

**NOTICE OF SALE
AND
BIDDING INSTRUCTIONS
ON
\$5,820,000*
CITY OF HARKER HEIGHTS, TEXAS
(A political subdivision of the State of Texas located in Bell County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024**

Bids Due Tuesday, May 14, 2024 at 11:00 AM, CDT

**THE CERTIFICATES WILL BE DESIGNATED AS “QUALIFIED TAX-EXEMPT
OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.**

THE SALE

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BIDDING . . . The City of Harker Heights, Texas (the “City”), is offering for sale its \$5,820,000* Combination Tax and Revenue Certificates of Obligation, Series 2024 (the “Certificates”). Bids may be submitted by either of three alternative procedures: (i) written bids; (ii) electronic bids; or (iii) telephone or facsimile bids. Prospective bidders may select one of the three alternative bidding procedures in their sole discretion. Neither the City nor its Financial Advisor, Specialized Public Finance Inc. (the “Financial Advisor”), assume any responsibility or liability for a prospective bidding procedure.

The City and Specialized Public Finance Inc. assume no responsibility or liability with respect to any irregularities associated with the submission of electronic, telephone or facsimile bids.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the deadline. For the purpose of determining compliance with any and all time deadlines set forth in this Official Notice of Sale, for all alternative bidding procedures, the official time shall be the time maintained only by the Parity Electronic Bid Submission System (“PARITY”).

WRITTEN BIDS DELIVERED IN PERSON . . . Signed bids, plainly marked “Bid for Certificates,” should be addressed to “Mayor and City Council, City of Harker Heights, Texas,” and delivered to the City’s Financial Advisor at 248 Addie Roy Road, Suite B-103, Austin, Texas 78746 by 11:00 AM, CDT on May 14, 2024 (the “date of the bid opening”). All bids must be submitted on the Official Bid Form, without alteration or interlineation.

ELECTRONIC BIDDING PROCEDURE . . . Any prospective bidder that intends to submit an electronic bid must submit its electronic bid through the facilities of PARITY. Bidders must submit, by 11:00 AM CDT on the date of the bid opening, SIGNED Official Bid Forms to Jennifer Ritter, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746. Subscription to the i-Deal LLC’s BIDCOMP Competitive Bidding System is required in order to submit an electronic bid. The City will neither confirm any subscription nor be responsible for the failure of any prospective bidder to subscribe.

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

If any provision of the Notice of Sale shall conflict with information provided by PARITY as the approved provider of electronic bidding services, this Notice of Sale shall control. Further information about PARITY, including any fee charged, may be obtained from Parity Customer Support, 40 West 23rd Street, 5th Floor, New York, New York 10010, (212) 404-8102.

For information purposes only, bidders are requested to state in their electronic bids the true interest cost to the City, as described under “Basis of Award” below. All electronic bids shall be deemed to incorporate the provisions of this Notice of Sale and the Official Bid Form.

BIDS BY TELEPHONE OR FACSIMILE . . . Bidders must submit SIGNED Official Bid Forms to Jennifer Ritter, Specialized Public Finance Inc., 248 Addie Roy Road, Suite B-103, Austin, Texas 78746, and submit their bid by telephone or facsimile (fax) on the date of the bid opening.

Telephone bids will be accepted at (512) 275-7300, between 10:30 AM and 11:00 AM, CDT on the date of the bid opening.

Fax bids must be received between 10:30 AM and 11:00 AM, CDT, on the date of the bid opening at (512) 275-7305, attention Jennifer Ritter.

Specialized Public Finance Inc. will not be responsible for submitting any bids received after the above deadlines.

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS.” Preliminary, subject to change.

Specialized Public Finance Inc. assumes no responsibility or liability with respect to any irregularities associated with the submission of bids if telephone or fax options are exercised.

PLACE AND TIME OF BID OPENING . . . The bids for the Certificates will be publicly opened and read in the office of the Financial Advisor at 11:00 AM, CDT, Tuesday, May 14, 2024.

AWARD OF THE CERTIFICATES . . . The City Council will take action to award the Certificates (or reject all bids) at a meeting scheduled to convene at 5:00 PM, CDT, on the date of the bid opening, and will adopt an ordinance authorizing the Certificates (the “Ordinance”).

WITHDRAWAL OF THE BIDS . . . Any bid may be withdrawn by an authorized representative of the bidder at any time prior to the time set for receipt of bids. Thereafter, all bids shall remain firm for ten hours after the time for receipt of the bids. The award of or rejection of bids will occur within this time period.

EXTENSION OF SALE DATE . . . The City reserves the right to extend the date and/or time for the receipt of bids by giving notice by Bond Buyer Wire Service, and by posting a notice at the place established for receipt of bids, not later than 3:00 PM, CDT on Monday, May 13, 2024 of the new date and time of receipt of bids. Such notice shall be considered an amendment to this Official Notice of Sale.

THE CERTIFICATES

DESCRIPTION . . . The Certificates will be dated June 6, 2024 (the “Dated Date”). Interest will accrue from the Date of Initial Delivery (defined herein) of the Certificates and will be due on February 15, 2025, and each August 15 and February 15 thereafter until the earlier of maturity or prior redemption. The Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity. The Certificates will mature on August 15 in each year as follows:

MATURITY SCHEDULE*

Maturity (August 15)	Principal Amount	Maturity (August 15)	Principal Amount
2025	\$ 70,000	2038	\$ 230,000
2026	130,000	2039	245,000
2027	140,000	2040	255,000
2028	145,000	2041	270,000
2029	145,000	2042	285,000
2030	155,000	2043	295,000
2031	165,000	2044	310,000
2032	170,000	2045	325,000
2033	185,000	2046	345,000
2034	190,000	2047	360,000
2035	200,000	2048	375,000
2036	210,000	2049	400,000
2037	220,000		

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS.” Preliminary, subject to change.

REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2034, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Purchaser (defined herein) elects to aggregate two or more consecutive maturities as Term Certificates.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES . . . Bidders may provide that all of the Certificates be issued as serial Certificates or may provide that any two or more consecutive annual principal amounts be combined into one or more Term Certificates.

BOOK-ENTRY-ONLY SYSTEM . . . The City intends to utilize the book-entry-only system of The Depository Trust Company (“DTC”) (see “THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM” in the Official Statement).

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar shall be BOKF, NA, Dallas, Texas (see “THE CERTIFICATES – PAYING AGENT/REGISTRAR” in the Official Statement).

SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from the levy and collection of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance. In addition, the Certificates also have a pledge of surplus net revenues of the City’s drainage utility system.

Further details regarding the Certificates are set forth in the Official Statement.

CONDITIONS OF THE SALE

TYPE OF BIDS AND INTEREST RATES . . . **The Certificates will be sold in one block on an “All or None” basis, and at a price of not less than 102% of their par value and not more than 112% of their par value.** Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/100 of 1% and the net effective interest rate must not exceed 15%. The highest rate bid may not exceed the lowest rate bid by more than 2.5% in rate. No coupon rate greater than 5.00% will be accepted. For Certificates having stated maturities on and after August 15, 2034, no reoffering yield producing a dollar price less than 97.5% for any individual maturity will be accepted. The high bidder will be required to submit reoffering yields and dollar prices prior to award. No limitation is imposed upon bidders as to the number of rates or changes which may be used. All Certificates of one maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

POST BID MODIFICATION OF PRINCIPAL AMORTIZATION . . . After selecting the winning bid, the aggregate principal amount of the Certificates and the principal amortization schedule may be adjusted as determined by the City and its Financial Advisor in \$5,000 increments to reflect the actual interest rates. Such adjustments will not change the aggregate principal amount of the Certificates by more than 15% from the amount set forth herein. The dollar amount bid for the Certificates by the winning bidder will be adjusted proportionately to reflect any increase or decrease in the aggregate principal amount of the Certificates finally determined to be issued. The City will use its best efforts to communicate to the winning bidder any such adjustment within three (3) hours after the opening of bids. Purchasers’ compensation will be based upon the final par amount after any adjustment thereto, subsequent to the receipt and tabulation of the winning bid, within the aforementioned parameters.

In the event of any adjustment of the maturity schedule for the Certificates as described above, no rebidding or recalculation of the proposals submitted will be required or permitted. The bid price for such an adjustment will reflect changes in the dollar amount of par amount of the Certificates from the selling compensation that would have been received based on the purchase price in the winning bid and the initial reoffering terms. Any such adjustment of the aggregate principal amount of the Certificates and/or the maturity schedule for the Certificates made by the City or its Financial Advisor shall be subsequent to the award of the Certificates to the winning bidder as determined pursuant to “CONDITIONS OF THE SALE – BASIS OF AWARD” herein and shall not affect such determination. The winning bidder may not withdraw its bid as a result of any changes made within the aforementioned limits.

BASIS FOR AWARD . . . Subject to the City’s right to reject any or all bids and to waive any irregularities except time of filing, the sale of the Certificates will be awarded to the bidder or syndicate account manager whose name first appears on the Official Bid Form (the “Purchaser”) making a bid that conforms to the specifications herein and which produces the lowest True Interest Cost rate to the City. The True Interest Cost rate is that rate which, when used to compute the total present value as of the Date of Initial Delivery (defined herein) of all debt service payments on the Certificates on the basis of semiannual compounding, produces an amount equal to the sum of the par value of the Certificates plus any premium bid, if any. In the event of a bidder’s error in interest cost rate calculations, the interest rates and premium, if any, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to be submitted to the Texas Bond Review Board pursuant to Section 1202.008, Texas Government Code, as amended, the Purchaser will be required to provide the City with a breakdown of its “underwriting spread” including among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

GOOD FAITH DEPOSIT . . . A Good Faith Deposit, payable to the “City of Harker Heights, Texas,” in the amount of \$116,400, is required. Such Good Faith Deposit shall be a bank cashier’s check or certified check, which is to be retained uncashed by the City pending the Purchaser’s compliance with the terms of the bid and the Notice of Sale and Bidding Instructions. The Good Faith Deposit may accompany the Official Bid Form or it may be submitted separately. If submitted separately, it shall be made available to the City prior to the opening of the bids, and shall be accompanied by instructions from the bank on which drawn which authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. **The Good Faith Deposit of the Purchaser will be returned to the Purchaser upon payment for the Certificates.** No interest will be allowed on the Good Faith Deposit. In the event the Purchaser should fail or refuse to take up and pay for the Certificates in accordance with the bid, then said check shall be cashed and accepted by the City as full and complete liquidated damages. The checks accompanying bids other than the winning bid will be returned immediately after the bids are opened, and an award of the Certificates has been made.

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

Reference should be made to the Disclosure Form, the rules of the TEC with respect to the Disclosure Form (the “Disclosure Rules”) and the Interested Party Disclosure Act. Instructional information regarding such matters are set forth at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm. For purposes of completing the Disclosure Form, a Privately Held Bidder will need the following information: (a) item 2 – name of the governmental entity (*City of Harker Heights, Texas*) and (b) item 3 – the identification number assigned to this contract by the City (*CO, S2024*) and description of the goods or services (*Purchase of Harker Heights CO 2024 Certificates*). The Interested Party Disclosure Act and the Disclosure Rules require a non-publicly traded business entity contracting with the City to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/filinginfo/1295/>, print, sign and deliver by email, the certified Disclosure Form that is generated by the TEC’s “electronic portal” to the City (David Mitchell, dmitchell@harkerheights.gov) with a copy to the City's Financial Advisor (Jennifer Ritter, jennifer@spfmuni.com), with the original to be delivered to the City (Attn: David Mitchell, City of Harker Heights, 305 Millers Crossing, Harker Heights, Texas 76548). Following the award of the Certificates, the City will, if required, acknowledge the receipt of the completed Disclosure Form through the TEC website, as required by law. The Disclosure Form must be sent by email to the City (David Mitchell, dmitchell@harkerheights.gov) with a copy to the City’s Bond Counsel (Andrew Clark, aclark@nmananhowell.com), as soon as possible following the notification of conditional verbal acceptance and prior to the final written award.

Written Representation Regarding Exemption. If a bidder is claiming an exception to the filing requirement under Section 2252.908(c)(4), the written representation that the bidder is not required to file a Disclosure Form must state that it is a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity and identify the publicly traded business entity that allows them to utilize the exception.

Preparations for completion, and the significance of, the reported information. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made “under penalty of perjury.” **Consequently, a Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form.** Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed Disclosure Form from a winning Privately Held Bidder is received. If applicable, the City reserves the right to reject any bid that does not satisfy the requirement of a completed Disclosure Form, as described herein. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the City that its bid is the conditional winning bid.

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

DELIVERY OF THE CERTIFICATES AND ACCOMPANYING DOCUMENTS

CUSIP NUMBERS . . . It is anticipated that CUSIP identification numbers will appear on the Certificates, but neither the failure to print or type such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of this Notice of Sale and Bidding Instructions and the terms of the Official Bid Form. The Financial Advisor will obtain CUSIP identification numbers from the CUSIP Service Bureau, New York, New York prior to the date of sale. CUSIP identification numbers will be made available to the purchaser at the time the Certificates are awarded or as soon thereafter as practicable. All expenses in relation to the assignment, printing or typing of CUSIP numbers on the Certificates shall be paid by the City.

DELIVERY OF CERTIFICATES . . . Delivery will be accomplished by the issuance of one Initial Certificate (also called the “Certificate” or “Certificates”), either in typed or printed form, in the aggregate principal amount of \$5,820,000*, payable in stated installments to the Purchaser, signed by the Mayor and City Secretary, approved by the Attorney General of Texas, and registered and manually signed by the Texas Comptroller of Public Accounts. Upon delivery of the Initial Certificate, it shall be immediately cancelled and one definitive Certificate for each maturity will be registered and delivered only to Cede & Co., and deposited with

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS.” Preliminary, subject to change.

DTC in connection with DTC's book-entry-only system. Delivery will be at a principal office of the Paying Agent/Registrar. Payment for the Certificates must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six business days' notice of the time fixed for delivery of the Certificates. It is anticipated that delivery of the Certificates can be made on or about June 6, 2024 (the "Date of Initial Delivery"), and it is understood and agreed that the Purchaser will accept delivery and make payment for the Certificates by 10:00 AM, CDT, on June 6, 2024, or thereafter on the date the Certificate is tendered for delivery, up to and including June 20, 2024. If for any reason the City is unable to make delivery on or before June 20, 2024, the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend its offer for an additional thirty days. If the Purchaser does not elect to extend its offer within six days thereafter, then its Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of any further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided such failure is due to circumstances beyond the City's reasonable control.

CONDITIONS TO DELIVERY . . . The obligation of the Purchaser to take up and pay for the Certificates is subject to the Purchaser's receipt of (a) the legal opinion of Naman Howell Smith & Lee, PLLC, Waco, Texas, Bond Counsel for the City ("Bond Counsel"), (b) the City's no-litigation certificate, and (c) the City's certification as to the Official Statement, all as further described in the Preliminary Official Statement.

ESTABLISHMENT OF ISSUE PRICE (HOLD THE OFFERING PRICE RULE WILL APPLY IF COMPETITIVE SALE REQUIREMENTS ARE NOT SATISFIED)

- (a) The winning bidder shall assist the City in establishing the issue price of the Certificates and shall execute and deliver to the City by Closing an "issue price certificate" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the winning bidder, the City and Bond Counsel. All actions to be taken by the City under this Notice of Sale and Bidding Instructions to establish the issue price of the Certificates may be taken on behalf of the City by the City's municipal advisor identified herein and any notice or report to be provided to the City may be provided to the City's municipal advisor.
- (b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Certificates) will apply to the initial sale of the Certificates (the "competitive sale requirements") because:
 - (1) the City shall disseminate this Notice of Sale and Bidding Instructions to potential underwriters in a manner that is reasonably designed to reach potential underwriters;
 - (2) all bidders shall have an equal opportunity to bid;
 - (3) the City may receive bids from at least three underwriters of municipal Certificates who have established industry reputations for underwriting new issuances of municipal Certificates; and
 - (4) the City anticipates awarding the sale of the Certificates to the bidder who submits a firm offer to purchase the Certificates at the highest price (or lowest interest cost), as set forth in this Notice of Sale and Bidding Instructions.

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

- (c) In the event that the competitive sale requirements are not satisfied, the City shall so advise the winning bidder. In such event, the City intends to treat the initial offering price to the public as of the sale date of each maturity of the Certificates as the issue price of that maturity (the "hold-the-offering-price rule"). The City shall promptly advise the winning bidder, at or before the time of award of the Certificates, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Certificates. Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies. In the event that the competitive sale requirements are not satisfied, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the City.
- (d) By submitting a bid, the winning bidder shall (i) confirm that the underwriters have offered or will offer the Certificates to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the bid submitted by the winning bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Certificates, that the underwriters will neither offer nor sell unsold Certificates of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:
 - (1) the close of the fifth (5th) business day after the sale date; or
 - (2) the date on which the underwriters have sold at least 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

The winning bidder shall promptly advise the City when the underwriters have sold 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public, if that occurs prior to the close of the fifth (5th) business day after the sale date.

- (e) The City acknowledges that, in making the representation set forth above, the winning bidder will rely on (i) the agreement of each underwriter to comply with the hold-the-offering-price rule, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Certificates to the public, the agreement of each dealer who is a member of the selling group to comply with the hold-the-offering-price rule, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter is a party to a retail or other third-party distribution agreement that was employed in connection with the initial sale of the Certificates to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the hold-the-offering-price rule, as set forth in the retail or other third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the hold-the-offering-price rule and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a retail or other third-party distribution agreement to comply with its corresponding agreement regarding the hold-the-offering-price rule as applicable to the Certificates.
- (f) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each retail or other third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such retail or other third-party distribution agreement, as applicable, to comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder and as set forth in the related pricing wires, and (ii) any agreement among underwriters relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter that is a party to a retail or other third-party distribution agreement to be employed in connection with the initial sale of the Certificates to the public to require each broker-dealer that is a party to such retail or other third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, in each case if and for so long as directed by the winning bidder or such underwriter and as set forth in the related pricing wires.
- (g) Sales of any Certificates to any person that is a related party to an underwriter shall not constitute sales to the public for purposes of this Notice of Sale and Bidding Instructions. Further, for purposes of this section of the Notice of Sale and Bidding Instructions:
 - (1) “public” means any person other than an underwriter or a related party,
 - (2) “underwriter” means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Certificates to the public),
 - (3) a purchaser of any of the Certificates is a “related party” to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
 - (4) “sale date” means the date that the Certificates are awarded by the City to the winning bidder.

COMPLIANCE WITH STATE CONTRACTING REQUIREMENTS . . . The bidder makes the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as heretofore amended (the “Government Code”), in connection with a submission of a bid for the Bonds. As used in such verifications, “affiliate” means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. Liability for breach of any such verification provided in connection with the purchase of the Bonds shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of the Ordinance, this Notice of Sale and Bidding Instructions and the Official Bid Form, notwithstanding anything in the Ordinance this Notice of Sale and Bidding Instructions or the Official Bid Form to the contrary.

- (a) Not a Sanctioned Company. The bidder represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Government Code. The foregoing representation excludes the bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.
- (b) No Boycott of Israel. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and will not boycott Israel during the term of this Resolution. As used in the foregoing verification, “boycott Israel” has the meaning provided in Section 2271.001, Government Code.
- (c) No Discrimination Against Firearm Entities. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that

discriminates against a firearm entity or firearm trade association and will not discriminate against a firearm entity or firearm trade association during the term of this Resolution. As used in the foregoing verification, “discriminate against a firearm entity or firearm trade association” has the meaning provided in Section 2274.001(3), Government Code.

- (d) No Boycott of Energy Companies. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and will not boycott energy companies during the term of this Resolution. As used in the foregoing verification, “boycott energy companies” has the meaning provided in Section 2276.001(1), Government Code.

The bidder understands “affiliate” as used in the paragraphs above to mean any entity that controls, is controlled by, or is under common control with, the bid.

FURTHER STATE LAW COMPLIANCE AND STANDING LETTER REQUIREMENT . . . Each prospective bidder must have a standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General’s Office as required by the All Bond Counsel Letter of the Texas Attorney General dated November 1, 2023 and any subsequent letters addressing similar matters (the “All Bond Counsel Letter”). In submitting a bid, a bidder represents to the City that it has filed a standing letter that conforms to the requirements set forth in the All Bond Counsel Letter and it has no reason to believe that the City may not be entitled to rely on the standing letter on file with the Municipal Advisory Council of Texas and the Texas Attorney General’s Office. The winning bidder agrees that it will not rescind its standing letter at any time before the delivery of the Certificates unless same is immediately replaced with a standing letter meeting the requirements of the All Bond Counsel Letter.

The City will not accept a bid from a bidder that does not have such standing letter on file as of the deadline for bids for the Certificates. If requested by the City, the Initial Purchaser agrees to provide such further representations, certifications or assurances in connection with the Covered Verifications, as of the Delivery Date or such other date requested by the City including, but not limited to, a bring down certification as provided by the All Bond Counsel Letter.

THE CITY RESERVES THE RIGHT, IN ITS SOLE DISCRETION, TO REJECT THE BID OF ANY BIDDER WHO IS, OR WHOSE PARENT COMPANY, SUBSIDIARIES OR AFFILIATES IS, ON A LIST MAINTAINED BY THE TEXAS COMPTROLLER ON A LIST MAINTAINED BY THE TEXAS COMPTROLLER OF FINANCIAL COMPANIES BOYCOTTING ENERGY COMPANIES OR DISCRIMINATING AGAINST FIREARM ENTITIES.

BY SUBMITTING A BID, EACH BIDDER AGREES, SHOULD IT BE THE WINNING BIDDER, TO COOPERATE WITH THE CITY AND TAKE ANY ACTION NECESSARY TO FURTHER VERIFY AND CONFIRM COMPLIANCE WITH STATE LAW.

To the extent the Initial Purchaser and each syndicate member listed on the Official Bid Form is unable to provide a Standing Letter in a form satisfactory to the Texas Office of the Attorney General, the City reserves the right to cash and accept the Good Faith Deposit (see “CONDITIONS OF THE SALE - Good Faith Deposit”).

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

LEGAL OPINION . . . The Certificates are offered when, as and if issued, subject to the approval of the Attorney General of the State of Texas. Delivery of and payment for the Certificates is subject to the receipt by the Purchaser of opinions of Bond Counsel, to the effect that the Certificates are valid and binding obligations of the City (except as the enforceability may be limited by governmental immunity, bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors’ rights generally or by general principles of equity which permit the exercise of judicial discretion) and that the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” in the Official Statement.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the City to deliver the Certificates and of the Purchaser to accept delivery of and pay for the Certificates are subject to the condition that at the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition of the City from those set forth in or contemplated by the “Preliminary Official Statement” as it may have been supplemented or amended through the date of sale.

NO-LITIGATION CERTIFICATE . . . On the date of delivery of the Certificates to the Purchaser, the City will deliver to the Purchaser a certificate, as of the same date, to the effect that to the best of the City’s knowledge no litigation of any nature is pending or, to the best of the certifying officials’ knowledge or belief, threatened against the City, contesting or affecting the Certificates; restraining or enjoining the authorization, execution, or delivery of the Certificates; affecting the provision made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Certificates; or affecting the validity of the Certificates or the title of the present officials of the City.

GENERAL

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Specialized Public Finance Inc., 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 Certificates, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

BLUE SKY LAWS . . . By submission of its bid, the Purchaser represents that the sale of the Certificates in states other than Texas will be made only pursuant to exemptions from registration or, where necessary, the Purchaser will register the Certificates in accordance with the securities law of the states in which the Certificates are offered or sold. The City agrees to cooperate with the Purchaser, at the Purchaser's written request and expense, in registering the Certificates or obtaining an exemption from registration in any state where such action is necessary, provided, however, that the City shall not be obligated to qualify as a foreign corporation or to execute a general or special consent to service of process in any such jurisdiction.

NOT AN OFFER TO SELL . . . This Notice of Sale and Bidding Instructions does not alone constitute an offer to sell the Certificates, but is merely notice of the sale of the Certificates. The offer to sell the Certificates is being made by means of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement. Prospective purchasers are urged to carefully examine the Official Statement to determine the investment quality of the Certificates.

ISSUANCE OF ADDITIONAL DEBT . . . The City does not anticipate issuing additional tax exempt bonds within the next twelve months.

RATING . . . The Certificates and the outstanding general obligation debt of the City have been rated "AA" by S&P Global Ratings ("S&P") without regard to credit enhancement.

THE OFFICIAL STATEMENT AND COMPLIANCE WITH SEC RULE 15C2-12 . . . The City has prepared the accompanying Preliminary Official Statement and, for the limited purpose of complying with Securities and Exchange Commission Rule 15c2-12 (the "Rule"), deems such Preliminary Official Statement to be final as of its date within the meaning of such Rule for the purpose of review prior to bidding. To the best knowledge and belief of the City, the Preliminary Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates. Representations made and to be made by the City concerning the absence of material misstatements and omissions in the Preliminary Official Statement are addressed elsewhere in this Notice of Sale and Bidding Instructions and in the Preliminary Official Statement.

The City will furnish to the Purchaser, acting through a designated senior representative, in accordance with instructions received from the Purchaser, within seven (7) business days from the sale date, copies of the final Official Statement in such quantity and in the formats as the Purchaser shall request in order for the Purchaser to comply with Section (b)(4) of the Rule and the rules of the Municipal Securities Rulemaking Board; provided, however, that the cost of any Official Statements in excess of 100 shall be prepared and distributed at the cost of the Purchaser. The cost of any Official Statement in excess of the number specified shall be prepared and distributed at the cost of the Purchaser. The Purchaser shall be responsible for providing in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award. Except as noted above, the City assumes no responsibility or obligation for the distribution or delivery of any copies of the Official Statement in connection with the offering or reoffering of the Certificates.

CONTINUING DISCLOSURE AGREEMENT . . . The City will agree in the Ordinance to provide certain periodic information and notices of specified events in accordance with Securities and Exchange Commission Rule 15c2-12, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION." The Purchaser's obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

The City has approved the form and content of the Notice of Sale and Bidding Instructions, the Official Bid Form and Official Statement, and authorized the use thereof in its initial offering of the Certificates. On the date of the sale, the City Council will, in the Ordinance authorizing the issuance of the Certificates, confirm its approval of the form and content of the Official Statement, and any addenda, supplement or amendment thereto, and authorize its use in the reoffering of the Certificates by the Purchaser.

/s/ Michael Blomquist
Mayor
City of Harker Heights, Texas

/s/ Julie Helsham
City Secretary
City of Harker Heights, Texas

May 6, 2024

OFFICIAL BID FORM

Honorable Mayor and City Council
City of Harker Heights, Texas
305 Millers Crossing
Harker Heights, Texas 76548

May 14, 2024

Members of the City Council:

Reference is made to your Official Statement and Notice of Sale and Bidding Instructions, dated May 6, 2024, of \$5,820,000* CITY OF HARKER HEIGHTS, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024 (the "Certificates"), both of which constitute a part hereof.

For your legally issued Certificates, in the aggregate principal amount of \$5,820,000*, we will pay you a price of \$_____, representing approximately _____% of the par value. Such Certificates mature August 15, in each of the years and in the amounts and interest rates shown below:

Maturity (August 15)	Principal Amount*	Interest Rate	Maturity (August 15)	Principal Amount*	Interest Rate
2025	\$ 70,000	_____%	2038	\$ 230,000	_____%
2026	130,000	_____%	2039	245,000	_____%
2027	140,000	_____%	2040	255,000	_____%
2028	145,000	_____%	2041	270,000	_____%
2029	145,000	_____%	2042	285,000	_____%
2030	155,000	_____%	2043	295,000	_____%
2031	165,000	_____%	2044	310,000	_____%
2032	170,000	_____%	2045	325,000	_____%
2033	185,000	_____%	2046	345,000	_____%
2034	190,000	_____%	2047	360,000	_____%
2035	200,000	_____%	2048	375,000	_____%
2036	210,000	_____%	2049	400,000	_____%
2037	220,000	_____%			

Of the principal maturities set forth in the table above, Term Certificates have been created as indicated in the following table (which may include multiple Term Certificates, one term certificate or no term certificate if none is indicated). For those years which have been combined into Term Certificates, the principal amount shown in the table above shall be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the term certificate maturity date shall mature in such year. The Term Certificates created are as follows:

Term Certificates Maturing August 15	Year of First Mandatory Redemption	Principal Amount	Interest Rate
_____	_____	\$ _____	_____%
_____	_____	\$ _____	_____%
_____	_____	\$ _____	_____%
_____	_____	\$ _____	_____%
_____	_____	\$ _____	_____%

Our calculation (which is not a part of this bid) of the interest cost from the above is:

TRUE INTEREST COST _____%

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

The Initial Certificates shall be registered in the name of _____, which will, upon payment for the Certificates, be cancelled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the book-entry-only system.

A wire transfer or a cashiers or certified check to the City in the amount of \$116,400 will be made available in accordance with the Notice of Sale made a part hereof. Should we fail or refuse to make payment for the Certificates in accordance with the terms and conditions set forth in the Notice of Sale, the proceeds of this deposit shall be retained by the City as complete liquidated damages against us except in the event the bidder should fail or refuse to take up and pay for the Bonds for reasons related to violations of the statutory representation and covenants required by Chapters 2252, 2271, 2274 and 2276, Texas Government Code, as amended. Please check the box below to designate your Good Faith Deposit option.

We agree to accept delivery of the Certificates utilizing the book-entry-only system through DTC and make payment for the Initial Certificate in immediately available funds in the Corporate Trust Division, The Bank of New York Mellon Trust Company, Dallas, Texas, not later than 10:00 AM, CDT, on June 6, 2024, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Notice of Sale and Bidding Instructions. It will be the obligation of the purchaser of the Certificates to complete the DTC Eligibility Questionnaire.

Upon notification of conditional verbal acceptance, if applicable, the undersigned will complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed and sent by email to the City's Bond Counsel at aclark@namanhowell.com and to the City's financial advisor at jennifer@spfmuni.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the City from providing final written award of the enclosed bid.

The undersigned agrees to comply with the terms of the Notice of Sale and Bidding Instructions, including the requirements set forth under the caption "Establishment of Issue Price (Hold-the-Offering Price Rule Will Apply if Competitive Sale Requirements are Not Satisfied)."

The undersigned agrees to complete, execute, and deliver to the City, at least six business days prior to delivery of the Certificates, a certificate relating to the "issue price" of the Certificates in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to or required by the City. The undersigned also agrees to provide the City and its consultants, at least 10 business days prior to delivery of the Certificates, a breakdown of its "Underwriting Spread" among the following categories: Takedown, Management Fee (if any), Legal Counsel Fee (if any) and Spread Expenses (if any).

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

The bidder makes the following representations and covenants pursuant to Chapters 2252, 2271, 2274, and 2276, Texas Government Code, as heretofore amended (the "Government Code"), in connection with a submission of a bid for the Bonds. As used in such verifications, "affiliate" means an entity that controls, is controlled by, or is under common control with the bidder within the meaning of SEC Rule 405, 17 C.F.R. § 230.405, and exists to make a profit. Liability for breach of any such verification provided in connection with the purchase of the Bonds shall survive until barred by the applicable statute of limitations, and shall not be liquidated or otherwise limited by any provision of the Ordinance, the Notice of Sale and Bidding Instructions and this Official Bid Form, notwithstanding anything in the Ordinance the Notice of Sale and Bidding Instructions or this Official Bid Form to the contrary.

- (a) Not a Sanctioned Company. The bidder represents that neither it nor any of its parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Government Code. The foregoing representation excludes the bidder and each of its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization.
- (b) No Boycott of Israel. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and will not boycott Israel during the term of this Resolution. As used in the foregoing verification, "boycott Israel" has the meaning provided in Section 2271.001, Government Code.
- (c) No Discrimination Against Firearm Entities. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not have a practice, policy, guidance, or directive that discriminates against a firearm entity or firearm trade association and will not discriminate against a firearm entity or firearm trade association during the term of this Resolution. As used in the foregoing verification, "discriminate against a firearm entity or firearm trade association" has the meaning provided in Section 2274.001(3), Government Code.
- (d) No Boycott of Energy Companies. The bidder hereby verifies that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott energy companies and will not boycott energy

companies during the term of this Resolution. As used in the foregoing verification, “boycott energy companies” has the meaning provided in Section 2276.001(1), Government Code.

The undersigned represents that it has, or will have prior to the date of Closing, on file with the Texas Attorney General a standing letter addressing the representations and verifications set forth above in a form acceptable to the Texas Attorney General. In addition, the undersigned hereby represents that it (including any parent company, wholly- or majority-owned subsidiary or other affiliate of the winning bidder) (1)(A) has not received a letter from the Texas Comptroller of Public Accounts (the “Comptroller”) pursuant to Chapter 809, Texas Government Code seeking written verification that such bidder does not boycott energy companies; or (B) if such bidder has received such a letter from the Comptroller, it has timely responded to the Comptroller’s request; and (2) does not, and will not, appear on a list published by the Comptroller pursuant to Section 809.051, Texas Government Code prior to the Closing. Such written verification shall be provided to the City and Bond Counsel, two Business Days before Closing, in a form acceptable to Bond Counsel and the Texas Attorney General.

The undersigned agrees to complete, execute, and deliver to the City, at least five business days prior to delivery of the Certificates, a certificate relating to the “issue price” of the Certificates in the form and to the effect accompanying the Notice of Sale and Bidding Instructions, with such changes thereto as may be acceptable to the City and Bond Counsel.

The undersigned certifies that the Purchaser [is]/[is not] exempt from filing the TEC Form 1295 by virtue of being a publicly traded business entity or a wholly owned subsidiary of a publicly traded business entity.

We agree to provide in writing the initial reoffering prices and other terms, if any, to the Financial Advisor by the close of the next business day after the award.

Respectfully submitted,

Name of Purchaser or Manager

Authorized Representative

Phone Number

Signature

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by City of Harker Heights, Texas, this the 14th day of May, 2024.

ATTEST:

City Secretary
City of Harker Heights, Texas

Mayor
City of Harker Heights, Texas

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ISSUE PRICE CERTIFICATE

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

The undersigned, as the underwriter or the manager of the syndicate of underwriters ("Purchaser"), with respect to the purchase at competitive sale of the Combination Tax and Revenue Certificates of Obligation, Series 2024 issued by the City of Harker Heights, Texas ("Issuer") in the principal amount of \$5,820,000* ("Certificates"), hereby certifies and represents, based on its records and information, as follows:

1. *Reasonably Expected Initial Offering Price.*

- (a) As of the Sale Date, the reasonably expected initial offering prices of the Certificates to the Public by the Initial Purchaser are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Certificates used by the Initial Purchaser in formulating its bid to purchase the Certificates. Attached as Schedule B is a true and correct copy of the bid provided by the Initial Purchaser to purchase the Certificates.
- (b) The Initial Purchaser was not given the opportunity to review other bids prior to submitting its bid.
- (c) The bid submitted by the Initial Purchaser constituted a firm offer to purchase the Certificates.

2. *Defined Terms.*

- (a) *Maturity* means Certificates with the same credit and payment terms. Certificates with different maturity dates, or Certificates with the same maturity date but different stated interest rates, are treated as separate Maturities.
- (b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.
- (c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Certificates. The Sale Date of the Certificates is January 16, 2024.
- (d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Certificates to the Public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Certificates to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Initial Purchaser's interpretation of any laws, including specifically Sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the tax certificate with respect to the Certificates and with respect to compliance with the federal income tax rules affecting the Certificates, and by Naman Howell Smith & Lee, PLLC in connection with rendering its opinion that the interest on the Certificates is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Certificates.

EXECUTED and DELIVERED as of this _____, 2024.

[NAME OF PURCHASER], as Purchaser

By: _____

Name: _____

*See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS." Preliminary, subject to change.

SCHEDULE A

PRICING WIRE OR EQUIVALENT COMMUNICATION
(Attached)

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

PRELIMINARY OFFICIAL STATEMENT

Dated May 6, 2024

Rating:

S&P: "AA"

(See "OTHER INFORMATION - RATING" herein)

NEW ISSUE – BOOK-ENTRY-ONLY

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

THE CERTIFICATES WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS



\$5,820,000*

CITY OF HARKER HEIGHTS, TEXAS

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

COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024

Dated Date: June 6, 2024

Due: August 15, as shown page 2

Interest accrues from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the \$5,820,000* City of Harker Heights, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2024 (the "Certificates") will accrue from the Date of Initial Delivery (defined below), will be payable February 15 and August 15 of each year commencing February 15, 2025, until maturity or earlier redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the book-entry-only system described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates (see "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "THE CERTIFICATES – PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued by the City of Harker Heights, Texas (the "City") pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, the City's Home-Rule Charter, and an ordinance to be adopted by the City Council of the City (the "City Council") on May 14, 2024 (the "Ordinance"). The Certificates constitute direct obligations of the City payable from a combination of (i) the levy and collection of an annual direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a pledge of surplus net revenues of the City's drainage utility system as provided in the Ordinance authorizing the Certificates (see "THE CERTIFICATES – AUTHORITY FOR ISSUANCE" and "THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purposes of (i) street reconstruction and improvements; (ii) drainage improvements; (iii) building construction (City Fire Station #3); and (iv) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the Certificates.

CUSIP PREFIX: 412558

MATURITY SCHEDULE

SEE PAGE 2 HEREOF

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Purchaser and subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Naman Howell Smith & Lee PLLC, Waco, Texas, Bond Counsel (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION").

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on June 6, 2024 (the "Date of Initial Delivery").

BIDS DUE ON TUESDAY, MAY 14, 2024, BY 11:00 AM, CDT

***See "CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS" in the Notice of Sale. Preliminary, subject to change.**

MATURITY SCHEDULE*

8/15 Maturity	Principal Amount	Interest Rate	Initial Yield	CUSIP Numbers ⁽¹⁾
2025	\$ 70,000			
2026	130,000			
2027	140,000			
2028	145,000			
2029	145,000			
2030	155,000			
2031	165,000			
2032	170,000			
2033	185,000			
2034	190,000			
2035	200,000			
2036	210,000			
2037	220,000			
2038	230,000			
2039	245,000			
2040	255,000			
2041	270,000			
2042	285,000			
2043	295,000			
2044	310,000			
2045	325,000			
2046	345,000			
2047	360,000			
2048	375,000			
2049	400,000			

(Interest Accrues from the Date of Initial Delivery)

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS” in the Notice of Sale. Preliminary, subject to change.

- (1) CUSIP® is a registered trademark of the American Bankers Association. CUSIP Global Services (“CGS”) is managed on behalf of the American Bankers Association by FactSet Research Systems Inc. Copyright^(c) 2022 CUSIP Global Services. All rights reserved. CUSIP® data herein is provided by CUSIP Global Services. This data is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the City, the Financial Advisor, the Purchaser or their agents or counsel assume responsibility for the accuracy of such numbers. The CUSIP number for a specific maturity is subject to being changed after the execution and delivery of the Certificates as a result of various subsequent actions, including but not limited to, a refunding in whole or in part of such maturity, or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of the Certificates.

REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2034, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – OPTIONAL REDEMPTION”). Additionally, the Certificates may be subject to mandatory redemption in the event the Purchaser elects to aggregate two or more consecutive maturities as Term Certificates.

(THE REMAINDER OF THIS PAGE INTENTIONALLY LEFT BLANK)

For purposes of compliance with Rule 15c2-12 of the Securities Exchange Commission, this document constitutes a Preliminary Official Statement of the City with respect to the Certificates that has been deemed “final” by the City as of its date except for the omission of no more than the information permitted by Rule 15c2-12.

This Official Statement, which includes the cover pages 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, salesman or other person has been authorized by the City to give any information, or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon. This Official Statement does not constitute an offer to sell Certificates in any jurisdiction to any person to whom it is unlawful to make such an offer in such jurisdiction.

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 promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

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

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

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

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

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

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires
Michael Blomquist Mayor	Years	May 2026
Lynda Nash Mayor Pro Tem	Years	May 2026
Jennifer McCann Council Member, Place 1	Years	May 2025
Stacey L. Wilson Council Member, Place 2	Years	May 2024
Tony Canterino Council Member, Place 3	Years	May 2025
Sam Halabi Council Member, Place 5	Years	May 2024

SELECTED ADMINISTRATIVE STAFF

Name	Position
David R. Mitchell	City Manager
Jerry Bark	Assistant City Manager
Ayesha Lealiiee	Finance Director
Julie Helsham	City Secretary
Charlie Olson	City Attorney

CONSULTANTS AND ADVISORS

Auditors Pattillo, Brown & Hill, L.L.P.
Waco, Texas

Bond Counsel Naman Howell Smith & Lee PLLC
Waco, Texas

Financial Advisor.....Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Ms. Ayesha Lealiiee Finance Director City of Harker Heights, Texas 305 Millers Crossing Harker Heights, Texas 76548 254/953-5600 254/953-5629 Fax	or	Mr. Jennifer Ritter Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 512/275-7300 512/275-7305 Fax
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OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Certificates 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 Harker Heights, Texas (the “City”), is a municipal corporation in the State of Texas located in Bell County operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters in 1971. The City was incorporated in 1961. The City operates under the Council/Manager form of government where the Mayor and five City Council Members are elected for staggered two-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer (see “APPENDIX A – GENERAL INFORMATION REGARDING THE CITY”).
THE CERTIFICATES	The \$5,820,000* Combination Tax and Revenue Certificates of Obligation, Series 2024 (the “Certificates”) are issued as serial Certificates maturing on August 15 in the years 2025 through and including 2049 unless any maturities are designated as Term Certificates (see “THE CERTIFICATES – GENERAL”).
PAYMENT OF INTEREST	Interest on the Certificates will accrue from the Date of Initial Delivery and is payable February 15, 2025, and each August 15 and February 15 thereafter until maturity or prior redemption (see “THE CERTIFICATES – GENERAL”).
AUTHORITY FOR ISSUANCE	The Certificates are issued pursuant to the Constitution and the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and an ordinance passed by the City Council of the City (the “Ordinance”) (see “THE CERTIFICATES – AUTHORITY FOR ISSUANCE”).
SECURITY FOR THE CERTIFICATES.	The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a pledge of surplus net revenues of the City’s drainage utility system (as defined herein) as provided in the Ordinance. As to the pledge of surplus net revenues of the System, such pledge may, at the sole option of the City, be subordinate to pledges of drainage utility system revenues to secure payment of other City obligations whether now or hereafter outstanding (see “THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT”).
REDEMPTION	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2034, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE CERTIFICATES – OPTIONAL REDEMPTION”). Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Purchaser elects to aggregate two or more consecutive maturities as Term Certificates.
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption “TAX MATTERS” herein.
QUALIFIED TAX-EXEMPT OBLIGATIONS	The City will designate the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions (see “TAX MATTERS – Qualified Tax-Exempt Obligations”).
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used for the purposes of (i) street reconstruction and improvements; (ii) drainage improvements; (iii) building construction (City Fire Station #3); and (iv) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the Certificates.
RATING	The Certificates and the outstanding general obligation debt of the City have been rated “AA” by S&P Global Ratings (“S&P”) without regard to credit enhancement (see “OTHER INFORMATION – RATING”).

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS” in the Notice of Sale. Preliminary, subject to change.

BOOK-ENTRY-ONLY SYSTEM..... The definitive Certificates 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 Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates 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 Certificates (see “THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM”).

PAYMENT RECORD The City has never defaulted on payment of its debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End Of Year ⁽²⁾	Funded Debt Per Capita	Ratio Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
9/30							
2020	30,760	\$ 1,887,441,186	\$ 61,360	\$ 48,480,000	\$ 1,576	2.57%	97.33%
2021	31,734	2,036,994,787	64,190	44,400,000	1,399	2.18%	96.67%
2022	34,745	2,169,593,486	62,443	40,175,000	1,156	1.85%	96.63%
2023	35,420	2,498,402,169	70,536	35,835,000	1,012	1.43%	95.80%
2024	35,440	2,845,408,852	80,288	37,725,000 ⁽³⁾	1,064	1.33%	93.26% ⁽⁵⁾

(1) Source: The City.

(2) Includes self-supporting debt.

(3) Projected; includes the Certificates. Preliminary, subject to change.

(4) Partial collections as of February 29, 2024.

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**PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$5,820,000*
CITY OF HARKER HEIGHTS, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2024**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of the \$5,820,000* City of Harker Heights, Texas Combination Tax and Revenue Certificates of Obligation, Series 2024 (the “Certificates”). The Certificates are being issued pursuant to an ordinance to be approved by the City Council on the date of sale of the Certificates (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 follows in this Official Statement descriptions of the Certificates and certain information regarding the City of Harker Heights, Texas (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, Specialized Public Finance Inc., Austin, Texas (the “Financial Advisor”), by electronic mail or upon payment of reasonable copying, handling, and delivery charges. Contact information for the Financial Advisor can be found on page 4 hereof.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the Final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the City’s undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City of Harker Heights, Texas is a municipal corporation and political subdivision located in Bell County operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters in 1971. The City operates under the City Council/Manager form of government where the Mayor and five City Councilmembers are elected for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. The estimated 2024 population is 35,440. The City covers approximately 15.4 square miles. For more information regarding the City, see “APPENDIX A – GENERAL INFORMATION REGARDING THE CITY.”

THE CERTIFICATES

GENERAL . . . The Certificates are dated June 6, 2024 and mature on August 15 in each of the years and in the amounts shown on page 2 hereof. Interest will accrue from the Date of Initial Delivery, will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 15 and August 15 of each year until maturity or earlier redemption commencing February 15, 2025.

The definitive Certificates 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, New York, New York (“DTC”) pursuant to the book-entry-only system described herein (“Book-Entry-Only-System”). **No physical delivery of the Certificates will be made to the owners thereof.** Principal of, premium, if any, and interest on the Certificates 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 Certificates. See “BOOK-ENTRY-ONLY SYSTEM.”

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and the general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), as amended, and the Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Certificates are direct obligations of the City, payable from a combination of (i) a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City and (ii) a pledge of surplus net revenues of the City’s drainage utility system, all as provided in the Ordinance. The City has reserved the right to issue other indebtedness payable from and secured by the net revenues of the City’s drainage utility system to pay additional indebtedness of the City. At the option of the City, the lien on surplus net revenues of the City’s drainage utility system securing such City indebtedness whether now or hereafter outstanding may be superior to, on a parity with, or inferior to, the lien securing the payment of the Certificates.

*See “CONDITIONS OF THE SALE – POST BID MODIFICATION OF PRINCIPAL AMOUNTS” in the Notice of Sale. Preliminary, subject to change.

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a direct and continuing ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt (including the Certificates) 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. Administratively, the Attorney General of Texas further limits the amount of tax that the City may levy for the debt service to an amount not to exceed \$1.50 per \$100 assessed valuation.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after August 15, 2034, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on August 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption.

If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot or any other customary random method the Certificates, or portions thereof, within such maturity to be redeemed. If an Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (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.

Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Purchaser elects to aggregate two or more consecutive maturities as Term Certificates.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Certificates, 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 Certificate 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. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH PORTION THEREOF SHALL CEASE TO ACCRUE.

The Paying Agent/Registrar and the City, so long as a book-entry-only system is used for the Certificates, will send any notice of redemption, notice of proposed amendment to an Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificate called for redemption or any other action premised or any such notice.

Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificate held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificate from the beneficial owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificates for redemption. See "BOOK-ENTRY-ONLY SYSTEM" herein.

With respect to any optional redemption of the Certificates, unless certain prerequisites to such redemption required by an Ordinance have been met and money sufficient to pay the principal of a premium, if any, and interest on the Certificates to be redeemed will have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice will state that said redemption may, 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 Certificates, and the Paying Agent/Registrar will give notice in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar and the City so long as a book-entry-only system is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the beneficial owner, shall not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the City will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Certificates held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Certificates and such redemption will

not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Certificates for redemption.

DEFEASANCE . . . General. The Ordinance provides for the defeasance of the Certificates and the termination of the pledge of taxes and all other general covenants in the Ordinance under certain circumstances. Any Certificate and the interest thereon shall be deemed to be paid, retired and no longer outstanding ("Defeased Certificate") within the meaning of an Ordinance, except to the extent provided below for the Paying Agent/Registrar to continue payments and for the City to retain the right to call Defeased Certificates to be paid at maturity, when the payment of all principal and interest payable with respect to such Defeased Certificates to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (1) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (2) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent/Registrar or a commercial bank or trust company for such payment (a) lawful money of the United States of America sufficient to make such payment, (b) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure 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 after all Defeased Certificates shall have become due and payable or (c) any combination of (a) and (b). At such time as an Certificate shall be deemed to be a Defeased Certificate, such Certificate and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged as provided in the Ordinance, and such principal and interest shall be payable solely from such money or Defeasance Securities.

The deposit under clause (2) above shall be deemed a payment of an Certificate when proper notice of redemption of such Certificates shall have been given, in accordance with the Ordinance. Any money so deposited with the Paying Agent/Registrar or a commercial bank or trust company may at the discretion of the City also be invested in Defeasance Securities, as hereinafter defined, maturing in the amounts and at the times as set forth in the Ordinance, and all income from such Defeasance Securities received by the Paying Agent/Registrar or a commercial bank or trust company that is not required for the payment of the Certificates and interest thereon, with respect to which such money has been so deposited, shall be remitted to the City.

All money or Defeasance Securities set aside and held in trust pursuant to the provisions of the Ordinance for the payment of principal of the Certificates and premium, if any, and interest thereon, shall be applied to and used solely for the payment of the particular Certificates and premium, if any, and interest thereon, with respect to which such money or Defeasance Securities have been so set aside in trust. Until all Defeased Certificates shall have become due and payable, the Paying Agent/Registrar or a commercial bank or trust company shall perform the services of Paying Agent/Registrar for such Defeased Certificates the same as if they had not been defeased, and the City shall make proper arrangements to provide and pay for such services as required by an Ordinance.

If money or Defeasance Securities have been deposited or set aside with the Paying Agent/Registrar or a commercial bank or trust company for the payment of Certificates and such Certificates shall not have in fact been actually paid in full, no amendment of the defeasance provisions of the Ordinance shall be made without the consent of the registered owner of each Certificate affected thereby.

Retention of Rights. To the extent that, upon the defeasance of any Defeased Certificates to be paid at its maturity, the City retains the right under State law to later call any Defeased Certificates which is subject to redemption (i.e. the Certificates) in accordance with the provisions of the Ordinance, the City may call such Defeased Certificates for redemption upon complying with the provisions of State law and upon the satisfaction of the provisions set forth above regarding such Defeased Certificates as though it was being defeased at the time of the exercise of the option to redeem the Defeased Certificates and the effect of the redemption is taken into account in determining the sufficiency of the provisions made for the payment of the Defeased Certificates.

Investments. Any escrow agreement or other instrument entered into between the City and the Paying Agent/Registrar or a commercial bank or trust company pursuant to which money and/or Defeasance Securities are held by the Paying Agent/Registrar or a commercial bank or trust company for the payment of Defeased Certificates may contain provisions permitting the investment or reinvestment of such moneys in Defeasance Securities or the substitution of other Defeasance Securities upon the satisfaction of certain requirements. All income from such Defeasance Securities received by the Paying Agent/Registrar or a commercial bank or trust company which is not required for the payment of the Certificates and interest thereon, with respect to which such money has been so deposited, will be remitted to the City.

For the purposes of these provisions, "Defeasance Securities" means (i) Federal Securities, (ii) noncallable Certificates of an agency or instrumentality of the United States of America, including Certificates that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provides for the funding of an escrow to effect the defeasance of the Certificates are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the City Council adopts or approves proceedings authorizing the issuance of refunding bonds or otherwise provide for the funding of an escrow to effect the defeasance of the Certificates, are rated as to investment quality by a nationally recognized investment rating firm no less than "AAA" or its equivalent and (iv) any other then authorized securities or obligations under applicable state law that may be used to defease obligations such as the Certificates. For the purposes of these provisions, "Federal

Securities” means direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America (including Interest Strips of the Resolution Funding Corporation).

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Certificates. Because an Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

BOOK-ENTRY-ONLY SYSTEM . . . This section describes how ownership of the Certificates is to be transferred and how the principal of, premium, if any, and interest on the Certificates are to be paid to and credited by DTC while the Certificates are registered in its nominee’s 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

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

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

To facilitate subsequent transfers, all Certificates deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Certificates with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Certificates; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Certificates are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit

notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Certificates 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 of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but neither the City nor the Purchaser take any responsibility for the accuracy thereof.

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT . . . In reading this Official Statement it should be understood that while the Certificates are in the book-entry-only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Certificates, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, 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 Purchaser.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is BOKF, NA, 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 Certificates 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 Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . If the book-entry-only system should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender 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.

Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates 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 Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates 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 Certificates 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 Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate 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 an Certificate.

RECORD DATE FOR INTEREST PAYMENT. . . The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last day of the preceding month (whether or not a business day). 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 Holder of an Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

CERTIFICATEHOLDERS' REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates 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, including but not limited to, their prospect or ability to be repaid in accordance with an 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 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 Certificates or an 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 Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the Certificateholders 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.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by the city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

As noted above, the Ordinance provide that Certificateholders may exercise the remedy of mandamus to enforce the obligations of the City under an Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. 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 Certificateholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail

itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

AMENDMENTS TO THE ORDINANCE . . . In the Ordinance, the City has reserved the right to amend such Ordinance without the consent of any owners for the purpose of amending or supplementing such Ordinance to (1) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the owners, (2) grant additional rights or security for the benefit of the owners, (3) 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 owners, (4) qualify an Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect, or (5) make such other provisions in regard to matters or questions arising under an 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 interest of the owners.

The Ordinance further provide that the owners of the Certificates of each series aggregating in principal amount 51% of the outstanding Certificates for such series 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 owners in original principal amount of the then outstanding Certificates for such series no amendment may be made of the purpose of: (1) making any change in the maturity of any of the outstanding Respective series of Certificates; (2) reducing the rate of interest borne by any of the outstanding respective series of Certificates; (3) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding respective series of Certificates; (4) modifying the terms of payment of principal or of interest or redemption premium on outstanding respective series of Certificates, or imposing any condition with respect to such payment; or (5) changing the minimum percentage of principal amount of the respective series of Certificates necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

PURPOSE . . . Proceeds from the sale of the Certificates will be used for the purposes of (i) street reconstruction and improvements; (ii) drainage improvements; (iii) building construction (City Fire Station #3); and (iv) the payment of professional services in connection therewith including legal, fiscal and engineering fees and the costs of issuing the Certificates.

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

SOURCES:

Par Amount of Certificates	
Reoffering Premium	
Total Sources	<hr/> <hr/>

USES:

Deposit to Construction Fund	
Deposit to Debt Service Fund	
Purchaser's Compensation	
Costs of Issuance	
Total Uses	<hr/> <hr/>

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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. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

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

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

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

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "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 market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable.

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 EXEMPTIONS . . . Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following

tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

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

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

For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM PROPERTY TAXATION – CITY APPLICATION OF PROPERTY TAX CODE" herein.

PUBLIC HEARING AND TAX RATE LIMITATIONS . . . The following terms as used in this section have the meanings provided below:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Owners of certain property with a taxable value of at least \$50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (see "– PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS"). The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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

CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES . . . Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an

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

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 \$10,000.

The City has not granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

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

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older.

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 Bell County Tax Appraisal District collects taxes for the City.

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

The City has not taken action to tax freeport property.

The City does not collect the additional one-half cent sales tax for economic development.

The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes.

The City has adopted a tax abatement policy which is described below.

TAX ABATEMENT POLICY . . . The City has established a property tax abatement program to encourage economic development within the City. To be eligible for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement.

The City currently has three tax abatement agreements in place. The first is with Gambit Social House Inc., an entertainment venue. This tax abatement agreement began on June 8, 2021, and has been renewed several times due to construction issues. The final renewal was done on December 13, 2023, and the agreement is set to expire in 2028. Pursuant to this agreement, Gambit Social House, Inc. is constructing a 12,000 square foot entertainment venue which will house a beer tap room, restaurant, darts, eight escape rooms, and a 400 square foot event space. Gambit Social House Inc. further agrees to maintain taxable property value of \$2 million for five tax years and employ 107 personnel. In exchange, the City agrees to pay a cumulative amount not to exceed \$150,299 over the next five years of (1) 50% of the real property improvements made and (2) 50% of the net sales tax revenues paid.

The second agreement is with Yellow Lilly, Inc., a development company. This tax abatement agreement began on March 22, 2022, and is set to expire in 2032. Pursuant to this agreement, Yellow Lilly, Inc. will demolish certain substandard structures located adjacent to North Mary Jo Drive and between Jamie Road and West Valley Road. Yellow Lilly Inc. further agrees to construct nineteen (19) duplexes of a minimum size of 1,2000 square feet, reconstruct Lynn Drive and a portion of Jamie Road, and construct three (3) LED cobra style streetlights on a pole on Lynn Drive. The final duplexes must remain under ownership of Yellow Lilly Inc., have a minimum appraised value of \$225,000 each, and be kept in good and sound condition. In exchange, the City agrees to (1) write off a demolition debt balance owed by the previous land owner of \$94,518.60 upon completion of the nineteen (19) duplexes, (2) pay an amount equal to \$23,641.40 as an economic development grant, and (3) pay a cumulative amount not to exceed \$150,000 over the next ten years equal to 50% of the increase in property tax revenue received by the City from the property.

The third agreement is with Chuy's OPCO, Inc., a restaurant. This tax abatement agreement began on January 24, 2023 and is set to expire in 2028. Pursuant to this agreement, Chuy's OPCO, Inc. constructed a Chuy's Tex-Mex restaurant not less than 5,000 square feet opening for business no later than December 31, 2023. Chuy's OPCO, Inc. further agrees to remain open for a period of at least five (5) years. In exchange, the City agrees to pay an amount not to exceed \$200,000 a year for a period of five (5) years in the amount of 50% of the net sales tax revenues.

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TABLE 1 – VALUATION, EXEMPTIONS AND AD VALOREM TAX DEBT

2023/24 Market Valuation Established by Bell County Appraisal District (excluding totally exempt property and exempt agricultural use value)	\$ 3,919,237,564
Less Exemptions/Reductions	<u>1,073,828,712</u>
2023/24 Taxable Assessed Valuation	\$ 2,845,408,852
Debt Payable from Ad Valorem Taxes (as of 4-1-24)	
General Obligation Debt ⁽¹⁾	\$ 35,760,000
The Certificates	<u>5,820,000</u> ⁽²⁾
Debt Payable from Ad Valorem Taxes	\$ 41,580,000
Less: Self-Supporting Debt ⁽³⁾	<u>(14,835,000)</u>
Net Debt Payable from Ad Valorem Taxes	\$ 26,745,000
Interest and Sinking Fund (as of 4-1-24)	\$ 45,610
Ratio of Net Tax Supported Debt to Taxable Assessed Valuation	0.94%

2024 Estimated Population - 35,440

Per Capita Taxable Assessed Valuation - \$80,288

Per Capita Net Debt Payable from Ad Valorem Taxes - \$755

(1) Excludes the Certificates.

(2) Preliminary, subject to change.

(3) Of the \$5,820,000 in Certificates, \$2,040,000 will be self-supported from operations of the City's drainage fund.

TABLE 2 – VALUATION AND AD VALOREM TAX DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End Of Year ⁽²⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2020	30,760	\$ 1,887,441,186	\$ 61,360	\$ 48,480,000	2.57%	\$ 1,576
2021	31,734	2,036,994,787	64,190	44,400,000	2.18%	1,399
2022	34,745	2,169,593,486	62,443	40,175,000	1.85%	1,156
2023	35,420	2,498,402,169	70,536	35,835,000	1.43%	1,012
2024	35,440	2,845,408,852	80,288	37,725,000 ⁽³⁾	1.33%	1,064

(1) Source: The City.

(2) Includes self-supporting debt.

(3) Projected; includes the Certificates. Preliminary, subject to change.

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2020	\$ 0.6770	\$ 0.5208	\$ 0.1562	\$ 12,532,000	98.43%	97.33%
2021	0.6770	0.5143	0.1627	13,680,000	98.18%	96.67%
2022	0.6519	0.5063	0.1456	14,054,000	98.06%	96.63%
2023	0.5800	0.4511	0.1289	14,399,000	97.74%	95.80%
2024	0.5250	0.4142	0.1108	14,796,800	93.23% ⁽¹⁾	93.26% ⁽¹⁾

(1) Partial collections as of February 29, 2024.

TABLE 4 – TEN LARGEST TAXPAYERS

Name of Taxpayer	2023/24 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
DRP Market Heights Property Owner LLC	\$ 68,299,998	2.40%
HH/Killeen Health System LLC	57,000,000	2.00%
Oncor Electric Delivery Co LLC	15,996,967	0.56%
HH/Killeen Health System LLC	14,500,000	0.51%
Lions Run Investments LLC	14,500,000	0.51%
Harker Heights IRF LLC	13,000,000	0.46%
Wal-Mart Real Estate Business Trust	12,729,147	0.45%
Boose Property Management LC	11,608,634	0.41%
HH/Killeen Health System LLC	10,973,803	0.39%
RAS Investments LLC	10,401,000	0.37%
	<u>\$ 229,009,549</u>	<u>8.05%</u>

TABLE 5 – TAX ADEQUACY⁽¹⁾

Average Annual Principal and Interest Requirements, 2024-2049	\$ 1,314,818
\$0.0477 Tax Rate at 97% Collection Produces	\$ 1,316,542
Maximum Principal and Interest Requirements, 2025	\$ 3,389,408
\$0.1229 Tax Rate at 97% Collection Produces	\$ 3,392,097

(1) Includes the Certificates and excludes the self-supporting debt. Preliminary, subject to change.

TABLE 6 – 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 debt ("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 bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	Total G.O. Tax Debt	Estimated % Applicable	City's Overlapping G.O. Tax Debt as of 3/31/2024
City of Harker Heights	\$ 26,745,000 ⁽¹⁾	100.00%	\$ 26,745,000
Killeen ISD	373,035,000	23.24%	86,693,334
Bell County	126,930,000	9.10%	11,550,630
Total Direct and Overlapping Net Funded Debt			\$ 124,988,964
Ratio of Direct and Overlapping Net Funded Debt to Taxable Assessed Valuation			4.39%
Per Capita Direct and Overlapping Net Funded Debt			\$ 3,527

(1) Includes the Certificates and excludes the self-supporting debt. Preliminary, subject to change.

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DEBT INFORMATION

TABLE 7 – PRO-FORMA AD VALOREM TAX DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Total Outstanding Debt			The Certificates ⁽¹⁾			Less:	Total Tax-
	Principal	Interest	Total	Principal	Interest	Total	System-Supported Debt Service	Supported Debt Service
2024	\$ 3,930,000	\$ 1,111,688	\$ 5,041,688	\$ -	\$ -	\$ -	\$ 1,923,442	\$ 3,118,246
2025	3,940,000	980,633	4,920,633	70,000	346,775	416,775	1,948,000	3,389,408
2026	3,975,000	855,936	4,830,936	130,000	287,500	417,500	1,959,446	3,288,990
2027	4,045,000	724,634	4,769,634	140,000	281,000	421,000	1,955,665	3,234,969
2028	3,200,000	590,804	3,790,804	145,000	274,000	419,000	1,644,808	2,564,996
2029	2,555,000	494,214	3,049,214	145,000	266,750	411,750	1,380,122	2,080,842
2030	2,200,000	425,716	2,625,716	155,000	259,500	414,500	955,088	2,085,128
2031	2,245,000	369,241	2,614,241	165,000	251,750	416,750	954,688	2,076,302
2032	1,645,000	311,504	1,956,504	170,000	243,500	413,500	763,654	1,606,350
2033	1,700,000	259,641	1,959,641	185,000	235,000	420,000	764,151	1,615,490
2034	1,755,000	205,994	1,960,994	190,000	225,750	415,750	758,899	1,617,845
2035	1,120,000	147,236	1,267,236	200,000	216,250	416,250	537,096	1,146,390
2036	1,150,000	114,251	1,264,251	210,000	206,250	416,250	538,351	1,142,150
2037	1,190,000	79,050	1,269,050	220,000	195,750	415,750	533,719	1,151,081
2038	785,000	39,956	824,956	230,000	184,750	414,750	463,138	776,569
2039	400,000	14,000	414,000	245,000	173,250	418,250	249,250	583,000
2040	-	-	-	255,000	161,000	416,000	146,500	269,500
2041	-	-	-	270,000	148,250	418,250	147,000	271,250
2042	-	-	-	285,000	134,750	419,750	147,250	272,500
2043	-	-	-	295,000	120,500	415,500	147,250	268,250
2044	-	-	-	310,000	105,750	415,750	147,000	268,750
2045	-	-	-	325,000	90,250	415,250	146,500	268,750
2046	-	-	-	345,000	74,000	419,000	145,750	273,250
2047	-	-	-	360,000	56,750	416,750	144,750	272,000
2048	-	-	-	375,000	38,750	413,750	143,500	270,250
2049	-	-	-	400,000	20,000	420,000	147,000	273,000
	<u>\$ 35,835,000</u>	<u>\$ 6,724,498</u>	<u>\$ 42,559,498</u>	<u>\$ 5,820,000</u>	<u>\$ 4,597,775</u>	<u>\$ 10,417,775</u>	<u>\$ 18,792,018</u>	<u>\$ 34,185,255</u>

(1) Interest on the Certificates has been calculated at an assumed rate for purposes of illustration. \$2,040,000 of the \$5,820,000 in Certificates is included in system-supported debt service. Preliminary, subject to change.

TABLE 8 – INTEREST AND SINKING FUND BUDGET PROJECTION

Debt Service Requirements, Fiscal Year Ending 9-30-24.....	\$ 3,118,246
Interest and Sinking Fund, 9-30-23.....	\$ 45,049
Interest and Sinking Fund Tax Levy @ 98% Collection.....	<u>3,089,654</u>
Estimated Balance, 9-30-24.....	<u>3,134,703</u>
	\$ 16,457

TABLE 9 – COMPUTATION OF SELF-SUPPORTING DRAINAGE SYSTEM DEBT

Net System Revenue from WW&SS Fund, Fiscal Year Ending 9-30-23	\$ 797,187
Less: Requirements for Drainage System-Supported Tax Bonds, Fiscal Year Ending 9-30-23	<u>328,719</u>
Balance	\$ 468,719

TABLE 10 – AUTHORIZED BUT UNISSUED UNLIMITED TAX BONDS – None.

ANTICIPATED ISSUANCE OF AD VALOREM TAX DEBT . . . The City does not anticipate the issuance of additional general obligation debt within the next twelve months.

OTHER OBLIGATIONS . . . The City has capital lease obligations totaling \$0 as of September 30, 2023.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (“TMRS”), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see “APPENDIX B – Excerpts from the City’s Annual Financial Report.”)

OTHER POST-EMPLOYMENT BENEFITS . . . The Governmental Accounting Standards Board released the Statement of General Accounting Standards No. 45 (“GASB 45”), Accounting by Employers for Other Post-Employment Benefits (“OPEB”), in June 2004. The City was required to implement GASB 45 for the fiscal year that began on October 1, 2008 and concluded on September 30, 2009.

GASB 45 sets forth standards for the measurement, recognition, and display of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Those subject to this pronouncement are required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and provide information useful in assessing potential demands on the employer’s future cash flows. The employer’s contributions to OPEB costs that are less than an actuarially determined annual required contribution will result in a net OPEB cost, which under GASB 45 will be required to be recorded as a liability in the employer’s financial statements. (For more detailed information concerning the retirement plan, see “APPENDIX B – Excerpts from the City’s Annual Financial Report”.)

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FINANCIAL INFORMATION

TABLE 11 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Years Ended September 30,				
	2023	2022	2021	2020	2019
<u>Revenues:</u>					
Taxes	\$ 23,436,969	\$ 22,903,729	\$ 22,824,865	\$ 18,781,670	\$ 17,811,920
Licenses	472,439	486,083	336,057	305,580	395,991
Fines	643,997	709,537	1,006,852	1,034,794	965,276
Interest and Gain on Investments	893,238	110,777	78,119	284,414	399,443
Charges for Services	1,275,334	1,184,388	986,482	810,512	1,058,337
Intergovernmental	235,947	127,187	613,311	1,542,839	928,710
Contributions	32,045	56,293	39,192	23,603	29,413
Miscellaneous	87,118	193,108	114,571	64,349	31,455
Total Revenues	<u>\$ 27,077,087</u>	<u>\$ 25,771,102</u>	<u>\$ 25,999,449</u>	<u>\$ 22,847,761</u>	<u>\$ 21,620,545</u>
<u>Expenditures:</u>					
General Government	\$ 4,225,113	\$ 3,916,739	\$ 4,398,245	\$ 3,943,304	\$ 3,798,617
Public Safety	14,604,063	13,555,335	13,056,011	12,827,314	12,203,813
Highways and Streets	1,327,574	1,288,576	1,390,215	1,311,432	1,453,041
Culture and Recreation	3,179,648	3,049,752	2,799,264	2,591,089	3,039,048
Economic Development	424,096	427,789	392,850	363,233	344,397
Debt Service	202,227	191,392	186,315	250,139	253,862
Total Expenditures	<u>\$ 23,962,721</u>	<u>\$ 22,429,583</u>	<u>\$ 22,222,900</u>	<u>\$ 21,286,511</u>	<u>\$ 21,092,778</u>
Excess (Deficiency) of Revenues Over Expenditures	\$ 3,114,366	\$ 3,341,519	\$ 3,776,549	\$ 1,561,250	\$ 527,767
Transfers from Enterprise Fund	\$ -	\$ -	\$ -	\$ -	\$ -
Other Transfers In	275,000	955,255	400,000	975,000	1,412,778
Budgeted Transfers Out	(3,550,000)	(4,177,919)	(500,000)	(150,000)	(1,525,000)
Capital Lease	-	18,412	421,000	-	-
Total Transfers	<u>\$ (3,275,000)</u>	<u>\$ (3,204,252)</u>	<u>\$ 321,000</u>	<u>\$ 825,000</u>	<u>\$ (112,222)</u>
Net Increase (Decrease)	\$ (160,634)	\$ 137,267	\$ 4,097,549	\$ 2,386,250	\$ 415,545
Beginning Fund Balance	<u>18,084,457</u>	<u>17,947,190</u>	<u>13,849,641</u>	<u>11,463,391</u>	<u>11,047,846</u>
Ending Fund Balance	<u>\$ 17,923,823</u>	<u>\$ 18,084,457</u>	<u>\$ 17,947,190</u>	<u>\$ 13,849,641</u>	<u>\$ 11,463,391</u>

Source: The audited financial statements and the City.

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TABLE 12 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1.0% 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 Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, which remits the proceeds of the tax after deduction of a 2% service fee to the City monthly.

The Tax Code provides certain cities and counties the option of assessing a maximum one-half percent (1/2%) sales 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 tax is approved and levied, the ad valorem property tax levy must be reduced by the estimated amount of the sales tax revenues to be generated in the current year.

Subject to the approval of a majority of the voters in a local option election, state law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues.

State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6¼%).

In addition to the one percent (1%) local sales and use tax referred to above, voters in the City have approved the imposition of an additional one-half percent (1/2%) sales and use tax for the purpose of reducing ad valorem taxes.

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2020	\$ 7,733,153	0.6171%	\$ 0.4097	\$ 251
2021	11,193,921	0.8183%	0.5495	353
2022	10,765,363	0.7660%	0.4962	310
2023	11,123,964	0.7726%	0.4452	314
2024 ⁽¹⁾	3,715,138	0.2511%	0.1306	105

(1) Partial collections as of January 31, 2024.

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DRAINAGE SYSTEM

Payment of the Certificates is secured both by City property taxes, and the surplus net revenues of the City's drainage utility system. The City may issue indebtedness secured by a lien on drainage utility system revenues which is superior to, on a parity with, or subordinate to the pledge of such revenues securing payment of the Certificates, at the sole option of the City.

TABLE 13 – DRAINAGE UTILITY SYSTEM CONDENSED STATEMENT OF OPERATIONS

	Fiscal Years Ended September 30,				
	2023	2022	2021	2020	2019
Revenues:					
Charges for Services	\$ 887,807	\$ 873,811	\$ 865,760	\$ 851,897	\$ 833,148
Other	-	918	1,839	2,044	-
Total	\$ 887,807	\$ 874,729	\$ 867,599	\$ 853,941	\$ 833,148
Expenses:					
Drainage Operations ⁽¹⁾	\$ 101,319	\$ 149,743	\$ 131,289	\$ 159,526	\$ 170,949
Total	\$ 101,319	\$ 149,743	\$ 131,289	\$ 159,526	\$ 170,949
Net Available for Debt Service ⁽²⁾	\$ 786,488	\$ 724,986	\$ 736,310	\$ 694,415	\$ 662,199

(1) Excludes depreciation expense. Includes contract payments.

(2) This amount is available for the City's debt service on its own obligations.

Drainage Fees:

<u>Non-Residential Properties</u>	<u>Fee Rate</u>	<u>Fee Unit</u>
Buildings up to 2,500 sq. ft.	\$ 7.20	Per Month
Buildings 2,501 to 10,000 sq. ft.	14.40	Per Month
Buildings 10,001 to 50,000 sq. ft.	28.80	Per Month
Buildings 50,001 to 100,000 sq. ft.	43.20	Per Month
Buildings 100,001 sq. ft. and over	60.00	Per Month
<u>Residential Properties</u>	<u>Fee Rate</u>	<u>Fee Unit</u>
One-Family Dwellings/Manufactured Homes	\$ 6.00	Per Month
Duplex	2.88	Per Month, Per Unit
Triplex	2.74	Per Month, Per Unit
Four Unit Dwelling	2.57	Per Month, Per Unit
Five Unit Dwelling	2.30	Per Month, Per Unit
Six Unit Dwelling	2.04	Per Month, Per Unit
Seven Unit Dwelling	1.78	Per Month, Per Unit
Eight Unit Dwelling	1.51	Per Month, Per Unit
Nine Unit Dwelling	2.04	Per Month, Per Unit

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INVESTMENTS

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

INVESTMENT AUTHORITY AND INVESTMENT PRACTICES OF THE CITY . . . Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas 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 is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") 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 FDIC or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA") (i) that are issued by or through an institution that has its main office or a branch office in the State of Texas and are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) 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 (1) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (2) a depository institution that has its main office or branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) 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); (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are secured by a combination of cash and/or obligations described in clause (1) above, (iii) requires the securities being purchased by the City or cash held by the City to be pledged to the City either directly or through a joint account (an account maintained by a custodian bank and established on behalf of two or more parties to engage in aggregate repurchase agreement transactions) approved by the City held in the City's name either directly or through a joint account approved by the City and deposited at the time the investment is made with the City or with a third party selected and approved by the City, (iv) are placed through a primary government securities dealer (as defined by the Federal Reserve) or a financial institution doing business in the State of Texas, and (v) collateralized in accordance with the City's investment policy; (10) 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; (11) 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; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share; (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is invested exclusively in obligations described in this paragraph, or has a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; and (14) local government investment pools organized in accordance with the Interlocal Cooperation Act (Chapter 791, Texas Government Code) as amended, whose assets consist exclusively of the obligations that are described above. A public funds investment pool must be continuously ranked no lower than "AAA," "AAA-m" or at an equivalent rating by at least one nationally recognized rating service. 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 below.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) 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 (6) above, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAAm" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940

(15 U.S.C. Section 80b-1 et seq.) or with the Texas Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

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

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

Under Texas 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 family relationships 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, (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City’s investment policy, (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (7) restrict the investment in no-load money market 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, (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, (9) provide specific investment training for the Treasurer, the chief financial officer (if not the Treasurer) and the investment officer, 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.

The City’s current investment policy is in compliance with the State law requirements described above.

TABLE 14 – CURRENT INVESTMENTS

As of February 29, 2024, the City’s investable funds were invested in the following categories:

<u>Description</u>	<u>Book Value</u>	<u>Percent</u>
Certificates of Deposit/IntraFi Network Deposits	\$ 8,346,348	18.97%
Cadence Bank/First National Bank – Checking	14,415,230	32.77%
LoneStar	1,246,748	2.83%
Texas Class	17,730,413	40.30%
TexSTAR	<u>2,255,811</u>	<u>5.13%</u>
Total	\$ 43,994,550	100.00%

As of such date, 100% of the City’s investment portfolio will mature within twelve months. The market value of the investment portfolio was approximately 100% of its purchase price.

TAX MATTERS

OPINION . . . On the date of initial delivery of the Certificates, Naman Howell Smith & Lee PLLC, Austin, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Certificates for federal income tax purposes will be excludable from the “gross income” of the owners thereof; and (2) the Certificates will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Certificates. See “APPENDIX C – FORM OF BOND COUNSEL’S OPINION.”

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

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

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

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

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

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

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

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

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

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

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

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

Interest on the Certificates may be includable in certain corporation's "adjusted financial statement income" determined under section 56A of the Code to calculate the alternative minimum tax imposed by section 55 of the Code.

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

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Certificates, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such 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 owner 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 owner holds the obligation bears to the number of days between the acquisition date and the final maturity date.

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

INFORMATION REPORTING AND BACKUP WITHHOLDING . . . Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Certificates will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to withholding under sections 1471 through 1474 or backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

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

QUALIFIED TAX-EXEMPT OBLIGATIONS . . . Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations such as the Certificates is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-

behalf of" and "subordinate" issuers) which issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Private activity bonds which are not "501(c)(3)" bonds do not count against this \$10,000,000 limit. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

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

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 Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to securities brokers and others who subscribe to receive the information from the vendors.

ANNUAL REPORTS . . . The City shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the City, financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 5, 7 and 10 through 14 and (2) if not provided as part such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in APPENDIX B hereto or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in the 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. 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 statements becomes available. 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 financial information and operating data pursuant to this section.

NOTICE OF CERTAIN EVENTS . . . The City will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The City will provide notice of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of Beneficial Owners of the Certificates, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the City (as defined by the Rule, which includes certain debt, debt-like, and debt related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. Neither the Certificates nor the Ordinance make any provision for debt service reserves, credit enhancement or a trustee.

"Financial Obligation" means (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "financial obligation" shall not include municipal securities as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

The City intends the words used in (i)(7) and (ii)(10) above and the definition of financial obligation in this Section to have the meanings as when they are used in the Rule, as evidenced by Securities and Exchange Commission Release No. 34-83885, dated August 20, 2018.

The City will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under “Annual Reports.”

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under “ANNUAL REPORTS” and “NOTICE OF CERTAIN EVENTS” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

Financial information and operating data to be provided as set forth above under the subcaption “ANNUAL REPORTS” may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB’s internet web site or filed with the SEC.

Should the Rule be amended to obligate the City to make filing with or provide notices to entities other than the MSRB, the City agrees to undertake such obligation with respect to the Certificates in accordance with the Rule as amended.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above.

The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The continuing disclosure agreement may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as amended, would have permitted an underwriter to purchase or sell Certificates in the primary offering of the Certificates in compliance with the Rule, taking into account any amendments or interpretation of the Rule since such offering as well as such changed circumstances and (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of an Ordinance that authorizes such an amendment) of the Outstanding Certificates consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the holders and beneficial owners of the Certificates. The City may also amend or repeal the provisions of the 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 Certificates in the primary offering of the Certificates. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “ANNUAL REPORTS” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR AGREEMENTS . . . During the past five years the City has complied in all material respects with its continuing disclosure agreements entered into pursuant to the Rule.

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LEGAL MATTERS

LEGAL OPINIONS . . . Issuance of the Certificates is subject to the approving legal opinion of the Attorney General of Texas to the effect that the initial certificates are valid and binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, and a pledge of surplus net revenues of the City's drainage utility system, upon all taxable property within the City. Issuance of the Certificates is also subject to the legal opinion of Naman Howell Smith & Lee PLLC ("Bond Counsel"), based upon examination of a transcript of the proceedings incident to authorization and issuance of the Certificates, to the effect that the Certificates are valid and binding obligations of the City payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's legal opinion will also address the matters described herein under "TAX MATTERS." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Certificates. In connection with the issuance of the Certificates, Bond Counsel has been engaged by, and only represents, the City. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates are based upon a percentage of Certificates actually issued, sold and delivered, and therefore, such fees are contingent upon the sale and delivery of the Certificates.

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

NO-LITIGATION CERTIFICATE . . . The City will furnish to the Purchaser a certificate, dated as of the date of delivery of the Certificates, executed by both the Mayor and City Manager of the City, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

NO MATERIAL ADVERSE CHANGE . . . The obligations of the Purchaser to take and pay for the Certificates, and of the City to deliver the Certificates, are subject to the condition that, up to the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition (financial or otherwise) of the City from that set forth or contemplated in the Official Statement.

CYBERSECURITY RISKS

The City, like other municipalities in the State, utilizes technology in conducting its operations. As a user of technology, the City potentially faces cybersecurity threats (e.g., hacking, phishing, viruses, malware and ransomware) on its technology systems. Accordingly, the City may be the target of a cyber-attack on its technology systems that could result in adverse consequences to the City. The City employs a multi-layered approach to combating cybersecurity threats. While the City deploys layered technologies and requires employees to receive cybersecurity training, as required by State law, among other efforts, cybersecurity breaches could cause material disruptions to the City's finances or operations. The costs of remedying such breaches or protecting against future cyber-attacks could be substantial. Further, cybersecurity breaches could expose the City to litigation and other legal risks, which could cause the City to incur other costs related to such legal claims or proceedings.

OTHER INFORMATION

RATING . . . The Certificates and the outstanding general obligation debt of the City have been rated "AA" by S&P Global Ratings ("S&P") without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The rating reflects only the respective views of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of any of such rating may have an adverse effect on the market price of the Certificates.

LITIGATION . . . The City is a defendant in various tort claims and lawsuits involving general liability, civil rights actions, and various contractual matters. In the opinion of the City's management and the City Attorney's office, the outcome of the pending litigation will not have a material adverse effect on the City's financial position or operations of the City.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE . . . The sale of the Certificates 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 Certificates have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification

of the Certificates under the securities laws of any jurisdiction in which the Certificates may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Certificates shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration 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 Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates 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 Certificates be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – RATING” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Certificates 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. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor’s fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. Specialized Public Finance Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and 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 Certificates, 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.

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City’s actual results could differ materially from those in such forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

INITIAL PURCHASER . . . After requesting competitive bids for the Certificates, the City accepted the bid of _____ (the “Purchaser”) to purchase the Certificates at the interest rates shown on page 2 of the Official Statement at a price of approximately _____% of par. The Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

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

The Ordinance authorizing the issuance of the Certificates 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 Certificates by the Purchaser.

UPDATING THE OFFICIAL STATEMENT DURING THE UNDERWRITING PERIOD . . . If, subsequent to the date of the Official Statement to and including the date the Purchaser of a series of Certificates is no longer required to provide and Official Statement to potential customers who request the same pursuant to Rule 15c2-12 of the federal Securities Exchange Act of 1934 (the “Rule”) (the earlier of (i) 90 days from the “end of the underwriting period” (as defined in the Rule) and (ii) the time when the Official Statement is available to any person from a nationally recognized repository but in no case less than 25 days after the “end of the underwriting period”), the City learns or is notified by the Purchaser of a series of Certificates of any adverse event which causes any of the key representations in the Official Statement to be materially misleading, the City will promptly prepare and supply to the Purchaser of a series of Certificates a supplement to the Official Statement which corrects such representation to the reasonable satisfaction of the Purchaser of a series of Certificates, unless the Purchaser of a series of Certificates elects to terminate its obligation to purchase the Certificates as described in the notice of sale accompanying this Official Statement. The obligation of the City to update or change the Official Statement will terminate when the City delivers the Certificates to the Purchaser of a series of Certificates (the “end of the underwriting period” within the meaning of the Rule), unless the Purchaser of a series of Certificates provides written notice the City that less than all of the Certificates have been sold to ultimate customers on or before such date, in which case the Certificate to update or change the Official Statement will extend for an additional period of time of 25 days after all of the Certificates have been sold to ultimate customers. In the event the Purchaser of a series of Certificates provides written notice to the City that less than all of the Certificates have been sold to ultimate customers, the Purchaser of a series of Certificates agrees to notify the City in writing following the occurrence of the “end of the underwriting period” as defined in the Rule.

CERTIFICATION AS TO OFFICIAL STATEMENT . . . The City, acting by and through its City Council in its official capacity hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the City and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading. The information, description and statements concerning entities other than the City, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the City has made no independent investigation or verification of such matters and makes no representation as to the accuracy or completeness thereof. Except as set forth in “CONTINUING DISCLOSURE OF INFORMATION” herein, the City has no obligation to disclose any changes in the affairs of the City and other matters described in this Official Statement subsequent to the “end of the underwriting period” which shall end when the City delivers the Certificates to the Purchaser of a series of Certificates at closing, unless extended by the Purchaser. All information with respect to the resale of the Certificates subsequent to the “end of the underwriting period” is the responsibility of the Purchaser.

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

Mayor
City of Harker Heights, Texas

ATTEST:

City Secretary
City of Harker Heights, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

LOCATION

The City of Harker Heights is located in Bell County (the “County”) on U.S. Highway 190, approximately twelve miles west of Interstate 35, between the cities of Belton and Killeen.

BELL COUNTY

With a population of over 320,000, Bell County is the site of Fort Cavazos and four major clinics with nearly 360 doctors of many specialties. One of the four clinics is the 1,193 bed Veterans Administration Center operated by the federal government. A medical school began in 1976 at the VA Center connection with Texas A&M University and Baylor College of Medicine.

The County’s economy is centered on manufacturing, agricultural and railroad related industries. The major employer of the county is Fort Cavazos, a federal military base located adjacent to Killeen and a short distance west of Belton. The base is the largest military facility in the world, covering 214,351 acres.

LABOR MARKET PROFILE

	Bell County	
	March 2024	March 2023
Total Civilian Labor Force	153,002	150,988
Total Employment	146,081	143,720
Total Unemployment	6,921	7,268
Percent Unemployed	4.5%	4.8%

	State of Texas	
	March 2024	March 2023
Total Civilian Labor Force	15,276,869	15,058,520
Total Employment	14,653,971	14,453,735
Total Unemployment	622,898	604,785
Percent Unemployed	4.1%	4.0%

TEN LARGEST EMPLOYERS

Name of Employer	Number of Employees
Killeen Independent School District	773
Seton Healthcare	537
Wal-Mart Supercenter	530
HEB Store	330
City of Harker Heights	221
Indian Oaks	186
Target	155
Cheddar’s Restaurant	140
Bass Electric	135
Cracker Barrel	101

Source: City of Harker Heights

MILITARY FACILITIES – FORT CAVAZOS

Established in 1942, Fort Cavazos is the largest armored military installation in the free world and is home to the III Mobile Armored Corps. Fort Cavazos’s southwest boundary is bordered by the City of Copperas Cove, its southeast boundary is bordered by the City of Killeen, and it is bordered to the north by the City of Gatesville. A 35 square mile installation (214,351 acres), Fort Cavazos is the only post in the United States capable of stationing and training two Armored Divisions. The rolling, semiarid terrain is ideal for multifaceted training and testing of military units and individuals. Fort Cavazos is “The Army’s Premier Installation to train and deploy heavy forces.” Fort Cavazos is the largest single location employer in the State of Texas.

In addition to the 1st Cavalry Division and 4th Infantry Division, Fort Cavazos is also residence for Headquarters Command III Corps, 3d Signal Brigade, 3d Air Support Operations Group, 13th Support Command (Expeditionary), 13th Finance Group, 21st CAV Brigade (Air Combat), 89th Military Police Brigade, 504th BfSB, the Dental Activity (DENTAC), the Medical Support Activity (MEDDAC), U.S. Army Operational Test Command (USAOTC), and various other units and tenant organizations.

Fort Cavazos was named for the famous Confederate Gen. John Bell Hood, an outstanding leader who gained recognition during the Civil War as the commander of Hood's Texas Brigade.

The original site was selected in 1941, and construction of South Camp Hood began in 1942. North Camp Hood, located 17 miles to the north, was established shortly after the first land acquisition and the founding of the cantonment area. South Camp Hood was designated as Fort Cavazos, a permanent installation, in 1951. North Camp Hood became North Fort Cavazos and what is now West Fort Cavazos was formerly a U.S. Air Force Base. Both the airfield and the base were run by the U.S. Air Force from 1947 to 1952. From 1952 to 1969, the facilities were run by the U.S. Army under the Defense Atomic Support Agency. It became part of Fort Cavazos in 1969. Selected post statistics are provided below:

Population served	218,003
Active Duty (Officer)	4,733
Active Duty (Enlisted)	39,262
Family Members - On Post	60,918
Family Members - Off Post	13,376
Retirees, Survivors & Family Members	89,805
Civilian/NAF/Other Employees	8,909

APPENDIX B

EXCERPTS FROM THE CITY OF HARKER HEIGHTS, TEXAS ANNUAL FINANCIAL REPORT For the Year Ended September 30, 2023

The information contained in this APPENDIX consists of excerpts from the City of Harker Heights, Texas Annual Financial Report for the Year Ended September 30, 2023, 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.



INDEPENDENT AUDITOR'S REPORT

Honorable Mayor
and Members of City Council
City of Harker Heights, Texas

Report on the Audit of the Financial Statements

Opinions

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 Harker Heights, Texas, as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise City's basic financial statements as listed in the table of contents.

In our opinion, the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Harker Heights, Texas as of September 30, 2023, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the City of Harker Heights, Texas and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Emphasis of Matter - Change of Accounting Principle

As discussed in the notes to the financial statements, in the year ending September 30, 2023, the City of Harker Heights, Texas adopted new accounting guidance, Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription Based IT Arrangements*. Our opinions are not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Harker Heights's ability to continue as a going concern for one year after the date that the financial statements are issued.

OFFICE LOCATIONS

TEXAS | Waco | Temple | Hillsboro | Houston
NEW MEXICO | Albuquerque

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of City of Harker Heights's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about City of Harker Heights's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Harker Heights, Texas' basic financial statements. The combining and individual fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplementary 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 supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information Included in the Annual Comprehensive Financial Report

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 26, 2023 on our consideration of City of Harker Heights's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Harker Heights's internal control over financial reporting and compliance.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
March 26, 2024



As management of the City of Harker Heights, Texas, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Harker Heights for the fiscal year ended September 30, 2023. We encourage readers to consider the information presented here in conjunction with the accompanying transmittal letter and basic financial statements.

Financial Highlights

- The assets and deferred outflows of the City of Harker Heights exceeded its liabilities and deferred inflows at the close of the fiscal year ending September 30, 2023, by \$112,076,820 (*net position*). Of this amount, \$1,262,894 is restricted and \$21,054,529 is unrestricted revenues.
- The City's total net position increased by \$9,423,935 for the year ended September 30, 2023. There was a \$104,115 increase in current assets which includes cash, investments, and receivables. Capital assets also increased by \$4,468,863.
- As of September 30, 2023, the City of Harker Heights' governmental funds reported combined ending fund balances of \$24,399,083 million, a decrease of \$663,045 in comparison with the prior year. Of the governmental fund's reported combined fund balances, \$14,438,516 or 59 percent is available for spending within the City's guidelines (*unassigned fund balance*).
- In fiscal year 2006, the City Council approved reserve requirements of a minimum of three months operating expenses in the General Fund providing for strong budgetary flexibility and strong budgetary performance. The General Fund's \$14,438,516 unassigned fund balance equates to seven months of operating expenses. This additional savings assists the city in utilizing these reserves to fund capital projects and fixed asset purchases as the Utility Fund takes on the \$15,000,000 purchase for the 2.0 million gallon a day wastewater disposal contract.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Harker Heights' basic financial statements. The City of Harker Heights' basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements.

This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net position* presents information on all of the City of Harker Heights' assets and liabilities 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 of Harker Heights 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 flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Harker Heights that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City of Harker Heights include general government, public safety, highways and streets, economic development, and culture and recreation. The business-type activities of the City of Harker Heights include a Water and Sewer Fund, Sanitation Fund, and Drainage Utility Fund.

The government-wide financial statements can be found on pages 24-26 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Harker Heights, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All the funds of the City of Harker Heights can be divided into two categories: governmental and proprietary funds.

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by State law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds – governmental and proprietary – utilize different accounting approaches.

Governmental funds. The majority of the City's basic services are reported in governmental funds, which focuses on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. By comparing information presented for governmental funds with similar information presented for governmental activities in the government-wide statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships or differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds are detailed in a reconciliation following the fund financial statements.

Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General Fund, Debt Service Fund and Capital Projects Fund, all of which are considered to be major funds. Data from the other three governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

The City of Harker Heights adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 27-32 of this report.

Proprietary funds. The City of Harker Heights maintains one type of proprietary fund. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements.

The City charges customers for the services it provides, whether to outside customers or to other units within the City. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Position and the Statement of Activities. In fact, the City's enterprise funds (a component of proprietary funds) are identical to the business-type activities that are reported in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

The City of Harker Heights maintains three individual enterprise funds: water and sewer, sanitation, and drainage utility. These funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer, sanitation, and drainage utility.

The basic proprietary fund financial statements can be found on pages 33-37 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 38-72 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Harker Heights' progress in funding its obligation to provide pension benefits to its employees and to provide other postemployment benefits for its employees. Required supplementary information can be found on pages 77-89 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on pensions and other postemployment benefits.

Combining and individual fund statements and schedules can be found on pages 90-94 of this report.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Harker Heights, assets and deferred outflows exceeded liabilities and deferred inflows by \$102.7 million at the close of the most recent fiscal year.

Table 1
Condensed Statement of Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Assets						
Current and other assets	\$ 31,455	\$ 33,661	\$ 10,119	\$ 7,808	\$ 41,574	\$ 41,469
Capital assets	72,220	68,760	51,751	50,742	123,971	119,502
Total assets	103,675	102,421	61,870	58,550	165,545	160,971
Deferred outflows of resources	6,363	2,545	565	374	6,928	2,919
Liabilities						
Other liabilities	6,071	7,754	469	455	6,540	8,209
Long-term liabilities	39,150	33,244	14,084	15,658	53,234	48,902
Total liabilities	45,221	40,998	14,553	16,113	59,774	57,111
Deferred inflows of resources	565	3,803	57	323	622	4,126
Net position:						
Invested in capital assets	50,903	45,819	38,856	35,829	89,759	81,648
Restricted	1,232	1,506	31	29	1,263	1,535
Unrestricted	12,117	12,840	8,938	6,630	21,055	19,470
Total net position	\$ 64,252	\$ 60,165	\$ 47,825	\$ 42,488	\$ 112,077	\$ 102,653

A portion of the City of Harker Heights' net position (1 percent) represents resources that are subject to external restrictions on how they may be used.

An additional portion of the City of Harker Heights' net position (80 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding. The City of Harker Heights uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Harker Heights' investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities.

Total net position for the City of Harker Heights reflects a \$9.4 million increase. Key elements of this increase are as follows:

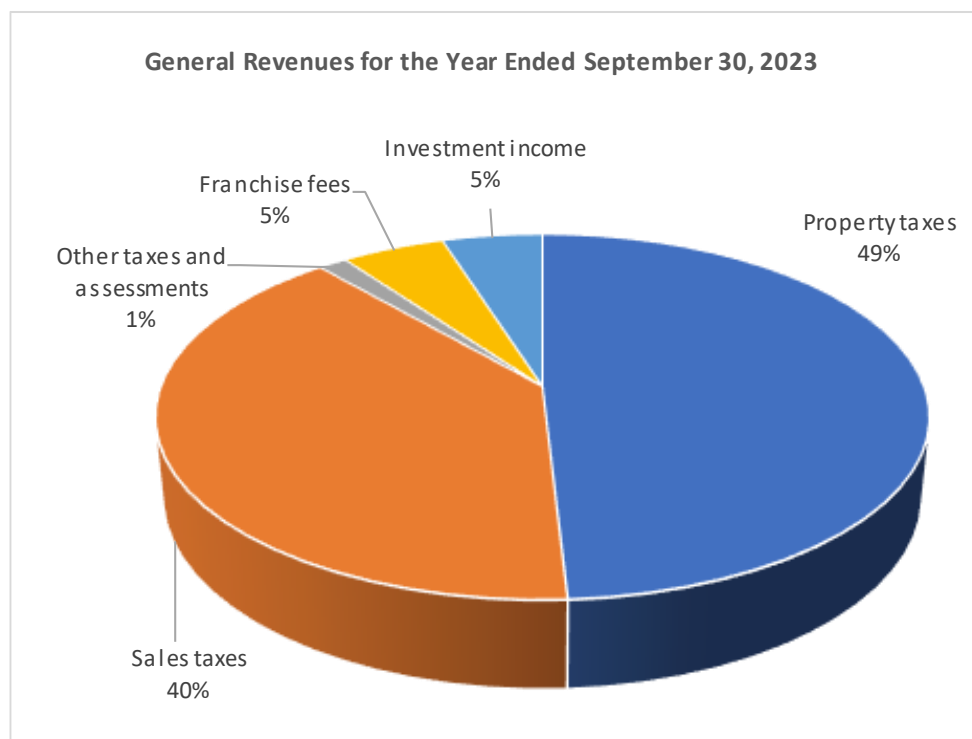
Table 2
Changes in Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Revenues:						
Program revenues:						
Charges for services	\$ 2,496	\$ 2,477	\$ 15,007	\$ 14,829	\$ 17,503	\$ 17,306
Operating grants and contributions	399	67			399	67
Capital grants and contributions	2,660	3,115			2,660	3,115
General revenues:						
Property taxes	13,838	13,580			13,838	13,580
Sales taxes	11,124	10,765			11,124	10,765
Other taxes	266	307			266	307
Franchise fees	1,428	1,415	220	194	1,648	1,609
Investment earnings	1,386	173	240	14	1,626	187
Miscellaneous	131	194	3		134	194
Gain on sale of assets						
Total revenues	33,728	32,093	15,470	15,037	49,198	47,130
Expenses:						
General government	5,058	4,106			5,058	4,106
Public safety	15,874	13,780			15,874	13,780
Highways and streets	2,387	2,204			2,387	2,204
Culture and recreation	3,718	3,410			3,718	3,410
Economic development	469	412			469	412
Interest on long-term debt	771	844			771	844
Water and sewer			8,708	8,018	8,708	8,018
Sanitation			2,467	2,272	2,467	2,272
Drainage			322	375	322	375
Total expenses	28,277	24,756	11,497	10,665	39,774	35,421
Increase (decrease) in net position before transfers	5,451	7,337	3,973	4,372	9,424	11,709
Transfers	(1,364)	(933)	1,364	933		
Increase (decrease) in net position	4,087	6,404	5,337	5,305	9,424	11,709
Net position - beginning	60,165	53,761	42,488	37,183	102,653	90,944
Net position - ending	\$ 64,252	\$ 60,165	\$ 47,825	\$ 42,488	\$ 112,077	\$ 102,653

Governmental activities. The City's general revenues increased when compared to the prior year by \$1,739,466. This increase can be attributed to strong economic growth with the major increase, as shown in Table 3 below, in investment income of \$1,213,086. Other taxes and assessments saw a decrease as a whole and consists of mixed beverage taxes, bingo taxes, hotel/motel taxes, and miscellaneous revenue.

Table 3
General Revenues Comparison
(in thousands)

	Fiscal Year 2023	Fiscal Year 2022	Increase (Decrease)
Governmental activities:			
Property taxes	\$ 13,838	\$ 13,580	\$ 258
Sales taxes	11,124	10,765	\$ 359
Other taxes and assessments	397	501	\$ (104)
Franchise fees	1,428	1,415	\$ 13
Investment income	1,386	173	\$ 1,213
Total governmental activities	<u>\$ 28,173</u>	<u>\$ 26,434</u>	<u>\$ 1,739</u>

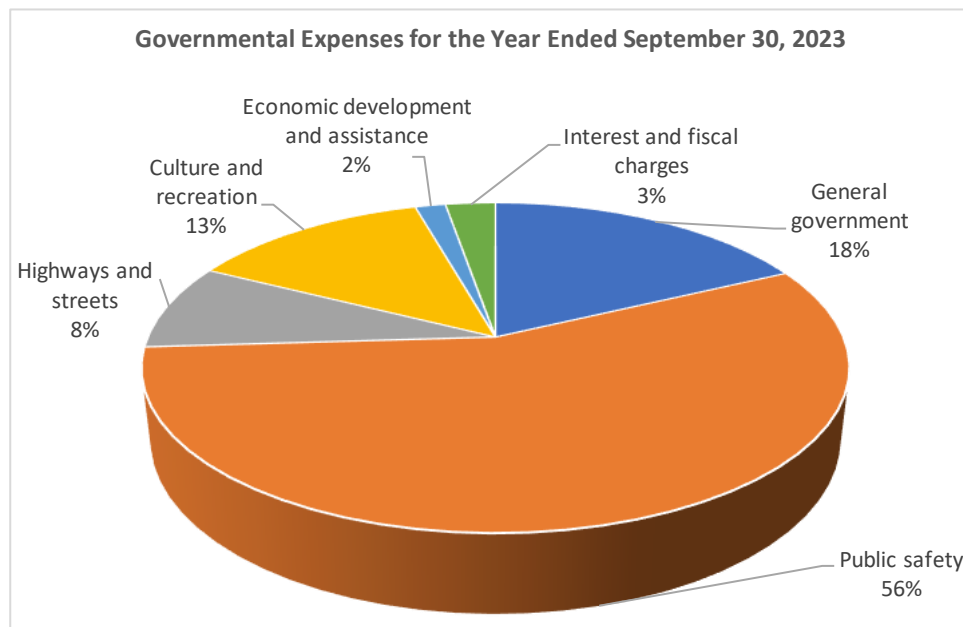


The most significant governmental expense for the City was in providing for public safety, which incurred expenses of \$15,874,227. These expenses were offset by revenues collected from a variety of sources, with the largest consisting of property taxes which are \$13,838,167, sales tax revenues of \$11,123,964, and franchise fees of \$1,427,938 for the fiscal year ended September 30, 2023. The major components of public safety are Police and Fire/Emergency Medical Services (EMS).

The City's general expenses increased by \$3,521,112 when compared to the prior year. The \$2,094,199 increase in public safety was due to the payment of the Aerial Platform Fire Apparatus (\$1,342,084) in the fire department and other fixed assets amounting to \$136,590. The police department purchased and outfitted three patrol vehicles at a cost of \$249,113. The police department also received reimbursement grants during the 2023 fiscal year and purchased license plate readers and equipment (\$60,708) and helmets and gas masks (\$54,270),

Table 4
Governmental Expenses by Activity
(in thousands)

	Fiscal Year 2023	Fiscal Year 2022	Increase (Decrease)
Governmental activities:			
General government	\$ 5,058	\$ 4,106	\$ 952
Public safety	15,874	13,780	\$ 2,094
Highways and streets	2,387	2,204	\$ 183
Culture and recreation	3,718	3,410	\$ 308
Economic development and assistance	469	412	\$ 57
Interest and fiscal charges	771	844	\$ (73)
Total governmental activities	<u>\$ 28,277</u>	<u>\$ 24,756</u>	<u>\$ 3,521</u>

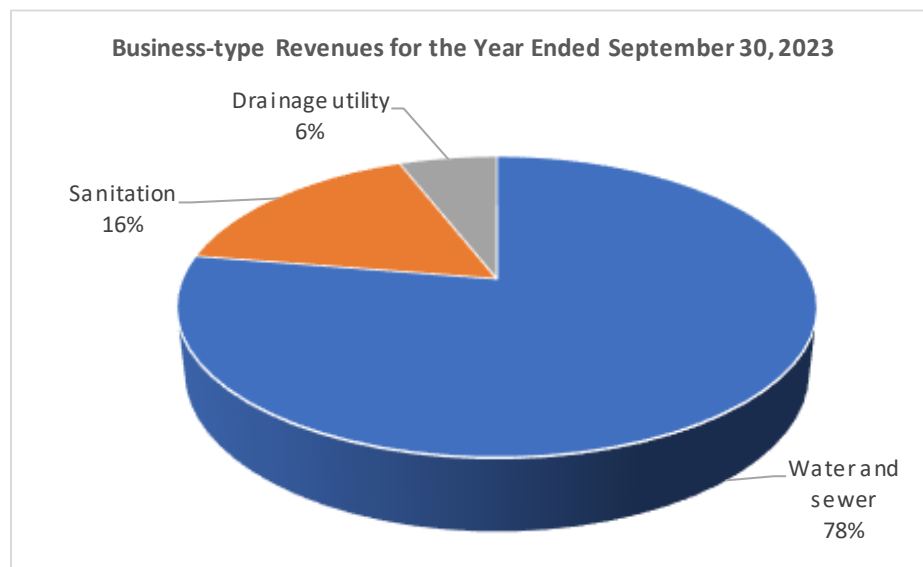


Business-type activities. Business-type activities increased the City of Harker Heights' net position by \$5,337,504. Revenues of the City's business-type activities were \$15,006,833 million for the fiscal year ended September 30, 2023.

Water and sewer rates were not increased for the 2023 fiscal year. Due to growth in the City, there was an increase in water and sewer income of \$69,027 over the prior year. Sanitation revenues saw an increase of \$95,525 with no rate increase for residential garbage pickup and no change to the \$1 monthly drop site fee charged to residential customers. Drainage utility income saw an increase of \$13,078 and there was no rate increase in this flat monthly fee.

Table 5
Business-type Revenues Comparison
(in thousands)

	Fiscal Year 2023	Fiscal Year 2022	Increase (Decrease)
Business-type activities:			
Water and sewer	\$ 11,642	\$ 11,573	\$ 69
Sanitation	2,477	2,381	96
Drainage utility	888	875	13
Total business-type activities	\$ 15,007	\$ 14,829	\$ 178

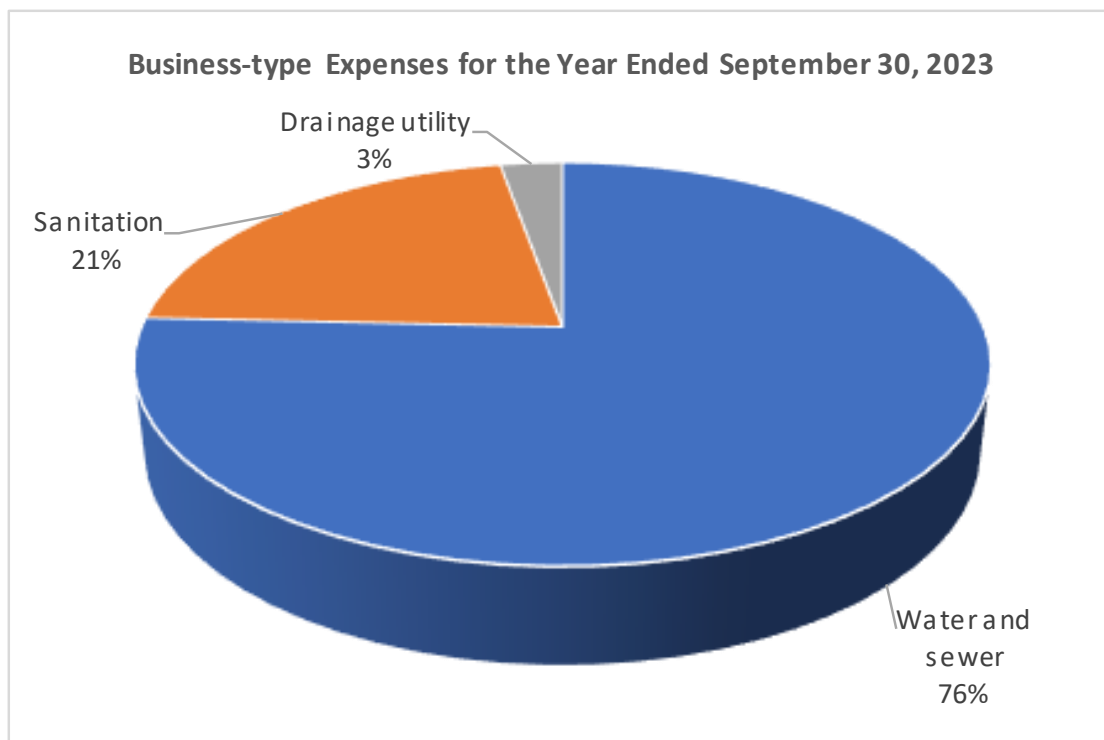


Expenses for the City's business-type activities were \$11,497,034 for the year, resulting in net revenues of \$3,509,799 million and an increase in net position of \$5,337,504 million. The changes in net position are the result of several factors, including the following:

- In the water and sewer system, the City recorded charges for services of \$11,642,438. The most significant expenses were \$3,614,933 for water purchases, \$1,359,042 in salaries and benefits, and \$806,818 for contractual services throughout the city.
- Sanitation services are contracted out to Waste Management of Texas, Inc. Total revenues taken in by the City for sanitation services equaled \$2,475,870 and the major expense for sanitation is \$2,367,515 in contractual services. An additional expense is the operation of the City's Recycling Drop Center to include personnel, materials, and utilities.
- Drainage utility revenues totaled \$887,807 in charges for services. The major operating expenses in this fund are personnel, repairs and maintenance, and professional fees.

Table 6
Business-type Expenses by Activity
(in thousands)

	Fiscal Year 2023	Fiscal Year 2022	Increase (Decrease)
Business-type activities:			
Water and sewer	\$ 8,708	\$ 8,018	\$ 690
Sanitation	2,467	2,272	195
Drainage utility	322	375	(53)
Total business-type activities	<u>\$ 11,497</u>	<u>\$ 10,665</u>	<u>\$ 832</u>



Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the City of Harker Heights' *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 discretionary use as they represent the portion of fund balance which has not yet been limited or restricted to use for a particular purpose.

As of September 30, 2023, the City of Harker Heights' governmental funds reported combined fund balances of \$24,399,083, a decrease of \$663,045 in comparison with the prior year. Approximately 59 percent or \$14,438,516 constitutes *unassigned fund balance*, which is available for spending at the government's discretion. \$6,222,126 is assigned for a specific purpose (\$2,830,586 to capital projects, \$515,040 to culture and recreation, and \$2,876,500 million for the FY 2024 Budget). The remainder of the fund balance is *restricted* indicating that it is not available for spending because it has already been restricted for (a) capital projects (\$2,506,782); (b) cemetery (\$19,981); (c) debt service (\$45,049); (d) economic development (\$651,227); (e) general government (\$35,844); (f) pet adoption center (\$34,021); and (g) public safety (\$215,144).

General fund. The general fund is the chief operating fund of the City of Harker Heights. At the end of the 2023 fiscal year, unassigned fund balance of the general fund was \$14,438,516, while total fund balance reached \$17,923,823. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 60 percent of total general fund expenditures, while total fund balance represents 75 percent of that same amount.

Debt service fund. The debt service fund has a total fund balance of \$45,049, all of which is restricted for the payment of debt service. Most receipts from taxes is received during the first quarter of the fiscal year (October – December) and debt payments are made in February and August.

Capital projects fund. The capital projects fund balance is \$5,337,368 of which \$2,506,782 is restricted for capital projects funded by bonds and \$2,830,586 is assigned for capital projects that are funded from non-bond revenue. The fund balance decreased by \$180,317 from the previous year due to the kickstart (expenditures) of several projects after having a stall. During the 2023 fiscal year, the City had \$3,741,284 million in capital project expenditures which were for streets (\$3,275,803), buildings (\$67,974) and parks (\$397,507) projects.

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

As of the end of the most recent fiscal year, the City of Harker Heights' proprietary funds reported combined net position of \$47,825,238, an increase of \$5,337,504 million or 13 percent over the prior year. Unrestricted net position totals \$8,938,146 and restricted net position totals \$31,235. A total of \$38,855,857 of net position is net investment in capital assets.

Water and sewer fund. At the end of the 2023 fiscal year, unrestricted net position for the water and sewer fund was \$6,225,765, restricted net position was \$22,664 while total net position was \$42,054,651. Total net position for the water and sewer fund increased by \$4,650,328 million during the current fiscal year.

Sanitation fund. The sanitation fund has a total net position of \$383,332, an increase of \$171,308 from the prior year. Current assets, which include cash and investments, increased by \$165,681 from the prior year.

Drainage utility fund. The drainage utility fund shows a total net position of \$5,387,255. Total liabilities in the drainage utility fund total \$4,117,356 and include due to other funds (\$871,590), accrued compensated absences (\$6,168), accrued interest payable (\$12,340), certificates of obligation (\$3,091,725), net pension liability (\$127,770), and other post-employment benefits (\$7,763).

General Fund Budgetary Highlights

Original budget compared to final budget. During Fiscal Year 2023, there was no need for any significant amendments to the original budgeted revenues or budgeted expenditures/expenses.

Final budget compared to actual results. For the 2023 fiscal year, actual revenues were \$27.1 million as compared to the budget amount of \$25.9 million. The \$1.2 million positive variance was due, in part, to the difference between the budgeted and actual amount in interest income of \$853,238 with interest rates continuing to increase during the fiscal year. The 2024 fiscal year budget was planned with these higher rates in mind and future forecasts were adjusted to accommodate. Additionally, the budgeted and actual amount in sales tax had a variance of \$432,164. Sales tax revenue is hard to predict, and each year's trend is considered for future forecasts.

Actual expenditures in the General Fund were \$24.0 million compared to the final budget amount of \$24.8 million. The \$850,779 under budget resulted from a net decrease in the public safety (\$330,337), general government (\$231,287), culture and recreation (\$214,952), and highways and streets (\$184,526) categories.

The City of Harker Heights has an actual General Fund ending fund balance of \$17.9 million as of the fiscal year end, compared to the final budgeted fund balance amount of \$15.5 million. The variance in fund balance is primarily due to the items stated above along with transfers in/out.

Capital Asset and Debt Administration

Capital Assets. The City of Harker Heights' investment in capital assets for its governmental and business-type activities as of September 30, 2023, amounts to \$123,971,367 (net of accumulated depreciation). This investment in capital assets includes land, buildings and lift stations, machinery and equipment, right-to-use assets, subscription-based IT assets (SBITAs), park facilities, vehicles, furniture and fixtures, streets, and infrastructure. The City's investment in capital assets for the current fiscal year saw a 5 percent increase for governmental activities and a 2 percent increase for business-type activities.

Table 7
Capital Assets
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Capital assets:						
Land	\$ 15,743	\$ 15,743	\$ 292	\$ 292	\$ 16,035	\$ 16,035
Buildings and lift stations	11,093	12,177	1,230	1,309	12,323	13,486
Improvements other than buildings	141	153			141	153
Machinery and equipment	2,023	1,579	825	1,004	2,848	2,583
Right-to-use assets	9	14			9	14
SBITAs	286	15			286	15
Vehicles	2,810	1,337	156	112	2,966	1,449
Furniture and fixtures	101	68			101	68
Infrastructure	39,468	34,694	43,849	44,822	83,317	79,516
Construction in progress	546	2,980	5,399	3,203	5,945	6,183
Total capital assets	\$ 72,220	\$ 68,760	\$ 51,751	\$ 50,742	\$ 123,971	\$ 119,502

Major capital asset events during the fiscal year included:

Governmental activities. Capital assets increased by \$3,459,699 for governmental activities. The largest increases were seen in the following:

- Infrastructure saw an increase of \$4.8 million to include the completion of the 2021 Street Improvements (\$3.7 million) and the 2022 Street Improvements (\$931,878); and
- Vehicles increased by \$1.5 million which includes the purchase of an Aerial Platform Fire Apparatus.

Business-type activities. The amount of increase in capital assets for business-type activities was \$1,009,209. There were only two categories that had an increase during the 2023 fiscal year:

- Vehicles increase of \$43,954 which consists of the purchase of a pickup truck (\$102,059); and the
- Construction in progress increase of \$2.2 million that includes expenses for Rummel Road Lift Station (\$772,498), Beeline Drive Sewer Replacement (\$290,992), Second Belt Press at the Sludge Dewatering Building (\$179,035), Fuller Lane/Tye Valley Culvert Replacement (\$166,151), and Preswick Drive/Cedar Oaks Channel Improvements (\$164,318).

Additional information on the City of Harker Heights' capital assets can be found in Note III. C on pages 51-52 of this report.

Long-term debt. In February 2012, the City was assigned a long-term rating of "AA" by Standard & Poor's Rating Service. This rating was raised from the "AA-" rating received in 2009. In 2019, Standard & Poor's considered the City's economy to be adequate with strong city management. The rating reflects how the City's budgetary flexibility remains very strong and the budgetary performance has been strong overall. In their opinion, the City has very strong liquidity providing very strong cash levels to cover debt service and expenditures as well as good management with good financial policies. The City maintains an "A2" rating from Moody's Investors Service for tax supported debt. The City also has several outstanding issues which are rated "Aaa" by Moodys and "AAA" by Standard & Poor's by virtue of insurance policies issued by various commercial insurance companies.

Table 8
Outstanding Debt
(in thousands)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2023	2022	2023	2022	2023	2022
Outstanding debt:						
Certificates of obligation	\$ 16,275	\$ 17,315	\$ 7,730	\$ 8,420	\$ 24,005	\$ 25,735
General obligation	6,765	8,071	5,065	6,369	11,830	14,440
Premium on bonds	209	282	247	307	456	589
Discount on bonds	(16)	(19)	(8)	(9)	(24)	(28)
Finance purchase agreement	162	243			162	243
Leases	9	13			9	13
SBITAs	318				318	
Compensated absences	908	870	48	40	956	910
Total outstanding debt	\$ 24,630	\$ 26,775	\$ 13,082	\$ 15,127	\$ 37,712	\$ 41,902

The constitutional debt limit is 7 percent of the five-year average full valuation of taxable real property. The current debt limitation for the City of Harker Heights is \$187,266,392 which is \$164,078,420 more than the City's outstanding indebtedness of \$23,187,972 for governmental activities.

Additional information on the City of Harker Heights' long-term debt can be found in Note III. G. on pages 65-70 of this report.

Economic Factors and Next Year's Budgets and Rates

Economic Factors. The following economic factors currently affect the City of Harker Heights and were considered in developing the 2024 fiscal year budget:

- Unofficial numbers for the 2023 annual unemployment rate show Harker Heights at 4.5%.
- Increase in disabled veteran's property tax exemptions.
- Rising property valuations and how that affects residents.
- Interest rates continue to rise and/or remain high.
- Health insurance premiums and ways to save the City and its employees money.

Next Year's Budget. The largest revenue sources for the City of Harker Heights include property tax, sales tax, water income and sewer income.

The property tax rate for the 2024 fiscal year budget is \$0.5250 per \$100 valuation. Of this tax rate, 78.9 percent or \$0.4142 is utilized for maintenance and operations (General Fund). The remaining 21.1 percent or \$0.1108 is used for interest and sinking (Debt Service Fund). The General Fund's portion of property tax revenue is estimated to be \$11,653,700 while the Debt Service Fund's portion is estimated at \$3,117,400 million.

Sales tax revenue (General Fund) for FY 2023-2024 is budgeted at \$11,580,300.

The largest revenue source for the water and sewer fund is water income which is budgeted at \$7,256,400 for the 2024 fiscal year. Sewer income, the second largest revenue source, is budgeted at \$4,665,000.

Next Year's Rates. Water and sewer rates were increased by 7 percent for the 2024 fiscal year. The water rate is \$12.03 as a base rate and \$3.75 per 1,000 gallons used. Sewer rates are a base rate of \$21.67 (and include usage up to 3,000 gallons) plus \$3.63 per 1,000 gallons over 3,000 gallons of usage. Sewer "per 1,000 gallons" charges cap at 10,000 gallons for residential customers.

Sanitation fees for residential and light commercial pickup are \$19.45 per month, a 3 percent rate increase was implemented during the 2023 fiscal year due to a request made by our solid waste provider, Waste Management. In March 2021, the City's sanitation contractor began utilizing polycarts and an automated pickup system versus hand pickup.

The \$1 drop site fee is a flat fee that remains unchanged for FY 2024.

The drainage utility fee remains at \$6.00 per single family dwelling per month.

Requests for Information

This financial report is designed to provide a general overview of the City of Harker Heights' 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 City of Harker Heights, Finance Director, 305 Miller's Crossing, Harker Heights, Texas, 76548.



CITY OF HARKER HEIGHTS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
ASSETS			
Cash	\$ 4,321,017	\$ 3,636,043	\$ 7,957,060
Investments	18,607,484	3,570,632	22,178,116
Receivables (net of allowance for uncollectibles):			
Property taxes	143,403		143,403
Accounts	27,311	1,736,972	1,764,283
Ambulance	439,310		439,310
Court fines	639,398		639,398
Intergovernmental	77,671		77,671
Sales tax	1,893,599		1,893,599
Interest	12,920		12,920
Internal balances	(469,969)	469,969	
Inventory of supplies, first-in, first-out cost		106,064	106,064
Restricted cash	2,534,776	421,376	2,956,152
Restricted investments	3,227,826	177,465	3,405,291
Capital assets, not being depreciated	16,288,957	5,691,659	21,980,616
Capital assets, being depreciated	55,930,922	46,059,829	101,990,751
Total assets	<u>103,674,625</u>	<u>61,870,009</u>	<u>165,544,634</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Related to refunding debt	69,702	138,096	207,798
Related to pensions	6,112,302	408,877	6,521,179
Related to OPEB - supplemental death benefits	110,996	9,127	120,123
Related to OPEB - health	69,862	8,951	78,813
Total deferred outflows of resources	<u>6,362,862</u>	<u>565,051</u>	<u>6,927,913</u>
LIABILITIES			
Accounts payable and accrued liabilities	3,708,338		3,708,338
Developer deposits payable	42,856		42,856
Unearned revenue	2,232,463		2,232,463
Refundable meter deposits		416,699	416,699
Accrued interest payable	87,494	51,814	139,308
Long-term liabilities:			
Due within one year			
Bonds, finance agreements, leases, compensated absences	3,355,759	1,545,933	4,901,692
Due in more than one year			
Bonds, finance agreements, leases, compensated absences	21,274,268	11,536,528	32,810,796
Net pension liability (City's share)	13,451,853	899,747	14,351,600
Total OPEB liability - supplemental death benefits	505,175	43,402	548,577
Total OPEB liability - health	563,387	58,415	621,802
Total liabilities	<u>45,221,593</u>	<u>14,552,538</u>	<u>59,774,131</u>
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	58,490	7,569	66,059
Related to OPEB - supplemental death benefits	292,263	17,951	310,214
Related to OPEB - health	213,559	31,764	245,323
Total deferred inflows of resources	<u>564,312</u>	<u>57,284</u>	<u>621,596</u>
FUND BALANCES			
Net investment in capital assets	50,903,540	38,855,857	89,759,397
Restricted for:			
Cemetery	19,981		19,981
Debt service	45,049	31,235	76,284
Economic development	651,227		651,227
Federal grant	230,393		230,393
General government	35,844		35,844
Pet adoption center	34,021		34,021
Public safety	215,144		215,144
Unrestricted	12,116,383	8,938,146	21,054,529
Total fund balances	<u>\$ 64,251,582</u>	<u>\$ 47,825,238</u>	<u>\$ 112,076,820</u>

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

CITY OF HARKER HEIGHTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

FUNCTION / PROGRAM:	Expenses	Program Revenues		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 5,057,848	\$ 46,352	\$ 15,426	
Public safety	15,874,227	1,872,448	360,563	2,659,989
Highways and streets	2,386,770			
Culture and recreation	3,718,307	408,235		
Economic development and assistance	469,377	168,958	23,020	
Interest and fiscal charges	770,623			
Total governmental activities	<u>28,277,152</u>	<u>2,495,993</u>	<u>399,009</u>	<u>2,659,989</u>
Business-type activities:				
Water and sewer	8,708,179	11,642,438		
Sanitation	2,467,245	2,476,588		
Drainage utility	321,610	887,807		
Total business-type activities	<u>11,497,034</u>	<u>15,006,833</u>		
Total primary government	<u>\$ 39,774,186</u>	<u>\$ 17,502,826</u>	<u>\$ 399,009</u>	<u>\$ 2,659,989</u>

General revenues and transfers:

General revenues:

Property taxes
Sales taxes
Franchise taxes
Mixed drink beverage taxes
Bingo taxes
Hotel / motel taxes
Investment earnings
Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

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

Net (Expense) Revenue and Changes in Net Position
Primary Government

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (4,996,070)		\$ (4,996,070)
(10,981,227)		(10,981,227)
(2,386,770)		(2,386,770)
(3,310,072)		(3,310,072)
(277,399)		(277,399)
(770,623)		(770,623)
<u>(22,722,161)</u>		<u>(22,722,161)</u>
	2,934,259	2,934,259
	9,343	9,343
	566,197	566,197
	<u>3,509,799</u>	<u>3,509,799</u>
<u>\$ (22,722,161)</u>	<u>\$ 3,509,799</u>	<u>\$ (19,212,362)</u>

FUNCTION / PROGRAM:

Primary government:

Governmental activities:

General government
Public safety
Highways and streets
Culture and recreation
Economic development and assistance
Interest and fiscal charges
Total governmental activities

Business-type activities:

Water and sewer
Sanitation
Drainage utility
Total business-type activities

Total primary government

13,838,167		13,838,167
11,123,964		11,123,964
1,427,938	220,183	1,648,121
125,936		125,936
31,939		31,939
107,901		107,901
1,385,733	239,750	1,625,483
131,470	3,316	134,786
(1,364,456)	1,364,456	0
<u>26,808,592</u>	<u>1,827,705</u>	<u>28,636,297</u>
4,086,431	5,337,504	9,423,935
<u>60,165,151</u>	<u>42,487,734</u>	<u>102,652,885</u>
<u>\$ 64,251,582</u>	<u>\$ 47,825,238</u>	<u>\$ 112,076,820</u>

General revenues and transfers:

General revenues:

Property taxes
Sales taxes
Franchise taxes
Mixed drink beverage taxes
Bingo taxes
Hotel / motel taxes
Investment earnings
Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position - beginning

Net position - ending

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

CITY OF HARKER HEIGHTS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2023

	General	Debt Service	Capital Projects
ASSETS			
Cash	\$ 2,121,109	\$ 27,921	\$ 1,699,591
Investments	14,593,619	19,808	3,207,220
Receivables (net of allowance for uncollectibles):			
Property taxes	111,539	31,864	
Accounts	20,213		
Ambulance	439,310		
Court fines	639,398		
Intergovernmental	75,790	1,881	
Sales tax	1,893,599		
Interest	4,070		3,914
Due from other funds	2,113,871		4,721,639
Restricted cash	90,215		1,205,031
Restricted investments	518,591		1,301,751
Total assets	<u>22,621,324</u>	<u>81,474</u>	<u>12,139,146</u>
LIABILITIES			
Accounts payable and accrued liabilities	3,537,067		29,604
Developer deposits payable	42,856		
Due to other funds	70,578	11,419	6,772,174
Unearned revenue			
Total liabilities	<u>3,650,501</u>	<u>11,419</u>	<u>6,801,778</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenue - property taxes	87,532	25,006	
Unavailable revenue - ambulance	301,507		
Unavailable revenue - court fines	639,398		
Unavailable revenue - other	18,563		
Total deferred inflows of resources	<u>1,047,000</u>	<u>25,006</u>	
FUND BALANCES			
Restricted for:			
Capital projects			2,506,782
Cemetery	19,981		
Debt service		45,049	
Economic development			
Federal grant			
General government	35,844		
Pet adoption center	34,021		
Public safety	3,921		
Assigned for:			
Capital projects			2,830,586
Culture and recreation	515,040		
Subsequent year's budget	2,876,500		
Unassigned	14,438,516		
Total fund balances	<u>17,923,823</u>	<u>45,049</u>	<u>5,337,368</u>
Total liabilities, deferred inflows of resources, and fund balances	<u><u>\$ 22,621,324</u></u>	<u><u>\$ 81,474</u></u>	<u><u>\$ 12,139,146</u></u>

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

Coronavirus	Total Nonmajor Funds	Total Governmental Funds	
\$ 249,762	\$ 222,634	\$ 4,321,017	ASSETS
150,000	636,837	18,607,484	Cash
			Investments
			Receivables (net of allowance for uncollectibles):
		143,403	Property taxes
	7,098	27,311	Accounts
		439,310	Ambulance
		639,398	Court fines
		77,671	Intergovernmental
		1,893,599	Sales tax
3,785	1,151	12,920	Interest
	355	6,835,865	Due from other funds
1,239,530		2,534,776	Restricted cash
1,407,484		3,227,826	Restricted investments
<u>3,050,561</u>	<u>868,075</u>	<u>38,760,580</u>	Total assets
			LIABILITIES
141,667		3,708,338	Accounts payable and accrued liabilities
		42,856	Developer deposits payable
446,038	5,625	7,305,834	Due to other funds
2,232,463		2,232,463	Unearned revenue
<u>2,820,168</u>	<u>5,625</u>	<u>13,289,491</u>	Total liabilities
			DEFERRED INFLOWS OF RESOURCES
		112,538	Unavailable revenue - property taxes
		301,507	Unavailable revenue - ambulance
		639,398	Unavailable revenue - court fines
		18,563	Unavailable revenue - other
		<u>1,072,006</u>	Total deferred inflows of resources
			FUND BALANCES
			Restricted for:
		2,506,782	Capital projects
		19,981	Cemetery
		45,049	Debt service
	651,227	651,227	Economic development
230,393		230,393	Federal grant
		35,844	General government
		34,021	Pet adoption center
	211,223	215,144	Public safety
			Assigned for:
		2,830,586	Capital projects
		515,040	Culture and recreation
		2,876,500	Subsequent year's budget
		14,438,516	Unassigned
<u>230,393</u>	<u>862,450</u>	<u>24,399,083</u>	Total fund balances
<u>\$ 3,050,561</u>	<u>\$ 868,075</u>	<u>\$ 38,760,580</u>	Total liabilities, deferred inflows of resources, and fund balances

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



CITY OF HARKER HEIGHTS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2022

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

Total fund balance per balance sheet	\$ 24,399,083
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	72,251,332
Differences between expected and actual experiences, assumption changes and net differences between projected and actual earnings and contributions subsequent to the measurement date for the OPEB and pension plans are recognized as deferred outflows and inflows of resources on the statement of net position.	
Deferred outflows - pension related	6,112,302
Deferred outflows - OPEB supplemental death benefits related	110,996
Deferred outflows - OPEB health related	69,862
Deferred inflows - pension related	(58,490)
Deferred inflows - OPEB supplemental death benefits related	(292,263)
Deferred inflows - OPEB health related	(213,559)
Long-term liabilities, certain liabilities and deferred outflow of resources, are not due and payable in the current period and, therefore, are not reported in the funds.	
Certificates of obligation	(16,275,000)
Less: discount on issuance of bonds	16,359
General obligation refunding	(6,765,000)
Plus: premium on issuance of bonds	(209,380)
Less: deferred charge for advance refunding costs	69,702
Finance purchase agreement	(161,842)
Accrued interest payable	(87,494)
Compensated absences	(908,475)
Lease payable	(9,080)
SBITA payable	(317,609)
Net pension liability	(13,451,853)
Total OPEB liability - supplemental death benefits	(505,175)
Total OPEB liability - health	(563,387)
Other long-term assets that are not available to pay for current period expenditures and, therefore, are deferred in the funds.	
Property taxes	112,538
Ambulance	301,507
Court fines	639,398
Net position of governmental activities	<u>\$ 64,283,035</u>

CITY OF HARKER HEIGHTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	General	Debt Service	Capital Projects
REVENUES			
Property taxes	\$ 10,727,191	\$ 3,073,783	
Sales and other taxes	12,709,778		
Licenses and permits	472,439		
Fines	643,997		
Charges for services	1,275,334		
Intergovernmental	235,947		
Investment earnings	893,238	27,229	261,322
Contributions and donations	32,045		
Miscellaneous	87,118		
Total revenues	<u>27,077,087</u>	<u>3,101,012</u>	<u>261,322</u>
EXPENDITURES			
Current:			
General government	4,225,113		
Public safety	14,604,063		
Highways and streets	1,327,574		
Culture and recreation	3,179,648		
Economic development and assistance	424,096		
Debt service:			
Principal	199,006	2,345,538	
Interest and fiscal charges	3,221	778,151	
Tax collection fees		30,527	
Capital outlay			
Culture and recreation			397,507
General government			67,974
Highways and streets			3,275,803
Public safety			
Total expenditures	<u>23,962,721</u>	<u>3,154,216</u>	<u>3,741,284</u>
Excess (deficiency) of revenues over (under) expenditures	<u>3,114,366</u>	<u>(53,204)</u>	<u>(3,479,962)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	275,000	50,000	3,850,000
Transfers out	(3,550,000)		(550,355)
Total other financing sources (uses)	<u>(3,275,000)</u>	<u>50,000</u>	<u>3,299,645</u>
Net change in fund balances	(160,634)	(3,204)	(180,317)
Fund balances - beginning	<u>18,084,457</u>	<u>48,253</u>	<u>5,517,685</u>
Fund balances - ending	<u>\$ 17,923,823</u>	<u>\$ 45,049</u>	<u>\$ 5,337,368</u>

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

Coronavirus	Total Nonmajor Funds	Total Governmental Funds	
		\$ 13,800,974	REVENUES
	107,901	12,817,679	Property taxes
		472,439	Sales and other taxes
	89,903	733,900	Licenses and permits
		1,275,334	Fines
2,659,986		2,895,933	Charges for services
171,855	32,090	1,385,734	Intergovernmental
		32,045	Investment earnings
		87,118	Contributions and donations
			Miscellaneous
<u>2,831,841</u>	<u>229,894</u>	<u>33,501,156</u>	Total revenues
			EXPENDITURES
			Current:
		4,225,113	General government
	100,000	14,704,063	Public safety
		1,327,574	Highways and streets
		3,179,648	Culture and recreation
	22,500	446,596	Economic development and assistance
			Debt service:
		2,544,544	Principal
		781,372	Interest and fiscal charges
		30,527	Tax collection fees
			Capital outlay
		397,507	Culture and recreation
175		68,149	General government
253,307		3,529,110	Highways and streets
1,565,542		1,565,542	Public safety
<u>1,819,024</u>	<u>122,500</u>	<u>32,799,745</u>	Total expenditures
			Excess (deficiency) of revenues
<u>1,012,817</u>	<u>107,394</u>	<u>701,411</u>	over (under) expenditures
			OTHER FINANCING SOURCES (USES)
		4,175,000	Transfers in
(1,439,101)		(5,539,456)	Transfers out
<u>(1,439,101)</u>		<u>(1,364,456)</u>	Total other financing sources (uses)
(426,284)	107,394	(663,045)	Net change in fund balances
<u>656,677</u>	<u>755,056</u>	<u>25,062,128</u>	Fund balances - beginning
<u>\$ 230,393</u>	<u>\$ 862,450</u>	<u>\$ 24,399,083</u>	Fund balances - ending

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

CITY OF HARKER HEIGHTS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

Net change in fund balance - total governmental funds	\$ (663,045)
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. This is the amount of capital assets recorded in the current period.	6,718,312
Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net position, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in governmental funds.	(3,258,658)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Property taxes	37,193
Ambulance	69,184
Court fines	14,319
Other	9,150
The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Principal paid on bonds	2,544,544
Issuance of SBITA liabilities	(430,939)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Premiums	72,673
Discounts	(2,550)
Deferred charge for advance refunding costs	(38,821)
Accrued interest on long-term debt	9,974
Compensated absences	(38,475)
Changes in pension liability and related deferred inflows and outflows of resources	(948,302)
Changes in OPEB liabilities and related deferred inflows and outflows of resources	(8,128)
Change in net position of governmental activities	\$ 4,086,431

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

CITY OF HARKER HEIGHTS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Sanitation	Drainage Utility	Total Enterprise Funds
ASSETS				
Current assets:				
Cash	\$ 3,277,504	\$ 276,109	\$ 82,430	\$ 3,636,043
Investments	3,514,886	28,291	27,455	3,570,632
Receivables (net of allowance for uncollectibles):				
Accounts	1,377,898	268,631	90,443	1,736,972
Due from other funds	2,859,100	1,576	3,143,490	6,004,166
Inventory of supplies, first-in, first-out cost	106,064			106,064
Restricted cash	416,315		5,061	421,376
Restricted investments	173,955		3,510	177,465
Total current assets	11,725,722	574,607	3,352,389	15,652,718
Noncurrent assets:				
Capital assets:				
Land and improvements	167,076		125,160	292,236
Buildings and lift stations	3,257,749			3,257,749
Furniture and fixtures	10,779			10,779
Machinery and equipment	3,236,389	40,730	290,571	3,567,690
Vehicles	785,932		95,604	881,536
Water, sewer and drainage system	54,625,423		6,495,563	61,120,986
Other improvements	1,144	23,728		24,872
Construction in progress	4,690,232	35,440	673,751	5,399,423
Less accumulated depreciation	(21,164,596)	(64,458)	(1,574,729)	(22,803,783)
Total noncurrent assets	45,610,128	35,440	6,105,920	51,751,488
Total assets	57,335,850	610,047	9,458,309	67,404,206
DEFERRED OUTFLOWS OF RESOURCES:				
Related to refunding debt	138,096			138,096
Related to pensions	339,101	11,738	58,038	408,877
Related to OPEB - supplemental death benefits	7,790	373	964	9,127
Related to OPEB - health	8,455	496		8,951
Total deferred outflows of resources	493,442	12,607	59,002	565,051

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

CITY OF HARKER HEIGHTS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer	Sanitation	Drainage Utility	Enterprise Funds
LIABILITIES				
Current liabilities:				
Compensated absences	27,131	2,710	6,092	35,933
Due to other funds	4,460,989	201,618	871,590	5,534,197
Refundable meter deposits	416,699			416,699
Accrued interest payable	39,474		12,340	51,814
General obligation bonds payable	825,000			825,000
Certificates of obligation payable	455,000		230,000	685,000
Total current liabilities	<u>6,224,293</u>	<u>204,328</u>	<u>1,120,022</u>	<u>7,548,643</u>
Noncurrent liabilities:				
Compensated absences	11,435	1,290	76	12,801
Net pension liability	745,911	26,066	127,770	899,747
Total OPEB liability - supplemental death benefits	35,992	1,529	5,881	43,402
Total OPEB liability - health	53,236	3,297	1,882	58,415
General obligation bonds payable	4,240,000			4,240,000
Certificates of obligation payable (net of unamortized discounts and premiums)	4,422,002		2,861,725	7,283,727
Total noncurrent liabilities	<u>9,508,576</u>	<u>32,182</u>	<u>2,997,334</u>	<u>12,538,092</u>
Total liabilities	<u>15,732,869</u>	<u>236,510</u>	<u>4,117,356</u>	<u>20,086,735</u>
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	5,886	33	1,650	7,569
Related to OPEB - supplemental death benefits	15,184	903	1,864	17,951
Related to OPEB - health	20,702	1,876	9,186	31,764
Total deferred inflows of resources	<u>41,772</u>	<u>2,812</u>	<u>12,700</u>	<u>57,284</u>
NET POSITION				
Net investment in capital assets	35,806,222	35,440	3,014,195	38,855,857
Restricted for debt service	22,664		8,571	31,235
Unrestricted	6,225,765	347,892	2,364,489	8,938,146
Total net position	<u>\$ 42,054,651</u>	<u>\$ 383,332</u>	<u>\$ 5,387,255</u>	<u>\$ 47,825,238</u>

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

CITY OF HARKER HEIGHTS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer	Sanitation	Drainage Utility	Enterprise Funds
OPERATING REVENUES				
Charges for services	\$ 11,494,092	\$ 2,475,870	\$ 887,807	\$ 14,857,769
Franchise fees		220,183		220,183
Other	148,346	718		149,064
Total operating revenues	<u>11,642,438</u>	<u>2,696,771</u>	<u>887,807</u>	<u>15,227,016</u>
OPERATING EXPENSES				
Water purchases	3,614,933			3,614,933
Contractual services	806,818	2,367,515	7,119	3,181,452
Personnel services	1,359,042	78,195	43,770	1,481,007
Utilities and telephone	405,425	1,055		406,480
Repairs and maintenance	570,410	1,620	30,733	602,763
Supplies	159,572	4,861	4,538	168,971
Uncollectible accounts	56,341	10,724	4,259	71,324
Professional fees	60,437		10,835	71,272
Depreciation	1,330,360	3,211	116,043	1,449,614
Other	2,300	64	65	2,429
Total operating expenses	<u>8,365,638</u>	<u>2,467,245</u>	<u>217,362</u>	<u>11,050,245</u>
Operating income (loss)	<u>3,276,800</u>	<u>229,526</u>	<u>670,445</u>	<u>4,176,771</u>
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	222,709	6,342	10,699	239,750
Taxes and assessments	3,316			3,316
Interest expense	(342,541)		(104,248)	(446,789)
Total nonoperating revenues (expenses)	<u>(116,516)</u>	<u>6,342</u>	<u>(93,549)</u>	<u>(203,723)</u>
Income before transfers	3,160,284	235,868	576,896	3,973,048
Transfers in	1,615,044	35,440	338,972	1,989,456
Transfers out	<u>(125,000)</u>	<u>(100,000)</u>	<u>(400,000)</u>	<u>(625,000)</u>
Change in net position	4,650,328	171,308	515,868	5,337,504
Net position, beginning	<u>37,404,323</u>	<u>212,024</u>	<u>4,871,387</u>	<u>42,487,734</u>
Net position, ending	<u>\$ 42,054,651</u>	<u>\$ 383,332</u>	<u>\$ 5,387,255</u>	<u>\$ 47,825,238</u>

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

CITY OF HARKER HEIGHTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds			Total
	Water and Sewer	Sanitation	Drainage Utility	Enterprise Funds
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 11,334,759	\$ 2,441,727	\$ 879,634	\$ 14,656,120
Cash payments to suppliers	(5,698,976)	(2,362,155)	(9,070)	(8,070,201)
Cash payments to employees	(1,354,819)	(64,553)	(74,000)	(1,493,372)
Franchise fees		220,183		220,183
Other operating cash receipts (payments)	254,671	630	(399)	254,902
Net cash provided (used) by operating activities	<u>4,535,635</u>	<u>235,832</u>	<u>796,165</u>	<u>5,567,632</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Transfers in	1,615,044	35,440	338,972	1,989,456
Transfers out	(125,000)	(100,000)	(400,000)	(625,000)
Net cash provided (used) by noncapital financing activities	<u>1,490,044</u>	<u>(64,560)</u>	<u>(61,028)</u>	<u>1,364,456</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Acquisition and construction of capital assets	(2,014,449)	(35,440)	(388,489)	(2,438,378)
Principal paid on debt	(1,696,614)		(297,848)	(1,994,462)
Interest paid on debt	(349,281)		(108,666)	(457,947)
Net cash provided (used) by capital and related financing activities	<u>(4,060,344)</u>	<u>(35,440)</u>	<u>(795,003)</u>	<u>(4,890,787)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of investments	(2,426,653)	(1,251)	(1,369)	(2,429,273)
Proceeds from sales and maturities of investments	875,000			875,000
Interest and penalties received on investments	222,709	6,342	10,699	239,750
Net cash provided (used) by investing activities	<u>(1,328,944)</u>	<u>5,091</u>	<u>9,330</u>	<u>(1,314,523)</u>
Net increase (decrease) in cash	636,391	140,923	(50,536)	726,778
Cash, beginning	<u>3,057,428</u>	<u>135,186</u>	<u>138,027</u>	<u>3,330,641</u>
Cash, ending	<u>\$ 3,693,819</u>	<u>\$ 276,109</u>	<u>\$ 87,491</u>	<u>\$ 4,057,419</u>
RECONCILIATION OF CASH				
Cash	3,277,504	276,109	82,430	3,636,043
Restricted cash	416,315		5,061	421,376
Total cash	<u>\$ 3,693,819</u>	<u>\$ 276,109</u>	<u>\$ 87,491</u>	<u>\$ 4,057,419</u>

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

CITY OF HARKER HEIGHTS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	Business-type Activities - Enterprise Funds			
	Water and Sewer	Sanitation	Drainage Utility	Total Enterprise Funds
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES:				
Operating income (loss)	\$ 3,276,800	\$ 229,526	\$ 670,445	\$ 4,176,771
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	1,330,360	3,210	116,043	1,449,613
(Increase) decrease in accounts receivable	(180,247)	(23,419)	(3,914)	(207,580)
(Increase) decrease in due from other funds	(700)	(88)	(399)	(1,187)
(Increase) decrease in inventory	(22,740)			(22,740)
(Increase) decrease in deferred outflow in net pension obligation	(196,134)	(11,491)	(22,687)	(230,312)
(Increase) decrease in deferred outflow in other post-employment benefit obligations	3,151	198	275	3,624
Increase (decrease) in due to other funds	107,025	12,961	44,220	164,206
Increase (decrease) in compensated absences	7,566		1,168	8,734
Increase (decrease) in refundable deposits	20,914			20,914
Increase (decrease) in net pension obligation	414,052	25,494	45,713	485,259
Increase (decrease) in other post-employment supplemental death benefit obligation	(13,382)	(831)	(1,547)	(15,760)
Increase (decrease) in other post-employment benefit obligation	1,483	90	71	1,644
Increase (decrease) in deferred inflow in net pension obligation	(221,142)	(358)	(54,486)	(275,986)
Increase (decrease) in deferred inflow in other post-employment benefit obligations	8,629	540	1,263	10,432
Total adjustments	1,258,835	6,306	125,720	1,390,861
Net cash provided by (used for) operating activities	\$ 4,535,635	\$ 235,832	\$ 796,165	\$ 5,567,632

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



CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

I. Summary of significant accounting policies

The financial statements of the City of Harker Heights have been prepared to conform with generally accepted accounting principles (GAAP) in the United States of America as applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting and reporting policies:

A. Reporting entity and component units

The City of Harker Heights, Texas, a municipal corporation in Bell County, was incorporated under the general laws of the State of Texas in 1960. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, highways and streets, water service, sanitation, health and social services, culture and recreation, public improvements, planning and zoning, and general administrative services. The City Council, which is elected at large, consists of a mayor and five council members constituting an ongoing entity and is the level of government that has governance responsibilities over all activities related to the City.

In evaluating how to define the City for financial reporting purposes, management has considered whether to include or exclude potential component units in the reporting entity by applying the criteria set forth in GAAP. The criteria for including organizations as component units include whether (1) the organization is legally separate (can sue and be sued in their own name), (2) the City holds the corporate powers of the organization, (3) the City appoints a voting majority of the organization's board, (4) the City is able to impose its will on the organization, (5) the organization has the potential to impose a financial benefit / burden on the City, and (6) there is fiscal dependency by the organization on the City. There are no component units that qualify for inclusion in the City's reporting entity.

B. 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 changes in net position) report information on all the activities of the City. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. In the reporting model as defined by GASB Statement No. 34, the focus is either the City as a whole or major individual funds (within the fund financial statements).

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (public safety, culture and recreation, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment, and (3) grants and contributions that are restricted to meeting the capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The net cost (by function or business-type activity) is normally covered by general revenue (property taxes, sales taxes, franchise taxes, intergovernmental revenues, interest income, etc.).

Separate fund based 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, debt service fund, and 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 proprietary funds 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 statements.

The government-wide focus is more on the sustainability of the City as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The focus of the fund financial statements is on the major individual funds of the governmental and business-type categories. Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

C. Financial statement presentation

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

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

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

The City of Harker Heights reports the following major governmental funds:

The *General Fund* is the City's primary operating fund. It accounts for all financial resources of the general government, except those accounted for in another fund.

The *Debt Service Fund* is used to account for the accumulation of resources that are restricted, committed, or assigned for the payment of principal, interest, and related costs on long-term obligations of governmental funds paid primarily from taxes levied by the City.

The *Capital Projects Fund* accounts for the acquisition and construction of the City's major capital facilities, other than those financed by proprietary funds.

The *Coronavirus Fund* accounts for funding received under the Coronavirus State and Local Fiscal Recovery Fund, which is intended to support the City in its response to and recovery from the COVID-19 public health emergency.

The City of Harker Heights reports the following major enterprise funds:

The *Water and Sewer Fund* accounts for the distribution of treated water and the collection and treatment of sewage. Fund activities include the administration, operation, and maintenance of the water and sewer system, and billing and collection activities. The Fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water and sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted, as needed, to ensure the integrity of the Fund.

The *Sanitation Fund* accounts for the collection and disposal of garbage activities. Residential and commercial hand-pick up customers are billed monthly at a rate sufficient to cover the cost of providing the service through a third-party.

The *Drainage Utility Fund* accounts for the receipt of stormwater utility fees for the operations, maintenance, and construction of the City's stormwater drainage system.

Additionally, the City of Harker Heights reports the following fund:

Special revenue funds are used to account for and report the proceeds and expenditures of specific revenue sources that are legally restricted or committed for specified purposes. For the City this includes the Hotel / Motel Fund, and the Restricted Court Fund.

D. Measurement focus and basis of accounting

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 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. Such revenue is subject to review by the funding agency and may result in disallowance in subsequent periods.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers property tax revenue to be available if they are collected within 60 days of the end of the fiscal year and other revenues, with the exception of grant revenues, to be available if they are collected within 45 days. Grant revenues availability period is generally considered to be one year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Debt service expenditures and expenditures related to compensated absences and claims and judgments, however, are recorded only when the liability has matured, and payment is due. General capital asset acquisitions, including entering into contracts giving the City the right to use lease assets, are reported as expenditures in governmental funds. Issuance of long-term debt and financing through leases are reported as other financing sources.

Franchise taxes, licenses and permits, charges for services, 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. Property taxes collected by Bell County Appraisal District at year-end on behalf of the City and sales taxes collected and held by the Comptroller's Office at year-end on behalf of the City are also recognized as revenue. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when the City receives the cash.

The proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the balance sheet. Proprietary fund type operating statements present increases (e.g. revenues) and decreases (e.g. expenses) in net total assets. 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. The principal operating revenues of the Water and Sewer Enterprise Fund, the Sanitation Enterprise Fund, and the Drainage Utility Enterprise Fund are charges to customers for sales and services. Operating expenses for enterprise funds include cost of sales and services, administrative expenses, and depreciation of capital assets. 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.

E. Budgetary information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) for all funds except the Capital Projects Fund. The Capital Projects Fund is budgeted in a multi-year manner.

The appropriated budget is prepared by fund, function, and department. The City's department heads may make transfers of appropriations within a department with approval of the City Manager. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level.

All budgeted appropriations lapse at fiscal year-end even if they have related encumbrances except for encumbrances in the Capital Projects Fund. Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Since the Capital Projects Fund is budgeted in a multi-year manner, its encumbrances (projects) can stretch over fiscal years before completion. Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances technically lapse at year-end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are reappropriated and become part of the subsequent year's budget pursuant to state regulations, and the encumbrances are automatically reestablished in the next year.

F. Cash and investments

The City of Harker Heights' cash and cash equivalents include cash on hand, amounts in demand deposits and money market fund deposits.

Currently the City invests in three Investment Pools. TexSTAR is administered by Hilltop Securities and Texas CLASS is administered by Public Trust Advisors LLC. Both are open to local governments in Texas to pool their funds for investment purposes. These investments are valued at book value. LoneStar is administered by First Public LLC and is open to local governments as well. Investments in LoneStar, however, are valued at market price.

Investments are reported at their fair value based on the quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties. Short-term, one year or less, nonparticipating interest earning investment contracts (to include certificates of deposit) are reported using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value.

The gain / loss resulting from valuation of investments is reported in the revenue account "investment earnings" on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds and the Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds.

G. Cash and investments – restricted assets

Cash and investments are classified as restricted on the balance sheet when their use is limited to paying debt, repaying refundable deposits, cemetery maintenance, public safety, culture and recreation, and specific construction projects.

H. Receivables and payables and interfund transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to 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".

All legally authorized transfers are appropriately treated as transfers and are included in the results of operations of both governmental and proprietary funds. Nonrecurring or nonroutine transfers of equity between funds – for example, contribution of capital assets to a proprietary fund or transfers of residual balances of discontinued funds to other funds – are accounted for as transfers in the government-wide statement of activities and as capital contributions in the proprietary fund operating statements.

All service receivables are shown net of an allowance for uncollectibles. Service accounts receivable in excess of 90 days comprise the service accounts receivable allowance with the exception of ambulance receivable, which is 120 days. Property tax receivable allowance is equal to 60% of outstanding property taxes at the end of the fiscal year.

I. Inventories

Inventories are valued at cost, which approximates market, using the first-in / first-out (FIFO) method and consist of repair parts for water emergencies. The proprietary fund records the costs of such inventories as expenses when consumed rather than when purchased.

J. Capital assets

Capital assets include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), that are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, except for infrastructure assets, are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of three years.

As the City constructs or acquires capital assets each period, including infrastructure assets, they are capitalized and reported at historical cost. The reported value excludes normal maintenance and repairs, which are amounts spent in relation to capital assets that do not increase the asset's capacity or efficiency or increase its estimated useful life. Donated capital assets are recorded at acquisition value at the date of donation. Acquisition value is the price that would be paid to acquire an asset with equivalent service potential on the date of the donation.

Land and construction in progress are not depreciated. All other property, plant, equipment, and infrastructure of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Capital asset classes</u>	<u>Estimated Life</u>
Buildings	20 – 50 years
Improvements other than buildings	5 – 60 years
Infrastructure	20 – 60 years
Machinery and equipment	3 – 12 years
Vehicles	5 – 10 years
Right-to-use	3 – 5 years
SBITAs	3 – 5 years

K. Deferred outflows / inflows of resources

In addition to assets, the statements of financial position include a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and so will not be recognized as an outflow of resources (expense / expenditure) until then. The City has three items that qualify for reporting in this category.

The *deferred amount on refunding debt* resulting from the difference between 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.

The *deferred amount related to pensions* resulting from differences in expected and actual experience, differences due to changes in actuarial assumptions, differences in projected and actual earnings, and pension contributions made after the measurement date.

The *deferred amount related to other post-employment benefits (OPEB)* resulting from differences between expected and actual experiences, changes of assumptions or other inputs, and amounts associated with transactions subsequent to the measurement date.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City reports the following items that qualify for reporting in this category.

Property tax not yet available is reported only in the governmental funds balance sheet. This amount of property tax payments is deferred and recognized as an inflow of resources in the period that the amounts become available.

Ambulance receipts not yet available is reported only in the governmental funds balance sheet. This amount of emergency medical service billing is deferred and recognized as an inflow of resources in the period that the amounts become available.

Receivables not yet available is reported only in the governmental funds balance sheet. This amount of miscellaneous accounts receivable and court fines receivable are deferred and recognized as an inflow of resources in the period that the amounts become available.

The *deferred amount related to pensions* results from differences in expected and actual experience, differences due to changes in actuarial assumptions, differences in projected and actual earnings, and pension contributions made after the measurement date. These amounts are only reported in the government-wide financial statements and the proprietary funds.

The *deferred amount related to other post-employment benefits (OPEB)* results from differences between expected and actual experiences, changes of assumptions or other inputs, and amounts associated with transactions subsequent to the measurement date. These amounts are only reported in the government-wide financial statements and the proprietary funds.

L. Long-term obligations

In the government-wide financial statements and proprietary fund type's 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 effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs incurred are fully expensed in that reporting period.

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.

M. Net position

For government-wide reporting as well as in proprietary funds, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called net position. Net position is comprised of three components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation / amortization and reduced by outstanding balances of bonds, notes, and other debt that are attributable to the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt are included in this component of net position.

Restricted net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. Assets are reported as restricted when constraints are placed on asset use either by external parties or by law through constitutional provision or enabling legislation.

Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that does not meet the definition of the two preceding categories.

If an expense is incurred for which the City may use either restricted (e.g., restricted bond or grant proceeds) or unrestricted resources, the City shall consider the restricted resources to be depleted before applying unrestricted resources.

N. Fund balance

In governmental fund types, the difference between assets and deferred outflows of resources less liabilities and deferred inflows of resources is called fund balance. The City's governmental funds report the following categories of fund balance, based on the nature of any limitations requiring the use of resources for specific purposes.

Nonspendable fund balance represents amounts that are either not in a spendable form or are legally or contractually required to remain intact.

Restricted fund balance includes amounts that can be spent only for the specific purposes stipulated by external resource providers such as grantors or enabling federal, state, or local legislation. Restrictions may be changed or lifted only with the consent of the resource providers.

Committed fund balance represents amounts that can be used only for the specific purposes determined by the adoption of an ordinance committing fund balance for a specified purpose by the City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until the resources have been spent for the specified purpose or the council adopts another ordinance to remove or revise the limitation.

Assigned fund balance represents amounts that are intended to be used by the city for specific purposes but do not meet the criteria to be classified as committed. The City Council can do this when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Assignments are generally only temporary.

Unassigned fund balance represents the residual amount for the general fund that is not contained in the other classifications. The General Fund is the only fund that reports a positive unassigned fund balance. Additionally, any deficit fund balance within the other governmental fund types is reported as unassigned.

If an expense is incurred for which the City may use either restricted, committed, assigned, or unassigned assets, the City shall reduce restricted, committed, and assigned assets first, in that order, unless unassigned assets would have to be returned because they were not used.

O. Leases and Subscription-Based Information Technology Arrangements

The City of Harker Heights is a lessee for noncancellable leases of equipment and subscription-based IT arrangements (SBITAs). The City recognizes a liability and an intangible right-to-use lease asset or SBITA asset in the government-wide financial statements.

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

Key estimates and judgments related to leases and SBITAs include how the City determines (1) the discount rate it uses to discount the expected payments to present value, (2) agreement term, and (3) agreed upon payments.

- The City uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, the City generally uses an estimated incremental borrowing rate as the discount rate.
- The agreement term includes the noncancellable period of the lease or SBITA.
- The agreed upon payments included in the measurement of the liability are composed of fixed payments and purchase option price that the City is reasonably certain to exercise.

The City monitors changes in circumstances that would require a remeasurement of its leases or SBITAs and will remeasure the asset and liability if certain changes occur that are expected to significantly affect the amount of the liability.

Right-to-use lease assets and SBITA assets are reported with other capital assets and liabilities are reported with long-term debt on the statement of net position.

P. Revenues and expenditures / expenses

1. Program revenues

Amounts reported as program revenues include (1) fees, fines, and charges for services imposed by a given function or program / activity, and (2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function / segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

2. Property taxes

Property taxes attach as an enforceable lien on real property and are levied as of October 1. Property taxes are assessed and collected by the Tax Appraisal District of Bell County and are due on January 31 of the year following the tax year without any penalty. Early discounts are available for residents who pay prior to January 31.

The adopted tax rate during the fiscal year ended September 30, 2023, was \$0.5800 per \$100 valuation.

3. Compensated absences

Vacation – It is the City’s policy to permit employees to accumulate earned but unused vacation benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund statements. A liability for the amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations or retirements. Typically, the general fund has been used in prior years to liquidate such amounts in the governmental funds.

Sick – Accumulated sick leave lapses when employees leave the City of Harker Heights and, upon separation, no monetary obligation exists.

4. Proprietary funds operating and nonoperating revenues and expenses

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund’s principal ongoing operations. Principal operating revenues of the Water and Sewer, Sanitation, and Drainage Utility Funds are charges to customers for sales and service. The Water and Sewer Fund also recognizes water and sewer tap fees to recover the cost of new customer connections. Operating expenses for these enterprise funds include the cost of sales and service, administrative expenses, and depreciation on capital assets. Any revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Q. Change in Accounting Principle

GASB Statement No. 96, Subscription-Based IT Arrangements, was adopted effective October 1, 2022. The statement addresses accounting and financial reporting for SBITA contracts. Statement No. 96 establishes standards for recognizing and measuring assets, liabilities, deferred outflows of resources, deferred inflows of resources, and revenues and expenses related to SBITAs in the basic financial statements, in addition to requiring more extensive note disclosures. The adoption of this standard did not result in a restatement of the beginning fund balance or net position, but assets, liabilities and deferred inflows were recognized, and more extensive note disclosures were required.

R. New Governmental Accounting Standards Board Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statement(s):

1. GASB has amended the existing standards regarding capitalization thresholds for assets regarding GASB Implementation Guide 2021-1, Question 5.1. The amended guidance is effective for reporting periods beginning after June 15, 2023.
2. Statement No. 99, “Omnibus 2022.” The requirements related to leases, PPPs, and SBITAs will take effect for financial statements starting with the fiscal year that ends June 30, 2023. The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 will take effect for financial statements starting with the fiscal year that ends June 30, 2024.
3. Statement No. 100, “Accounting Changes and Error Corrections – an amendment of GASB Statement No. 62.” The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends June 30, 2024.
4. Statement No. 101, “Compensated Absences.” The requirements of this Statement will take effect for financial statements starting with the fiscal year that ends December 31, 2024.
5. Statement No. 102, “Certain Risk Disclosures.” The requirements of Statement No. 102 are effective for fiscal years beginning after June 15, 2024.

Earlier application of these statements is encouraged.

II. Stewardship, compliance, and accountability

A. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) as applied to governmental units requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

III. Detailed notes on all funds

A. Deposits and investments

Chapter 2256 of the Texas Government Code (the Public Funds Investment Act or PFIA) authorizes the City of Harker Heights to invest its funds in compliance with a written investment policy approved by the City Council and governed by the preservation and safety of principal, liquidity, and yield. The investment policy defines what the City may invest in and may exclude certain investment instruments allowed under Chapter 2256 of the Texas Government Code.

The City's deposits and investments are invested pursuant to its investment policy which is approved and adopted by the City Council annually. The investment policy includes a list of authorized investment instruments and a maximum allowable stated maturity of any individual investment. In addition, it includes an "investment strategy statement" that specifically addresses each fund's investment strategy and maximum maturity of each fund's individual investments.

The Finance Director submits an investment report each quarter to the City Council. The report details the investment position of the City and the compliance of the investment portfolio as it relates to the investment policy and Texas State law.

The City is authorized to invest in the following investment instruments provided they meet the guidelines of the investment policy:

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 of Texas or its respective 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 of Texas or the United States or their respective agencies and instrumentalities.
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 of not less than "A" or its equivalent.
6. Interest bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund or their successors.
7. Interest bearing banking deposits, other than those above, which are invested through a broker or depository institution.
8. A certificate of deposit or share certificate issued by a deposit institution that is guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or the National Credit Union Share Insurance Fund.
9. A certificate of deposit or share certificate that is invested through a broker who utilizes a federally insured depository institution for the account of the City and who is on the list of broker / dealers adopted by the City Council.
10. Money Market Mutual Funds registered with and regulated by the Securities and Exchange Commission that fully invest dollar-for-dollar all the City's funds without sales commissions or loads.
11. Investment pools authorized by resolution by the City Council.

Under the City's investment policy, the City may not invest in repurchase agreements, collateralized mortgage obligations, cryptocurrency, and any other investment instrument that is not specifically listed as an authorized investment.

The City invests in certificates of deposit at local banking institutions as well as through authorized broker / dealers. Investments made through broker / dealers are in increments of less than the FDIC insurance maximum to ensure that both principal and interest are eligible for full FDIC insurance coverage. Certificates at local institutions are included with any applicable bank balances in determining collateral requirements.

The City invests in Texas Short Term Asset Reserve Program, an interlocal governmental investment pool. TexSTAR has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. TexSTAR is governed by a board of directors and co-administered by J.P. Morgan Investment Management Inc. and Hilltop Securities Inc. The objective of the TexSTAR Cash Reserve Fund is to maintain a stable value of \$1.00 per unit and is designed to be used by participants for investment of funds requiring daily liquidity. Although all securities in the Fund are marked to market daily using the fair value method, amortized cost, which generally approximates the market value of securities, is utilized. As of September 30, 2023, TexSTAR was rated "AAAm" by Standard & Poor's.

The City invests in Texas Cooperative Liquid Assets Securities System (Texas CLASS) which enables local governments to pool funds with other units of government. Texas CLASS is administered by Public Trust advisors, LLC and governed by a board or trustees. The intent of Texas CLASS is to maintain a net asset value of \$1.00, however, there is no guarantee of a net asset value of \$1.00 being maintained due to the risk of market price fluctuation. As of September 30, 2023, Texas CLASS was rated "AAAm" by Standard & Poor's.

The City invests in LoneStar Investment Pool which is administered by First Public who is directed and overseen by the Lone Star Investment Pool Board. Lone Star was created pursuant to the Interlocal Cooperation Act, Texas Government Code, Chapter 791, and the Public Funds Investment Act, Texas Government Code, Chapter 2256. The Government Overnight Fund, which the City invests in, has a net asset value of \$1.00. All investments are stated at amortized cost, which in most cases approximates the market value of the securities due to the short-term nature of the investments. Gains and losses generated by the sale of a security held by the Fund are allocated over a period not to exceed 30 days, based on the straight-line amortization method. As of September 30, 2023, LoneStar was rated "AAAm" by Standard & Poor's.

Credit risk. Generally, credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. The City controls such risk by investing in compliance with its investment policy, qualifying the broker and financial institutions with whom the City transacts with, portfolio diversification, and limiting maturity.

Custodial credit risk for deposits. The custodial credit risk for deposits is the risk in the event of a bank failure that the City's deposits may not be returned, or the City will not be able to recover collateral securities in the possession of an outside party. The City's investment policy requires that all deposits in financial institutions be fully collateralized by the Federal Deposit Insurance Corporation or Letter of Credit. At September 30, 2023, the carrying amount of the City's bank deposits was \$10,911,414, and the respective bank balances totaled \$11,039,542. Of the bank balances, \$294,873 was covered by FDIC. Collateral for the bank balances and certificates of deposit balances over the FDIC amount consisted of securities with a fair value of \$30,318,879 at September 30, 2023.

Custodial credit risk for investments. The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. To limit its exposure, the City's investment policy requires that all security transactions that are exposed to custodial credit risk be processed on a delivery versus payment basis with the underlying investments held by a third party acting as the City's agent separate from where the investment was purchased, in the City's name.

Concentration of credit risk. The concentration of credit risk is the risk of loss that may be caused by investing in a single issuer. The City's investment policy limits the investment in one agency to not more than 50% to limit this risk.

Interest rate risk. Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of an investment. The City's investment policy provides that, to the extent practicable, investments are matched with anticipated cash flows. Investments are diversified to minimize the risk of loss resulting from over-concentration of assets in a specific maturity period, single issue, or in individual class of securities. The City may not invest more than 20% of the investment portfolio for a period greater than one year.

As of September 30, 2023, the City of Harker Heights had the following investments:

Investment Type	Fair Value/Carrying Value		Investment Maturities (in Years)
	Governmental	Business-Type	Less than 1 year
US Agency Obligation	\$ 220,078		\$ 220,078
Non-negotiable CDs	7,209,324		7,209,324
Negotiable CDs	2,550,000	110,000	2,660,000
Investment pools	11,855,909	3,638,097	15,494,006
Total investments	<u>\$ 21,835,310</u>	<u>\$ 3,748,097</u>	<u>\$ 25,583,407</u>

Fair value of investment. The city measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles (GAAP). These guidelines recognize a three-tiered hierarchy as follows:

- Level 1: Quoted prices for identical investments in active markets;
 - Valued using prices quoted in active markets
- Level 2: Observable inputs other than those in Level 1; and
 - Debt securities valued based on price data obtained from broker / dealers and / or pricing vendors
 - Equity securities valued using fair value per share for each fund
 - Certificates of deposit valued using broker quotes that utilize observable market inputs
- Level 3: Unobservable inputs.
 - Valued or priced using the last trade price or estimated using recent trade prices due to limited trade information

As of September 30, 2023, the City had the following recurring fair value measurements:

Investment Type	Level 1	Level 2	Total
Negotiable CDs	\$ 2,660,000		\$ 2,660,000
Non-negotiable CDs		7,429,402	7,429,402
Total certificates of deposits	<u>\$ 2,660,000</u>	<u>\$ 7,429,402</u>	<u>\$ 10,089,402</u>

A reconciliation of cash investments as shown on the Statement of Net Position for the City is shown below:

Cash on hand	\$ 1,798
Carrying amount of deposits	10,911,414
Carrying amount of investments	25,583,407
Total cash and investments	<u>\$ 36,496,619</u>
Cash	\$ 7,957,060
Restricted cash	2,956,152
Investments – short-term	22,178,116
Investments – long-term	
Restricted investments – short-term	<u>3,405,291</u>
Restricted investments – long-term	
Total cash and investments	<u>\$ 36,496,619</u>

B. Receivables

Receivables at September 30, 2023 for the City's individual major and nonmajor governmental funds, including the applicable allowances for uncollectible accounts, consist of the following:

	General	Capital Projects	Debt Service	Hotel / Motel	Coronavirus	Total Governmental
Receivables						
Property taxes	\$ 279,223		\$ 79,768			\$ 358,991
Sales taxes	1,893,599					1,893,599
Accounts	447,345			7,098		454,443
Ambulance	2,443,489					2,443,489
Court fines	2,131,327					2,131,327
Interest	4,070	3,914		1,151	3,785	12,920
Intergovernmental	75,790		1,881			77,671
Gross receivables	<u>7,274,843</u>	<u>3,914</u>	<u>81,649</u>	<u>8,249</u>	<u>3,785</u>	<u>7,372,440</u>
Less: allowance for uncollectibles	<u>4,090,924</u>		<u>47,904</u>			<u>4,138,828</u>
Net receivables	<u>\$ 3,183,919</u>	<u>\$ 3,914</u>	<u>\$ 33,745</u>	<u>\$ 8,249</u>	<u>\$ 3,785</u>	<u>\$ 3,233,612</u>

The intergovernmental amount of \$75,790 in the general fund is for the reimbursable expenses incurred for grants during the 2023 fiscal year whose funding is expected to be received within the next year. Also, approximately \$1,500,000 of the outstanding balance of ambulance receivable is not anticipated to be collected within the next year.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2023

Receivables at September 30, 2023 for the City's business-type funds, including the applicable allowances for uncollectible accounts, consist of the following:

	Water and Sewer	Sanitation	Drainage Utility	Total Business-Type
Receivables				
Accounts	\$ 1,411,454	\$ 270,830	\$ 91,609	\$ 1,773,893
Special assessments	12,362			12,362
Gross receivables	1,423,816	270,830	91,609	1,786,255
Less: allowance for uncollectibles	45,918	2,199	1,166	49,283
Net receivables	<u>\$ 1,377,898</u>	<u>\$ 268,631</u>	<u>\$ 90,443</u>	<u>\$ 1,736,972</u>

The enterprise funds (Water and Sewer, Sanitation, and Drainage Utility) allowance for uncollectibles is \$49,283 and is related to charges for services.

C. Capital Assets

Capital assets activity for the year ended September 30, 2023, was as follows:

	Balance 10/01/2022	Increases	Decreases	Balance 09/30/2023
Governmental Activities:				
Capital assets, not depreciated:				
Land	\$15,743,073			\$15,743,073
Construction in progress	2,980,248	3,741,458	(6,175,822)	545,884
Total capital assets, not depreciated:	<u>18,723,321</u>	<u>3,741,458</u>	<u>(6,175,822)</u>	<u>16,288,957</u>
Capital assets, being depreciated				
Buildings	24,973,239	34,743		25,007,982
Improv other than buildings	343,100	15,243		358,343
Machinery and equipment	7,917,069	988,660	(10,800)	8,894,929
Right-to-use lease asset	18,402			18,402
SBITAs	21,450	409,489		430,939
Vehicles	6,081,129	1,924,070	(176,875)	7,828,324
Furniture and fixtures	1,182,189	76,418	(25,226)	1,233,381
Street, drainage improvements	45,042,058	5,704,053		50,746,111
Total capital assets, depreciated	<u>85,578,636</u>	<u>9,152,676</u>	<u>(212,901)</u>	<u>94,518,411</u>
Less accumulated depreciated for:				
Buildings	(12,795,999)	(1,118,583)		(13,914,582)
Improv other than buildings	(189,808)	(27,947)		(217,755)
Machinery and equipment	(6,338,295)	(544,063)	10,800	(6,871,558)
Right-to-use lease asset	(4,645)	(4,585)		(9,230)
SBITAs	(6,229)	(138,453)		(144,682)
Vehicles	(4,744,633)	(451,326)	176,875	(5,019,084)
Furniture and fixtures	(1,114,321)	(43,053)	25,226	(1,132,148)
Street, drainage improvements	(10,347,847)	(930,603)		(11,278,450)
Total accumulated depreciation	<u>(35,541,777)</u>	<u>(3,258,613)</u>	<u>212,901</u>	<u>(38,587,489)</u>
Total capital assets, being depreciated net	<u>50,036,859</u>	<u>5,894,063</u>		<u>55,930,922</u>
Total net governmental activities	<u>\$68,760,180</u>	<u>\$ 9,635,521</u>	<u>\$ (6,175,822)</u>	<u>\$72,219,879</u>

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

	Balance 10/01/2022	Increases	Decreases	Balance 09/30/2023
Business-Type Activities:				
Capital assets, not depreciated:				
Land	\$ 292,236			\$ 292,236
Construction in progress	3,203,313	2,318,232	(122,122)	5,399,423
Total capital assets, not depreciated	3,495,549	2,318,232	(122,122)	5,691,659
Capital assets, being depreciated:				
Buildings and lift stations	3,257,749			3,257,749
Improv other than buildings	24,872			24,872
Machinery and equipment	3,510,516	76,024	(18,850)	3,567,690
Vehicles	779,477	102,059		881,536
Furniture and fixtures	12,375		(1,596)	10,779
Water, sewer, drainage systems	61,036,356	84,630		61,120,986
Total capital assets, depreciated	68,621,345	262,713	(20,446)	68,863,612
Less accumulated depreciated for:				
Buildings and lift stations	(1,948,733)	(79,328)		(2,028,061)
Improv other than buildings	(24,872)			(24,872)
Machinery and equipment	(2,506,760)	(254,296)	18,850	(2,742,206)
Vehicles	(667,282)	(58,105)		(725,387)
Furniture and fixtures	(12,375)		1,596	(10,779)
Water, sewer, drainage systems	(16,214,593)	(1,057,885)		(17,272,478)
Total accumulated depreciation	(21,374,615)	(1,449,614)	20,446	(22,803,783)
Total capital assets, being depreciated net	47,246,730	(1,186,901)		46,056,829
Total net business-type activities	\$50,742,279	\$ 1,131,331	\$ (122,122)	\$51,751,488

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

Governmental activities:	
General governmental	\$ 619,781
Public safety	1,167,599
Highways and streets, including depreciation of infrastructure	1,020,938
Culture and recreation	446,643
Economic development and assistance	3,652
Total depreciation expense – governmental activities	<u>\$ 3,258,613</u>
Business-type activities:	
Water and sewer, drainage utility, and sanitation	<u>\$ 1,449,614</u>
Total depreciation expense – business-type activities	<u>\$ 1,449,614</u>

D. Defined benefit pension plans

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

1. Texas Municipal Retirement System Plan

a. Plan Description

The City of Harker Heights participates as one of 919 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple employer retirement system for employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report that can be obtained at tmrs.com.

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

b. Benefits Provided

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

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions with interest, the city-financed monetary credits with interest, and their age at retirement and other actuarial factors. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

As an employee with the City, you are vested after five years of service. Members reach retirement eligibility once they are vested and age 60 or they have served twenty years and have reached any age. Employees have a 7% deposit rate and the City matches that 2 to 1.

At the December 31, 2022, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	119
Inactive employees entitled to but not yet receiving benefits	177
<u>Active employees</u>	<u>220</u>
Total	516

c. Contributions

Member contribution rates in TMRS are either 5%, 6%, or 7% of the Member's total compensation, and the city matching percentages are either 1:1 (1 to 1), 1.5:1 (1½ to 1), or 2:1 (2 to 1), both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The city's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees for the City of Harker Heights were required to contribute 7% of their annual compensation during the fiscal year. The contribution rates for the City of Harker Heights were 14.63% and 15.22% in calendar years 2022 and 2023 respectively. The city's contribution to TMRS for the year ended September 30, 2023, was \$2,188,063, and was equal to the required contributions. Typically, the general fund has been used in prior years to liquidate such amounts in the governmental funds.

d. Net Pension Liability

The city's Net Pension Liability (NPL) was measured as of December 31, 2022, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumption. The Total Pension Liability in the December 31, 2022, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year, adjusted down for population declines, if any
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Forfeiture rates (withdrawal of Member deposits) for vested members vary by age and employer match and end at first eligibility for retirement. The withdrawal rates for cities with a 2 to 1 match are shown below:

Age	Percent of Terminating Employees Choosing to Take a Refund
25	40.2%
30	40.2%
35	40.2%
40	37.0%
45	31.6%
50	26.1%
55	20.7%

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2023 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Public Equity	35.0%	7.7%
Core Fixed Income	6.0%	4.9%
Non-Core Fixed Income	20.0%	8.7%
Other Public and Private Markets	12.0%	8.1%
Real Estate	12.0%	5.8%
Hedge Funds	5.0%	6.9%
Private Equity	10.0%	11.8%
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 Member and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive Members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Development of Single Discount Rate		
Single Discount Rate	Long-Term Expected Rate of Return	Long-Term Municipal Bond Rate*
6.75%	6.75%	4.05%

*The rate is based on the Fidelity 20-Year Municipal GO AA Index daily rate closest to but not later than the Measurement Date.

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balance at 12/31/2021	\$67,073,375	\$61,512,702	\$ 5,560,673
Changes for the year:			
Service Cost	2,369,461		2,369,461
Interest	4,527,426		4,527,426
Difference between expected and actual experience	399,124		399,124
Contributions – employer		2,023,655	(2,023,655)
Contributions – employee		968,256	(968,256)
Net investment income		(4,494,338)	4,494,338
Benefit payments, incl. refunds of employee contributions	(2,370,249)	(2,370,249)	
Administrative expense		(38,856)	38,856
Other changes		46,367	(46,367)
Net changes	4,925,762	(3,865,165)	8,790,927
Balance at 12/31/2022	\$71,999,137	\$57,647,537	\$14,351,600

Sensitivity of the Net Pension Liability to Changes in the Discount Rate. The following presents the Net Pension Liability of the city, calculated using the discount rate of 6.75%, as well as what the city's Net Pension Liability would be if it were calculated using a discount rate that is 1 percentage point lower (5.75%) or 1 percentage 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	\$25,901,919	\$14,351,600	\$5,058,794

Pension Plan Fiduciary Net Position. Detailed information about the pension plan's Fiduciary Net Position is available in the Schedule of Changes in Fiduciary Net Position by Participating City. That report may be obtained at tmrs.com.

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

For the year ended September 30, 2023, the city recognized pension expense of \$3,100,422.

At September 30, 2023, 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
Difference between expected and actual economic experience	\$ 894,883	\$ (66,059)
Changes in actuarial assumptions	15,694	
Difference between projected and actual investment earnings	3,992,946	
Contributions subsequent to the measurement date	1,617,656	
Total	\$ 6,521,179	\$ (66,059)

\$1,617,656 reported as deferred outflows of resources related to pensions resulting from contributions made subsequent to the measurement date will be recognized as a reduction of the Net Pension Liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2024	\$ 570,107
2025	1,328,426
2026	1,209,642
2027	1,729,289
Total	\$ 4,837,464

The current year adjustment to pension expense in the Sanitation Fund included a significant debit due to various factors. The adjustment caused an increase in payroll expenses in that fund. Without that debit, payroll expenses in the Sanitation Fund would have been \$58,277.

The current year adjustment to pension expense in the Drainage Fund included a significant credit due to various factors. This adjustment caused a reduction of payroll expenses in that fund. Without that credit, payroll expenses in the Drainage Fund would have been \$97,393.

Additional schedules can be found in the required supplementary information section on pages 78-81.

2. Supplemental Death Benefits Plan

a. Plan Description

The Texas Municipal Retirement System (TMRS) administers an optional death benefit plan, the Supplemental Death Benefits Fund (SDBF), which operates like a group-term life insurance plan. This is a voluntary program in which participating member cities elect, by ordinance, to provide supplemental death benefits for their active Members with optional coverage for their retirees. The death benefit for active Members provides a lump-sum payment approximately equal to the Member's annual salary (calculated based on the Member'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. 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).

The participating city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. 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. 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. As such, contributions fund the covered active Member and retiree deaths on a pay-as-you-go basis. Typically, the general fund has been used in prior years to liquidate such amounts in the governmental funds.

b. Benefits Provided

TMRS will pay an employee's designated beneficiary or estate a benefit approximately equal to their current annual salary plus any retirement benefits due if they pass away while employed with the city. If an employee retires with TMRS, a supplemental death benefit in the amount of \$7,500 will be paid upon their death in addition to any remaining retirement benefits.

At the December 31, 2022, valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	92
Inactive employees entitled to but not yet receiving benefits	60
<u>Active employees</u>	<u>220</u>
Total	372

c. Contributions

Plan / Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of SDB Contribution (Rate)
2023	0.26%	0.09%
2022	0.15%	0.07%
2021	0.15%	0.06%
2020	0.15%	0.02%
2019	0.14%	0.02%

Due to the SDBF being considered an unfunded OPEB plan, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

In order to determine the retiree portion of the City's Supplemental Death Benefit Plan contributions (that which is considered OPEB), the City should perform the following calculation:

$$\text{Total covered payroll} * \text{Retiree portion of SDB contribution (rate)}$$

Consideration should be given to the time period of contributions incurred (i.e. City's fiscal year versus calendar year) to ensure the proper contribution rate is utilized in the above calculation.

d. Actuarial Assumptions

The actuarial assumptions used in the December 31, 2022, valuation were based on the results of an actuarial experience study for the period December 31, 2014 to December 31, 2018. The discount rate shown was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2021.

Inflation	2.50% per year
Salary increases	3.50% to 11.50% including inflation
Discount rate	4.05%
Retirees' share of benefit-related costs	\$0
Administrative expenses	Paid through the Pension Trust and accounted for under reporting requirements of GASB Statement No. 68
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables
Mortality rates – disable retirees	2019 Municipal Retirees of Texas Mortality Tables with 4-year set-forward for males and 3-year set-forward for females.

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 2.00%, as well as what the city's OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (1.00%) or 1 percentage higher (3.00%) than the current rate:

	1% Decrease in Discount Rate (3.05%)	Discount Rate (4.05%)	1% Increase in Discount Rate (5.05%)
City's Total OPEB SDB Liability	\$669,314	\$548,577	\$456,201

For the year ended September 30, 2023, the City recognized Supplemental Death OPEB expense of \$35,518. The combined supplemental death benefit OPEB expense and health OPEB expense is \$61,446.

TOTAL OPEB SDB EXPENSE	
Changes for the year:	
Service Cost	\$ 48,413
Interest on total OPEB liability	15,723
Recognition of deferred outflows / inflows of resources:	
Differences between expected and actual experience	(13,402)
Changes in assumptions or other inputs ¹	(15,216)
Total OPEB SDB expense	\$ 35,518

¹Generally, this will only be the annual change in the municipal bond index rate.

As of the valuation date, total supplemental death benefit OPEB liability was as follows:

TOTAL OPEB SDB LIABILITY	
Balance at 12/31/2021	\$ 835,121
Changes for the year:	
Service Cost	48,413
Interest on total OPEB liability	15,723
Difference between expected and actual experience	(21,707)
Changes in assumptions or other inputs	(319,290)
Benefit payments*	(9,683)
Net changes	(286,544)
Total OPEB SDB Liability at 12/31/2022	\$ 548,577

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

e. Deferred Outflows of Resources and Deferred Inflows of Resources Related to Total OPEB Liability

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to total OPEB liability from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual economic experience	\$ 4,234	\$ (41,989)
Changes in actuarial assumptions	106,323	(268,225)
Contributions subsequent to the measurement date	9,566	
Total	\$ 120,123	\$ (310,214)

\$9,566 reported as deferred outflows of resources related to total OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2023. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2024	\$ (34,104)
2025	(32,743)
2026	(47,304)
2027	(58,509)
2028	(26,997)
Total	\$ (199,657)

Additional schedules can be found in the required supplementary information section on pages 82-85.

3. Deferred Compensation Plan

On July 29, 1986, the City entered into an agreement with the United States Conference of Mayors to participate in the administration of a deferred compensation plan derived from Section 457 of the Internal Revenue Code. The plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Investments, other than annuity contracts, are held in a custodial account, the assets of which are held by Bank One Trust Company, N.A. as custodian for the exclusive benefit of participants and the beneficiaries thereof of the Plan. The City's USCM Deferred Compensation Program is administered by Nationwide Retirement Solutions. Except as may otherwise be permitted or required by law, no assets or income of the Plan shall be used for, or diverted to, purposes other than for the expenses of the administration of the Plan. The assets amounted to \$4,394,169 as of September 30, 2023.

It is the opinion of the City's management that the City has no liability for losses under the Plan but does have the duty of due care that would be required of an ordinary prudent investor. The City provides limited administrative duties. In accordance with GASB Statement No. 32, the Plan is not included in the City's financial statements.

4. Other Post-Employment Benefit (OPEB) Plan

a. Plan Description

In addition to the pension benefits described above, as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City through a single employer defined benefit healthcare plan. This plan covers both active and retiree benefits with no segregation of assets, and therefore, does not meet the definition of a trust under GASB No. 75, paragraph 4b (i.e., no assets are accumulated for OPEB). This health care plan provides lifetime insurance, or until age 65 if eligible for Medicare, to eligible retirees, their spouses, and dependents through the City's group health insurance plan, which also covers active and retired members. Benefit provisions are established and administered by management.

b. Covered Employees

At the September 30, 2023, valuation and measurement date, the following employees were covered by the benefit terms:

Active employees	223
<u>Retired employees</u>	<u>7</u>
Total	230

Future retirees are eligible to remain in the health plan at the total blended contribution rate for participants.

c. Contributions

The full monthly premium rates for retirees as of October 1, 2022, for each plan are shown below:

Rate Tier	Health (Premier)	Health (Plus)	Vision	Vision (Buy Up)	Dental (Low)	Dental (High)
Subscriber Only	\$ 559.51	\$ 602.90	\$ 3.85	\$ 6.23	\$ 19.24	\$ 22.14
With Spouse	1,311.89	1,413.63	7.23	11.70	38.32	44.09
With Child(ren)	951.76	1,025.57	7.64	12.36	52.05	66.23
With Family	1,619.90	1,745.51	11.91	19.27	77.79	97.09

d. Actuarial Assumptions

The other post-employment benefit (OPEB) liability in September 30, 2023 actuarial valuation was determined using the following actuarial assumptions:

Discount rate	4.87%, including inflation
Salary increase rate	3.50% including inflation
Inflation rate	2.50% per year
Healthcare cost trend rate	6.80% initial trend rate for pre-65 retirees decreasing to an ultimate rate of 4.14% in the year 2041
Mortality rates	Public Plan mortality Study with generational mortality improvement scale MP-2021
Actuarial method	Individual Entry Age Normal Cost Method – Level Percentage of Projected Salary

The following medical and pharmacy healthcare trend rates are based upon recent experience and projected future cost increases made of components such as price inflation, utilization, and new treatments and pharmacy offerings. The initial year includes a component for expected increases in costs due to COVID-19.

Year Ending	Rate
2023	6.80%
2024	6.51%
2025	6.21%
2026	5.92%
2027	5.72%
2028	5.42%
2029	5.13%
2030	4.83%
2031	4.63%
2032	4.34%
2033-2040	4.24%
2041+	4.14%

Additional healthcare assumptions include per capita benefit costs, participation rate assumptions, administrative expenses, and stop loss premiums.

At September 30, 2023, the City's OPEB expense is as follows:

TOTAL OPEB EXPENSE	
Changes for the year:	
Service Cost	\$ 34,591
Interest on total OPEB liability	29,478
Difference between expected and actual experience	(6,296)
Change in assumptions	(31,845)
Change in benefit terms	
Total OPEB expense	\$ 25,928

At September 30, 2023, the City's OPEB liability is as follows:

Changes in Net OPEB Liability	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) – (b)
Balance at 10/01/2022	\$ 603,939		\$ 603,939
Changes for the year:			
Service Cost	34,591		34,591
Interest on total OPEB liability	29,478		29,478
Difference between expected and actual experience			
Change in assumptions	(5,124)		(5,124)
Contributions – employer		41,082	(41,082)
Change in benefit terms			
Benefit payments	(41,082)	(41,082)	
Net changes	17,863		17,863
Total OPEB Liability	\$ 621,802		\$ 621,802

Assumption Changes: Since the prior valuation, the discount rate has increased to 4.87% from 4.77%.

The two tables below show the Net OPEB liability along with the liability if a 100-basis point change was made to the discount rate and the healthcare trend rate as of September 30, 2023. The purpose of showing the liability sensitivity information below is to help the statement user understand the volatility in the plan liability resulting from changes in these two key assumptions.

Discount Rate Sensitivity			
	1% Decrease in Discount Rate (3.87%)	Discount Rate (4.87%)	1% Increase in Discount Rate (5.87%)
City's Total OPEB Liability	\$675,256	\$621,802	\$573,281

Healthcare Cost Trend Rate			
	1% Decrease for All Years	Trend Rate for All Years	1% Increase for All Years
City's Total OPEB Liability	\$553,501	\$621,802	\$704,841

e. Total OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2023, the City recognized health OPEB expense of \$25,928. The combined supplemental death OPEB expense and health OPEB expense is \$61,446.

At September 30, 2023, the City reported deferred outflows of resources and deferred inflows of resources related to total OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experiences		\$ (37,775)
Changes of assumptions	78,813	(207,548)
Total	\$ 78,813	\$ (245,323)

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

Year ended September 30:	
2024	\$ (38,141)
2025	(38,141)
2026	(38,141)
2027	(19,409)
2028	(15,804)
2029	(16,237)
2030	(637)
Total	\$ (166,510)

Additional schedules can be found in the required supplementary information section on pages 86-89.

E. Construction and other significant commitments

Construction commitments. The City has active construction projects as of September 30, 2023 as follows:

Project	Expenditures to Date	Remaining Commitment (Encumbrance)
Mountain Lion Road Drainage Flume at Pontiac Trail - Engineering	\$ 4,000	\$ 6,400
Beeline Drive Waterline Replacement - Engineering	19,550	65,600
Beeline Drive Sewer Replacement – Construction	562,472	101,564
Warrior's Path Phase 2 – Engineering	341,753	129,965
2023 Street Improvements - Engineering	46,800	98,200
Emergency Generators (Senate Bill 3) – Engineering	57,544	329,131
Wastewater Treatment Plant Barscreen Improvements	11,125	94,260
Emergency Generator and Aeration Blower Replacement - Engineering	100,040	79,960
Addition of Third 200 GPM Waste Activated Sludge Pump – Engineering	8,965	21,535
1,000 Gallon Hydropneumatic Tank – Engineering	8,150	19,850
Ultraviolet Disinfection Equipment – Engineering	26,081	63,919
Water and Wastewater Improvements at Cardinal Lane – Engineering	68,750	28,500
Wastewater Improvements at Harley Drive – Engineering	8,768	15,420
Roy Reynolds Bridge Stabilization - Engineering	18,000	12,000
Public Works Street Yard Building - Architectural Design	8,172	7,428
CIP Priority #1 Goode Connell Detention Pond – Engineering	37,500	21,500
CIP Priority #2 Phases 2, 3 and 4 - Engineering	153,500	82,500
Rummel Road Lift Station Upgrade – Engineering	292,871	29,129
Rummel Road Lift Station Upgrade – Construction	2,194,431	400,219
Wastewater Impact Fee II Study	0	60,200
Second Belt Press at Sludge Dewatering Building - Engineering	94,785	9,215
Second Belt Press at Sludge Dewatering Building - Construction	943,722	11,533
Splash Pad at Kern Park – Grant Consultants	5,000	20,000
Jorgette Drive Channel Scour – Engineering	30,000	25,000
Fuller Lane/Tye Valley Culvert Replacement - Engineering	31,600	2,100
Fuller Lane/Tye Valley Culvert Replacement – Construction	138,756	32,209
Preswick/Cedar Oaks Channel Improvements - Engineering	26,110	7,090
Preswick/Cedar Oaks Channel Improvements – Construction	139,373	142,070
Bulk Solid Waste Collection Center – Engineering	35,440	44,060
Dog Run Kennels	0	49,834
HVAC Installation at the Library/Activities Center	0	262,578
Total	\$ 5,413,258	\$ 2,272,969

As discussed in Note I.D. Budgetary Information, encumbrances in the capital projects fund stretch over fiscal years and become part of the subsequent fiscal year's budget. This allows for effective budgetary control and accountability and to facilitate effective cash planning and control.

Water service contracts. The City has an agreement to purchase water service from Bell County Water Control and Improvement District No. 1 (WCID No. 1), Killeen, Texas, until December 31, 2041, when WCID No. 1's bonds are paid. WCID No. 1 agrees to deliver and meter water required by the city. WCID No. 1 bills for water purchased at rates that are reviewed and adjusted periodically. The rates are determined by amounts necessary to retire WCID No. 1's debt and to cover maintenance and operating expenses. During the fiscal year ended September 30, 2023, the City purchased 1,822,180,000 gallons of water from WCID No. 1 for a total charge of \$2,940,824. The City also paid \$157,581 for an option to purchase future water from WCID No. 1. An additional payment of \$182,161 was made to WCID No. 1 to provide for additional funding to cover a 10MW standby generation option versus a 7.5MW option.

In addition, the City has two contracts with the Brazos River Authority (BRA) to pay annually for the water made available to the City at a price equal to the product of multiplying the system rate time 3,235-acre feet and 300-acre feet of water per fiscal year. This was agreed to be made available to the City by the BRA from the system regardless of whether, or how much of, said water is diverted and used by the City. The City paid the BRA \$330,523 for water which can be pumped directly into the South Water Plant.

Sanitation service contract. On February 11, 2020, the City amended its sanitation contract with Waste Management of Texas, Inc. (WM) to begin polycart services for residential and light commercial collections. Polycarts are rubber-wheeled receptacles designed for automated or semi-automated solid waste collection systems. WM also provides for "garage door" special collection services to disabled residents that have received approval. Residential and light commercial billing will be handled by the City and WM will handle commercial and industrial billing as well as remit a five percent franchise fee to the City.

F. 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; and natural disasters. The City is a member of the Texas Municipal League Intergovernmental Risk Pool (TML-IRP), a public entity risk pool currently operating as a common risk management and insurance program for member cities. The City pays an annual premium to TML-IRP for its general insurance, real and personal property, liability, worker's compensation, errors and omissions, and supplemental sewer coverages. The agreement for formation for TML-IRP provides that TML-IRP will be self-sustaining through member premiums.

G. Long-term liabilities

Revenue bonds are payable from a specific source of revenue and do not affect the tax rate. Revenue bonds typically have a “coverage” requirement pursuant to the bond covenants. Coverage is the ratio of net pledged revenues to related debt service for a specific year.

Purpose	Year of Issue	Final Maturity	Original Borrowing	Interest Rate	Outstanding at 09/30/2023
Governmental activities					
Municipal improvements	2005	2025	\$1,000,000	4.550%	\$ 150,000
Municipal improvements	2008	2028	6,000,000	4.190%	2,200,000
Municipal improvements	2014	2034	6,000,000	1.500-4.000%	4,090,000
Municipal improvements	2017	2037	4,930,000	3.250-4.000%	4,265,000
Municipal improvements	2018	2038	3,000,000	3.000-3.125%	2,570,000
Municipal improvements	2019	2039	3,000,000	3.000-3.500%	3,000,000
Total governmental activities					<u>\$16,275,000</u>
Business-type activities					
Utility improvements	2004	2024	2,000,000	3.980-4.837%	\$ 125,000
Utility improvements	2008	2028	2,000,000	4.190%	725,000
Utility improvements	2014	2034	3,000,000	1.500-4.000%	1,955,000
Utility improvements	2017	2037	985,000	3.250-4.000%	850,000
Utility improvements	2019	2039	1,000,000	3.000-3.500%	1,000,000
Subtotal water / sewer					<u>4,655,000</u>
Drainage improvements	2008	2028	1,500,000	4.190%	500,000
Drainage improvements	2018	2038	3,000,000	3.000-3.125%	2,575,000
Subtotal drainage					<u>3,075,000</u>
Total business-type activities					<u>\$ 7,730,000</u>

General obligation bonds are backed by the full faith and credit of the City; in other words, the bonds are guaranteed by a pledge of taxes. General obligation bonds outstanding at September 30, 2023, are as follows:

Purpose	Year of Issue	Final Maturity	Original Borrowing	Interest Rate	Outstanding at 09/30/2023
Governmental activities					
Refund 2006	2015	2027	\$5,845,000	3.000-4.000%	\$ 3,200,000
Refund 2011	2020	2031	4,075,000	1.192%	3,565,000
Total governmental activities					<u>\$ 6,765,000</u>
Business-type activities					
Refund 2006	2015	2027	2,555,000	3.000-4.000%	\$ 1,400,000
Refund 2006, 2009	2016	2029	4,485,000	2.000-4.000%	2,160,000
Refund 2011	2020	2031	1,990,000	1.192%	1,505,000
Total business-type activities					<u>\$ 5,065,000</u>

The City’s combination tax and revenue certificates of obligation are secured by a lien on ad valorem taxes on all taxable property within the City. The certificates are additionally payable from and secured by a limited pledge of \$1,000 on the net revenues of the City’s waterworks and sewer system. Should the City default on these bonds, any registered owner of the certificates is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring specific performance from the City.

The City's direct borrowings (financed purchase agreements) are secured by the financed equipment as collateral.

Advance refunding:

Series 2020 General Obligation Refunding Bonds. On May 21, 2020, the City issued \$6,065,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with an interest rate of 1.192% to advance refund \$5,975,000 of outstanding bonds. The \$5,975,000 refunded \$4,015,000 of 2011 Series Tax and Utility System Revenue Certificates of Obligation with interest rates of 2.750% to 4.000% which was governmental activity debt and \$1,960,000 which was water and sewer fund debt. The net proceeds of \$6,086,988 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$5,975,000 of refunded debt. As a result, the refunded certificates of obligation are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by \$75,252 for governmental activities and \$36,744 for the water and sewer fund. These amounts were expensed as interest.

Series 2016 General Obligation Refunding Bonds. On March 21, 2016, the City issued \$6,470,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 2.000% to 4.000% to advance refund \$6,620,000 of outstanding bonds. The \$6,620,000 refunded \$1,995,000 of 2006 Series Tax and Utility System Revenue Certificates of Obligation with interest rates of 4.000% to 4.250% which was governmental activity debt and \$4,625,000 in the water and sewer fund which included \$875,000 of 2006 Series Tax and Utility System Revenue Certificates of Obligation with interest rates from 4.000% to 4.250% and \$3,750,000 of 2009 Series Tax and Utility System Revenue Certificates of Obligation with interest rates from 3.500% to 4.500%. The net proceeds of \$6,987,863 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$6,620,000 of refunded debt. As a result, the refunded certificates of obligation are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by \$113,561 for governmental activities and \$257,948 for the water and sewer fund. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from the general obligation bonds payable, is being charged to operations through the year 2020 for the governmental and 2029 for the water and sewer fund using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2023, is \$111,290 for the water and sewer fund.

Series 2015 General Obligation Refunding Bonds. On March 11, 2015, the City issued \$8,400,000 in general obligation refunding bonds from the debt service fund and the water and sewer fund with interest rates of 3.000% to 4.000% to advance refund \$8,870,000 of outstanding bonds. The \$8,870,000 refunded \$6,175,000 of 2006 Series Tax and Utility System Revenue Certificates of Obligation with interest rates of 4.375% to 4.500% which was governmental activity debt and \$2,695,000 in the water and sewer fund of 2006 Series General Obligation Refunding Bonds with an interest rate of 4.375% to 4.500%. The net proceeds of \$9,409,776 were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of \$8,870,000 of refunded debt. As a result, the refunded certificates of obligation and general obligation refunding bonds are considered to be defeased and the liability has been removed from the long-term debt of the water and sewer fund and government-wide statement of activities.

The reacquisition price exceeded the net carrying amount of the old debt by \$457,001 for governmental activities and \$175,770 for the water and sewer fund. This amount is being netted against the new debt and amortized over the new debt's life, which is the same as the life of the refunded debt. This difference, reported in the accompanying financial statements as a deduction from the general obligation bonds payable, is being charged to operations through the year 2027 using the proportionate-to-stated interest method. The remaining unamortized balance at September 30, 2023, is \$69,702 for governmental activities and \$26,806 for the water and sewer fund.

CITY OF HARKER HEIGHTS
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2023

Legal debt margin. The City is subject to a debt limit that is 7% of the five-year average of the full valuation of taxable real property. At September 30, 2023, that amount was \$187,266,392. As of September 30, 2023, the total outstanding debt applicable to the limit was \$23,187,972, which is 87.62% of the total debt limit.

Changes in long-term liabilities. Changes in the City's long-term liabilities for the year ended September 30, 2023, are as follows:

	Balance 10/01/2022	Additions	Reductions	Balance 09/30/2023	Due Within One Year
Governmental activities					
Certificates of obligation					
Competitive placement	\$14,505,000		\$ (580,000)	\$13,925,000	\$ 765,000
Private placement	2,810,000		(460,000)	2,350,000	480,000
General obligations					
Competitive placement	4,330,538		(1,130,538)	3,200,000	755,000
Private placement	3,740,000		(175,000)	3,565,000	420,000
Premium on bonds	282,053		(72,673)	209,380	
Discount on bonds	(18,909)		2,550	(16,359)	
Net governmental bonds payable	25,648,682		(2,415,661)	23,233,021	2,420,000
Finance purchase agreement	242,842		(81,000)	161,842	81,000
Leases	13,756		(4,676)	9,080	4,718
SBITAs		430,939	(113,330)	317,609	134,813
Compensated absences	870,000	861,751	(823,276)	908,475	715,228
Total governmental long-term liabilities	26,775,280	1,292,690	(3,437,943)	24,630,027	3,355,759
Business-type activities					
Certificates of obligation					
Competitive placement	6,695,000		(315,000)	6,380,000	335,000
Private placement	1,725,000		(375,000)	1,350,000	350,000
General obligations					
Competitive placement	4,699,462		(1,139,462)	3,560,000	645,000
Private placement	1,670,000		(165,000)	1,505,000	180,000
Premium on bonds	307,180		(60,295)	246,885	
Discount on bonds	(9,430)		1,272	(8,158)	
Net business-type bonds payable	15,087,212		(2,053,485)	13,033,727	1,510,000
Compensated absences	40,000	38,888	(30,154)	48,734	35,933
Total business-type long-term liabilities	15,127,212	38,888	(2,083,639)	13,082,461	1,545,933
Total government liabilities	\$41,902,492	\$ 1,331,578	\$ (5,521,582)	\$37,712,488	\$ 4,901,692

The City's combination tax and revenue certificates of obligation are secured by a lien on ad valorem taxes on all taxable property within the City. The certificates are additionally payable from and secured by a limited pledge of \$1,000 on the net revenues of the City's waterworks and sewer system. Should the City default on these bonds, any registered owner of the certificates is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring specific performance from the City.

The City's direct borrowings (financed purchase agreements) are secured by the financed equipment as collateral.

The annual debt service requirements to maturity for each bond or debt type are as follows:

Certificates of Obligation Payable – Competitive Placement:

Year Ending September 30	Governmental Activities		Business-Type Activities		
	Principal	Interest	Principal	Interest	Total
2024	\$ 765,000	\$ 434,378	\$ 335,000	\$ 198,525	\$ 1,732,903
2025	790,000	410,903	345,000	188,881	1,734,784
2026	785,000	385,865	360,000	178,594	1,709,459
2027	750,000	362,315	365,000	167,793	1,645,108
2028	985,000	340,220	450,000	156,926	1,932,146
2029-2033	5,470,000	1,229,605	2,505,000	567,426	9,772,031
2034-2038	4,080,000	400,535	1,920,000	185,953	6,586,488
2039-2043	300,000	10,500	100,000	3,500	414,000
Total	<u>\$13,925,000</u>	<u>\$ 3,574,321</u>	<u>\$ 6,380,000</u>	<u>\$ 1,647,598</u>	<u>\$25,526,919</u>

Certificates of Obligation Payable – Private Placement:

Year Ending September 30	Governmental Activities		Business-Type Activities		
	Principal	Interest	Principal	Interest	Total
2024	\$ 480,000	\$ 97,299	\$ 350,000	\$ 57,374	\$ 984,673
2025	495,000	76,917	235,000	41,900	848,817
2026	440,000	57,612	245,000	32,054	774,666
2027	460,000	39,176	255,000	21,788	775,965
2028	475,000	19,903	265,000	11,104	771,007
Total	<u>\$ 2,350,000</u>	<u>\$ 290,907</u>	<u>\$ 1,350,000</u>	<u>\$ 164,220</u>	<u>\$ 4,155,127</u>

General Obligation Payable – Competitive Placement:

Year Ending September 30	Governmental Activities		Business-Type Activities		
	Principal	Interest	Principal	Interest	Total
2024	\$ 755,000	\$ 124,075	\$ 645,000	\$ 140,675	\$ 1,664,750
2025	785,000	93,875	680,000	114,875	1,673,750
2026	815,000	66,400	705,000	89,400	1,675,800
2027	845,000	33,800	740,000	61,200	1,680,000
2028			385,000	31,600	416,600
2029-2033			405,000	16,200	421,200
Total	<u>\$ 3,200,000</u>	<u>\$ 318,150</u>	<u>\$ 3,560,000</u>	<u>\$ 453,950</u>	<u>\$ 7,532,100</u>

General Obligation Payable – Private Placement:

Year Ending September 30	Governmental Activities		Business-Type Activities		
	Principal	Interest	Principal	Interest	Total
2024	\$ 420,000	\$ 42,494	180,000	17,940	\$ 660,434
2025	430,000	37,488	180,000	15,794	663,282
2026	435,000	32,363	190,000	13,648	671,011
2027	445,000	27,178	185,000	11,384	668,562
2028	450,000	21,873	190,000	9,178	671,052
2029-2033	1,385,000	33,257	580,000	13,827	2,012,084
Total	<u>\$ 3,565,000</u>	<u>\$ 194,653</u>	<u>\$ 1,505,000</u>	<u>\$ 81,771</u>	<u>\$ 5,346,424</u>

Finance Purchase Agreement Payable:

Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2024	\$ 81,000	\$ 1,895	\$ 82,895
2025	80,842	948	81,790
Total	<u>\$ 161,842</u>	<u>\$ 2,843</u>	<u>\$ 164,685</u>

Leases and Subscription-Based Information Technology Arrangements:

1. Rentals not covered under noncancellable leases

Rental expenditures during the fiscal year ended September 30, 2023, including equipment rentals not covered under noncancellable leases, were \$295,828.

2. Lease payable

On October 1, 2021, the City entered into a 47-month lease as lessee for the use of two copiers through Benchmark Business Solutions. An initial lease liability was recorded in the amount of \$18,402. As of September 30, 2023, the value of the lease liability was \$9,080. The City is required to make monthly principal and interest payments of \$613. The lease has an interest rate of 0.916%. The lessor is the sole owner of the equipment and the City has no intention of purchasing the equipment at the end of the lease term. The value of the right-to-use asset as of September 30, 2023, was \$18,402 with accumulated amortization of \$9,230.

The future principal and interest lease payments as of September 30, 2023, were as follows:

Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2024	\$ 4,718	\$ 64	\$ 4,782
2025	4,362	20	4,382
Total	<u>\$ 9,080</u>	<u>\$ 84</u>	<u>\$ 9,164</u>

3. Subscriptions Payable

During the year ended September 30, 2023, the City implemented GASB Statement No. 96, "Subscription-Based Information Technology Arrangements", the primary objective of which is to enhance the relevance and consistency of information about government's subscription activities. This statement establishes a single model for subscription accounting based on the principle that subscriptions are financings of the right to use an underlying asset. Under this Statement, an organization is required to recognize a subscription liability and an intangible right-to-use subscription asset.

On August 21, 2023, the City entered into a 29-month subscription for the use of Video Inspection Software. An initial subscription liability was recorded in the amount of \$51,650. As of September 30, 2023, the value of the subscription liability is \$50,470. The City is required to make quarterly fixed payments of \$5,822. The subscription has an interest rate of 3.0183%. The value of the right to use asset as of September 30, 2023, was \$51,650 with accumulated amortization of \$2,431.

On May 1, 2023, the City entered into a 64-month subscription for the use of ClearGov Software. An initial subscription liability was recorded in the amount of \$66,975. As of September 30, 2023, the value of the subscription liability is \$61,841. The City is required to make annual fixed payments of \$12,320. The subscription has an interest rate of 3.0183%. The value of the right to use asset as of September 30, 2023, was \$66,975 with accumulated amortization of \$5,152. The City had a termination period of two months as of the subscription commencement.

On November 16, 2022, the City entered into a 24-month subscription for the use of DebtBook Platform. An initial subscription liability was recorded in the amount of \$19,197. As of September 30, 2023, the value of the subscription liability is \$9,447. The City is required to make annual fixed payments of \$9,750. The subscription has an interest rate of 3.2067%. The value of the right to use asset as of September 30, 2023, was \$19,197 with accumulated amortization of \$8,410. The City has one extension option, each for twelve months.

On November 15, 2022, the City entered into a 48-month subscription for the use of Meeting Manager. An initial subscription liability was recorded in the amount of \$46,083. As of September 30, 2023, the value of the subscription liability is \$34,848. The City is required to make annual fixed payments of \$11,235. The subscription has an interest rate of 3.2687%. The value of the right to use asset as of September 30, 2023, was \$46,083 with accumulated amortization of \$10,113. The City has one extension option, each for twelve months.

On October 1, 2022, the City entered into a 25-month subscription for the use of Microsoft Office License. An initial subscription liability was recorded in the amount of \$240,083. As of September 30, 2023, the value of the subscription liability is \$157,573. The City is required to make annual fixed payments of \$82,596. The subscription has an interest rate of 3.2067%. The value of the right to use asset as of September 30, 2023, was \$240,083 with accumulated amortization of \$115,240. The City has one extension option, each for 36 months.

On October 1, 2022, the City entered into a 25-month subscription for the use of Microsoft Office License (2). An initial subscription liability was recorded in the amount of \$6,097. As of September 30, 2023, the value of the subscription liability is \$3,008. The City is required to make annual fixed payments of \$3,105. The subscription has an interest rate of 3.2067%. The value of the right to use asset as of September 30, 2023, was \$6,097 with accumulated amortization of \$2,927. The City has one extension option, each for 36 months.

On October 1, 2022, the City entered into a 25-month subscription for the use of Microsoft Office License (3). An initial subscription liability was recorded in the amount of \$854. As of September 30, 2023, the value of the subscription liability is \$422. The City is required to make annual fixed payments of \$435. The subscription has an interest rate of 3.2067%. The value of the right to use asset as of September 30, 2023, was \$854 with accumulated amortization of \$409. The City has one extension option, each for 36 months.

The future principal and interest SBITA payments as of September 30, 2023, were as follows:

Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2024	\$ 134,813	\$ 8,475	\$143,288
2025	125,839	5,119	130,958
2026	30,551	1,347	31,898
2027	12,853	610	13,463
2028	13,553	313	13,866
Total	<u>\$ 317,609</u>	<u>\$ 15,864</u>	<u>\$ 333,473</u>

H. Interfund receivables and payables

Due to/from other funds. The composition of interfund balances as of September 30, 2023, is as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water and Sewer Fund	\$ 623,049
	Sanitation Fund	201,618
	Drainage Utility Fund	5,785
	Capital Projects Fund	820,337
	Debt Service Fund	11,419
	Hotel/Motel Fund	5,625
	Coronavirus Fund	446,038
Water and Sewer Fund	General Fund	48,176
	Capital Projects Fund	2,810,924
Drainage Utility Fund	General Fund	2,576
	Capital Projects Fund	3,140,914
Sanitation Fund	General Fund	1,576
Capital Projects Fund	General Fund	17,894
	Water and Sewer Fund	3,837,940
	Drainage Utility Fund	865,805
Restricted Courts Fund	General Fund	355
Total		<u>\$ 12,840,031</u>

The General Fund receivables represent outstanding amounts for direct costs for the operations of the payable funds but are paid through the General Fund. The Water and Sewer Fund receivable from the Capital Project Fund represents the outstanding amount for the capital projects pending completion funded through the issuance of the Series 2019 Certificates of Obligation. The Drainage Fund receivable from the Capital Project Fund represents the outstanding amount for capital projects pending completion funded through the issuance of the Series 2018 Certificates of Obligation. The Capital Projects receivable is the amount of Water and Sewer and Drainage Fund projects that have already been completed using the bonds that have been issued.

I. Interfund transfers

Transfers to/from other funds. The composition of interfund transfers for the year ended September 30, 2023, is as follows:

Transfer In Fund	Transfer Out Fund	Amount
General Fund	Water and Sewer Fund	\$ 75,000
	Sanitation Fund	100,000
	Drainage Utility Fund	100,000
Water and Sewer Fund	Capital Projects Fund	506,412
	Coronavirus Fund	1,108,632
Sanitation Fund	Coronavirus Fund	35,440
Drainage Utility Fund	Capital Projects Fund	8,503
	Coronavirus Fund	330,469
Capital Projects Fund	General Fund	3,500,000
	Water and Sewer Fund	50,000
	Drainage Utility Fund	300,000
Debt Service Fund	General Fund	50,000
Total		<u>\$ 6,164,456</u>

Transfers to the General Fund are used for indirect costs deemed necessary for operations of the transferring funds but are paid through the General Fund. Transfers to the Capital Projects Fund are used for the funding of capital assets.

J. Contingencies

The City participates in various federal grant programs, the principal of which are subject to program compliance audits pursuant to the Single Audit Act as amended. Accordingly, the City's compliance with applicable grant requirements will be established at a future date. The amount of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although the City anticipates such amounts, if any, will be immaterial.

K. Chapter 380 Agreements

Chapter 380 of the Local Government Code authorizes municipalities to offer incentives designed to promote economic development such as commercial and retail projects. It specifically provides for the use of public money to promote local economic development and to stimulate business and commercial activity within the city. Businesses with a 380 Agreement with the City are eligible to receive a reimbursement of property and/or sales and use taxes paid for the year if they have met the requirements outlined in the agreement. For the fiscal year ended September 30, 2023, the City did not issue any reimbursements.

IV. OTHER INFORMATION

A. Related party

During the year, the City will mail items through a business that is owned and operated by a City Council member. There is no amount outstanding as owed to the business at September 30, 2023, as employees utilize city issued credit cards as payment to this vendor. Total payments made to the business during the 2023 fiscal year were \$698. The City Council member has complied with all conflict of interest requirements.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION



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_____, 2024

City of Harker Heights, Texas
Combination Tax and Revenue Certificates of Obligation, Series 2024

Ladies and Gentlemen:

We have acted as bond counsel to the City of Harker Heights, Texas (the “City”) in connection with the issuance of \$_____ aggregate principal amount of certificates of obligation designated as “City of Harker Heights, Texas Combination Tax and Revenue Certificates of Obligation, Series 2024” (the “Certificates”). The Certificates are authorized by an Ordinance adopted by the City Council of the City (the “Council”) on May 14, 2024 (the “Ordinance”). Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Ordinance.

In such connection, we have reviewed the Ordinance, the tax certificate of the City dated the date hereof (the “Tax Certificate”), certificates of the City, and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the original delivery of the Certificates on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Certificates on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Certificates to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Ordinance and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors’ rights, to the application of equitable principles, to the exercise of judicial discretion in

appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or having the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Certificates constitute the valid and binding obligations of the City.
2. The Council has power to levy and pledge a direct and continuing ad valorem tax, within the limits prescribed by law, upon taxable property located within the City and (2) pledge the surplus net revenues of the City's drainage utility system, which taxes and surplus net revenues have been pledged irrevocably to pay the principal of and interest on the Certificates.
3. Interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Certificates is not a specific preference item for purposes of the federal individual alternative minimum tax.

We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates.

Respectfully yours,

NAMAN HOWELL SMITH & LEE, PLLC