Retiree contributions	<u>(46,752)</u>
Total benefit payments	\$ 34,269

The 1.733 factor equals the ratio of the expected retiree claims to the expected retiree contributions. The underlying retiree claims were estimated using age-adjusted premiums.

Regarding the sensitivity of the total OPEB liability to changes in the Single Discount Rate, the following presents the plan's net OPEB liability, calculated using a discount rate of 3.71%, 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 in Discount Rate (2.71%)	Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
Total OPEB liability	\$ 1,596,096	\$ 1,445,650	\$ 1,309,677

Regarding the 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
Total OPEB liability	\$ 1,596,096	\$ 1,445,650	\$ 1,309,677

For the year ended December 31, 2018, the City recognized OPEB expense of \$125,084. At September 30, 2019, the 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
Changes in actuarial assumptions	\$ 56,037	\$ 52,876
Difference between projected and actual investment earnings	8,069	-
Contributions subsequent to the measurement date	<u>29,220</u>	<u>-</u>
Total	\$ 93,326	\$ 52,876

The \$29,220 reported as deferred outflows of resources related to OPEB result from contributions subsequent to the measurement date and will reduce the total OPEB liability during the fiscal year ending September 30, 2020.

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

Year Ended <u>December 31:</u>	<u>Total</u>
2020	\$ 1,957
2021	1,958
2022	1,959
2023	1,960
2024	1,961
Thereafter	<u>1,435</u>
Total	<u>\$ 11,230</u>

Differences between changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

The expected remaining service lives of all active employees in the plan were approximately 2,843 years. Additionally, the total plan membership (active employees and inactive employees) was 278. As a result, the average of the expected remaining service lives for purposes of recognizing the applicable deferred outflows and inflows of resources established in the current measurement period is 10.2251 years.

For more detailed information concerning the OPEB, see Appendix B, "Excerpts from the City's Comprehensive Annual Financial Report" - Note 9.

*Supplemental Death Benefits* . . . Texas Municipal Retirement System ("TMRS") administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500.

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	105
Inactive Employees Entitled to But Not Yet Receiving Benefits	53
Active Employees	<u>285</u>
	443

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.

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. 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 retiree portion of contribution rates to the SDBF for the City was 0.02% in calendar years 2018 and 2019. The City's contributions to the SDBF for the year ended September 30, 2019 were \$3,825, and were equal to the required contributions.

For more information concerning the City's other post-employment benefits, see Appendix B, "Excerpts from the City's Annual Financial Report" - Note - 9.

## FINANCIAL INFORMATION

**TABLE 13 - CHANGES IN NET ASSETS**

	Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
<b>Program Revenues:</b>					
Charges for Services	\$ 5,499,265	\$ 5,351,963	\$ 6,188,567	\$ 6,741,138	\$ 4,961,205
Operating Grants and Contributions	4,363,634	4,209,216	3,620,161	3,878,523	3,373,672
Capital Grants and Contributions	2,023,535	20,227	1,242,726	1,881,643	285,924
<b>General Revenues:</b>					
Property Taxes	23,534,184	27,517,501	26,040,551	24,046,908	22,777,252
Sales/Other Taxes	17,455,101	16,726,915	16,247,719	15,858,339	14,274,477
Investment Earnings	1,726,322	1,070,649	733,658	153,866	861,938
Miscellaneous	183,918	278,852	286,954	208,575	164,711
Gain (Loss) of Sale of Assets	-	9,908	-	727,056	15,891
<b>Total Revenues</b>	<b>\$ 54,785,959</b>	<b>\$ 55,185,231</b>	<b>\$ 54,360,336</b>	<b>\$ 53,496,048</b>	<b>\$ 46,715,070</b>
<b>Expenses:</b>					
General Government	\$ 5,366,338	\$ 7,921,283	\$ 6,492,684	\$ 6,606,428	\$ 9,224,860
Planning & Community Development	20,083,209	19,093,622	2,387,294	3,073,034	1,870,887
Public Safety	10,340,308	6,722,250	21,541,978	20,789,609	20,941,821
Public Works	2,365,621	2,004,708	4,389,341	5,715,323	3,138,376
Recreation and Leisure	6,047,587	7,115,961	6,457,773	6,130,399	5,855,468
Interest on Long-Term Debt	1,016,877	1,299,198	2,027,789	2,068,775	2,542,830
<b>Total Expenses</b>	<b>\$ 45,219,940</b>	<b>\$ 44,157,022</b>	<b>\$ 43,296,859</b>	<b>\$ 44,383,568</b>	<b>\$ 43,574,242</b>
Increase in Net Position before Transfers	\$ 9,566,019	\$ 11,028,209	\$ 11,063,477	\$ 9,112,480	\$ 3,140,828
Transfers	1,032,632	-	(11,469,030)	859,937	3,342,990
Increase (Decrease) in Net Assets	\$ 10,598,651	\$ 11,028,209	\$ (405,553)	\$ 9,972,417	\$ 6,483,818
Adjustments	\$ -	\$ (857,002)	\$ -	\$ 1,693,930	\$ (7,341,246)
Net Assets - October 1	146,577,486	136,406,279	136,811,832	125,145,485	126,002,913
<b>Net Assets - September 30</b>	<b>\$ 157,176,137</b>	<b>\$ 146,577,486</b>	<b>\$ 136,406,279</b>	<b>\$ 136,811,832</b>	<b>\$ 125,145,485</b>

**TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY <sup>(1)</sup>**

Revenues	Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Total Property Tax	\$ 19,376,613	\$ 17,111,557	\$ 15,681,079	\$ 14,682,864	\$ 14,872,914
Sales Tax	6,390,217	6,155,624	5,945,584	5,705,047	5,340,418
Franchise/Other Local Tax	4,645,930	4,383,491	4,288,101	4,379,496	3,614,430
Permits, Licenses and Fees	1,225,453	1,115,134	1,166,348	1,646,560	1,899,434
Intergovernmental Revenue	3,518,179	3,519,696	2,897,396	2,829,568	2,890,652
Charges for Services	3,096,873	3,027,726	3,363,503	3,385,998	1,561,413
Fines and Warrants	732,740	903,580	1,294,376	1,183,988	1,017,820
Interest on Investments	509,995	322,418	280,325	58,874	73,069
Miscellaneous	106,890	175,004	167,942	176,109	212,447
Donations	63,725	44,800	60,076	62,726	42,964
<b>Total Revenues</b>	<b>\$ 39,666,615</b>	<b>\$ 36,759,030</b>	<b>\$ 35,144,730</b>	<b>\$ 34,111,230</b>	<b>\$ 31,525,561</b>
<b>Expenditures</b>					
General Government	\$ 4,665,969	\$ 5,009,273	\$ 4,787,691	\$ 4,836,508	\$ 6,614,984
Community Development	2,389,745	2,040,732	1,822,603	2,279,163	1,365,628
Public Safety	17,353,028	16,816,608	16,277,363	15,343,904	15,042,122
Public Works	2,729,907	2,532,760	2,823,187	2,488,151	2,165,626
Parks and Recreation	4,909,442	4,951,661	4,861,853	4,580,043	4,215,320
Capital Outlay	168,391	194,394	240,043	979,708	1,238,198
<b>Total Expenditures</b>	<b>\$ 32,216,482</b>	<b>\$ 31,545,428</b>	<b>\$ 30,812,740</b>	<b>\$ 30,507,477</b>	<b>\$ 30,641,878</b>
<b>Excess (Deficiency) of Revenues</b>					
Over Expenditures	\$ 7,450,133	\$ 5,213,602	\$ 4,331,990	\$ 3,603,753	\$ 883,683
Sales of Capital Assets	5,868	8,238	30,961	721,437	17,510
Operating Transfers In		2,339,591	-	-	3,238,715
Operating Transfers Out	(5,784,023)	(2,695,669)	(480,000)	(10,405,781)	(346,292)
Note Proceeds		-	-	-	-
Increase (Decrease) in Fund Balance	\$ 1,671,978	\$ 4,865,762	\$ 3,882,951	\$ (6,080,591)	\$ 3,793,616
Beginning Fund Balance	21,643,061	16,777,299	12,894,348	20,132,549	16,338,933
Adjustments	-	-	-	(1,157,610)	-
<b>Ending Fund Balance</b>	<b>\$ 23,315,039</b>	<b>\$ 21,643,061</b>	<b>\$ 16,777,299</b>	<b>\$ 12,894,348</b>	<b>\$ 20,132,549</b>

(1) The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the City. See "Infectious Disease Outbreak-COVID-19."



**TABLE 14 - MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, Texas, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In January of 1992, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½ of 1%) for parks and recreation facilities. Collection for the additional tax went into effect on July 1, 1992. The sales tax for parks and recreational facilities is collected solely for the benefit of Keller Development Corporation (the "Corporation"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporation for the aforementioned purposes. In November, 2001, the voters approved the imposition of an additional sales and use tax of three-eighths of one percent (3/8<sup>th</sup> of 1%) for crime control and prevention pursuant to Chapter 363 of the Texas Government Code. In May 2006, this tax was re-authorized by the voters for an additional fifteen years, and in November 2007, voters authorized a reduction in the rate from 3/8<sup>th</sup> of 1% to ¼ of 1%. Said sales tax is collected solely for the benefit of the Keller Crime Control and Prevention District Board of Directors and may be pledged to secure payment of sales tax revenue bond issues. In November, 2003, the voters approved the imposition of an additional sales and use tax of one-eighth of one percent (1/8<sup>th</sup> of 1%) for street maintenance pursuant to Chapter 327 of the Texas Government Code. In November 2007, this tax was re-authorized by the voters for an additional four years at ¼ of 1%, effective April 1, 2008. Said sales tax is collected solely for the repair, rehabilitation and reconstruction of existing streets and may be pledged to secure payment of sales tax revenue bond issues. **Such sales tax revenues are not pledged to the payment of the Bonds.**

Fiscal Year Ended 9/30	1% Total Collected <sup>(1)</sup>	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2016	\$ 5,705,047	28.01%	\$ 0.1273	\$ 133
2017	5,945,584	26.78%	0.1191	135
2018	6,155,624	27.72%	0.1176	138
2019	6,390,217	27.06%	0.1104	142
2020 <sup>(2)</sup>	4,540,973	18.69%	0.0747	101

(1) Excludes the one-half cent Keller Development Corporation sales tax, the 1/4 cent Keller Crime Control Prevention District sales tax, and the 1/4 cent street maintenance tax.

(2) Collections for part year only, through June 1, 2020

The sales tax breakdown for the City is as follows:

Economic and Community Development	0.500¢
City Sales & Use Tax	1.000¢
Crime Control and Prevention	0.250¢
Street Maintenance Tax	0.250¢
State Sales & Use Tax	<u>6.250¢</u>
Total	8.250¢

**FINANCIAL POLICIES**

**Basis of Accounting . . .** The City’s accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Under the modified accrual basis of accounting, revenues are recorded when they become both measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Revenues susceptible to accrual are property taxes, franchise taxes and sales taxes and are recognized as revenue when measurable. However, the City has established an allowance for delinquent taxes equal to 100% of uncollected ad valorem taxes. As a result only ad valorem taxes collected are actually recognized as revenue. Gross receipts of taxes, license, charges for services, fines and miscellaneous revenues are recorded as revenue when received because they are generally not measurable until received.

Proprietary Fund revenues and expenses are recognized on the accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable; expenses are recognized in the period incurred, if measurable.

Transfers are recognized in the period in which the interfund receivable and payable arise.

**Budgetary Procedures . . .** The City adopts an annual appropriated budget for the General Fund, the Water and Sewer Fund, Debt Service Fund and the Drainage Utility Fund. All annual appropriations lapse at fiscal year end. The budget is legally enacted through passage of an ordinance after public hearings are conducted for the purpose of obtaining taxpayer comments. Project lengths financial plans are adopted for capital improvement program funds.

## INVESTMENTS

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

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

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal, (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest, (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years, and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

**INVESTMENT POLICIES . . .** Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

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

**TABLE 15 - CURRENT INVESTMENTS**

As of June 1, 2020, the City's investable funds were invested in the following categories:

Description	Book Value	Book Value	Market Value
	as a % of Total		
Investment Pools	32.76%	\$ 35,874,745	\$ 35,874,745
Certificates of Deposit	39.64%	43,407,693	43,407,693
Money Market Funds/Cash	27.60%	30,225,055	30,225,055
	<u>100.00%</u>	<u>\$ 109,507,493</u>	<u>\$ 109,507,493</u>

No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

## TAX MATTERS

**OPINION** . . . On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix C – Form of Bond Counsel's Opinion.

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

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

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

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

### FEDERAL INCOME TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

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

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

#### **COLLATERAL FEDERAL INCOME TAX CONSEQUENCES**

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

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

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

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

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

#### **STATE, LOCAL AND FOREIGN TAXES**

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

#### **INFORMATION REPORTING AND BACKUP WITHHOLDING**

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

#### **FUTURE AND PROPOSED LEGISLATION**

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

## CONTINUING DISCLOSURE OF INFORMATION

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

**ANNUAL REPORTS . . .** The City shall provide annually to the MSRB, in the electronic format prescribed by the MSRB, financial information and operating data (the "Annual Operating Report") with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15. The City will additionally provide financial statements of the City (the "Financial Statements"), that will be (i) prepared in accordance with the accounting principles described in the City's annual audited financial statements 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 and (ii) audited, if the City commissions an audit of such Financial Statements and the audit is completed within the period during which they must be provided.

The City will update and provide the Annual Operating Report within six months after the end of each fiscal year and the Financial Statements within 12 months of the end of each fiscal year, in each case beginning with the fiscal year ending in and after 2020. The City may provide the Financial Statements earlier, including at the time it provides its Annual Operating Report, but if the audit of such Financial Statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited Financial Statements within such 12-month period and audited Financial Statements for the applicable fiscal year, when and if the audit report on such Financial Statements becomes available.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

The City's current fiscal year end is September 30. Accordingly, the City must provide the Annual Operating Report by the last day of March in each year, and audited Financial Statements for the preceding fiscal year (or unaudited Financial Statements if the audited Financial Statements are not yet available) as described above. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide the Annual Operating Report as set forth above.

**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 Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any 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 Financial Obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

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

**LIMITATIONS AND AMENDMENTS . . .** The City has agreed to update information and to provide notices of certain 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 Obligations at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time 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 (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) 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 and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions 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 an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** For fiscal years ended September 30, 2014 and September 30, 2015, the City timely filed financial information and operating data with respect to the City in the form of tables as outlined in the above subcaption "Annual Reports" by the respective March 31, 2015 and March 31, 2016 deadlines (the "Filing Deadline"). The City's audited financial statements were not completed and provided to the City until after the Filing Deadline. As provided in certain of its prior undertakings, the City was required to file unaudited financial statements to the extent the audited financial statements were not available by the Filing Deadline. The City filed unaudited financial information for certain tables outlined in the above subcaption "Annual Reports" by the Filing Deadline and subsequently filed its audited financial statements on April 20, 2015 and May 11, 2016, respectively.

## **OTHER INFORMATION**

### **RATINGS**

The Bonds and the presently outstanding tax supported debt of the City are rated "Aaa" by Moody's and "AAA" by S&P. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organization and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

### **LITIGATION**

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

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

The sale of the Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

## **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments, investment securities governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency. See "Other Information - Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

## **LEGAL OPINIONS**

The City will furnish to the Underwriter a complete transcript of proceedings had incident to the authorization and issuance of each series of the Bonds, including the unqualified approving legal opinions of the Attorney General of Texas approving the Initial Certificate and the Initial Bond and to the effect that such Bonds are valid and legally binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, including the alternative minimum tax on corporations. Though it may represent the Financial Advisor and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions or subcaptions "Plan of Financing" (exclusive of the subcaption "Sources and Uses of Proceeds"), "The Bonds" exclusive of the subcaptions "Book-Entry-Only System" and "Remedies"), "Tax Matters", "Continuing Disclosure of Information" (exclusive of the subcaption "Compliance with Prior Undertakings"), "Other Information - Registration and Qualification of Bonds for Sale", "Other Information - Legal Investments and Eligibility to Secure Public Funds in Texas" and "Other Information - Legal Opinions" (excluding the last sentence of the first paragraph thereof) in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP Dallas, Texas, Counsel for the Underwriter, whose legal fees are contingent upon the sale and delivery of the Bonds.

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

## **AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION**

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and 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. Reference is made to original documents in all respects.

## **FINANCIAL ADVISOR**

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

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



## **UNDERWRITING**

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City, at a price equal to the initial offering price to the public as shown on the cover page, less an underwriting discount of \$73,036.15. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the Underwriter.

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

FHN Financial Capital Markets is a division of First Horizon Bank and First Horizon Advisors, Inc., is a wholly owned subsidiary of First Horizon Bank. FHN Financial Capital Markets has entered into a distribution agreement with First Horizon Advisors, Inc., for the distribution of the offered Bonds at the original issue prices. Such arrangement generally provides that FHN Financial Capital Markets will share a portion of its underwriting compensation or selling concession with First Horizon Advisors, Inc.

On November 4, 2019, First Horizon and IberiaBank announced its intention to enter into a merger, creating a leading regional financial services company. This transaction is now complete effective July 1, 2020. The new company retains the name First Horizon and will have its headquarters in Memphis, TN, expanding its presence to eleven states in the combined organization's existing footprint.

## **FORWARD-LOOKING STATEMENTS DISCLAIMER**

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

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

## **LINKS TO WEBSITES**

The City has provided links to websites in this Official Statement to allow investors independent access to information or expertise that may be of value. INFORMATION ON SUCH WEBSITES IS NOT INCORPORATED INTO THIS OFFICIAL STATEMENT BY REFERENCE OR OTHERWISE. The inclusion of any links does not imply a recommendation or endorsement of the information or views expressed within a website. The City has not participated in the preparation, compilation or selection of information or views in any website referenced in this Official Statement, and assumes no responsibility or liability for the information or views, or accuracy or completeness thereof, in any website referenced herein.

## **MISCELLANEOUS**

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

\_\_\_\_\_  
PAT MCGRAIL  
Mayor  
City of Keller, Texas

ATTEST:

\_\_\_\_\_  
KELLY BALLARD  
City Secretary

## SCHEDULE OF REFUNDED OBLIGATIONS

## Combination Tax and Limited Surplus Revenue Certificates of Obligation, Series 2010

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
4/1/2010	2/15/2021	4.000%	\$ 415,000	\$ 415,000
	2/15/2022	4.000%	435,000	435,000
	2/15/2023	4.000%	450,000	450,000
	2/15/2024	4.000%	470,000	470,000
	2/15/2025	4.000%	490,000	490,000
	2/16/2026	4.000%	510,000	510,000
	2/17/2027	4.100%	525,000	525,000
	2/18/2028	4.125%	550,000	550,000
	2/19/2029	4.200%	575,000	575,000
	2/20/2030	4.250%	600,000	600,000
			<u>\$ 5,020,000</u>	<u>\$ 5,020,000</u>

The 2021 – 2030 maturities will be redeemed prior to original maturity on September 23, 2020 at par.

## General Obligation Refunding Bonds, Series 2010B

<u>Original Dated Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Principal Amount Outstanding</u>	<u>Principal Amount Refunded</u>
8/15/2010	2/15/2021	4.000%	\$ 610,000	\$ 610,000
	2/15/2022	4.000%	640,000	640,000
			<u>\$ 1,250,000</u>	<u>\$ 1,250,000</u>

The 2021 – 2022 maturities will be redeemed prior to original maturity on September 23, 2020 at par.

**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

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Nestled comfortably in the heart of the Dallas- Fort Worth Metroplex, Keller has gained national attention by pairing big-city conveniences and amenities with small-town roots and an emphasis on quality of life. The city features a warm and welcoming atmosphere, an excellent school system, a wide variety of shopping and dining destinations, and award-winning city facilities and programs.

The distinct business districts, historic Old Town Keller and the urban Keller Town Center, are just two of its unique economic engines. And the citywide parks and trails system, anchored by Big Bear Creek, offers recreation and mobility among the city's recreation and aquatics center, The Keller Pointe, and multiple sports facilities. The Keller Public Library offers more than 80,000 in materials and a slew of online resources, and next door, the Keller Senior Activities Center brings senior citizens together for stimulating activities, emphasizing health and fellowship.

Keller has been named to CNN/Money Magazine's biennial listing of "Top 100 Places to Live — America's Best Small Towns" three times since 2007, including taking seventh place in 2009. And recent awards have included a spot in D Magazine's "Top 20 Dallas-Fort Worth Metroplex Suburbs," mentions in Fort Worth, Texas Magazine's "Best Places to Live" lists, recognition as an "Emerging Art Town" by Southwest Art Magazine, certification as a Scenic City by the Scenic Texas organization, and third place among the "Top 10 Most Notable High-Growth Areas in the Country," according to the Gadberry Group

**LOCATION AND HISTORY . . .** The city was incorporated on Nov. 16, 1955 under the general laws of the State of Texas, and the current home-rule charter was approved by the voters in 1982. The city operates under the Council-Manager form of government. The City Council is comprised of a mayor and six council members who enact local legislation, determine overall city policies, pass ordinances, appoint committees and adopt the city's budget. The mayor and council members are all elected at-large on a non-partisan basis for three-year terms. The City Manager is appointed by the City Council and is responsible to them for proper administration of the daily affairs of the city.

The City of Keller is located in Northeast Tarrant County, Texas, approximately 10 miles northeast of downtown Fort Worth on US 377, and 25 miles northwest of downtown Dallas. It is part of the 12-county "Metroplex" of North Central Texas, which includes the cities of Fort Worth and Dallas as well as surrounding communities, with an estimated population in the 12-county area exceeding 7.26 million in January 2018. The city limits of Keller currently encompass 18.4 square miles.

The city provides a full range of municipal services, including general government, public safety (police and fire), streets, parks and recreation, community development, planning and zoning, code enforcement, public library, and business-type activities such as water, sewer and drainage utilities. Sanitation collection services are provided through a private contractor; customers contract through the city, with collection fees added to their municipal water, sewer and drainage utility bills.

**POPULATION . . .** Since 1970, the total population increase exceeds 39,000. That growth has calmed in recent years, however, as the community has moved toward residential buildout. The city's estimated population is 45,090. Tarrant County has experienced similar growth during the last 30 years, increasing from 715,587 in 1970 to 1,809,034 in 2010. According to the North Central Texas Council of Governments' population projections, the population of Tarrant County in 2020 is 2,092,419. The City of Keller has a staff of approximately 343.44 full-time employees, including 92.19 police department personnel and 57 fire/EMS department employees.

**ECONOMICS . . .** Keller is part of the Dallas/Fort Worth Metroplex, which has maintained a very strong economy, and is located midway between the Dallas/Fort Worth International Airport and Alliance Airport. A favorable personal and corporate tax climate, excellent schools, favorable right to work laws and a strong continuing commitment to business have made the city and state positive areas in which businesses can locate. The key city strengths of Keller include a strong diversified economy, high home values, highly ranked public schools, a low unemployment rate, an extremely low crime rate and several quality of life amenities such as The Keller Pointe fitness and aquatic center, Bear Creek Park, the Keller Sports Park, Keller Town Center, and the K-9 Pointe Dog Park

Based upon these strengths, the City has received several awards over the past few years including:

- Top 10 Affordable, Kid-Friendly Suburbs that City Parents Won't Hate, Realtor.com
- Top 10 Safest Cities in the U.S., Neighborhood Scout
- Top 10 Safest Cities in Texas, USA Today
- Top 10 Cities & Towns for New Families in the U.S.
- The 10 Best Places to Live in Texas, HomeSnacks
- The Safest Cities in Texas 2018, National Council for Home Safety and Security
- Texas' 50 Safest Cities of 2018, Safewise.com
- 10 Safest Places in Texas, HomeSnacks
- Best Suburbs to Raise a Family in Texas, Niche
- Safest Suburbs in Texas, Niche
- Best Suburbs to Buy a House in Texas, Niche
- Best Places to Raise a Family in Texas, Niche
- 7 Dallas-Fort Worth Suburbs with the Best Downtowns, Neighborhoods.com
- Scenic City Gold Status, Scenic City Texas
- Tree City USA 25th Anniversary, Arbor Day Foundation

In continuing to meet resident expectations, the city has recently invested in several park, street and public works projects. Construction recently finished on a brand new park on the southeast end of the city — Milestone Park — and work has begun on a \$2.47 million expansion of Overton Ridge Park on the northwest side of town. Plans for Overton Ridge include extensions to the trail system along with playground, restroom and parking amenities on site. Meanwhile, the city has dedicated \$250,000 annually to extending its hike and bike trail system, is continuing to install pedestrian amenities aimed at making park patrons more visible to area motorists, and will soon embark on a campaign to revitalize older parks by replacing playgrounds and sprucing up other amenities on site.

The city has recently completed a \$16 million water project to build a new pump station and transmission line; is in the design and construction stages on millions in road projects aimed at improving traffic efficiency and circulation; and will soon move forward with a sanitary sewer project along US 377 North intended to help spur commercial construction along the corridor.

The city's economic growth has occurred primarily along major arterials such as FM 1709 and US 377. Old Town Keller, which stretches along both sides of Hwy. 377, has also experienced a resurgence in office, retail and restaurant activity in the past few years. This is largely due to the \$4.25 million investment the city made in Fiscal Year 2016-17 as a first phase of redevelopment and beautification in the area. City Council is now contemplating similar amenities across the street in Old Town Keller East as a second phase of the revitalization.

Keller Town Center, too, has seen an increase in activity, and the commercial properties continue to be approximately 97 percent occupied. Sunny Street Café, Rush Bows, Nestle Toll House Café by Chip, Frios Gourmet Pops, Lavender Hill Spa, Summer Moon Coffee, Boca 31 and Play Street Museum recently opened in Town Center, and Keller's first hotel, a Hampton Inn & Suites has recently opened.

This year the city is anticipating the completion and opening of a \$20 million privately owned physical rehabilitation center on US 377 South by the end of calendar year 2020.

**EDUCATION . . .** As one of the fastest-growing school districts in Texas, Keller Independent School District (the "District") is proud to boast two National Blue Ribbon Schools of Excellence, and the 2007 Texas State Secondary Teacher of the Year. The District encompasses an area of approximately 51 square miles and conducts programs for K-12. The District has 42 campuses serving more than 35,000 students. Approximately 4,000 teachers, administrative personnel, and support staff are employed by the District. The District believes that education is a partnership among schools, parents and the community.

The physical facilities of the District include:

5	High schools (9-12)
7	Middle schools (7-8)
4	Intermediate schools (5-6)
23	Elementary schools (K-4)
2	Early Learning (Pre-K)
1	Alternative Education (9-12)

Educational opportunities beyond high school are readily available. The Northeast campus of the Tarrant County College District is within short driving distance. In addition, within a 40-mile radius, there are a number of colleges and universities, including Southern Methodist University, Texas Christian University, Texas Women's University, the University of North Texas, the University of Dallas, and the University of Texas at Arlington. In addition, there are several trade, industrial and technical schools located throughout the area.

**TRANSPORTATION . . .** Access to Keller is provided by a number of adjacent highways both on a north/south and east/west axis. North/south highways are SH 121, SH 26, FM 1938 and US Hwy. 377. The east/west highways are IH Loop 820, SH 170, SH 114, SH 183, and FM 1709. These major highways provide easy access to Dallas, Fort Worth and the entire Metroplex area.

Air service is provided by nearby Dallas/Fort Worth International Airport, the nation's third busiest airport, providing service to national and international destinations. Meacham Field, approximately five miles away in northern Fort Worth, is a fixed base operation for private and commercial service and provides sophisticated instrument approach facilities, lighted runways, terminal facilities and fuel and maintenance services. Alliance Airport, located northwest of Keller, began limited operations in 1989, and is the first newly constructed industrial airport in the United States. The Airport is home to a new FedEx hub, BNSF Intermodal Terminal, DEA, Galaxy Aviation, and numerous company distribution facilities.

**MEDICAL . . .** Excellent health care facilities are located within minutes of the City, including four of the largest hospitals in Tarrant County. The Metroplex area is served by more than 70 hospitals which offer specialized services such as organ transplantation, major trauma care, cancer treatment, kidney dialysis and chemical dependency treatment. Keller is also home to Baylor Scott & White Emergency Hospital on US 377 South, a location of Cook Children's Pediatrics on FM 1709 and a wide variety of specialty care providers..

**MISCELLANEOUS . . .** The city offers suburban pedestrian-oriented quality-of-life living, tree-lined streets with neighborhood connectivity via a massive system of hike and bike trails. The city is in close proximity (within a 40-minute drive time) to 10 lakes, offering boating, fishing, camping, and picnicking facilities, entertainment facilities, and major sporting outlets. The Cities of Fort Worth and Dallas with their varied cultural opportunities of theaters, museums, zoos, botanical gardens and professional sport teams are less than a 30 minute drive from the city.

**EMPLOYMENT DATA**

	February 2020	Average Annual 2019	Average Annual 2018	Average Annual 2017	Average Annual 2016	Average Annual 2015
<b>Keller:</b>						
Civilian Labor Force	25,144	24,646	24,518	23,947	23,303	22,798
Unemployed	721	696	750	801	792	776
Percent of Unemployed	2.87%	2.82%	3.06%	3.34%	3.40%	3.40%
<b>Dallas/Fort Worth/Arlington MSA:</b>						
Civilian Labor Force	4,050,029	3,971,633	3,900,458	3,795,291	3,684,673	3,571,049
Unemployed	128,838	129,621	136,486	138,248	141,818	145,176
Percent of Unemployed	3.18%	3.26%	3.50%	3.64%	3.85%	4.07%
<b>Tarrant County</b>						
Civilian Labor Force	1,102,921	1,082,571	1,062,733	1,033,317	1,008,020	988,324
Unemployed	35,324	35,655	37,114	37,978	39,774	41,104
% of Unemployment	3.20%	3.29%	3.49%	3.68%	3.95%	4.16%

Source: Texas Workforce Commission.

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**APPENDIX B**

EXCERPTS FROM THE

CITY OF KELLER, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2019

The information contained in this Appendix consists of excerpts from the City of Keller, Texas Annual Financial Report for the Year Ended September 30, 2019, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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## Independent Auditor's Report

Members of the City Council  
City of Keller, Texas

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Keller, Texas (the City) as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, pension schedules, and other post-employment benefits schedules on pages 5 through 11, 64 through 66, 67 through 68, and 69 through 71, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

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

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

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

Members of the City Council  
City of Keller, Texas

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2020, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* the City's internal control over financial reporting and compliance.

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

WEAVER AND TIDWELL, L.L.P.

Dallas, Texas  
March 25, 2020

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**City of Keller, Texas  
Management's Discussion and Analysis  
September 30, 2019**

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As management of the City of Keller, Texas (the "City") we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

**Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year ended September 30, 2019, by \$259,853,447 (net position). Of this amount, \$31,367,617 (unrestricted portion of net position) may be used to meet the government's ongoing obligations to citizens and creditors. Included in the unrestricted portion of net position are monies from all the City's various funds which are not restricted for other purposes.
- The City's total net position increased by \$14,820,427. The increase is attributable to increases in capital grants and contributions, increases in investment revenues, and charges for services in business-type activities being greater than operational expenses.
- Net position increased in the Enterprise Funds by \$3,906,227 and increased for the business-type activities by \$4,221,776 in comparison to the previous year. Business-type activities include an internal allocation for their portion of the internal service fund activity of \$470,488. Increases in water revenues, investment earnings and developer contributions were the primary reasons for increases.
- The City's governmental funds reported combined ending fund balances of \$66,564,036, an increase of \$7,218,902 in comparison to the previous year.
- The unassigned portion of the General Fund fund balance at the end of the year was \$22,563,145 or 70% of total General Fund expenditures. This includes the 70 days of General Fund expenditures which is required to be held in General Fund fund balance per the City Council approved Financial Management Policies. That amount is \$8,054,121. The remainder represents funds which may be used for one-time expenditures or unforeseen needs which the Council allocates for a specific purpose. The unassigned General Fund fund balance can be seen on page 18 of this report on the Balance Sheet-Governmental Funds. It is part of the total General Fund fund balances, September 30, 2019, shown on page 22 of this report on the Statement of Revenues, Expenditures, and Changes in Fund Balance.
- Total debt of the City decreased by \$356,002 during the fiscal year due the net effect of payments on bonded debt and the issuance of debt.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise 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's finances. This is done in a manner similar to a private-sector business. Two statements, the Statement of Net Position and the Statement of Activities, are utilized to provide this financial overview.

**City of Keller, Texas**  
**Management's Discussion and Analysis**  
**September 30, 2019**

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The Statement of Net Position presents information on all of the City's assets and liabilities deferred inflows and outflows of resources with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the government'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 flow. 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 vacation leave).

Both of the government-wide statements distinguish between governmental activities and business-type activities. Governmental activities basically account for those activities supported by taxes and intergovernmental revenues. On the other hand, business-type activities are basically supported by user fees and charges. Most City services are reported in governmental activities while business-type activities are reported in the Enterprise Funds.

The City's internal service fund assets and liabilities are reported within Governmental activities. A portion of the City's internal service fund activities is allocated to business-type activities. This allocation is based on the services that the internal service fund provides to the Enterprise Funds.

**Fund financial statements.** The City, like other state and local governments, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

*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 15 individual governmental funds. Information is presented separately in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances for the General Fund, the General Obligation Debt Service Fund, Crime Control Prevention District, and Capital Projects Fund. Data from the other non-major funds are also combined and reported in a single column. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

*Proprietary funds.* The City maintains two types of proprietary funds, enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and wastewater operations, drainage utility operations, and aquatics center activity. The City uses internal service funds to account for maintenance and replacement costs of information technology, and vehicles, and equipment and health services. These services benefit both the governmental and business-type activity functions and therefore, the internal service fund allocates a portion of its activities to the business-type activities.



**City of Keller, Texas  
Management's Discussion and Analysis  
September 30, 2019**

Proprietary funds financial statements provide the same type of information as the government-wide financial statements, only in more detail.

**Notes to the financial statements.** The notes provide additional information that is essential to gain a full understanding of the data provided in the government-wide and fund financial statements

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. Required supplementary information can be found after the notes to the financial statements.

**Government-Wide Financial Analysis**

At the end of fiscal year 2019, the City's net position totaled \$259,853,447. This analysis focuses on the net position (Table 1) and changes in net position (Table 2).

**Net Position.** The largest portion of the City's net position, \$183,272,036, or 71%, reflects its investment in capital assets (land, buildings, improvements other than buildings, machinery and equipment, construction in progress), less any related debt used to acquire those assets that is still outstanding. The City uses these assets to provide services to its citizens; consequently, these assets are not available for future spending. Although the City reports its capital assets net of related debt, the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position, \$45,213,794, or 17% represents resources that are subject to external restrictions on how they may be used. The unrestricted portion of net position which is \$31,367,617 (12%) may be used to meet the government's ongoing obligations to citizens and creditors.

**Table 1  
Condensed Statement of Net Position**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 77,827,124	\$ 67,996,058	\$ 34,925,798	\$ 36,561,819	\$ 112,752,922	\$ 104,557,877
Capital assets	131,411,175	133,296,389	105,148,918	89,995,719	236,560,093	223,292,108
Total Assets	209,238,299	201,292,447	140,074,716	126,557,538	349,313,015	327,849,985
Deferred outflows of resources	7,003,108	3,394,479	1,192,993	589,024	8,196,101	3,983,503
Long term liabilities	54,188,449	52,378,227	31,030,878	24,827,820	85,219,327	77,206,047
Other liabilities	4,328,637	3,103,917	7,514,260	3,435,014	11,842,897	6,538,931
Total liabilities	58,517,086	55,482,144	38,545,138	28,262,834	97,062,224	83,744,978
Deferred inflows of resources	548,184	2,627,296	45,261	428,194	593,445	3,055,490
Net Position:						
Net investment in capital assets	101,125,405	97,675,021	82,146,631	75,824,228	183,272,036	173,499,249
Restricted for debt service	2,699,936	2,749,561	-	-	2,699,936	2,749,561
Restricted for capital projects	26,163,602	26,800,022	6,652,768	17,601,201	32,816,370	44,401,223
Restricted for other	9,697,488	6,693,642	-	-	9,697,488	6,693,642
Unrestricted	17,489,706	12,659,240	13,877,911	5,030,105	31,367,617	17,689,345
Total Net Position	\$ 157,176,137	\$ 146,577,486	\$ 102,677,310	\$ 98,455,534	\$ 259,853,447	\$ 245,033,020

**City of Keller, Texas  
Management's Discussion and Analysis  
September 30, 2019**

*Changes in Net Position.* The net position of the City increased by \$14,820,427 for the fiscal year ended September 30, 2019.

*Governmental Activities.* Governmental activities increased the City's net position by \$10,598,651 from the prior year. This was primarily due to a decrease in net pension liability and decrease in interest on long term debt.

*Business-type Activities.* Business-type activities net position increased by \$4,221,776 from the prior year. This increase is primarily due to higher revenues for charges for services than in the prior year.

**Table 2  
Changes in Net Position**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 5,499,265	\$ 5,351,963	\$ 30,482,974	\$ 32,072,020	\$ 35,982,239	\$ 37,423,983
Operating grants and contributions	4,363,634	4,209,216	-	-	4,363,634	4,209,216
Capital grants and contributions	2,023,535	20,227	2,460,465	987,138	4,484,000	1,007,365
General revenues:						
Ad valorem taxes	23,534,184	27,517,501	-	-	23,534,184	27,517,501
Sales taxes	12,681,216	12,210,696	-	-	12,681,216	12,210,696
Other taxes and fees	4,773,885	4,516,219	-	-	4,773,885	4,516,219
Interest	1,726,322	1,070,649	820,151	532,012	2,546,473	1,602,661
Gain (loss) disposal of capital assets	-	-	-	-	-	-
Miscellaneous	183,918	278,852	162,674	143,700	346,592	422,552
Total revenues	54,785,959	55,175,323	33,926,264	33,734,870	88,712,223	88,910,193
Expenses:						
General government	5,366,338	7,921,283	-	-	5,366,338	7,921,283
Public safety	20,083,209	19,093,622	-	-	20,083,209	19,093,622
Public works	10,340,308	6,722,250	-	-	10,340,308	6,722,250
Community development	2,365,621	2,004,708	-	-	2,365,621	2,004,708
Recreation and Leisure	6,047,587	7,115,961	-	-	6,047,587	7,115,961
Interest on long-term debt	1,016,877	1,299,198	-	-	1,016,877	1,299,198
Water and wastewater operations	-	-	23,129,976	24,203,826	23,129,976	24,203,826
Drainage utility	-	-	2,348,274	2,750,456	2,348,274	2,750,456
Recreation aquatics center	-	-	3,193,606	3,315,120	3,193,606	3,315,120
Total expenses	45,219,940	44,157,022	28,671,856	30,269,402	73,891,796	74,426,424
Increase (decrease) in net position before transfers	9,566,019	11,018,301	5,254,408	3,465,468	14,820,427	14,483,769
Transfers	1,032,632	9,908	(1,032,632)	(9,908)	-	-
Increase (decrease) in net position	10,598,651	11,028,209	4,221,776	3,455,560	14,820,427	14,483,769
Net position - October 1	146,577,486	136,406,279	98,455,534	95,267,753	245,033,020	231,674,032
Change in accounting principle	-	(857,002)	-	(267,779)	-	(1,124,781)
Net position - September 30	\$ 157,176,137	\$ 146,577,486	\$ 102,677,310	\$ 98,455,534	\$ 259,853,447	\$ 245,033,020

**Government-Wide Financial Analysis**

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

**City of Keller, Texas  
Management's Discussion and Analysis  
September 30, 2019**

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As of year-end of the current fiscal year, the City's governmental funds reported combined fund balances of \$66,564,036.

The General Fund is the main operating fund of the City. At the end of the current fiscal year, unassigned fund balance was \$22,563,145. There was an increase in General Fund balance of \$1,671,978 during the current fiscal year. This increase is primarily due to less operational costs than revenues.

The General Obligation Debt Service Fund had a decrease of \$92,453 in fund balance. This was primarily due to a transfer to the capital projects fund of \$178,662. These funds are specifically restricted for the payment of debt service. The Crime Control Prevention District Fund increased \$412,114 due to more sales tax revenue than expenditures. The Capital Projects Fund had an increase of \$4,800,452 due primarily to transfers from other funds assigned to capital projects. Other governmental funds' combined fund balances increased \$426,811.

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

The net position of the Water and Wastewater Utilities Fund at the end of the year was \$75,468,747. This represents an increase of \$4,108,198 which was the result of an increase in water revenues. This year's operating income was \$3,064,716. This income is attributable to significant increases in water and sewer charges for service revenue.

The net position of the Drainage Utility Fund at the end of the year was \$14,517,752. This represents an increase of \$349,871 due primarily to developers contributions of \$1,104,066. This year's operating loss was \$881,497. This decrease is attributable to an increase in operational costs.

The proprietary funds also included decrease in net position from the Recreation/Aquatic Center and increase in internal service funds. The Recreation/Aquatic Center fund had a decrease of \$551,842 primarily due to transfers out to capital projects fund. The internal service fund had an increase of \$2,422,062 due to more revenues from the other funds for equipment replacement and information technology and \$1,400,000 transferred from the General Fund for equipment replacement and funding of health insurance.

**General Fund Budgetary Highlights.** In FY2019, the General Fund expenditure budget was decreased by \$1,000,000 from the 2019 original budget. Each year the City performs a mid-year review of the budget. If the City Manager determines that funds are available, certain amendments are proposed to the City Council for their review and approval. Expenditures were amended throughout the year with the majority occurring during mid-year reviews. These amendments decreased General Fund appropriations by 3.10%.

In the General Fund, the actual revenue received in comparison to the final budget was over by \$462,120. This positive variance is most noticeable in intergovernmental and interest income from investments which was a combined \$743,858 over budget. General Fund expenditures had a final budget to actual positive variance of \$1,971,584 prior to other financing sources/uses. This amount is attributable to intentional savings made by all departments.

**Capital Assets and Debt Administration**

**Capital Assets.** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2019, amounts to \$236,560,093 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements other than buildings, machinery and equipment, and construction in progress. The total increase in the City's investment in capital assets for the current year was 5.94%.

**City of Keller, Texas  
Management's Discussion and Analysis  
September 30, 2019**

**Table 3  
Capital Assets at Year-end  
Net of Accumulated Depreciation (000's)**

Asset	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 34,271	\$ 34,146	\$ 2,004	\$ 1,506	\$ 36,275	\$ 35,652
Capacity rights	-	-	1,243	1,970	1,243	1,970
Buildings	26,968	29,201	10,595	10,130	37,563	39,331
Improvements	55,799	57,639	70,239	69,247	126,038	126,886
Machinery and equipment	4,840	3,969	333	371	5,173	4,340
Construction in progress	9,535	8,339	20,733	6,772	30,268	15,111
	<u>\$ 131,411</u>	<u>\$ 133,296</u>	<u>\$ 105,149</u>	<u>\$ 89,996</u>	<u>\$ 236,560</u>	<u>\$ 223,291</u>

Additional information on the City's capital assets can be found in the notes to the financial statements on pages 43-44.

Debt Administration. At the end of the current fiscal year, the City had total debt outstanding of \$60,647,193 which was backed by the full faith and credit of the City in addition to unamortized premiums.

**Table 4  
Outstanding Debt at Year End (000's)**

Type of Debt	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
General Obligation	\$ 16,713	\$ 19,832	\$ 6,827	\$ 8,373	\$ 23,540	\$ 28,205
Certificates/Contractual Obligations	14,760	16,665	19,470	13,120	34,230	29,785
Unamortized bond premium	1,886	2,178	991	835	2,877	3,013
Total	<u>\$ 33,359</u>	<u>\$ 38,675</u>	<u>\$ 27,288</u>	<u>\$ 22,328</u>	<u>\$ 60,647</u>	<u>\$ 61,003</u>

The City continues to maintain favorable ratings from bond rating agencies. The current General Obligation, Combination Tax and Revenue Certificates of Obligation, and Revenue Bonds ratings are as follows.

	Moody's Investors Service	Standard & Poor's
General obligation bonds	Aaa	AAA
Certificates of obligation	Aaa	AAA

Additional information on the City's long-term debt can be found in the notes to the financial statements on pages 46-48.

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

In the next year's adopted fiscal year (FY) 2019-20 budget, total General Fund revenues (including transfers-in) are budgeted to increase by \$693,855 (1.8%) from the final FY 2018-19 Budget and by \$1,015,701 (2.6%) from the FY 2018-19 year-end projection, with general property taxes comprising about 50.5% of General Fund budgeted revenues and transfers-in. Certified taxable assessed valuations (after adjustments) increased 5.2% over the prior year, compared to an increase of 10.6% in the prior year. Conservative budgeting and use of fund balance for one-time projects helped the city reduce the FY 2019-20 tax rate to \$0.3999 per \$100 of valuation from \$0.41325 per \$100 of valuation and increased the homestead exemption from 10% to 12%. The tax rate is the lowest rate in over twenty years, and the homestead exemption is the highest ever.

An increase of 6.25% from the FY 2018-19 budget and an increase of 1.5% from year-end projection was budgeted for sales tax receipts in FY 2019-20 as overall monthly sales tax receipts have showed continued positive increases during FY 2018-19. While retail sales tax activity has continued annually grow, utility pricing has resulted in a slight decrease in utility-based sales tax. FY 2019-20 sales tax projections assumed the retail would have modest growth and utility prices would remain the same.

Expenditures for the FY 2019-20 adopted budget represents an increase of \$1,168,545, or 3.0% from the FY 2018-19 budget. Similar to the prior year, the FY 2019-20 budget includes one-time expenditures of \$4,874,298 of which \$3,704,694 relates to cash-funding capital improvements rather than issuing debt. With the one-time expenditures removed from the budgets, the FY 2019-20 adopted budget represents an increase of \$432,553 or 1.2%. The budget includes one-time funding for Johnson Road Reconstruction, Bear Creek & Whitley Roundabout, an Excavator, North Tarrant Parkway and Lakeview improvements, and Union Pacific Railroad Pedestrian Crossing improvements.

Conservative revenue and expenditure budgeting resulted in a balanced budget that meets the City Council goals and directions, continues to provide excellent service levels, and maintains ending fund balances as required by the city's financial policies. The FY 2019-20 estimated ending unassigned fund balance at September 30, 2020 is \$22,164,078 which equals 61.9% of on-going expenditures. Approximately \$2.28M of the fund balance growth is related to the TIRZ ending and the fund balance being reallocated to the General Fund. The estimated fund balance is above the policy required minimum balance of 19.2% (70 days of on-going expenditures) and the policy maximum of 50.0% (182 days of on-going expenditures). The City will be looking to further cash fund capital projects as a way to reduce the fund balance below the policy maximum.

The City is able to maintain its financial position because of having a stable tax and retail base, as well as a competitive tax rate. The City's property tax rate for FY 2019-20 ranks as one of the lowest among neighboring Tarrant County area cities.

### **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Department, P.O. Box 770, Keller, Texas 76244-0770, call (817) 743-4025, or email at [finance@CityofKeller.com](mailto:finance@CityofKeller.com).

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## **BASIC FINANCIAL STATEMENTS**

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**CITY OF KELLER, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2019**

**EXHIBIT A-1**

	<b>Primary Government</b>		
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and equivalents	\$ 30,448,697	\$ 13,381,155	\$ 43,829,852
Investments	43,183,750	4,370,711	47,554,461
Receivables (net of allowance for uncollectibles)	4,507,204	5,244,274	9,751,478
Inventories	101,184	276,515	377,699
Prepaid items	56,777	324,739	381,516
Internal balances	(470,488)	470,488	-
Restricted assets:			
Investments	-	10,857,916	10,857,916
Capital assets (net of accumulated depreciation):			
Land	34,270,888	2,004,255	36,275,143
Construction in progress	9,534,564	20,733,117	30,267,681
Buildings	26,968,232	10,595,216	37,563,448
Improvement other than buildings	55,797,854	70,239,394	126,037,248
Capacity rights	-	1,243,438	1,243,438
Machinery and equipment	4,839,637	333,498	5,173,135
<b>Total Assets</b>	<b>209,238,299</b>	<b>140,074,716</b>	<b>349,313,015</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred loss on refunding	849,399	116,793	966,192
Deferred outflows related to pensions	6,033,172	1,055,271	7,088,443
Deferred outflows related to OPEB - SDBF	41,014	7,126	48,140
Deferred outflows related to OPEB Health Benefits	79,523	13,803	93,326
<b>Total deferred outflows of resources</b>	<b>7,003,108</b>	<b>1,192,993</b>	<b>8,196,101</b>
<b>LIABILITIES</b>			
Accounts payable and other current liabilities	3,121,434	5,450,374	8,571,808
Accrued interest payable	117,048	121,192	238,240
Customer deposits	285,719	1,373,969	1,659,688
Escrow payables	441,960	-	441,960
Unearned revenue	362,476	568,725	931,201
Non-current liabilities:			
Due within one year	6,575,663	2,696,242	9,271,905
Due in more than one year:	47,612,786	28,334,636	75,947,422
<b>Total Liabilities</b>	<b>58,517,086</b>	<b>38,545,138</b>	<b>97,062,224</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred inflows related to pensions	461,493	30,310	491,803
Deferred inflows related to OPEB - SDBF	41,593	7,173	48,766
Deferred inflows related to OPEB Health Benefits	45,098	7,778	52,876
<b>Total deferred inflows of resources</b>	<b>548,184</b>	<b>45,261</b>	<b>593,445</b>
<b>NET POSITION</b>			
Net investment in capital assets	101,125,405	82,146,631	183,272,036
Restricted for:			
Debt service	2,699,936	-	2,699,936
Capital projects	26,163,602	6,652,768	32,816,370
Other	9,697,488	-	9,697,488
Unrestricted	17,489,706	13,877,911	31,367,617
<b>Total Net Position</b>	<b>\$ 157,176,137</b>	<b>\$ 102,677,310</b>	<b>\$ 259,853,447</b>

The accompanying notes to the basic financial statements are an integral part of this statement.

**CITY OF KELLER, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

<u>Function/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
<b>Primary Government</b>				
Governmental activities:				
General government	\$ 5,366,338	\$ 1,314,424	\$ 84,328	\$ -
Public safety	20,083,209	1,850,654	3,595,516	-
Public works	10,340,308	118,938	635,248	2,023,535
Community development	2,365,621	1,758,963	48,542	-
Recreation and cultural	6,047,587	456,286	-	-
Interest on long-term debt	1,016,877	-	-	-
<b>Total governmental activities</b>	<u>45,219,940</u>	<u>5,499,265</u>	<u>4,363,634</u>	<u>2,023,535</u>
Business-type activities:				
Water and wastewater utility	23,129,976	25,720,620	-	1,356,399
Drainage utility	2,348,274	1,466,777	-	1,104,066
Recreation/Aquatic Center	3,193,606	3,295,577	-	-
<b>Total business-type activities</b>	<u>28,671,856</u>	<u>30,482,974</u>	<u>-</u>	<u>2,460,465</u>
<b>Total primary government</b>	<u>\$ 73,891,796</u>	<u>\$ 35,982,239</u>	<u>\$ 4,363,634</u>	<u>\$ 4,484,000</u>
General revenues:				
Ad valorem taxes				
Sales taxes				
Franchise taxes				
Mixed drink taxes				
Investment earnings				
Miscellaneous income				
Transfers				
Total general revenues and transfers				
Change in net position				
Net position - Beginning of year				
<b>Net position - Ending</b>				

The accompanying notes to the basic financial statements are an integral part of this statement.

**Net (Expense) Revenue and Changes in Net Position**

<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (3,967,586)	\$ -	\$ (3,967,586)
(14,637,039)	-	(14,637,039)
(7,562,587)	-	(7,562,587)
(558,116)	-	(558,116)
(5,591,301)	-	(5,591,301)
(1,016,877)	-	(1,016,877)
<u>(33,333,506)</u>	<u>-</u>	<u>(33,333,506)</u>
-	3,947,043	3,947,043
-	222,569	222,569
-	101,971	101,971
-	<u>4,271,583</u>	<u>4,271,583</u>
<u>(33,333,506)</u>	<u>4,271,583</u>	<u>(29,061,923)</u>
23,534,184	-	23,534,184
12,681,216	-	12,681,216
4,626,857	-	4,626,857
147,028	-	147,028
1,726,322	820,151	2,546,473
183,918	162,674	346,592
1,032,632	(1,032,632)	-
<u>43,932,157</u>	<u>(49,807)</u>	<u>43,882,350</u>
10,598,651	4,221,776	14,820,427
<u>146,577,486</u>	<u>98,455,534</u>	<u>245,033,020</u>
<u>\$ 157,176,137</u>	<u>\$ 102,677,310</u>	<u>\$ 259,853,447</u>

**CITY OF KELLER, TEXAS  
BALANCE SHEET-GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2019**

	<u>General Fund</u>	<u>General Obligation Debt Service</u>	<u>Crime Control Prevention District</u>	<u>Capital Projects Fund</u>
<b>ASSETS</b>				
Cash and equivalents	\$ -	\$ -	\$ 3,157,162	\$ 16,359,717
Investments	22,614,064	2,726,025	2,000,000	4,366,711
Receivables (net of allowance for uncollectibles):				
Ad valorem taxes	251,303	80,082	-	-
Franchise taxes	638,107	-	-	-
Sales taxes	1,117,285	-	258,941	-
Accounts	525,292	2,809	-	-
Interest and Other	96,412	8,068	13,384	38,942
Due from other governments	503,072	-	-	-
Due from other funds	-	-	32,704	-
Inventories, at cost	101,184	-	-	-
Prepaid items	53,932	-	640	-
<b>Total assets</b>	<b>\$ 25,900,651</b>	<b>\$ 2,816,984</b>	<b>\$ 5,462,831</b>	<b>\$ 20,765,370</b>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>				
LIABILITIES:				
Accounts payable	\$ 841,790	\$ -	\$ 168,248	\$ 464,396
Other payables and accruals	665,824	-	2,844	-
Due to other funds	32,704	-	-	-
Customer deposits	281,297	-	-	-
Escrow payables	-	-	-	-
Unearned revenue	165,507	-	-	-
<b>Total liabilities</b>	<b>1,987,122</b>	<b>-</b>	<b>171,092</b>	<b>464,396</b>
<b>DEFERRED INFLOWS OF RESOURCES:</b>				
Unavailable resources	598,520	80,082	-	-
<b>Total deferred inflows of resources</b>	<b>598,520</b>	<b>80,082</b>	<b>-</b>	<b>-</b>
<b>FUND BALANCES:</b>				
Nonspendable				
Inventory and prepaids	155,116	-	640	-
Restricted				
Debt service	-	2,736,902	-	-
Capital projects	-	-	-	17,276,293
Park Development	-	-	-	-
Municipal court	-	-	-	-
Law Enforcement	-	-	5,291,099	-
Recreation and Cultural	208,957	-	-	-
Public information and broadcasting	-	-	-	-
Community clean up	278,548	-	-	-
Public safety and public works grants	109,243	-	-	-
Assigned				
Capital projects	-	-	-	3,024,681
Unassigned	22,563,145	-	-	-
<b>Total fund balances</b>	<b>23,315,009</b>	<b>2,736,902</b>	<b>5,291,739</b>	<b>20,300,974</b>
<b>Total liabilities, deferred inflows of resources,         and fund balances</b>	<b>\$ 25,900,651</b>	<b>\$ 2,816,984</b>	<b>\$ 5,462,831</b>	<b>\$ 20,765,370</b>

The accompanying notes to the basic financial statements are an integral part of this statement.

Non major Governmental Funds	Total Governmental Funds
\$ 4,488,947	\$ 24,005,826
10,256,934	41,963,734
-	331,385
-	638,107
876,239	2,252,465
11,207	539,308
32,068	188,874
44,153	547,225
-	32,704
-	101,184
1,228	55,800
<u>\$ 15,710,776</u>	<u>\$ 70,656,612</u>

\$ 140,338	\$ 1,614,772
6,569	675,237
-	32,704
4,422	285,719
441,960	441,960
196,969	362,476
<u>790,258</u>	<u>3,412,868</u>
<u>1,106</u>	<u>679,708</u>
<u>1,106</u>	<u>679,708</u>

1,228	156,984
-	2,736,902
11,111,517	28,387,810
2,551,313	2,551,313
220,718	220,718
98,981	5,390,080
399,952	608,909
535,703	535,703
-	278,548
	109,243
-	3,024,681
-	22,563,145
<u>14,919,412</u>	<u>66,564,036</u>
<u>\$ 15,710,776</u>	<u>\$ 70,656,612</u>

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**CITY OF KELLER, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE  
SHEET TO THE STATEMENT OF NET POSITION  
SEPTEMBER 30, 2019**

**EXHIBIT A-4**

Total fund balance-governmental funds balance sheet	\$ 66,564,036
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. Excludes governmental portion of the internal service funds of \$3,574,780.	127,836,395
Deferred losses on refunding are reported as deferred outflows of resources in the government-wide statement of net position.	849,399
Revenues earned but not available within sixty days of the fiscal year-end are not recognized as revenue in the fund financial statements.	679,708
Deferred outflows, \$6,153,709, and inflows, (\$548,184), of resources related to the City's net pension and other post employment benefit liabilities results in an increase in net position in the government-wide financial statements (including internal service fund activity). This amount excludes the internal service funds' deferred outflows of \$209,271 and inflows of (\$17,870).	5,414,124
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.	(117,048)
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.	(33,359,377)
Net pension liability, \$17,266,431, compensated absences, \$1,759,591, and total other post employment benefit obligation (OPEB), \$1,803,050, are not due and payable in the current period, and therefore are not reported in the fund financial statements. This amount excludes governmental portion of the internal service fund net pension liability of \$577,577 and OPEB liability \$59,291.	(20,192,204)
Internal service funds are used by management to charge the costs of capital assets to individual funds. This amount represents the net position of the internal service fund, excluding \$470,488 allocated to the business-type activities.	9,501,104
<b>NET POSITION OF GOVERNMENTAL ACTIVITIES - statement of net position</b>	<u><u>\$ 157,176,137</u></u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**CITY OF KELLER, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**EXHIBIT A-5**

	General Fund	General Obligation Debt Service	Crime Control Prevention District	Capital Projects Fund	Non major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Ad valorem taxes	\$ 19,376,613	\$ 4,078,378	\$ -	\$ -	\$ -	\$ 23,454,991
Sales taxes	6,390,217	-	1,498,336	-	4,792,663	12,681,216
Franchise fees	4,498,902	-	-	-	127,955	4,626,857
Mixed drink tax	147,028	-	-	-	-	147,028
Licenses and permits	1,225,453	-	-	-	116,000	1,341,453
Intergovernmental	3,518,179	-	101,285	-	112,140	3,731,604
Charges for services	3,096,873	-	-	-	111,675	3,208,548
Fines and forfeitures	732,740	-	-	-	77,435	810,175
Special assessments and impact fees	-	-	-	-	635,248	635,248
Donations	63,725	-	-	-	34,342	98,067
Interest income	509,995	72,287	257,288	492,660	297,076	1,629,306
Miscellaneous income	106,890	13,904	-	-	18,177	138,971
<b>Total revenues</b>	<b>39,666,615</b>	<b>4,164,569</b>	<b>1,856,909</b>	<b>492,660</b>	<b>6,322,711</b>	<b>52,503,464</b>
<b>EXPENDITURES</b>						
Current:						
General government	4,665,969	-	-	-	159,079	4,825,048
Public safety	17,353,028	-	723,123	-	129,847	18,205,998
Public works	2,729,907	-	-	-	-	2,729,907
Community development	2,389,745	-	-	-	162,387	2,552,132
Recreation and cultural	4,909,442	-	-	-	8,336	4,917,778
Capital outlay	168,391	-	238,137	4,934,979	1,418,158	6,759,665
Debt service:						
Principal	-	3,324,046	370,000	-	1,330,000	5,024,046
Interest and fiscal charges	-	754,314	153,950	-	257,684	1,165,948
<b>Total expenditures</b>	<b>32,216,482</b>	<b>4,078,360</b>	<b>1,485,210</b>	<b>4,934,979</b>	<b>3,465,491</b>	<b>46,180,522</b>
<b>Excess (deficiency) of revenues under expenditures</b>	<b>7,450,133</b>	<b>86,209</b>	<b>371,699</b>	<b>(4,442,319)</b>	<b>2,857,220</b>	<b>6,322,942</b>
<b>OTHER FINANCING SOURCES (USES)</b>						
Transfers in	-	-	-	9,242,771	3,264,626	12,507,397
Transfers out	(5,784,023)	(178,662)	-	-	(5,714,212)	(11,676,897)
Proceeds from sale of property	5,868	-	40,415	-	19,177	65,460
<b>Total other financing sources (uses)</b>	<b>(5,778,155)</b>	<b>(178,662)</b>	<b>40,415</b>	<b>9,242,771</b>	<b>(2,430,409)</b>	<b>895,960</b>
<b>Net change in fund balances</b>	<b>1,671,978</b>	<b>(92,453)</b>	<b>412,114</b>	<b>4,800,452</b>	<b>426,811</b>	<b>7,218,902</b>
Fund balances, October 1, 2018	21,643,031	2,829,355	4,879,625	15,500,522	14,492,601	59,345,134
<b>Fund balances, September 30, 2019</b>	<b>\$ 23,315,009</b>	<b>\$ 2,736,902</b>	<b>\$ 5,291,739</b>	<b>\$ 20,300,974</b>	<b>\$ 14,919,412</b>	<b>\$ 66,564,036</b>

The accompanying notes to the basic financial statements are an integral part of this statement.



**CITY OF KELLER, TEXAS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF  
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE TO  
THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**EXHIBIT A-6**

Net change in fund balances- total governmental funds.	\$ 7,218,902
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. Excludes capital asset changes in the internal service fund of \$1,417,440.	6,721,583
Developers contributions are not reported in governmental funds.	2,023,535
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. Excludes depreciation expense of \$372,581 from internal service fund.	(10,334,055)
The transfer of capital assets between governmental activities and business-type activities is not recorded recorded in the governmental funds financial statements. This amount is the net of capital assets transferred out of governmental activities.	(1,197,868)
The repayment of the principal of long term debt consumes the current financial resources of governmental funds, but has no effect on net position. The amortization of bond premiums and deferred gain/loss on refunding of long term debt is reported in statement of activities but does not require the use of current financial resources. Therefore the effect of the amortization of these various items are not reported in the statement of revenues, expenses, and changes in fund balance.	
This amount represents the net effect of the following items:	
o Repayments of principal	5,024,046
o Amortization/refunding of premium on bonds	291,700
o Amortization of deferred loss on refunding	(163,686)
Implementation of GASB 68 requires certain expenditures to be de-expended and recorded as deferred The following is the net effect of current year pension expense and contributions made after the measurement date. Excludes changes in pension activity of \$40,170 that are from the internal service funds.	(1,139,163)
Implementation of GASB 75 requires certain expenditures to be de-expended and recorded as deferred The following is the net effect of current year Other Post Employment Benefits (OPEB) expense and contributions made after the measurement date. Excludes changes in OPEB activity of \$2,690 that are from the internal service funds.	(121,659)
Current year changes in accrued interest payable does not require the use of current financial resources; and therefore, are not reported as expenditures in governmental funds.	21,057
Current year changes in the long-term liability for compensated absences do not require the use of current financial resources; and therefore, are not reported as expenditures in governmental funds.	30,749
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds.	116,997
Internal service funds are used by management to share the costs of capital assets to individual funds. This is the amount of change in net position allocated to governmental activities.	2,106,513
<b>CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES - statement of activities</b>	<u>\$ 10,598,651</u>

The accompanying notes to the basic financial statements are an integral part of this statement.

**CITY OF KELLER, TEXAS  
STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2019**

	<b>Water and Wastewater Utilities</b>	<b>Drainage Utility</b>	<b>Recreation/ Aquatic Center</b>	<b>Total Enterprise Funds</b>	<b>Non-Major Total Internal Service Funds</b>
<b>ASSETS</b>					
Current assets					
Cash and equivalents	\$ 10,034,007	\$ 1,361,597	\$ 1,985,551	\$ 13,381,155	\$ 6,442,871
Investments	2,294,810	1,862,529	213,372	4,370,711	1,220,016
Accounts receivables (net of allowances for uncollectibles)	5,044,852	62,112	41,499	5,148,463	1,094
Interest receivable	67,916	19,438	8,457	95,811	8,746
Due from other funds	-	-	-	-	-
Inventories, at cost	270,888	-	5,627	276,515	-
Prepaid items	324,739	-	-	324,739	977
Restricted assets	-	-	-	-	-
Investments	10,857,916	-	-	10,857,916	-
<b>Total current assets</b>	<b>28,895,128</b>	<b>3,305,676</b>	<b>2,254,506</b>	<b>34,455,310</b>	<b>7,673,704</b>
Non-current assets					
Capital assets:					
Land	1,942,983	61,272	-	2,004,255	-
Water and sewer system	106,507,136	33,266,467	-	139,773,603	-
Aquatics Building	-	-	18,019,337	18,019,337	-
Machinery and equipment	2,342,972	373,289	1,238,481	3,954,742	11,709,964
Capacity rights	6,281,781	-	-	6,281,781	-
Construction in progress	20,019,580	713,537	-	20,733,117	-
Accumulated depreciation	(54,716,956)	(22,787,460)	(8,113,501)	(85,617,917)	(8,135,184)
<b>Total capital assets (net of accumulated depreciation)</b>	<b>82,377,496</b>	<b>11,627,105</b>	<b>11,144,317</b>	<b>105,148,918</b>	<b>3,574,780</b>
<b>Total non-current assets</b>	<b>82,377,496</b>	<b>11,627,105</b>	<b>11,144,317</b>	<b>105,148,918</b>	<b>3,574,780</b>
<b>Total assets</b>	<b>111,272,624</b>	<b>14,932,781</b>	<b>13,398,823</b>	<b>139,604,228</b>	<b>11,248,484</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred loss on refunding	116,793	-	-	116,793	-
Deferred outflows related to pensions	742,402	149,114	163,755	1,055,271	205,317
Deferred outflows related to SDBF	5,033	967	1,126	7,126	1,340
Deferred outflows related to OPEB Health Benefits	9,753	1,885	2,165	13,803	2,614
<b>Total deferred outflows of resources</b>	<b>873,981</b>	<b>151,966</b>	<b>167,046</b>	<b>1,192,993</b>	<b>209,271</b>

The accompanying notes to the basic financial statements are an integral part of this statement.

	Water and Wastewater Utilities	Drainage Utility	Recreation/ Aquatic Center	Total Enterprise Funds	Non-Major Total Internal Service Funds
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable	\$ 5,068,456	\$ 24,901	\$ 217,831	\$ 5,311,188	\$ 796,667
Other payables and accruals	90,588	17,276	31,322	139,186	34,758
Unearned revenue	73,840	-	494,885	568,725	-
Compensated absences payable - current	170,740	46,709	-	217,449	-
General obligation bonds payable - current	1,623,793	-	-	1,623,793	-
Certificates of obligations - current	855,000	-	-	855,000	-
Accrued interest payable	121,192	-	-	121,192	-
Customer deposits	1,343,437	-	30,532	1,373,969	-
<b>Total current liabilities</b>	<b>9,347,046</b>	<b>88,886</b>	<b>774,570</b>	<b>10,210,502</b>	<b>831,425</b>
Non-current liabilities:					
General obligation bonds payable	6,194,023	-	-	6,194,023	-
Certificate of obligations	18,615,000	-	-	18,615,000	-
Net pension liability	2,270,295	428,149	514,249	3,212,693	577,577
Total OPEB Liability (SDBF)	70,049	13,541	15,551	99,141	18,769
Total OPEB Liability (Health Benefits)	151,062	29,233	33,484	213,779	40,522
<b>Total noncurrent liabilities</b>	<b>27,300,429</b>	<b>470,923</b>	<b>563,284</b>	<b>28,334,636</b>	<b>636,868</b>
<b>Total liabilities</b>	<b>36,647,475</b>	<b>559,809</b>	<b>1,337,854</b>	<b>38,545,138</b>	<b>1,468,293</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred inflows related to pensions	19,782	5,052	5,476	30,310	14,912
Deferred inflows related to SDBF	5,086	1,024	1,063	7,173	1,419
Deferred inflows related to OPEB Health Benefits	5,515	1,110	1,153	7,778	1,539
<b>Total deferred inflows of resources</b>	<b>30,383</b>	<b>7,186</b>	<b>7,692</b>	<b>45,261</b>	<b>17,870</b>
<b>NET POSITION</b>					
Net investment in capital assets	59,375,209	11,627,105	11,144,317	82,146,631	3,574,780
Restricted for construction	6,652,768	-	-	6,652,768	-
Unrestricted	9,440,770	2,890,647	1,076,006	13,407,423	6,396,812
<b>Total net position</b>	<b>\$ 75,468,747</b>	<b>\$ 14,517,752</b>	<b>\$ 12,220,323</b>	<b>102,206,822</b>	<b>\$ 9,971,592</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				470,488	
Total Net Position per Government-Wide Financial Statements				<b>\$ 102,677,310</b>	

**CITY OF KELLER, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND  
NET POSITION – PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**EXHIBIT A-8**

	<b>Water and Wastewater Utilities</b>	<b>Drainage Utility</b>	<b>Recreation/ Aquatic Center</b>	<b>Total Enterprise Funds</b>	<b>Non-Major Total Internal Service Funds</b>
<b>OPERATING REVENUES</b>					
Water	\$ 17,619,657	\$ -	\$ -	\$ 17,619,657	\$ -
Sewer	8,043,750	-	-	8,043,750	-
Drainage revenue	-	1,466,777	-	1,466,777	-
Recreation/Aquatic center revenue	-	-	3,295,577	3,295,577	-
Tap and connection fees	57,213	-	-	57,213	-
Miscellaneous	142,705	-	12,982	155,687	3,286,084
<b>Total operating revenues</b>	<b>25,863,325</b>	<b>1,466,777</b>	<b>3,308,559</b>	<b>30,638,661</b>	<b>3,286,084</b>
<b>OPERATING EXPENSES</b>					
Personnel services	3,151,896	613,012	1,434,809	5,199,717	846,501
Supplies and maintenance	423,995	26,054	129,502	579,551	143,031
Services and other	5,429,495	566,448	1,100,575	7,096,518	978,412
Wholesale water purchases	8,457,766	-	-	8,457,766	-
Wastewater services contracted	3,356,157	-	-	3,356,157	-
Depreciation	1,979,300	1,142,760	528,720	3,650,780	372,581
<b>Total operating expenses</b>	<b>22,798,609</b>	<b>2,348,274</b>	<b>3,193,606</b>	<b>28,340,489</b>	<b>2,340,525</b>
<b>Operating income (loss)</b>	<b>3,064,716</b>	<b>(881,497)</b>	<b>114,953</b>	<b>2,298,172</b>	<b>945,559</b>
<b>NON-OPERATING REVENUES (EXPENSES)</b>					
Investment revenue	687,946	65,382	66,823	820,151	97,016
Gain or (loss) on sale of property	-	507	6,480	6,987	(20,513)
Interest expense	(646,916)	-	-	(646,916)	-
<b>Total non-operating revenues (expenses)</b>	<b>41,030</b>	<b>65,889</b>	<b>73,303</b>	<b>180,222</b>	<b>76,503</b>
<b>Net income (loss) before transfers and contributions</b>	<b>3,105,746</b>	<b>(815,608)</b>	<b>188,256</b>	<b>2,478,394</b>	<b>1,022,062</b>
<b>TRANSFERS AND CONTRIBUTIONS</b>					
Developer contributions	1,356,399	1,104,066	-	2,460,465	-
Contribution of capital assets	482,466	-	715,402	1,197,868	-
Transfers in	-	61,413	-	61,413	1,400,000
Transfers out	(836,413)	-	(1,455,500)	(2,291,913)	-
<b>Total transfers and contributions</b>	<b>1,002,452</b>	<b>1,165,479</b>	<b>(740,098)</b>	<b>1,427,833</b>	<b>1,400,000</b>
Change in net position	4,108,198	349,871	(551,842)	3,906,227	2,422,062
<b>Net position, October 1</b>	<b>71,360,549</b>	<b>14,167,881</b>	<b>12,772,165</b>		<b>7,549,530</b>
<b>Net position, September 30</b>	<b>\$ 75,468,747</b>	<b>\$ 14,517,752</b>	<b>\$ 12,220,323</b>		<b>\$ 9,971,592</b>
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds.				315,549	
Change in Net Position Business-type Activities				\$ 4,221,776	

The accompanying notes to the basic financial statements are an integral part of this statement.

**CITY OF KELLER, TEXAS  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**EXHIBIT A-9**

	<b>Water and Wastewater Utilities</b>	<b>Drainage Utility</b>	<b>Recreation/ Aquatic Center</b>	<b>Total Enterprise Funds</b>	<b>Non-Major Total Internal Service Funds</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash received from customers	\$ 24,393,678	\$ 1,467,898	\$ 3,202,566	\$ 29,064,142	\$ 3,282,100
Cash payments to employees for services	(2,977,174)	(575,105)	(1,398,696)	(4,950,975)	(797,520)
Cash payments to other suppliers for goods and services	(13,877,852)	(614,556)	(1,086,283)	(15,578,691)	(489,979)
<b>Net cash provided by operating activities</b>	<b>7,538,652</b>	<b>278,237</b>	<b>717,587</b>	<b>8,534,476</b>	<b>1,994,601</b>
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>					
Transfers from other funds	-	61,413	-	61,413	1,400,000
Transfers to other funds	(836,413)	-	(1,455,500)	(2,291,913)	-
<b>Net cash provided by (used in) non-capital financing activities</b>	<b>(836,413)</b>	<b>61,413</b>	<b>(1,455,500)</b>	<b>(2,230,500)</b>	<b>1,400,000</b>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>					
Principal and interest paid	(2,969,763)	-	-	(2,969,763)	-
Bond proceeds	7,324,184	-	-	7,324,184	-
Acquisition or construction of capital assets net of contributions	(14,726,697)	(177,638)	(260,692)	(15,165,027)	(1,417,440)
Proceeds from sale of capital assets	-	19,888	6,480	26,368	122,755
<b>Net cash used in capital and related financing activities</b>	<b>(10,372,276)</b>	<b>(157,750)</b>	<b>(254,212)</b>	<b>(10,784,238)</b>	<b>(1,294,685)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Purchase or sale of investments	6,085,452	6,928	302,862	6,395,242	(156,869)
Interest and dividends on investments	687,946	65,382	66,823	820,151	97,016
<b>Net cash provided by (used in) investing activities</b>	<b>6,773,398</b>	<b>72,310</b>	<b>369,685</b>	<b>7,215,393</b>	<b>(59,853)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>3,103,361</b>	<b>254,210</b>	<b>(622,440)</b>	<b>2,735,131</b>	<b>2,040,063</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>6,930,646</b>	<b>1,107,387</b>	<b>2,607,991</b>	<b>10,646,024</b>	<b>4,402,808</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 10,034,007</b>	<b>\$ 1,361,597</b>	<b>\$ 1,985,551</b>	<b>\$ 13,381,155</b>	<b>\$ 6,442,871</b>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES</b>					
Operating income (loss)	\$ 3,064,716	\$ (881,497)	\$ 114,953	\$ 2,298,172	\$ 945,559
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:					
Depreciation	1,979,300	1,142,760	528,720	3,650,780	372,581
Effects of changes in assets and liabilities:					
Decrease (increase) in receivables	(1,551,726)	3,252	(6,823)	(1,555,297)	(1,094)
Decrease (increase) in inventories and prepaid items	(143,387)	224	(1,464)	(144,627)	(432)
Decrease (increase) in interest receivables	(3,493)	(2,131)	(2,993)	(8,617)	(2,890)
Decrease (increase) in due from other funds	-	-	-	-	-
Decrease (increase) in deferred outflows	(441,129)	(92,211)	(92,883)	(626,223)	(130,859)
Increase (decrease) in accounts payable	3,932,948	(22,278)	145,258	4,055,928	631,896
Increase (decrease) in other payables and accruals	8,589	3,273	2,722	14,584	4,513
Increase (decrease) in compensated absences	6,579	2,454	-	9,033	-
Increase (decrease) in customer deposits	92,084	-	(7,142)	84,942	-
Increase (decrease) in unearned revenue	(6,512)	-	(89,035)	(95,547)	-
Increase (decrease) in pension and OPEB liability	874,747	176,450	183,084	1,234,281	243,771
Increase (decrease) in deferred inflows	(274,064)	(52,059)	(56,810)	(382,933)	(68,444)
<b>Total adjustments</b>	<b>4,473,936</b>	<b>1,159,734</b>	<b>602,634</b>	<b>6,236,304</b>	<b>1,049,042</b>
<b>Net cash provided by operating activities</b>	<b>\$ 7,538,652</b>	<b>\$ 278,237</b>	<b>\$ 717,587</b>	<b>\$ 8,534,476</b>	<b>\$ 1,994,601</b>
<b>NONCASH ITEMS</b>					
Contributions of capital assets	\$ 482,466	\$ -	\$ 715,402	\$ 1,197,868	\$ -
Developer contributions of capital assets	\$ 1,356,399	\$ 1,104,066	\$ -	\$ 2,460,465	\$ -

The accompanying notes to the basic financial statements are an integral part of this statement.

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**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

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

The City of Keller (the City) was incorporated in 1955. The City operates under a Council-Manager form of government as a duly incorporated home rule charter approved in 1982. The City provides the following services: public safety (police and fire), streets, water, sewer and storm water drainage, public improvements, culture, planning and zoning, parks and recreation, and general administrative services.

The City reports in accordance with accounting principles generally accepted in the United States of America (GAAP) as established by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standards Board (FASB). The accounting and reporting framework and the more significant accounting principles and practices are discussed in subsequent sections of this Note. The remainder of the notes are organized to provide concise explanations, including required disclosures of budgetary matters, assets, liabilities, fund equity, revenues, expenditures/expenses, and other information considered important to gaining a clear picture of the City's financial activities for the fiscal year ended September 30, 2019.

**A. Financial Statement Presentation**

The basic financial statements are prepared in conformity with GASB Statement No. 34, which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities, business-type activities and activities of its discretely presented component unit on the statement of net position and statement of activities. Significantly, the City's statement of net position includes both noncurrent assets and noncurrent liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for the governmental funds. The accrual basis of accounting is utilized by proprietary funds. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

The City also presents Management's Discussion and Analysis, which includes an analytical overview of the City's financial activities. In addition, a budgetary comparison schedule is presented that compares the original adopted and final amended General Fund budget with actual results.

**B. Financial Reporting Entity**

The City's basic financial statements include the accounts of all City operations. In evaluating how to define the government for financial reporting purposes, management has considered all entities for which the City is considered to be financially accountable. The City is a home-rule municipality governed by an elected Mayor and six-member City Council, who appoint a City Manager. As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. All of the City's component units are presented as a blended component unit.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**B. Financial Reporting Entity – Continued**

**Blended Component Unit**

**Keller Development Corporation (KDC)** – The City created the Keller Development Corporation for the purpose of implementing its Parks Master Plan and appointed a seven-member Board of Directors, four of whom are required to be members of the City Council. The remaining three members are residents of the City. All Board members are appointed by the City Council. KDC is authorized to sell bonds or other forms of indebtedness. In the event of dissolution of KDC, the assets of KDC will be distributed to the City.

Since the KDC Board of Directors act primarily in an advisory role to the Keller City Council, who exercise the ultimate financial control over the recommendations of the KDC Board and there is either a financial benefit or burden relationship between the City and KDC, the financial information of KDC is blended as a governmental fund into the primary government.

**Keller Crime Control Prevention District (KCCPD)** – In accordance with Section 363 of the Texas Local Government Code, the City Council appointed a temporary KCCPD Board, who then developed and proposed a two-year financial plan to the residents of the City for a public vote. In November 2001, the residents of the City, by referendum, approved an additional three-eighths of one percent (0.375%) sales and use tax to be used for public safety crime control and prevention programs, including public safety equipment, and improvements to public safety facilities. Following voter approval of KCCPD, a Board of Directors was officially appointed by the City Council, and the two-year budget was then adopted by the Board and City Council. By statute, the life of KCCPD cannot exceed five years without re-authorization by another referendum. The additional sales tax became effective in April 2002. The tax was authorized for an initial period of five years. In May 2006, voters re-authorized the tax for an additional period of 15 years. In November 2007, voters authorized a reduction in the rate from three-eighths of one percent (0.375%) to one-quarter of one percent (0.25%).

Since the KCCPD Board acts primarily in an advisory role to the Keller City Council, who exercises the ultimate financial control over the recommendations of the KCCPD Board and the KCCPD provides services entirely, or almost entirely, to the City or otherwise exclusively, or almost exclusively, benefits the City even though it does not provide services directly to it, the financial information for KCCPD is blended as a governmental fund into the primary government. Separate financial statements for the component units are not prepared.

**C. Government-Wide and Fund Financial Statements**

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely on fees and charges for support. Additionally, the primary government is reported separately from the legally separate component unit for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or program are offset by program revenues. Direct expenses are those that are clearly identifiable with specific function or program. Program revenues include: a) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or program, b) grants and contributions that are restricted to meeting the operational requirements of a particular function or program, or c) grants and contributions that are restricted to meeting the capital requirements of a particular function or program. Taxes and other items not properly included among program revenues are reported instead as general revenues. Internally dedicated resources are also reported as general revenues rather than as program revenues.



**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**C. Government-Wide and Fund Financial Statements - Continued**

Separate fund 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. The major governmental funds are the general fund, the general obligation debt service fund, the Crime Control Prevention District, and the capital projects fund. GASB Statement No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The non-major funds are combined in a column in the fund financial statements. The non-major funds are detailed in the combining section of the financial statements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Interfund services provided and used are not eliminated in the process of consolidation.

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. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. The government-wide and proprietary fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board.

Governmental fund level financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. The governmental fund financial statements follow the accounting set forth by the Governmental Accounting Standards Board.

Property taxes, franchise fees, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Sales taxes collected and held by the State and merchants at year-end on behalf of the City are also recognized as revenue. All other revenue items are considered to be measurable and available only when cash is received by the government.

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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

**Fund Accounting**

The following major funds are used by the City:

**1. Governmental Funds:**

Governmental Funds are those through which most governmental functions of the City are financed. The acquisition, use and balances of the City's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. The measurement focus is on determination of changes in financial position, rather than on net income determination. The following is a description of the major Governmental Funds of the City:

- a. The **General Fund** is the 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.
- b. The **General Obligation Debt Service Fund** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- c. The **Crime Control Prevention District Special Revenue Fund** is used to account for collection of sales and use taxes, in accordance with Section 363 of the Texas Local Government Code, to be used for public safety crime control and prevention programs.
- d. The **Capital Projects Fund** is used to account for construction and progress capital outlay or long-term repair contract expenditures.

In addition, the City reports the following non-major governmental funds.

**Non-major Special Revenue Funds** are used to account for the specific revenues that are legally restricted to expenditure for particular purposes.

**Library Fund** – This fund accounts for public donations and revenues restricted for Library improvements

**Municipal Court Fund** – This fund accounts for technology and building security fees collected from Municipal Court citations. Expenditures from these fees are specifically restricted by state law for court technology and security.

**Public Safety Fund** – This fund accounts for revenues derived from forfeiture and seizure of assets resulting from illegal narcotic activity. Expenditures are restricted for the Police Department to be used in illegal narcotic enforcement.

**Public Art Fund** – This fund is to account for contributions, donations, and other resources that are restricted for specific uses or purposes.

**Public Information and Broadcasting** – This fund is used to account for collection of franchise taxes from cable fees. Expenditures are restricted for the use of communications throughout the City.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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

**Tree Restoration Fund** – This fund accounts for charges for services restricted for the use of restoring trees around the City.

**Keller Development Corporation Fund** – This fund is used to account for collection of sales and use taxes for the payment of bonds or other forms of indebtedness to finance the cost of Keller parks.

The **Nonmajor Capital Projects Funds** account for all resources used for the acquisition and construction of major capital facilities other than those financed by proprietary funds.

**Roadway Impact Fees Fund** – This fund is used to account for revenues that are restricted for roadway improvements. Authorized expenditures include improvements and engineering.

**Park Development Fee Fund** – This fund is used to account for resources received primarily from park development fees and expenditures for specific park improvements

**Street/Sidewalk Improvement Fund** – This fund is used to account for revenues that are restricted for street and sidewalk improvements. Authorized expenditures include improvements and related engineering.

**Parks Capital Improvement Fund** – This fund is to account for acquisition or construction of capital assets.

Governmental funds with legally adopted annual budgets include the General Fund, the General Obligation Debt Service Fund, Crime Control Prevention District, Keller Development Corporation, Municipal Court fund, and the Street/Sidewalk Improvement fund. The legal level of control is at the funds department level.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

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

**2. Proprietary Funds:**

Proprietary Funds are accounted for using an economic resources measurement focus. The accounting objectives are a determination of net income, financial position, and changes in cash flows. All assets and liabilities associated with a proprietary fund's activities are included on its statement of net position.

The proprietary funds are financed and operated in a manner similar to private business enterprise. The costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis are financed or recovered primarily through user charges. Periodic determination of revenues earned, expenses incurred, or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes. The City reports proprietary funds that are considered to be enterprise and internal service funds.

The following proprietary funds are reported as enterprise funds:

***Water and Wastewater Utilities Fund*** – This fund is used to account for the operations of the water distribution system, wastewater pumping stations and collection systems. The City reports the water and wastewater utilities fund as a major fund.

***Drainage Utility Fund*** – This fund is used to account for the operations of the City's drainage system for storm water control. The City reports the drainage utility fund as a major fund.

***Recreation/Aquatic Center Fund*** – This fund is considered a non-major fund for reporting purposes and is used to account for customer activity at the City's recreation and pool facilities.

The City's enterprise funds are reported in the business-type activities on the governmental-wide financial statements.

The City reports the following non-major internal service funds:

***Information Technology Fund*** – This fund is used to account for replacements of computers and software for the City's departments.

***Equipment Replacement Fund*** – This fund is used to account for replacement of vehicles and other equipment that are City owned.

***Health Insurance Fund*** – This fund is used to pay for the City's current employee's health insurance.

The City's internal service funds account for the financing of goods and services provided by one department to other City departments or to other governmental units on a cost-reimbursement basis. The City's internal service funds are reported with the governmental activities with an allocation to the business-type activities on the government-wide financial statements.

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**E. Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Substantially all operating cash and cash equivalents are maintained in consolidated cash accounts or individual fund investment accounts.

State statutes authorize the City 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; (3) other obligation, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (5) certificates of deposit by state and national banks domiciled in this state that are (A) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or (B) secured by obligations that are described by (1), pledged with third party selected or approved by the City, and placed through a primary government securities dealer.

Investments, except for the investment pools and money market mutual funds are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market mutual funds are accessible at any time and therefore are also reported at amortized cost.

**F. Inventories and Prepaid Items**

Inventory is valued at cost (first-in, first-out). The cost of governmental fund type inventory is recorded as an expenditure when consumed rather than when purchased. Reported inventories are equally offset by non-spendable fund balance, which indicates that they do not constitute "available, spendable resources" even though they are a component of fund balance. The City is not required to maintain a minimum level of inventory. Inventories in the Proprietary Funds consist of supplies and are recorded at cost when consumed rather than when purchased.

Prepaid balances are for payments made by the City for which benefits extend beyond September 30, 2019, and the non-spendable fund balance has been recognized to signify that a portion of fund balance is not available for other subsequent expenditures. The cost of prepaid services is recorded based on when prepaids was consumed rather than when purchased.

**G. Receivables and Payables**

Activity 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). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Advances between funds, as reported in the fund financial statements, are offset by non-spendable fund balance in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 60 days comprise the trade accounts receivable allowance for uncollectibles.

The governmental and proprietary funds report grant receivables as earned upon the time when eligible to receive reimbursement if collected within a year after fiscal year end.

**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**H. Restricted Assets**

Certain proceeds of enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements.

Customer deposits received for water and wastewater service are, by law, considered to be restricted assets. These balances are included in the proprietary funds.

**I. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost. Donated capital assets are recorded at acquisition value at the date of donation.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

Assets	Years
Buildings and improvements	20 - 40
Improvements other than buildings	20 - 40
Water, sewer, and drainage system	20 - 40
Capacity rights	40
Machinery, vehicle, and other equipment	3 - 20

**J. Compensated Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation is accrued depending on level of employment and years of service. Vacation can be accrued up to 240 to 400 hours depending on years of service with the City. Accrued vacation is paid upon retirement or termination. Sick leave is accrued at 8 hours per month with no limitations. Accrued sick leave expires and is not paid upon retirement or termination. Unused compensatory time for nonexempt employees is paid upon termination. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they are matured, for example, unused reimbursable leave payable as a result of employee resignations and retirements.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**K. Long-term Obligations**

In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Losses on refunding are deferred and amortized over the life of the new issuance or the existing debt using the effective interest method.

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

**L. Pensions and Other Post-Employment Benefits (OPEB)**

The City has Pension and OPEB for supplemental death benefits fund (SDBF) with the Texas Municipal Retirement System (TMRS) and has OPEB for health insurance. For purposes of measuring the net pension and total OPEB liability from TMRS, pension/OPEB related deferred outflows and inflows of resources, and pension/OPEB expense, City specific information about its Fiduciary Net Position in 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 to TMRS 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 and Total OPEB Liabilities is obtained from TMRS through reports prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and 75. The OPEB for health benefits is an unfunded plan. The same actuaries used for pensions and OPEB from TMRS are used to provide the reporting information for the OPEB for health benefits.

**M. Deferred Outflows and Inflows of Resources**

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows and inflows of resources. This separate financial statement element, deferred outflows and inflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow or inflow of resources (expense/expenditure) until then. The City has the following items that qualify for reporting in this category:

**Deferred Loss on Refunding** – these deferred outflows result from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

**Pensions and OPEB** – these deferred outflows result from pension and OPEB contributions after the measurement date (deferred and recognized as a reduction of the pension/OPEB liability in the following fiscal year). There are also deferred outflows and inflows based on changes in actuarial assumptions and differences between expected and actual economic experience (deferred and amortized over the average remaining service life of participants) and differences between projected and actual investment earnings (deferred and amortized over a closed 5 year period).

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**N. Fund Equity**

The City has adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Government Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing government fund type definitions. The statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Fund balance classifications, under GASB 54 are Nonspendable, Restricted, Committed, Assigned, and Unassigned.

These classifications reflect not only the nature of funds, but also provide clarity to the level of restriction placed upon fund balance. Fund balance can have different levels of constraint, such as external versus internal compliance requirements. Unassigned fund balance is a residual classification within the General Fund. The General Fund should be the only fund that reports a positive unassigned balance. In all other funds, unassigned is limited to negative residual fund balance.

*In accordance with GASB 54, the City classifies governmental fund balances as follows:*

Nonspendable fund balance – includes amounts that are not in a spendable form or are required to be maintained intact. (i.e. inventories, prepaid items)

Restricted fund balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers either constitutionally or through enabling legislation. (i.e. debt service, capital projects, economic development, municipal court security, municipal court technology, tourism)

Committed fund balance – includes amounts that can be used only for the specific purposes determined by a formal action of the government’s highest level of decision-making authority (City Council). Commitments may be changed or lifted only by the government taking the same formal action (resolution) that imposed the constraint originally (i.e. park acquisition and improvement, recreation, fire training, fire development, public arts).

Assigned fund balance – comprises amounts intended to be used by the government for specific purposes. Per the fund balance policy, intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority. The City Council has authorized the City Manager as the official authorized to assign fund balance to a specific purpose as approved by the fund balance policy.

Unassigned fund balance – is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose.

Order of Expenditure of Funds – When multiple categories of fund balance are available for expenditure, the City will start with the most restricted category and spend those funds first before moving down to the next category with available funds.

The general fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than 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.



**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED**

**O. Property Taxes**

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 \$0.41325 per \$100 of assessed valuation and assessed valuation is approximately 100% of estimated value.

**P. Use of Estimates**

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

**NOTE 2. CASH, INVESTMENTS, AND DEPOSITS**

At year end, the carrying amount of the City's interest bearing bank deposits and money market funds was \$23,699,554 and the bank balance was \$23,782,133. All of the bank balances were covered by federal deposit insurance and collateralized by the pledging financial institution's City's safekeeping account at the Federal Reserve or held by a third party custodian. The custodian serves contractually as the City's agent. The City's cash and equivalents also included cash drawers of \$4,800.

Additionally, the City has an account under a safekeeping agreement with Frost Bank, TX. The U.S. Government Treasury and Agency investments clear via the Federal Reserve System through this account upon purchase, sale, or maturity. All assets in the account are held in the City's name.

The table below identifies the investment types that are authorized for the City by the Public Funds Investment Act. (Government Code Chapter 2256) The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
U.S Treasury Obligations	3 years	100%	None
U.S. Agency Obligations	3 years	80%	None
State Agency Obligations	3 years	40%	None
Certificate of Deposits	3 years	80%	None
Investment Pools	3 years	80%	None
Repurchase Agreement	3 years	40%	None
Money Market Mutual Funds	3 years	40%	None
Money Market Accounts	3 years	80%	None

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 2. CASH, INVESTMENTS, AND DEPOSITS – CONTINUED**

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.

*Investment Pools* are measured at amortized cost and are exempt for fair value reporting.

Certificates of Deposit classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

The City has recurring fair value measurements as presented in the table below. The City's investment balances and weighted average maturity of such investments are as follows:

	Fair Value	Level 1 Inputs	Level 2 Inputs	Percent of Total Investments	Weighted Average Maturity (Days)	Credit Risk	Rating Agency
Investments measured at amortized cost							
Investment Pools							
TexPool	\$ 20,125,498	\$ -	\$ -	25.63%	32	AAAm	S&P
Investments by fair value level							
Certificates of Deposit	58,412,377	58,412,377	-	74.37%	281	AA+/Aaa	S&P
Total	<u>\$ 78,537,875</u>	<u>\$ 58,412,377</u>	<u>\$ -</u>	<u>100.00%</u>			
Portfolio Weighted Average Maturity					<u>216</u>		

Weighted average maturity of the portfolio by investment type reflected in the table is stated in days. For investment pools, the recent weighted average maturity is presented based on the statewide investment pool. Interest bearing bank deposits is not included in the portfolio's weighted average maturity presented.

**Interest Rate Risk**

In compliance with the City's Investment Policy, as of September 30, 2019, the City minimized the interest rate risk, the risk relating to the decline in market value of securities in the portfolio, by: limiting the weighted average maturity to 365 days and the stated maturity to two years or less, with the exception of securities purchases related to reserve funds; structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the secondary market prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the PFIA; and investing funds primarily in money market mutual funds, government investment pools, and shorter-term securities with a weighted average maturity of less than 200 days.

**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 2. CASH, INVESTMENTS, AND DEPOSITS – CONTINUED**

**Interest Rate Risk – Continued**

The following table details the maturity schedule for the City’s investments as of September 30, 2019:

<u>Maturity Schedule</u>	<u>Book Value</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
Less than 1 Month	\$ 2,068,856	\$ 2,068,856	3%
1 to 6 Months	37,026,182	37,026,182	47%
6 to 9 Months	15,613,258	15,613,258	20%
9 to 12 Months	7,642,809	7,642,809	9%
12 to 18 Months	16,186,770	16,186,770	21%
Total	<u>\$ 78,537,875</u>	<u>\$ 78,537,875</u>	<u>100%</u>

**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. It is the City’s policy to limit its investment types with an investment quality rating not less than AAA or its equivalent by a national recognized statistical rating organization.

The City’s investment policy does not allow for an investment in any one issuer (other than investment pools) that is in excess of five percent of the fair value of the City’s total investments.

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 does 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 market value of the pledged securities in the collateral pool must equal at least the bank balance less the FDIC insurance at all times.

The City requires all deposits to be covered by Federal Depository Insurance Corporation (FDIC) insurance and/or collateralized by qualified securities pledged by the City’s depository in the City’s name and held by the depository’s agent.

The State Comptroller of Public Accounts exercises responsibility over TexPool. This 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 costs 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.

**CITY OF KELLER, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 3. RECEIVABLES**

Year-end receivable balances for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Funds	Governmental Funds					Total
	General	General Obligation Debt Service	Crime Control Prevention District	Capital Projects Fund	Non Major Governmental Funds	
Receivables						
Property taxes	\$ 287,204	\$ 91,522	\$ -	\$ -	\$ -	\$ 378,726
Franchise taxes	638,107	-	-	-	-	638,107
Sales taxes	1,117,285	-	258,941	-	876,239	2,252,465
Accounts	1,098,630	-	-	-	11,207	1,109,837
Other	96,412	8,068	13,384	38,942	32,068	188,874
Due from other Governments	503,072	-	-	-	44,153	547,225
Gross receivables	3,740,710	99,590	272,325	38,942	963,667	5,115,234
Less: allowance	(609,239)	(8,631)	-	-	-	(617,870)
Net total receivables	\$ 3,131,471	\$ 90,959	\$ 272,325	\$ 38,942	\$ 963,667	\$ 4,497,364

Year-end receivable balances for the government's individual proprietary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Proprietary Funds	Proprietary Funds				Non-Major Internal Service Fund
	Water and Wastewater Utilities	Drainage Utility	Non-Major Recreation Aquatic Center	Total Enterprise Funds	
Receivables					
Accounts	\$ 5,164,565	\$ 76,331	\$ 41,499	\$ 5,282,395	\$ 1,094
Interest	67,916	19,438	8,457	95,811	8,746
Gross receivables	5,232,481	95,769	49,956	5,378,206	9,840
Less: allowance	(119,713)	(14,219)	-	(133,932)	-
Net total receivables	\$ 5,112,768	\$ 81,550	\$ 49,956	\$ 5,244,274	\$ 9,840

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 4. CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2019 was as follows:

**Primary Government**

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental activities:					
Capital assets not being depreciated:					
Land	\$ 34,145,896	\$ 124,992	\$ -	\$ -	\$ 34,270,888
Construction in progress	8,339,387	1,677,643	-	(482,466)	9,534,564
Total capital assets, not being depreciated	<u>42,485,283</u>	<u>1,802,635</u>	<u>-</u>	<u>(482,466)</u>	<u>43,805,452</u>
Capital assets being depreciated:					
Buildings	48,856,765	82,156	-	(40,402)	48,898,519
Improvements other than buildings	193,531,660	5,794,793	-	-	199,326,453
Machinery and equipment	21,381,873	2,482,974	(617,452)	(675,000)	22,572,395
Total capital assets being depreciated	<u>263,770,298</u>	<u>8,359,923</u>	<u>(617,452)</u>	<u>(715,402)</u>	<u>270,797,367</u>
Less accumulated depreciation for:					
Buildings	(19,655,352)	(2,274,935)	-	-	(21,930,287)
Improvements other than buildings	(135,892,382)	(7,636,217)	-	-	(143,528,599)
Machinery and equipment	(17,411,458)	(795,484)	474,184	-	(17,732,758)
Total accumulated depreciation	<u>(172,959,192)</u>	<u>(10,706,636)</u>	<u>474,184</u>	<u>-</u>	<u>(183,191,644)</u>
Total capital assets being depreciated, net	<u>90,811,106</u>	<u>(2,346,713)</u>	<u>(143,268)</u>	<u>(715,402)</u>	<u>87,605,723</u>
Governmental activities capital assets, net	<u>\$ 133,296,389</u>	<u>\$ (544,078)</u>	<u>\$ (143,268)</u>	<u>\$ (1,197,868)</u>	<u>\$ 131,411,175</u>

Governmental activities include internal service fund machinery and equipment of \$11,709,964 with accumulated depreciation of \$8,135,184 as of September 30, 2019.

Depreciation expense was charged to governmental activity functions as follows:

Governmental Activities:	
General government	\$ 670,104
Public safety	1,177,350
Public works	7,668,172
Community development	1,166,152
Recreation and cultural	24,858
Total depreciation expense - governmental activities	<u>\$ 10,706,636</u>

Governmental activities portion of the internal service fund depreciation expense of \$372,581 is allocated within each function.

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 4. CAPITAL ASSETS – CONTINUED**

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Business-type activities:					
Capital assets not being depreciated:					
Land	\$ 1,506,353	\$ 55,483	\$ -	\$ 442,419	\$ 2,004,255
Construction in progress	6,771,807	13,478,844	-	482,466	20,733,117
Total capital assets, not being depreciated	8,278,160	13,534,327	-	924,885	22,737,372
Capital assets being depreciated:					
Buildings	17,123,435	180,500	-	715,402	18,019,337
Utility facilities	136,446,962	3,830,473	(61,413)	(442,419)	139,773,603
Machinery and equipment	4,210,480	80,192	(335,930)	-	3,954,742
Capacity rights	6,281,781	-	-	-	6,281,781
Total capital assets being depreciated	164,062,658	4,091,165	(397,343)	272,983	168,029,463
Less accumulated depreciation for:					
Buildings	(6,993,855)	(430,266)	-	-	(7,424,121)
Utility facilities	(67,199,766)	(2,334,443)	42,032	(42,032)	(69,534,209)
Machinery and equipment	(3,839,503)	(159,703)	335,930	42,032	(3,621,244)
Capacity rights	(4,311,975)	(726,368)	-	-	(5,038,343)
Total accumulated depreciation	(82,345,099)	(3,650,780)	377,962	-	(85,617,917)
Total capital assets being depreciated, net	81,717,559	440,385	(19,381)	272,983	82,411,546
Business-type activities capital assets, net	\$ 89,995,719	\$ 13,974,712	\$ (19,381)	\$ 1,197,868	\$ 105,148,918

Business-type activities depreciation expense as follows:

Business-type activities:	
Water and wastewater utilities	\$ 1,979,300
Drainage utility	1,142,760
Recreation / aquatic center	528,720
Total depreciation expense - business-type activities	<u>\$ 3,650,780</u>

**Construction Commitments**

The City has active construction projects as of September 30, 2019. The projects include construction, park improvements, and drainage improvements.

Significant Commitments for construction in progress are composed of the following:

Project Name	Budget	Y-T-D	Remaining
Keller Hicks Intersection Improvements	\$ 2,195,000	\$ 311,486	\$ 1,883,514
Bear Creek/ Whitley Roundabout	925,000	160,784	764,216
Johnson Road/Keller-Smithfield Roundabout	925,000	125,186	799,814
Johnson Road Reconstruction	2,000,000	113,989	1,886,011
Overton Ridge Park	2,518,233	66,564	2,451,669
2017 SWIFT Project	4,000,000	876,065	3,123,935
US 377 SS Extension Project	1,450,000	218,957	1,231,043
	<u>\$ 14,013,233</u>	<u>\$ 1,873,031</u>	<u>\$ 12,140,202</u>

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 5. TRANSFERS AND INTERFUND RECEIVABLES AND PAYABLES**

Transfers are used to provide funds for debt service, contributions for capital construction or reimbursement for capital asset purchases, cost allocations and other operational costs as determined by the City’s annual budget. Transfers between funds during the year were as follows:

Transfers In	Transfers Out	Amount	Purpose
Capital Projects Fund	Debt Service Fund	\$ 178,662	Transfer to correct unspent bond proceeds for capital projects
Capital Projects Fund	Nonmajor Governmental Funds	2,651,609	Transfer for roadway and street and sidewalk capital projects
Capital Projects Fund	General Fund	4,182,000	Transfers for capital projects
Nonmajor Governmental Funds	General Fund	21,387	Transfer for municipal court restrictions
Nonmajor Governmental Funds	General Fund	180,636	Transfer for parks improvement
Nonmajor Governmental Funds	Nonmajor Governmental Funds	3,062,603	Keller Development Corporation transfer for park improvements
Internal Service Fund	General Fund	400,000	Transfer for future equipment replacement needs
Internal Service Fund	General Fund	1,000,000	Transfer for more funding for the City's health insurance fund
Capital Projects Fund	Recreation/Aquatics Center	1,455,500	Transfer for capital assets
Capital Projects Fund	Water and Wastewater Fund	775,000	Transfer for capital assets
Drainage	Water and Wastewater Fund	61,413	Transfer of funds for capital assets
	Total Transfers	<u>\$ 13,968,810</u>	

**NOTE 6. DEFERRED INFLOWS OF RESOURCES**

Governmental funds report *deferred inflows of resources* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. At the end of the current fiscal year, the various components of deferred inflows of resources reported in the governmental funds were as follows:

	General Fund	General Obligation Debt Service	Nonmajor Governmental Funds	Total
Deferred inflows of resources:				
Property taxes	\$ 251,303	\$ 80,082	\$ -	\$ 331,385
Court fines	41,954	-	1,106	43,060
Emergency services	305,263	-	-	305,263
Total	<u>\$ 598,520</u>	<u>\$ 80,082</u>	<u>\$ 1,106</u>	<u>\$ 679,708</u>

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 7. LONG-TERM DEBT**

**General Obligation Bonds, Certificates of Obligation and Contractual Obligations**

The City issues general obligation bonds, certificates of obligation bonds, and contractual obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental which includes blended component units and business-type activities. These issues are direct obligations and pledge the full faith and credit of the City.

<u>General Obligation Bonds</u>	<u>Final Maturity</u>	<u>Interest Rates</u>	<u>Component Unit Portion</u>	<u>City Portion</u>	<u>Total Governmental</u>	<u>Business-Type</u>
\$3,290,000 Series 2010A Refunding	2020	2.00 - 3.50%	\$ -	\$ 135,000	\$ 135,000	\$ 85,000
\$5,620,000 Series 2010B Refunding	2022	2.00 - 4.00%	-	1,043,230	1,043,230	796,770
\$9,860,000 Series 2011* Refunding	2023	0.55 - 5.00%	5,040,000	340,000	5,380,000	-
\$11,465,000 Series 2012 Refunding	2024	2.00 - 5.00%	-	2,275,000	2,275,000	3,680,000
\$10,475,000 Series 2015 Refunding	2026	2.00 - 4.00%	-	590,000	590,000	2,265,000
\$7,350,000 Series 2017 Refunding	2029	2.00 - 3.00%	-	7,290,000	7,290,000	-
Total General Obligation Bonds			<u>\$ 5,040,000</u>	<u>\$ 11,673,230</u>	<u>\$ 16,713,230</u>	<u>\$ 6,826,770</u>

\*Component Unit Portion is with Keller Development Corp.

<u>Certificates of Obligation</u>	<u>Final Maturity</u>	<u>Interest</u>	<u>Component Unit Portion</u>	<u>City Portion</u>	<u>Total Governmental</u>	<u>Business-Type</u>
\$8,310,000 Series 2010 Improvements	2030	2.00 - 4.00%	\$ -	\$ 4,375,000	\$ 4,375,000	\$ 1,040,000
\$5,835,000 Series 2012 Improvements (CWSRF)	2032	0.05 - 2.20%	-	-	-	4,050,000
\$6,000,000 Series 2012 Improvement	2027	2.00 - 5.00%	-	3,675,000	3,675,000	-
\$3,870,000 Series 2015* Improvements	2034	2.00 - 3.13%	3,065,000	-	3,065,000	-
\$4,060,000 Series 2016 Improvements	2031	0.53 - 1.93%	-	-	-	3,285,000
\$9,250,000 Series 2017 Tax and Revenue	2037	2.00 - 4.00%	-	3,645,000	3,645,000	4,050,000
\$7,045,000 Series 2019 Tax and Revenue	2039	2.00 - 2.65%	-	-	-	7,045,000
Total Certificates of Obligation			<u>\$ 3,065,000</u>	<u>\$ 11,695,000</u>	<u>\$ 14,760,000</u>	<u>\$ 19,470,000</u>

\*Component Unit Portion is with Keller Development Corp.

In June 2019, the City issued \$7,045,000 in Certificates of Obligations, Series 2019, the proceeds of which were used for capital projects for business-type activities.



**CITY OF KELLER, TEXAS**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 7. LONG-TERM DEBT – CONTINUED**

**Changes in Long-term Liabilities – Continued**

A summary of long-term debt transactions, including current portion, for the year ended September 30, 2019, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One year
Governmental activities:					
General obligation bonds	\$ 19,832,276	\$ -	\$ (3,119,046)	\$ 16,713,230	\$ 3,381,207
Certificate of obligations	16,665,000	-	(1,905,000)	14,760,000	1,565,000
Unamortized bond premium (discount)	2,177,847	-	(291,700)	1,886,147	-
Total bonds payable	38,675,123	-	(5,315,746)	33,359,377	4,946,207
Compensated absences	1,790,340	1,588,764	(1,619,513)	1,759,591	1,629,456
Net pension liability*	10,143,222	7,123,209	-	17,266,431	-
Total OPEB liability - SDBF*	571,101	78	-	571,179	-
Total OPEB liability health benefits*	1,198,441	33,430	-	1,231,871	-
Total governmental activities	<u>\$ 52,378,227</u>	<u>\$ 8,745,481</u>	<u>\$ (6,935,259)</u>	<u>\$ 54,188,449</u>	<u>\$ 6,575,663</u>

\*Net pension and OPEB liabilities from the internal service fund are reported within governmental activities. Sources from the general fund is used to liquidate net pension/OPEB liabilities for governmental funds.

	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due within One year
Business-type activities:					
General obligation bonds	\$ 8,372,724	\$ -	\$ (1,545,954)	\$ 6,826,770	\$ 1,623,793
Certificate of obligations	13,120,000	7,045,000	(695,000)	19,470,000	855,000
Unamortized bond premium (discount)	835,348	279,184	(123,486)	991,046	-
Total bonds payable	22,328,072	7,324,184	(2,364,440)	27,287,816	2,478,793
Compensated absences	208,416	212,846	(203,813)	217,449	217,449
Net pension liability	1,984,189	1,228,504	-	3,212,693	-
Total OPEB liabilities-SDBF	99,127	14	-	99,141	-
Total OPEB liabilities-health benefits	208,016	5,763	-	213,779	-
Total business-type activities	<u>\$ 24,827,820</u>	<u>\$ 8,771,311</u>	<u>\$ (2,568,253)</u>	<u>\$ 31,030,878</u>	<u>\$ 2,696,242</u>

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 7. LONG-TERM DEBT – CONTINUED**

General Obligation Bonds

Fiscal Year Ending September 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 3,381,207	\$ 519,161	\$ 3,900,368	\$ 1,623,793	\$ 251,607	\$ 1,875,400
2021	2,743,564	416,966	3,160,530	1,211,436	190,815	1,402,251
2022	2,848,459	325,613	3,174,072	1,271,541	138,781	1,410,322
2023	2,570,000	238,231	2,808,231	1,040,000	89,325	1,129,325
2024	1,205,000	174,375	1,379,375	1,095,000	42,125	1,137,125
2025-2029	3,965,000	406,050	4,371,050	585,000	17,625	602,625
Total	<u>\$ 16,713,230</u>	<u>\$ 2,080,396</u>	<u>\$ 18,793,626</u>	<u>\$ 6,826,770</u>	<u>\$ 730,278</u>	<u>\$ 7,557,048</u>

Certificate of Obligations

Fiscal Year Ending September 30,	Governmental Activities			Business-Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2020	\$ 1,565,000	\$ 471,349	\$ 2,036,349	\$ 855,000	\$ 523,688	\$ 1,378,688
2021	1,620,000	418,742	2,038,742	1,070,000	493,384	1,563,384
2022	1,685,000	364,368	2,049,368	1,100,000	472,817	1,572,817
2023	1,740,000	307,774	2,047,774	1,115,000	450,969	1,565,969
2024	1,800,000	250,068	2,050,068	1,135,000	428,607	1,563,607
2025-2029	4,650,000	664,301	5,314,301	6,160,000	1,704,877	7,864,877
2030-2034	1,700,000	106,866	1,806,866	4,945,000	846,455	5,791,455
2035-2039	-	-	-	3,090,000	222,700	3,312,700
Total	<u>\$ 14,760,000</u>	<u>\$ 2,583,468</u>	<u>\$ 17,343,468</u>	<u>\$ 19,470,000</u>	<u>\$ 5,143,497</u>	<u>\$ 24,613,497</u>

**Conduit Debt**

Certain revenue bonds have been issued in the past to provide financial assistance to nonprofit and public entities for acquisition and construction of educational and student housing facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the entities served by the bonds. The City is not obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements. As of September 30, 2019, there was one series of revenue bonds outstanding. The aggregate principal amount payable for the issues was \$24,400,000.

**Compensated Absences**

Compensated absences represent the estimated liability for employees' vacation leave for which employees are entitled to be paid upon termination. The retirement of this liability is typically paid from the General Fund and Enterprise Funds based on the assignment of an employee at termination. Business-type activities records all of the compensated absences balance as due within one year since the balance has typically been paid within the following year.

**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 8. PENSION PLAN**

**Plan Description**

The City participates as one of 866 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.com](http://www.tmr.com).

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

**Benefits Provided**

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

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

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount at least equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150%, or 200%) of the employee's accumulated contributions. In addition, the City can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and city matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity.

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	161
Inactive employees entitled to but not yet receiving benefits	214
Activity employees	<u>285</u>
Total	<u><u>660</u></u>

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 8. PENSION PLAN – CONTINUED**

**Contributions**

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.51% in calendar year 2018 and 15.45% in calendar year 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were \$2,984,650, and were equal to the required contributions.

**Net Pension Liability**

The City's Net Pension Liability (NPL) was measured as of December 31, 2018 and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

**Actuarial Assumptions:**

The Total Pension Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50%
Overall payroll growth	3.50% to 10.50% including inflation
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Amortization method	Level percentage of payroll, closed
Remaining amortization period	27 years
Asset valuation method	10 year smooth market; 15% soft corridor

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

Actuarial assumptions used in the December 31, 2018, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2014 through December 31, 2014, first used in the December 31, 2015 valuation. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2016. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2015 valuation. After the Asset Allocation Study Analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 8. PENSION PLAN – CONTINUED**

**Net Pension Liability – Continued**

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

The target allocation and best estimates of real rates of return for each major asset class are summarized as follows:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.5%	4.30%
International equity	17.5%	6.10%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	3.39%
Real return	10.0%	3.78%
Real estate	10.0%	4.44%
Absolute return	10.0%	3.56%
Private equity	5.0%	7.75%
Total	<u>100.0%</u>	

**Discount Rate**

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

**Allocations**

The City’s net pension liability, pension expense, and deferred outflows of resources related to TMRS have been allocated between governmental activities, business-type activities, and the internal service fund using a contribution-based method. The internal service fund portion of the pension activity is recorded within governmental activities at the governmental wide financial statements.

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 8. PENSION PLAN – CONTINUED**

**Changes in the Net Pension Liability**

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2017	\$ 97,999,863	\$ 85,872,450	\$ 12,127,413
Changes for the year:			
Service Cost	3,212,200	-	3,212,200
Interest	6,584,504	-	6,584,504
Change of benefit terms	-	-	-
Difference between expected and actual experience	134,966	-	134,966
Changes of assumptions	-	-	-
Contributions - employer	-	2,898,267	(2,898,267)
Contributions - employee	-	1,308,051	(1,308,051)
Net investment income	-	(2,574,087)	2,574,087
Changes in assumptions	-	-	-
Benefit payments, including refunds of employee contributions	(4,115,526)	(4,115,526)	-
Administrative expense	-	(49,714)	49,714
Other changes	-	(2,558)	2,558
Net Changes	<u>5,816,144</u>	<u>(2,535,567)</u>	<u>8,351,711</u>
Balance at 12/31/18	<u>\$ 103,816,007</u>	<u>\$ 83,336,883</u>	<u>\$ 20,479,124</u>

**Sensitivity of the Net Pension Liability to Changes in the Discount Rate**

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
Net pension liability	\$ 36,297,347	\$ 20,479,124	\$ 7,631,034

**Pension Plan Fiduciary Net Position**

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

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 8. PENSION PLAN – CONTINUED**

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

For the year ended September 30, 2019, the City recognized pension expense of \$4,341,262.

At September 30, 2019, 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 between expected and actual economic experience	\$ 106,492	\$ 491,803
Changes in actuarial assumptions	268,985	-
Difference between projected and actual investment earnings	4,437,824	-
Contributions subsequent to the measurement date	<u>2,275,142</u>	<u>-</u>
Total	<u>\$ 7,088,443</u>	<u>\$ 491,803</u>

The \$2,275,142 reported as deferred outflows of resources related to pensions result from contributions subsequent to the measurement date and will reduce the net pension liability during the fiscal year ended September 30, 2020. The other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended Sept. 30:	Net Deferred Outflows (Inflows)
2020	\$ 1,461,368
2021	589,541
2022	576,016
2023	<u>1,694,573</u>
Total	<u>\$ 4,321,498</u>

**NOTE 9. OTHER POST EMPLOYMENT BENEFITS (OPEB)**

The City provides for two other post-employment benefits (OPEB) plans; one provides for post-employment health insurance benefits through a single-employer defined benefit medical plan (City of Keller Retiree Health Care Plan), and the other is The Texas Municipal Retirement System Supplemental Death Benefits Fund, a single employer defined benefit OPEB plan. Both plans are described in detail below. Aggregate amounts for the two OPEB plans are as follows:

	Retiree Healthcare Plan	TMRS SDBF	Total
OPEB liability	\$ 1,445,650	\$ 670,320	\$ 2,115,970
Deferred outflows of resources	93,326	48,140	141,466
Deferred inflows of resources	52,876	48,766	101,642
OPEB expense	125,084	59,070	184,154

**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 9. OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**CITY OF KELLER RETIREE HEALTH CARE PLAN**

**Plan Description and Benefits Provided**

The City provides other postemployment benefits (OPEB) in the form of health insurance benefits through a single-employer defined benefit medical plan. Regular full-time employees retiring from the City with 20 years of service or five years of service if over 60, have the option to continue medical insurance coverage for themselves and their families until the retiree becomes eligible for Medicare or is eligible to be covered under another medical plan. The retired employee pays 100% of the premium which was \$779 to \$2,131 depending on what plan the retiree chooses. A third-party administrator is utilized to provide claims administration and payment of claims.

The Plan does not issue a separate financial report.

**Employees Covered by Benefit Terms**

The following table provides a summary of the number of participants in the plan as of December 31, 2018:

Inactive employees or beneficiaries currently receiving benefits	2
Inactive employees entitled to but not yet receiving benefits	-
Activity employees	<u>276</u>
Total	<u><u>278</u></u>

**Contributions**

The City’s plan is a pay-as-you-go plan in which the City does not contribute to a trust to fund future benefits. The City’s contributions during the fiscal year ending September 30, 2019 of \$46,752 all of which were for the benefit payments and were paid by the City using its own assets. The benefit payments were determined in a manner similar to how the benefit payments for the measurement period were developed. The City through its budgeting process determines the annual contributions to the Plan based on the actuarially determined contribution and the availability of funds.

**Total OPEB Liability**

Total OPEB liability reported at September 30, 2018 was measured as of December 31, 2018, and based on actuarial valuation performed as of December 31, 2017. Update procedures were performed to roll-forward the OPEB liability to December 31, 2018.



**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 9. OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**CITY OF KELLER RETIREE HEALTH CARE PLAN – CONTINUED**

**Actuarial Assumptions**

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Individual Entry-Age Normal
Discount rate	3.71% as of December 31, 2018
Inflation	2.50%
Salary increases	3.50% to 10.50%, including inflation
Demographic assumptions	Based on the experience study covering the four-year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System.
Mortality	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Healthcare cost trend rates	Initial rate of 7.50% declining to an ultimate rate of 4.25% after 15 years
Participation rates	17% for employees retiring on or after the age of 50 and 0 % for employees retiring before age 50

For plans that do not have formal assets, the discount rate should equal the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. For the purpose of this valuation, the municipal bond rate is 3.31% (based on the daily rate closest to but not later than the measurement date of the Fidelity “20-Year Municipal GO AA Index”). The discount rate was 3.31% as of the prior measurement date.

There are no plan assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

**Changes in the Total OPEB Liability**

	Total OPEB Liability
Balance at 12/31/2017	\$ 1,406,455
Changes for the year:	
Service Cost	75,886
Interest on the total OPEB liability	47,242
Difference between expected and actual experience	8,944
Changes of assumptions	(58,608)
Benefit payments	(34,269)
Net Changes	<u>39,195</u>
Balance at 12/31/18	<u>\$ 1,445,650</u>

**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 9. OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**CITY OF KELLER RETIREE HEALTH CARE PLAN – CONTINUED**

The benefit payments during the measurement period were determined as follows:

Age-adjusted premiums (retiree contributions * 1.733)	\$ 81,021
Retiree contributions	<u>(46,752)</u>
Total benefit payments	<u>\$ 34,269</u>

The 1.733 factor equals the ratio of the expected retiree claims to the expected retiree contributions. The underlying retiree claims were estimated using age-adjusted premiums.

***Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates***

Regarding the sensitivity of the total OPEB liability to changes in the Single Discount Rate, the following presents the plan’s total OPEB liability, calculated using a discount rate of 3.71%, 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:

	<u>1% Decrease in Discount Rate (2.71%)</u>	<u>Discount Rate (3.71%)</u>	<u>1% Increase in Discount Rate (4.71%)</u>
Total OPEB liability	\$ 1,596,096	\$ 1,445,650	\$ 1,309,677

Regarding the 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:

	<u>1% Decrease</u>	<u>Current Healthcare Cost Trend Rate Assumption</u>	<u>1% Increase</u>
Total OPEB liability	\$ 1,254,608	\$ 1,445,650	\$ 1,675,280

**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 9. OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**CITY OF KELLER RETIREE HEALTH CARE PLAN – CONTINUED**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources**

For the year ended December 31, 2018, the City recognized OPEB expense of \$125,084. At September 30, 2019, the reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in actuarial assumptions	\$ 56,037	\$ 52,876
Difference between projected and actual investment earnings	8,069	-
Contributions subsequent to the measurement date	<u>29,220</u>	<u>-</u>
Total	<u>\$ 93,326</u>	<u>\$ 52,876</u>

The \$29,220 reported as deferred outflows of resources related to OPEB result from contributions subsequent to the measurement date and will reduce the total OPEB liability during the fiscal year ending September 30, 2020.

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Amortization Schedule**

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

<u>Fiscal Year Ended Sept. 30:</u>	<u>Net Deferred Outflows (Inflows)</u>
2020	\$ 1,957
2021	1,958
2022	1,959
2023	1,960
2024	1,961
Thereafter	<u>1,435</u>
Total	<u>\$ 11,230</u>

Differences between changes in assumptions are recognized in OPEB expense using a systematic and rational method over a closed period equal to the average of the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan (active employees and inactive employees) determined as of the beginning of the measurement period.

The expected remaining service lives of all active employees in the plan were approximately 2,843 years. Additionally, the total plan membership (active employees and inactive employees) was 278. As a result, the average of the expected remaining service lives for purposes of recognizing the applicable deferred outflows and inflows of resources established in the current measurement period is 10.2251 years.

**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 9. OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**OTHER POST EMPLOYMENT BENEFITS – TMRS SUPPLEMENTAL DEATH BENEFIT FUND**

**Plan Description**

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1. The City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

**Benefits Provided**

The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500.

At the December 31, 2018 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	105
Inactive employees entitled to but not yet receiving benefits	53
Active employees	<u>285</u>
Total	<u><u>443</u></u>

**Contributions**

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.

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. 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 retiree portion of contribution rates to the SDBF for the City was 0.02% in calendar years 2018 and 2019. The City’s contributions to the SDBF for the year ended September 30, 2019 were \$3,825, and were equal to the required contributions.

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 9. OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**OTHER POST EMPLOYMENT BENEFITS – TMRS SUPPLEMENTAL DEATH BENEFIT FUND – CONTINUED**

**Total OPEB Liability**

The City's Total OPEB Liability (TOL) was measured as of December 31, 2018 and was determined by an actuarial valuation as of that date.

**Actuarial Assumptions**

The Total OPEB Liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.50% to 10.50%, including inflation
Discount Rate	3.71%
Retiree's share of benefit-related costs	0.00%

Salary increases were based on a service-related table. Mortality rates for service retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB. Mortality rates for disabled retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2018, valuation were developed primarily from an actuarial experience study of the four-year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the Entry Age Normal Actuarial Cost Method.

The discount rate used to measure the Total OPEB Liability was 3.71% and was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2018.

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

**NOTE 9. OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**OTHER POST EMPLOYMENT BENEFITS SUPPLEMENTAL DEATH BENEFIT FUND – CONTINUED**

**Changes in Total OPEB Liability**

Balance at 12/31/2017	\$	670,228
Changes for the year:		
Service Cost		35,504
Interest		22,710
Difference between expected and actual experience		2,550
Changes in assumptions or other inputs		(56,935)
Benefit payments		<u>(3,737)</u>
Net Changes		<u>92</u>
Balance at 12/31/18	\$	<u>670,320</u>

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

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.71%, 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 (2.71%) or 1 percentage-point higher (4.71%) than the current rate:

	1% Decrease in Discount Rate (2.71%)	Discount Rate (3.71%)	1% Increase in Discount Rate (4.71%)
Total OPEB liability	\$ 825,584	\$ 670,320	\$ 552,146

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$59,070. At September 30, 2019, 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
Changes in actuarial assumptions	\$ 43,036	\$ 48,766
Differences between expected and actual economic experience	2,185	-
Contributions subsequent to the measurement date	<u>2,919</u>	<u>-</u>
Total	<u>\$ 48,140</u>	<u>\$ 48,766</u>

**CITY OF KELLER, TEXAS  
 NOTES TO THE FINANCIAL STATEMENTS  
 YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 9. OTHER POST EMPLOYMENT BENEFITS (OPEB) – CONTINUED**

**OTHER POST EMPLOYMENT BENEFITS – TMRS SUPPLEMENTAL DEATH BENEFIT FUND – CONTINUED**

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – Continued**

The \$2,919 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will reduce the Total OPEB liability during the year ending September 30, 2020. The other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended Sept. 30:	Net Deferred Outflows (Inflows)
2020	\$ 856
2021	856
2022	856
2023	856
2024	597
Thereafter	<u>(7,566)</u>
Total	<u>\$ (3,545)</u>

**NOTE 10. OTHER INFORMATION**

**Contingent Liabilities**

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

The City periodically is a defendant in various lawsuits. At September 30, 2019, after consultation with the City’s attorney, the City is not aware of any pending litigation.

The City contracts for garbage disposal with a third party. Under the terms of the agreement the City bills and collects the residential billing and remits that amount to the contracting party. The contractor bills the commercial customers and remits a franchise fee to the City based on total revenues received from the contract.

**Risk Management**

The City is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City purchases commercial insurance to indemnify it in event of loss. For the past three years, settlements did not exceed coverage.

**CITY OF KELLER, TEXAS  
NOTES TO THE FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2019**

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**NOTE 11. TAX ABATEMENT**

The City enters into economic development agreements authorized under Chapter 380 of the Texas Local Government Code. These agreements are planning tools designed to stimulate economic activity, redevelopment, community improvement, and provide a return on investment for the community. These programs abate or rebate property and/or sales taxes on investment for the incentive payments such as fee reductions or construction costs reimbursements. Economic development agreements are considered on a case-by-case basis by the City Council and generally contain recapture provisions, which may require repayment or termination if recipients do not meet the required provisions of the economic incentives.

Chapter 380 of the Texas Local Government Code allows the City to provide reimbursements to developers for building permits paid to the City after the developers building plans are approved. Based on City Council agreements with developers, the City reimbursed \$170,234 to developers for fiscal year ending September 30, 2019 for building permits paid to the City.

**NOTE 12. SUBSEQUENT EVENTS**

The City has evaluated all events or transactions that occurred after September 30, 2019 up through March 25, 2020, the date the financial statements were issued. During this period, there were no material subsequent events requiring recognition or additional disclosure in these financial statements, except as follows:

**COVID-19**

The extent of the operational and financial impact the COVID-19 pandemic may have on the City has yet to be determined and is dependent on its duration and spread, any related operational restrictions and the overall economy. Currently, the City is unable to accurately predict how COVID-19 will affect the results of its operations because the virus's severity and the duration of the pandemic are uncertain.



## **REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF KELLER, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL – GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**EXHIBIT A-10**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual Amount</u>	
<b>REVENUES</b>				
Ad valorem taxes	\$ 19,794,205	\$ 19,794,205	\$ 19,376,613	\$ (417,592)
Sales taxes	6,106,437	6,106,437	6,390,217	283,780
Franchise fees	4,387,318	4,387,318	4,498,902	111,584
Mixed drink tax	185,650	185,650	147,028	(38,622)
Licenses and permits	1,128,315	1,128,315	1,225,453	97,138
Intergovernmental	3,140,974	3,140,974	3,518,179	377,205
Charges for services	3,080,547	3,080,547	3,096,873	16,326
Fines and forfeitures	1,102,347	1,102,347	732,740	(369,607)
Donations	59,250	59,250	63,725	4,475
Interest income	143,342	143,342	509,995	366,653
Miscellaneous income	76,110	76,110	106,890	30,780
<b>Total revenues</b>	<b>39,204,495</b>	<b>39,204,495</b>	<b>39,666,615</b>	<b>462,120</b>
<b>EXPENDITURES</b>				
Current				
Administration	2,200,236	2,189,008	1,931,457	257,551
Town Hall Operations	595,989	595,989	501,585	94,404
Mayor and Council	58,154	58,154	35,807	22,347
Finance and Municipal Court	1,606,724	1,528,798	1,462,144	66,654
Human Resources	862,362	804,084	734,976	69,108
Police Department	9,505,132	9,210,011	9,141,093	68,918
Fire Department	8,814,211	8,553,418	8,247,078	306,340
Street Maintenance	3,065,011	2,995,652	2,738,163	257,489
Library	1,683,525	1,638,515	1,602,988	35,527
Parks and Recreation	3,736,921	3,672,105	3,306,454	365,651
Economic Development	1,553,892	1,553,892	1,309,661	244,231
Community Development	1,505,909	1,388,440	1,205,076	183,364
<b>Total expenditures</b>	<b>35,188,066</b>	<b>34,188,066</b>	<b>32,216,482</b>	<b>1,971,584</b>
<b>Excess of revenues over expenditures</b>	<b>4,016,429</b>	<b>5,016,429</b>	<b>7,450,133</b>	<b>2,433,704</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(4,560,000)	(5,582,000)	(5,784,023)	(202,023)
Proceeds from sale of property	-	-	5,868	5,868
<b>Total other financing sources (uses)</b>	<b>(4,560,000)</b>	<b>(5,582,000)</b>	<b>(5,778,155)</b>	<b>(196,155)</b>
<b>Net change in fund balances</b>	<b>(543,571)</b>	<b>(565,571)</b>	<b>1,671,978</b>	<b>2,237,549</b>
<b>Fund balances, October 1</b>	<b>21,643,031</b>	<b>21,643,031</b>	<b>21,643,031</b>	<b>-</b>
<b>Fund balances, September 30</b>	<b>\$ 21,099,460</b>	<b>\$ 21,077,460</b>	<b>\$ 23,315,009</b>	<b>\$ 2,237,549</b>

**CITY OF KELLER, TEXAS  
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL  
CRIME CONTROL PREVENTION DISTRICT FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

**EXHIBIT A-11**

	<u>Budgeted Amounts</u>			<b>Variance with Final Budget Positive (Negative)</b>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>REVENUES</b>				
Sales Taxes	\$ 1,403,598	\$ 1,403,598	\$ 1,498,336	\$ 94,738
Intergovernmental	20,000	20,000	101,285	81,285
Interest income	9,380	9,380	257,288	247,908
<b>Total revenues</b>	<u>1,432,978</u>	<u>1,432,978</u>	<u>1,856,909</u>	<u>423,931</u>
<b>EXPENDITURES</b>				
Current:				
Police Department	1,222,956	1,222,956	961,260	261,696
Debt service:				
Principal	395,000	377,050	370,000	7,050
Interest and other charges	136,000	153,950	153,950	-
<b>Total expenditures</b>	<u>1,753,956</u>	<u>1,753,956</u>	<u>1,485,210</u>	<u>268,746</u>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<u>(320,978)</u>	<u>(320,978)</u>	<u>371,699</u>	<u>692,677</u>
<b>Other financing sources</b>				
Proceeds from sale of capital assets	12,777	12,777	40,415	27,638
<b>Total other financing sources</b>	<u>12,777</u>	<u>12,777</u>	<u>40,415</u>	<u>27,638</u>
<b>Net change in fund balances</b>	<u>(308,201)</u>	<u>(308,201)</u>	<u>412,114</u>	<u>720,315</u>
Fund balances, October 1	4,879,625	4,879,625	4,879,625	-
Fund balances, September 30	<u>\$ 4,571,424</u>	<u>\$ 4,571,424</u>	<u>\$ 5,291,739</u>	<u>\$ 720,315</u>

**CITY OF KELLER, TEXAS  
NOTES TO BUDGET COMPARISON SCHEDULES  
FOR THE YEAR ENDED SEPTEMBER 30, 2019**

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**STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**Budgetary Information**

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

1. Public hearings are conducted to obtain taxpayer comments.
2. Prior to October 1, the budget is legally enacted through passage of an ordinance.
3. The City Council must authorize amendments to budgeted amounts between departments within any fund. Therefore the department level is the legal level of control and budget to actual expenditure comparisons is reported at the department level.
4. All transfers to and from budgeted funds must be approved by the City Council unless related to grant or bond activities.
5. Budgeted amounts are as originally adopted or as amended by the City Council. During 2019, individual amendments were not material in relation to the original appropriations for expenditures. All budget appropriations automatically lapse at year-end.
6. Formal budgetary integration is employed as a management control device during the year. The legally adopted budget is adopted on a basis consistent with generally accepted accounting principles.

**CITY OF KELLER, TEXAS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS  
LAST FIVE MEASUREMENT YEARS  
(UNAUDITED)**

**EXHIBIT A-12**

	Measurement Year 2018*	Measurement Year 2017	Measurement Year 2016	Measurement Year 2015	Measurement Year 2014
Total pension liability:					
Service cost	\$ 3,212,200	\$ 3,157,398	\$ 3,108,994	\$ 2,979,303	\$ 2,982,697
Interest	6,584,504	6,208,840	5,809,689	5,555,939	5,216,622
Changes of benefit terms	-	-	-	-	-
Difference between expected and actual experience	134,966	(297,161)	(233,586)	(270,677)	(993,549)
Change in assumptions		-	-	1,065,970	-
Benefit payments, including refunds of employee contributions	(4,115,526)	(2,946,666)	(2,645,244)	(2,747,691)	(1,953,842)
Net change in total pension liability	5,816,144	6,122,411	6,039,853	6,582,844	5,251,928
Total pension liability - beginning	97,999,863	91,877,452	85,837,599	79,254,755	74,002,827
Total pension liability - ending (a)	103,816,007	97,999,863	91,877,452	85,837,599	79,254,755
Plan fiduciary net position:					
Contributions - employer	2,898,267	2,858,974	2,693,980	2,732,236	2,678,823
Contributions - employee	1,308,051	1,289,486	1,263,085	1,233,387	1,223,684
Net investment income	(2,574,087)	10,318,203	4,632,668	99,266	3,537,194
Benefit payments, including refunds of employee contributions	(4,115,526)	(2,946,666)	(2,645,244)	(2,747,691)	(1,953,842)
Administrative expense	(49,714)	(53,441)	(52,297)	(60,456)	(36,922)
Other	(2,558)	(2,711)	(2,818)	(2,987)	(3,036)
Net change in plan fiduciary net position	(2,535,567)	11,463,845	5,889,374	1,253,755	5,445,901
Plan fiduciary net position - beginning	85,872,450	74,408,605	68,519,231	67,265,476	61,819,575
Plan fiduciary net position - ending (b)	83,336,883	85,872,450	74,408,605	68,519,231	67,265,476
Net pension liability - ending (a) - (b)	\$ 20,479,124	\$ 12,127,413	\$ 17,468,847	\$ 17,318,368	\$ 11,989,279
Plan fiduciary net position as a percentage of total pension liability	80.27%	87.63%	80.99%	79.82%	84.87%
Covered payroll	\$ 18,686,443	\$ 18,421,226	\$ 18,044,073	\$ 17,556,292	\$ 17,462,991
Net pension liability as a percentage of covered payroll	109.59%	65.83%	96.81%	98.64%	68.66%

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

**CITY OF KELLER, TEXAS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF PENSION CONTRIBUTIONS  
LAST FIVE FISCAL YEARS  
(UNAUDITED)**

**EXHIBIT A-13**

	Fiscal Year 2019	Fiscal Year 2018	Fiscal Year 2017	Fiscal Year 2016	Fiscal Year 2015
Actuarially determined contribution	\$ 2,984,650	\$ 2,919,456	\$ 2,842,339	\$ 2,828,969	\$ 2,711,603
Contribution in relation of the actuarially determined contribution	2,984,650	2,919,456	2,842,339	2,828,969	2,711,603
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll	\$ 19,127,201	\$ 18,656,792	\$ 18,325,278	\$ 18,575,332	\$ 17,520,409
Contributions as a percentage of covered payroll	15.60%	15.65%	15.51%	15.23%	15.48%

Note: GASB #68, paragraph 81.2.b requires that the data in this schedule be presented as of the City's fiscal year as opposed to the time period covered by the measurement date.

Note: Only five 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 periods as are available. The schedules should not include information that is not measured in accordance with requirements of this statement. Additional years' information will be displayed as it becomes available."

**CITY OF KELLER, TEXAS  
TEXAS MUNICIPAL RETIREMENT SYSTEM  
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
LAST TWO MEASUREMENT YEARS  
(UNAUDITED)**

**EXHIBIT A-14**

	Measurement Year 2018*	Measurement Year 2017
Total OPEB liability:		
Service cost	\$ 35,504	\$ 29,474
Interest	22,710	21,710
Change in benefit terms	2,550	-
Change in assumptions	(56,935)	60,354
Benefit payments	(3,737)	(1,842)
Net change in total OPEB liability	92	109,696
Total OPEB liability - beginning	670,228	560,532
Total OPEB liability - ending (a)	<u>\$ 670,320</u>	<u>\$ 670,228</u>
Covered payroll	\$ 19,602,257	\$ 18,421,226
Total OPEB liability as a percentage of covered payroll	3.42%	3.64%

Note: Only two years of data is presented in accordance with GASB #75. Additional years' information will be displayed as it becomes available.

The TMRS Supplementary Death Benefit Fund (SDBF) is considered to be an unfunded OPEB plan; therefore, no plan fiduciary net position and related ratios are reported in the above schedule.

**CITY OF KELLER, TEXAS  
 TEXAS MUNICIPAL RETIREMENT SYSTEM FOR SDBF  
 SCHEDULE OF OPEB CONTRIBUTIONS  
 LAST TWO FISCAL YEARS  
 (UNAUDITED)**

**EXHIBIT A-15**

	Fiscal Year 2019	Fiscal Year 2018
Actuarially determined contribution	\$ 3,825	\$ 3,281
Contribution in relation of the actuarially determined contribution	<u>3,825</u>	<u>3,281</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	\$ 19,127,201	\$ 18,656,792
Contributions as a percentage of covered payroll	0.02%	0.02%

Note: GASB #75, paragraph 57 requires that the data in this schedule be presented as of the City's fiscal year as opposed to the time period covered by the measurement date.

Note: Only two years of data is presented in accordance with GASB #75. Additional years' information will be displayed as it becomes available.

The TMRS Supplementary Death Benefit Fund (SDBF) is considered to be an unfunded OPEB plan; therefore, no plan fiduciary net position and related ratios are reported in the above schedule.



**CITY OF KELLER, TEXAS  
 RETIREE HEALTH BENEFITS PLAN  
 SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS  
 LAST TWO MEASUREMENT YEARS  
 (UNAUDITED)**

**EXHIBIT A-16**

	Measurement Year 2018*	Measurement Year 2017
Total OPEB liability:		
Service cost	\$ 75,886	\$ 66,467
Interest	47,242	48,385
Difference between expected and actual experience	8,944	-
Change in assumptions	(58,608)	69,663
Benefit payments	(34,269)	(29,461)
Net change in total OPEB liability	39,195	155,054
Total OPEB liability - beginning	1,406,455	1,251,401
Total OPEB liability - ending (a)	<u>\$ 1,445,650</u>	<u>\$ 1,406,455</u>
Covered payroll	\$ 18,686,443	\$ 18,421,226
Total OPEB liability as a percentage of covered payroll	7.74%	7.63%

Note: Only two years of data is presented in accordance with GASB #75. Additional years' information will be displayed as it becomes available.

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**APPENDIX C**

FORM OF BOND COUNSEL'S OPINION

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**Proposed Form of Opinion of Bond Counsel**

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

[Issue Date]

**CITY OF KELLER, TEXAS  
GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS  
SERIES 2020  
DATED AUGUST 15, 2020  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$12,220,000**

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AS BOND COUNSEL FOR THE CITY OF KELLER, TEXAS (the "Issuer") in connection with the issuance of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates and mature on the dates, and are subject to redemption prior to maturity, in accordance with the terms and conditions stated in the text of the Bonds and in the ordinance of the Issuer authorizing the issuance and sale of the Bonds (the "Bond Ordinance"). Terms used herein and not otherwise defined shall have the meaning given in the Bond Ordinance.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, a transcript of certified proceedings of the Issuer relating to the issuance of the Bonds, including the Bond Ordinance, and other pertinent instruments authorizing and relating to the issuance of the Bonds; and we have examined various certificates and documents executed by officers and officials of the Issuer upon which certificates and documents we rely as to certain matters stated below. We have also examined one of the executed Bonds (Bond Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized, issued and delivered, all in accordance with law; and that the Bonds, except as may be limited by laws applicable to the Issuer relating to bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity and sovereign immunity of political subdivisions which permit the exercise of judicial discretion, constitute valid and legally binding obligations of the Issuer; and that ad valorem taxes sufficient to provide for the payment of the interest on and principal of said Bonds have been levied and pledged for such purpose, within the limit prescribed by law, as provided in the Bond Ordinance.

IT IS FURTHER OUR OPINION that, except as discussed below, under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion, for federal income tax purposes, the interest on the Bonds (i) is excludable from the gross income of the owners thereof and (ii) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code").

IN EXPRESSING THE AFOREMENTIONED OPINIONS, we have relied on certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use and investment of the proceeds of the Bonds and the use of the property financed and refinanced therewith. We call your attention to the fact that if such representations

are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

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

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

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

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

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

Respectfully,

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