

OFFICIAL STATEMENT DATED JUNE 16, 2021

NEW ISSUE-Book-Entry Only

**RATINGS: Fitch “AAA”
Moody’s “Aa1”
Standard & Poor’s “AAA”
See “OTHER INFORMATION – RATINGS”**

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See “*TAX MATTERS*” for a discussion of the opinion of Bond Counsel.

THE BONDS WILL NOT BE DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

**\$44,070,000
CITY OF ARLINGTON, TEXAS
(Tarrant County, Texas)
Water and Wastewater System Revenue Bonds, Series 2021**

Dated: June 1, 2021

Due: June 1, as shown on inside of cover page

Interest to accrue from the Delivery Date.

PAYMENT TERMS...Interest on the \$44,070,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2021 (the “Bonds”) will accrue from the date of their delivery to the Initial Purchasers (the “Delivery Date”) and will be payable on June 1 and December 1 of each year commencing December 1, 2021 until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “THE BONDS - BOOK-ENTRY-ONLY SYSTEM” herein. The initial Paying Agent/Registrar is Bank of New York Mellon Trust Company N.A., Dallas, Texas (see “THE BONDS - PAYING AGENT/REGISTRAR”).

AUTHORITY FOR ISSUANCE...The Bonds are issued as special obligations of the City of Arlington, Texas (the “City”), issued on parity with the currently Outstanding Bonds (as hereinafter defined). The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapters 1371 and 1502, Texas Government Code, as amended, Article XIII of the City’s home rule charter and an ordinance (the “Bond Ordinance”) adopted by the City Council on April 23, 2021 approving the issuance of the Bonds in which the City Council delegated pricing of the Bonds to an Authorized Officer who approved a pricing certificate (the “Pricing Certificate” which, together with the Bond Ordinance, is referred to herein as the “Ordinance”) which contains the final terms of the sale and completed the sale of the Bonds. The Bonds are special obligations of the City, and together with the Outstanding Bonds and any Additional Bonds, are payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Net Revenues (as hereinafter defined) of the City’s Water and Wastewater System (the “System”). The Bonds shall not be a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Ordinance does not create any lien or mortgage on the System and any judgment against the City may not be enforced by the levy and execution against the property owned by the City.

PURPOSE...The proceeds from the sale of the Bonds are being used to provide funds for the purpose of (i) improving and extending the System; and (ii) paying the costs of issuing the Bonds.

OPTIONAL REDEMPTION...The City reserves the right, at its option, to redeem Bonds having stated maturities on and after June 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on June 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS – OPTIONAL REDEMPTION”).

LEGALITY...The Bonds are offered for delivery when, as and if issued and received by the Initial Purchasers and subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Dallas, Texas, Bond Counsel (see Appendix C, “Form of Bond Counsel’s Opinion”). Certain matters will be passed upon for the City by West & Associates, L.L.P., Dallas, Texas, Disclosure Counsel.

DELIVERY...It is expected that the Bonds will be available for delivery through DTC on July 15, 2021.

**Water and Wastewater System Revenue Bonds, Series 2021
Maturity Schedule**

\$39,670,000 Serial Bonds

(June 1) Maturity	Amount	Rate	Yield	CUSIP ⁽¹⁾
2022	\$ 2,200,000	5.000%	0.130%	04184K YR0
2023	2,205,000	5.000%	0.150%	04184K YS8
2024	2,205,000	5.000%	0.220%	04184K YT6
2025	2,205,000	5.000%	0.330%	04184K YU3
2026	2,205,000	5.000%	0.450%	04184K YV1
2027	2,205,000	5.000%	0.580%	04184K YW9
2028	2,205,000	5.000%	0.690%	04184K YX7
2029	2,205,000	5.000%	0.810%	04184K YY5
2030	2,205,000	5.000%	0.940%	04184K YZ2
2031	2,205,000	5.000%	1.000% ⁽²⁾	04184K ZA6
2032	2,205,000	4.000%	1.050% ⁽²⁾	04184K ZB4
2033	2,205,000	4.000%	1.100% ⁽²⁾	04184K ZC2
2034	2,205,000	4.000%	1.140% ⁽²⁾	04184K ZD0
2035	2,205,000	3.000%	1.270% ⁽²⁾	04184K ZE8
2036	2,205,000	2.000%	1.770% ⁽²⁾	04184K ZF5
2037	2,200,000	2.000%	1.800% ⁽²⁾	04184K ZG3
2038	2,200,000	2.000%	1.850% ⁽²⁾	04184K ZH1
2039	2,200,000	2.000%	1.900% ⁽²⁾	04184K ZJ7

(Interest to accrue from date of initial delivery)

\$4,400,000 Term Bonds

\$4,400,000 2.000% Term Bond Due June 1, 2041 Priced to Yield 2.000% CUSIP Number: 04184K ZK4

(Interest to accrue from date of initial delivery)

- ⁽¹⁾ CUSIP numbers will be assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City nor the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.
- ⁽²⁾ Yield calculated based upon the assumption that the Bonds designated and sold at a premium will be redeemed on June 1, 2030, the first optional redemption date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

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This Official Statement, which includes the cover page, tables, 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. This Official Statement, including the appendices and cover page thereto, does not constitute an offer to sell the Bonds in any jurisdiction to any person to whom it is unlawful to make such offer in such jurisdiction.

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the representation, promise or guaranty of the Financial Advisor or the City. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

Neither the City nor its Financial Advisor makes any representation as to the accuracy, completeness, or adequacy of the information regarding the Depository Trust Company, or its book-entry-only system as such information has been supplied by the Depository Trust Company for use in this Official Statement.

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

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS. SEE "OTHER INFORMATION – FORWARD LOOKING STATEMENTS DISCLAIMER."

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OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of Arlington, Texas (the “City”), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and eight miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 99.5 square miles operates under a Council-Manager form of government (see “INTRODUCTION – DESCRIPTION OF THE CITY” and APPENDIX A – “General Information Regarding the City”).
THE BONDS	The \$44,070,000 City of Arlington, Texas, Water and Wastewater System Revenue Bonds, Series 2021, dated June 1, 2021, are issued as serial bonds maturing on June 1 in each of the years 2022 through 2039, inclusive and as term bonds maturing on June 1, 2041. (see “THE BONDS - DESCRIPTION OF THE BONDS”).
PAYMENT OF INTEREST	Interest on the Bonds accrues from the date of delivery to the Initial Purchasers (the “Delivery Date”) and will be paid on December 1, 2021, and on each June 1 and December 1 thereafter until the earlier of maturity or prior redemption. (See “THE BONDS - DESCRIPTION OF THE BONDS”).
AUTHORITY FOR ISSUANCE	The Bonds are authorized and issued pursuant to authority granted by the Constitution and general laws of the State of Texas, including particularly Chapters 1371 and 1502, Texas Government Code, as amended, Article XIII of the City’s home rule charter (the “City Charter”) and an ordinance (the “Bond Ordinance”) adopted by the City Council on April 23, 2021 approving the issuance of the Bonds in which the City Council delegated pricing of the Bonds to an Authorized Officer who approved a pricing certificate (the “Pricing Certificate”) which, together with the Bond Ordinance, is referred to herein as the “Ordinance”) which contained the final terms of the sale and completed the sale of the Bonds (see “THE BONDS – AUTHORITY FOR ISSUANCE OF THE BONDS”).
SECURITY FOR THE BONDS	The Bonds, together with certain outstanding previously issued bonds (the “Outstanding Bonds”) and any additional parity bonds which may be issued in the future (the “Additional Bonds”), constitute special obligations of the City payable as to principal and interest solely from and secured by a pledge of and a lien on the Net Revenues of the City’s Water and Wastewater System (the “System”) (see “THE BONDS – SECURITY AND RATES COVENANT”). The Bonds are not general obligations of the City, Tarrant County or the State of Texas. Neither the full faith and credit nor the taxing power of the City, Tarrant County or the State of Texas is pledged to the payment of the Bonds.
REDEMPTION	The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after June 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on June 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. Term bonds will be subject to mandatory sinking fund redemption. (see “THE BONDS – REDEMPTION”).
TAX EXEMPTION	In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and is not a specific preference item for purposes of the alternative minimum tax. See “TAX MATTERS” for a discussion of the opinion of Bond Counsel.
USE OF PROCEEDS	The proceeds from the sale of the Bonds are being used to provide funds for the purpose of (i) improving and extending the System; and (ii) paying the costs of issuing the Bonds.
RATINGS	The Bonds have been rated “Aa1” by Moody’s Investors Service, Inc. (“Moody’s”), “AAA” by S&P Global Ratings, Standard & Poor’s Financial Services LLC (“S&P”), and “AAA” by Fitch Ratings (“Fitch”). The City’s presently outstanding System revenue supported debt has underlying ratings of “Aa1” by Moody’s, “AAA” by S&P and “AAA” by Fitch. (see “OTHER INFORMATION – RATINGS”).

BOOK-ENTRY-ONLY

SYSTEM..... The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds (see “THE BONDS - BOOK-ENTRY-ONLY SYSTEM”).

PAYMENT RECORD The City has never defaulted on its revenue obligations.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended	Estimated Population ⁽¹⁾	Average Daily Pumpage ⁽²⁾	Maximum Daily Water Pumpage ⁽²⁾	Total Water Pumped ⁽³⁾	Net Revenue Available For Debt Service	Annual Debt Service Requirements	Calculated Coverage of Debt Service
2016	380,740	57.64	102.46	21,039	\$ 53,159,000	\$ 16,235,000	3.27X
2017	382,230	51.36	76.83	18,746	51,402,000	18,419,000	2.79X
2018	383,950	50.32	108.17	18,367	70,827,000	21,823,000	3.25X
2019	386,180	51.55	88.40	18,816	70,379,000	24,899,000	2.83X
2020	390,540	50.61	89.24	18,474	76,841,000	30,971,000	2.48X

⁽¹⁾ Population estimates are based on a percent of occupancy in available residences and U.S. census data.

⁽²⁾ Listed in millions of gallons per day.

⁽³⁾ Listed in millions of gallons.

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Length of Service	Term Expires	Occupation
Jim Ross* Mayor	Newly Elected	May, 2024	Attorney
Barbara Odom-Wesley Council Member	3 Years	May, 2024	Healthcare Professional, Retired
Victoria Farrar-Myers Council Member	6 Years	May, 2022	Professor
Ruby Faye Woolridge Council Member	2 Years	May, 2022	Educator, Retired
Helen Moise Council Member	3 Years	May, 2022	Financial and Asset Manager, Retired
Raul Gonzalez Council Member	2 Years	May, 2022	Administrator
Nikki Hunter* Council Member	Newly Elected	May, 2024	Healthcare Administration
Andrew Piel Council Member	3 Years	May, 2024	Attorney
Rebecca Boxall* Council Member	Newly Elected	May, 2024	Architect

* The newly elected Mayor and Council Members will be sworn in on June 29, 2021.

SELECTED ADMINISTRATIVE STAFF

Name	Position	Years of Employment with City
Trey Yelverton	City Manager	28
Gilbert Perales	Deputy City Manager	14
Jennifer Wichmann	Deputy City Manager	17
Jim Parajon	Deputy City Manager	15
Mike Finley	Director of Finance	25
Teris Solis	City Attorney	30
Alex Busken	City Secretary	3

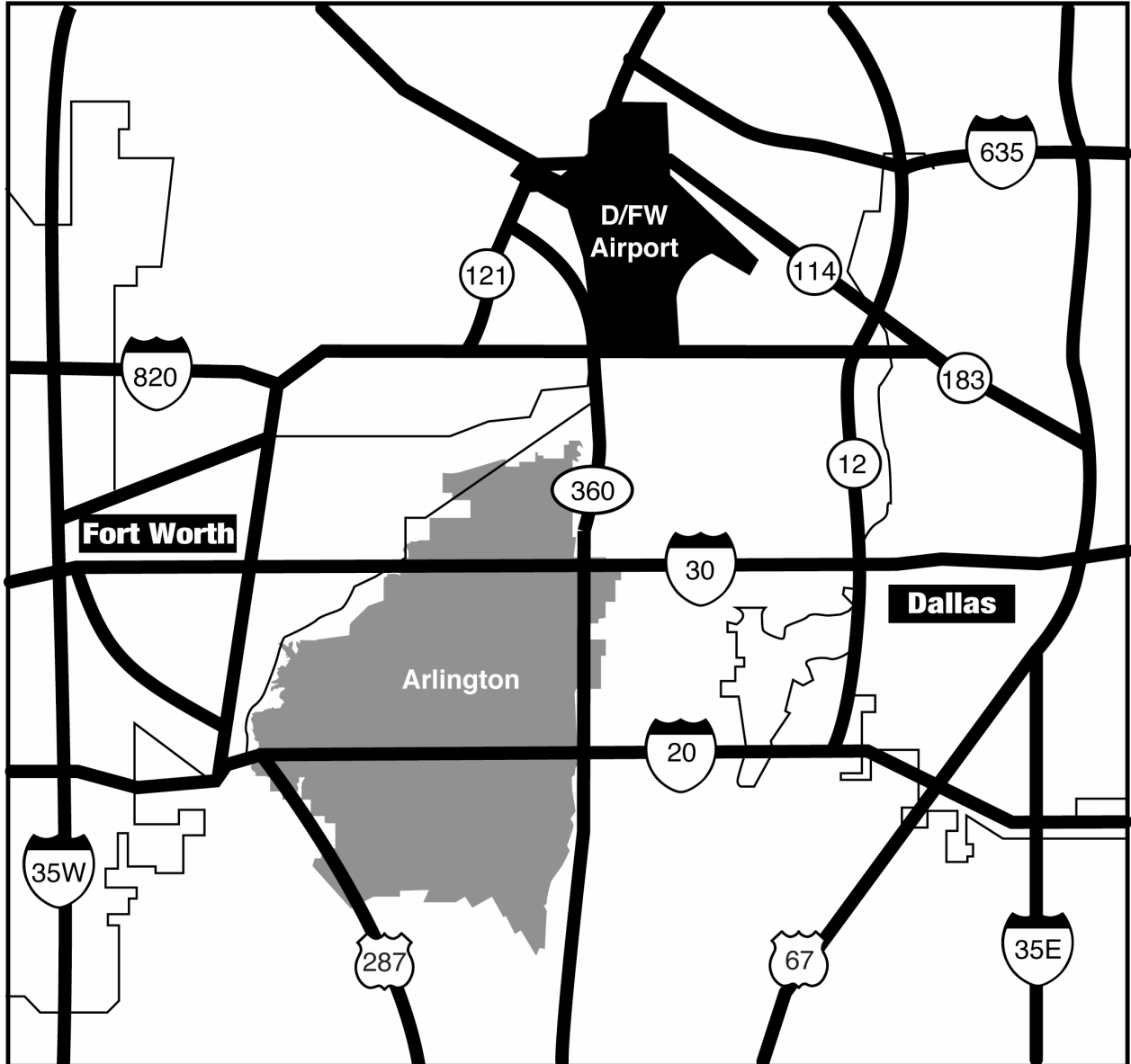
CONSULTANTS, ADVISORS AND INDEPENDENT AUDITORS

Independent Auditors..... Grant Thornton L.L.P., Dallas, Texas
 Bond Counsel.....Bracewell LLP, Dallas, Texas
 Financial Advisor..... Estrada Hinojosa & Company, Inc., Dallas, Texas
 Disclosure Counsel West & Associates, L.L.P., Dallas, Texas

For additional information regarding the City, please contact:

Mr. Mike Finley City of Arlington 101 W. Abram Street, 3 rd Floor Arlington, Texas 76010 817-459-6300	or	Mr. Dave Gordon Estrada Hinojosa & Company, Inc. 600 N. Pearl St., Suite 2100 South Tower Dallas, Texas 75201 214-658-1670
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Dallas/Fort Worth/Arlington Metropolitan Area



OFFICIAL STATEMENT

RELATING TO

CITY OF ARLINGTON, TEXAS (Tarrant County, Texas)

\$44,070,000

Water and Wastewater System Revenue Bonds, Series 2021

INTRODUCTION

This Official Statement, which includes the cover page, the tables, and the appendices hereto, provides certain information regarding the issuance of \$44,070,000 City of Arlington, Texas Water and Wastewater System Revenue Bonds, Series 2021 (the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (hereinafter defined) authorizing the issuance of the Bonds, except as otherwise indicated herein. Reference is made to “SELECTED PROVISIONS OF THE ORDINANCE” which contains certain defined terms and selected provisions of the Ordinance that are summarized under “THE BONDS.”

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

DESCRIPTION OF THE CITY...The City of Arlington, Texas (the “City”), is located at the center of the Dallas-Fort Worth Metroplex, between Dallas and Fort Worth and eight miles south of the Dallas/Fort Worth International Airport. The City, which encompasses 99.5 square miles, had a 2010 census population of 365,438. The U.S. Census estimates the current population of the City to be 390,540 residents. The City operates as a home-rule City under a Council-Manager form of government as established by its home rule charter (the “City Charter”) in which the Mayor and nine member City Council (the “Council” or “City Council”) serve as the legislative body. Three council members and the Mayor are elected “at-large” and five council members are elected in five single member districts. All members of the Council are elected for terms of two years, with the elections being held in even/odd years for approximately half of the seats and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services. The City operates its water and wastewater system and its sanitary landfill operation as self supporting enterprise funds.

DESCRIPTION OF THE SYSTEM...The City's Water and Wastewater System (the “System”) serves a 99.7 square mile area which is relatively coterminous with the corporate boundaries of the City. Administered and managed by the City's Water Utilities Department, the System currently serves approximately 152,262 water utility units (see “SELECTED PROVISIONS OF THE ORDINANCE – DEFINITIONS”).

The City owns and has water rights in Lake Arlington and contracts for additional water supply with the Tarrant Regional Water District (“TRWD”). TRWD provides the City water from the Cedar Creek, Richland Chambers and Benbrook Reservoirs (see “THE SYSTEM” herein for a detailed description of the System).

Approximately 1,244 miles of sanitary sewer mains ranging in size from six to seventy-two inches comprise the wastewater collection system that services all developed areas within the City limits. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own sewage. The wastewater produced in the City is treated by the Trinity River Authority's Central Regional Wastewater Treatment Plant. (See “THE SYSTEM” herein for a detailed description of the System.)

THE BONDS

DESCRIPTION OF THE BONDS... The Bonds are dated June 1, 2021 (the “Dated Date”) and mature on June 1 in each of the years and in the amounts shown on the inside cover page hereof. Interest will accrue from the date of their delivery to the Initial Purchasers (the “Delivery Date”) and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on June 1 and December 1, commencing December 1, 2021 until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – BOOK-ENTRY-ONLY SYSTEM” herein.

PURPOSE... The proceeds from the sale of the Bonds are being used to provide funds for the purpose of (i) improving and extending the System; and (ii) paying the costs of issuing the Bonds.

AUTHORITY FOR ISSUANCE OF THE BONDS...The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State” or “Texas”), particularly Chapters 1371 and 1502, Texas Government Code, as amended, Article XIII, Section 1 of the City Charter and an ordinance (the “Bond Ordinance”) adopted by the City Council on April 23, 2021 approving the issuance of the Bonds in which the City Council delegated pricing of the Bonds to an Authorized Officer who approved a pricing certificate (the “Pricing Certificate” which, together with the Bond Ordinance, is referred to herein as the “Ordinance”) which contained the final terms of the sale and completed the sale of the Bonds. The Bonds are special obligations of the City of Arlington, Texas, payable, both as to principal and interest, solely from and secured by a lien on and pledge of the Net Revenues.

SOURCES AND USES OF PROCEEDS... The sources and uses of funds for the Bonds are approximately as follows:

Sources:	
Par amount of the Bonds	\$ 44,070,000.00
Premium	6,729,435.20
Total Sources of Funds	<u>\$ 50,799,435.20</u>
Uses:	
Deposit to the Project Fund	\$ 50,500,000.00
Costs of Issuance	299,435.20
Total Uses of Funds	<u>\$ 50,799,435.20</u>

SECURITY AND RATE COVENANT...The Bonds, together with certain outstanding previously issued bonds (the “Outstanding Bonds”) and any additional parity bonds which may be issued in the future (the “Additional Bonds”), constitute special obligations of the City payable as to principal and interest solely from and secured by a pledge of and a lien on the Net Revenues (see “SELECTED PROVISIONS OF THE ORDINANCE - DEFINITIONS”). **The Bonds are not general obligations of the City, Tarrant County or the State of Texas. Neither the full faith and credit nor the taxing power of the City, Tarrant County or the State of Texas is pledged to the payment of the Bonds.**

The Council has covenanted in the Ordinance that it will maintain and collect charges for the use of the facilities and the services afforded by the System sufficient to pay all operation, maintenance, depreciation, replacement and betterment charges, establish and maintain the Interest and Sinking Fund and Reserve Fund required for the Outstanding Bonds, the Bonds, and any Additional Bonds, and to produce Net Revenues each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Outstanding Bonds, the Bonds and any Additional Bonds from time to time outstanding.

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As of July 15, 2021, the City will have Outstanding Bonds secured by and payable from Net Revenues on parity with the Bonds as follows:

Issue	Dated Date	Outstanding Principal Amount
Water & Wastewater System Revenue Bonds, Series 2010	11/19/2010	\$ 6,245,000
Water & Wastewater System Revenue Bonds, Series 2012	6/1/2012	9,130,000
Water & Wastewater System Revenue Bonds, Series 2013A	6/1/2013	5,340,000
Water & Wastewater System Revenue Refunding Bonds, Series 2013B	6/1/2013	1,510,000
Water & Wastewater System Revenue Bonds, Series 2014	3/15/2014	2,210,000
Water & Wastewater System Revenue Bonds, Series 2014A	6/1/2014	8,645,000
Water & Wastewater System Revenue Refunding Bonds, Series 2014B	6/1/2014	2,540,000
Water & Wastewater System Revenue Bonds, Series 2015A	5/15/2015	12,750,000
Water & Wastewater System Revenue Refunding Bonds, Series 2015B	5/15/2015	7,085,000
Water & Wastewater System Revenue Bonds, Series 2016	5/1/2016	1,555,000
Water & Wastewater System Revenue Bonds, Series 2016A	6/1/2016	29,390,000
Water & Wastewater System Revenue Bonds, Series 2017	4/1/2017	3,755,000
Water & Wastewater System Revenue Bonds, Series 2017A	6/1/2017	32,225,000
Water & Wastewater System Revenue Bonds, Series 2017B	12/1/2017	9,630,000
Water & Wastewater System Revenue Bonds, Series 2018	4/1/2018	3,915,000
Water & Wastewater System Revenue Bonds, Series 2018A	6/1/2018	27,820,000
Water & Wastewater System Revenue Bonds, Series 2019A	5/1/2019	23,530,000
Water & Wastewater System Revenue Refunding Bonds, Series 2019B	5/1/2019	12,245,000
Water & Wastewater System Revenue Bonds, Series 2019C	6/15/2019	3,990,000
Water & Wastewater System Revenue Bonds, Series 2019D	8/15/2019	71,550,000
Water & Wastewater System Revenue Refunding Bonds, Series 2020A	5/1/2020	3,970,000
The Bonds	6/1/2021	44,070,000
		<u>\$ 323,100,000</u>

DEBT SERVICE RESERVE FUND...The City has covenanted that it will maintain in the Reserve Fund an amount equal to not less than the average annual principal and interest requirements on the Outstanding Bonds, the Bonds and any Additional Bonds from time to time outstanding (the "Reserve Fund Requirement"), and that upon the issuance of Additional Bonds, it will increase, if necessary, and accumulate such Reserve Fund Requirement in not more than 60 months from the date of such Additional Bonds. As of September 30, 2020, the Debt Service Reserve Fund balance was \$18,874,437. Following delivery of the Bonds, the City will accumulate additional funds into the Reserve Fund, if necessary, to meet the Reserve Fund Requirement for the Bonds and the Outstanding Bonds. (See "SELECTED PROVISIONS OF THE ORDINANCE - VARIOUS FUNDS.")

OPTIONAL REDEMPTION...The City has reserved the right at its option to redeem the Bonds scheduled to mature on and after June 1, 2031 prior to their scheduled maturities, in whole or in part, on June 1, 2030 or on any date thereafter, at par plus accrued interest to the date fixed for redemption in principal amounts of \$5,000 or any integral multiple thereof. If less than all of the Bonds are to be redeemed the City reserves the right to determine the maturity or maturities and the amounts thereof to be redeemed and if less than a maturity is to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot or other method that results in random selection, which of the Bonds of such maturities, or portions thereof, shall be redeemed. If any Bond (or portion of the principal amount thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bonds (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.

MANDATORY SINKING FUND REDEMPTION... The Bonds maturing on June 1, 2041 (the "Term Bonds"), are subject to mandatory redemption in part prior to maturity on June 1, in the years shown below at 100% of the principal amount thereof plus accrued interest to the date of redemption from payments into the Interest and Sinking Fund which are required to be made in amounts sufficient to redeem on June 1 of each year the principal amount of such Term Bonds as follows:

Term Bonds Maturing	
June 1	
2040	\$ 2,200,000
2041 (maturity)	2,200,000

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption requirements may be reduced, at the option of the City, by the principal amount of such Term Bonds which, prior to the date of the mailing of notice of such mandatory redemption, (1) shall have been acquired by the City, at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions and not therefore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION... Not less than 30 days prior to an optional redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Bonds to be redeemed by optional redemption, 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.

The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any obligations subject to conditional redemption if such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

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 BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE... The Ordinance provides that the City may discharge its Bonds to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished by either (i) depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or prior redemption or (ii) by depositing with a paying agent, or other authorized escrow agent, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested in (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United State of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality of the United States of America, including Bonds that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds to refund the obligations, that are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book-entry-only form, and shall mature and/or bear interest in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds. If any such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance.

Under current State law, after such deposit as described above, such bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

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 Bonds. Because the 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 Texas law.

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

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, 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, the National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTC is owned by the users of its registered securities. 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 and www.dtc.org.

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

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

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

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

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

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

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

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

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

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

EFFECT OF TERMINATION OF BOOK-ENTRY-ONLY SYSTEM... In the event the Book-Entry-Only System with respect to the Bonds is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Bonds is discontinued by the City, printed certificates will be issued to the respective holders of the Bonds, as the case may be, and the respective Bonds will be subject to transfer, exchange, and registration provisions as set forth in the Ordinance, summarized under "THE BONDS- REGISTRATION" below.

In the event the Bonds are no longer in the book-entry form at DTC, if less than all the Bonds are to be redeemed by the City, the City shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot within a maturity the Bonds or portions thereof to be redeemed.

REGISTRATION...Registration and Payment. The Bonds will be initially issuable only in the name of Cede & Co., as nominee of DTC which will act as securities depository for the Bonds. Principal and semiannual interest on the Bonds will be paid by the Paying Agent/Registrar to Cede & Co., as nominee for DTC, which shall disburse such payments to the DTC Participants who will distribute such payments to the Beneficial Owners as described herein. (See "BOOK-ENTRY-ONLY SYSTEM" herein)

For so long as DTC is the securities depository for the Bonds, then "Owner" shall refer solely to DTC. In the event that DTC is no longer the securities depository for the Bonds, the term "Owner" shall refer to a successor securities depository or the Beneficial Owners of the Bonds which are shown as registered Owners on the registration books of the Paying Agent/Registrar. So long as Cede & Co. is the registered owner of the Bonds, principal and interest on the Bonds will be made as described in "THE BONDS - BOOK-ENTRY-ONLY SYSTEM".

Future Registration. In the event that DTC is no longer the securities depository for the Bonds and a successor securities depository is not appointed by the City, printed certificates will be issued to the Owners and thereafter, the Bonds may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar and such registration shall be at the expense of the City except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by execution of an assignment form on the Bonds or by other instruments of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond will be delivered by the Paying Agent/Registrar to the last assignee (the new Owner) in exchange for such transferred and assigned Bond in accordance with the provisions of the Ordinance. Such new Bonds must be in the denomination of \$5,000 for any one maturity or any integral multiple thereof and for a like aggregate designated amount as the Bond surrendered for exchange or transfer. The last assignee's claim of title to the Bond must be proved to the satisfaction of the Paying Agent/Registrar. See "BOOK-ENTRY ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bonds called for redemption, in whole or in part, within 45 days of the date fixed for redemption provided however, such limitation of transfer shall be applicable to an exchange by the registered owner of the uncalled balance of the Bond.

PAYING AGENT/REGISTRAR...The initial Paying Agent/Registrar is Bank of New York Mellon Trust Company N.A., Dallas, Texas (“Paying Agent/Registrar”). In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar’s records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Bonds will be payable to the Owner at maturity or prior redemption upon presentation to the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to the Owners as shown on the records of the Paying Agent/Registrar on the fifteenth calendar day of the month preceding such interest payment date (the "Record Date"), or by such other customary banking arrangements, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event use of the Book-Entry-Only System should be discontinued, interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States Mail, first class postage prepaid to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner.

HOLDERS’ REMEDIES. . . The Ordinance authorizing the issuance of the Bonds establishes the following events of default with respect to the Bonds: (i) defaults in payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance. Except for the remedy of mandamus to enforce the City’s covenants, conditions and obligations under the Ordinance, the Ordinance does not establish other remedies. Under State law, there is no right to the acceleration of maturity of the Bonds upon an event of default under the Ordinance. Although a registered Owner could presumably obtain a judgment against the City if a default occurred in any payment of the principal of or interest on any such Bonds, such judgment could not be satisfied by execution against any property of the City. Such registered Owner’s only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to enforce the City’s covenants, conditions and obligations of the City. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. No assurance can be given that a mandamus or other legal action under the Ordinance would be successful.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of governmental 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 governmental immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Bonds or 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 *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question. Chapter 1371, Texas Government Code, as amended, (“Chapter 1371”), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its bonds, but in connection with the issuance of the Bonds, the City has not waived sovereign immunity in the proceedings authorizing the Bonds.

The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition. 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 or revenues, such as the Net Revenues, such provision is subject to judicial interpretation. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinions of Bond Counsel will note that the rights of holders of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion. In addition, while the City has covenanted to secure the Bonds by a lien on the Net Revenues, Bond Counsel will opine only that a valid and enforceable lien has been granted on the Net Revenues. Bond Counsel has not been requested to, and has not, rendered any opinion as to the priority status of the pledge of the Net Revenues.

THE SYSTEM

WATER TREATMENT FACILITIES. . . The City currently owns and operates two surface water treatment plants to treat raw water and purify it to meet and/or exceed state and federal drinking water standards. Treated water is then pumped to the distribution system for customer use.

The Pierce-Burch Water Treatment Plant (PBWTP) is located in west Arlington along Green Oaks Boulevard near the intersection of Arkansas Lane. The PBWTP draws water directly from Lake Arlington. PBWTP-South was constructed in 1970 and with subsequent expansions has a treatment capacity of 75 million gallons per day (MGD). PBWTP-South is a conventional water treatment plant utilizing ozonation and biologically active GAC filtration. PBWTP-North was constructed in 1957 but has since been decommissioned and is no longer in service. There are no current plans to expand the PBWTP.

Located in the southern portion of the City along US Highway 287 and just east of the intersection with Eden Road sits the John F. Kubala Water Treatment Plant (JKWTP). The JKWTP receives raw water directly from the Tarrant Regional Water District's (TRWD) pipeline system that conveys water from their Richland Chambers, Cedar Creek and Benbrook Reservoirs. Placed online in 1989 the JKWTP has undergone two subsequent expansions, for a current treatment plant capacity of 97.5 MGD. Also designed as a conventional water treatment plant, the JKWTP was modified in 1999 to include ozonation and biologically active GAC filtration. The plant was designed for ultimate build out capacity of 130 MGD. Currently, there are no current plans to expand the JKWTP.

THE DISTRIBUTION SYSTEM. . . The City's water distribution system has three pressure planes, referred to as the Upper, West and Lower planes. Either of the two City-owned and operated water treatment facilities can fully provide the average day demand to each of the pressure zones thus providing the City with 100% redundancy for water treatment and distribution. When both plants are operating concurrently, the JKWTP supplies the Upper and West pressure planes and the PBWTP supplies the Lower pressure plane. A combination of electrically driven and natural gas pumps transfer water from the plants into the distribution system. There are nine elevated storage tanks with a combined capacity of 15.5 million gallons. There are 6.0 million gallons of additional water storage facilities in the system (4.0 in Charles F Anderson, Jr. and 2.0 in the Grace Howell).

The City's water distribution system is fully metered and consists of 1,665 miles of pipe both public and private. The City has 111,334 water meters of which 67.19% are automated. The System consists of concrete cylinder, cast iron, polyvinyl chloride (PVC), ductile iron, asbestos cement (AC), and high-density polyethylene (HDPE). The entire System meets the minimum standards prescribed by the Texas Fire Insurance Commission, the United States Environmental Protection Agency and the Texas Commission on Environmental Quality (TCEQ).

The City's water system has adequately met the demand for treating and distributing water during the past ten fiscal years as follows:

Fiscal Year	Average Daily Pumpage (MGD)	Maximum Daily Pumpage (MGD)
2011	64.25	114.69
2012	57.99	106.45
2013	55.20	95.76
2014	53.35	88.82
2015	52.48	104.26
2016	57.64	102.46
2017	51.36	76.83
2018	50.32	108.17
2019	51.55	88.40
2020	50.61	89.24

Source: City Water Utilities Department

WATER SUPPLY. . . The Tarrant Regional Water District is the primary supplier of raw water used by over 50 municipal and non-municipal entities located both within and outside of Tarrant County. Among the major customers of the TRWD are the cities of Fort Worth, Arlington, and Mansfield, and a wholesale water provider, the Trinity River Authority (TRA).

The City receives water from TRWD's Cedar Creek and Richland Chambers Reservoirs. Water from these reservoirs is transported through transmission facilities to Lake Arlington and the John F. Kubala Water Treatment Plant. In August 1998, TRWD also began delivering water from the U.S. Army Corps of Engineers-owned reservoir Lake Benbrook. This water supply service was initially provided under the terms and provisions of a contract dated July 13, 1971. Under that contract, TRWD agrees to supply all of the City's municipal water requirements during its term.

Mansfield and TRA. The revised contract will continue in effect until all bonds of TRWD relating to TRWD's System have been paid, and thereafter during the useful life of TRWD's System. Under the Amendatory Contract, the City is required to purchase all of its raw water needs from TRWD. TRWD is obligated to meet the City's needs by developing additional water supply sources, subject to force majeure, the ability of TRWD to obtain suitable financing and a determination of feasibility. If TRWD is unable to supply all of the City's raw water requirements or if it should become apparent that TRWD will become unable to supply such requirements, the Amendatory Contract provides a procedure by which the City would be permitted to develop or obtain a supplemental water supply to meet its needs. The City is depending upon TRWD to meet its full raw water needs under the Amendatory Contract and, at present, the City has no assurance of the availability of a supplemental water supply if TRWD should fail to meet such needs. TRWD's current sources as well as additional supplies that are actively under development are projected to provide an adequate water supply through 2040.

TRWD's most recent system enhancements include completion of the Eagle Mountain Pipeline and George W. Shannon Wetlands at Richland-Chambers Reservoir. Additional Phase I & II of the Integrated Pipeline Project will be completed in 2022.

TRWD continues to participate in statewide and regional water supply planning authorized by the 1997 passage of Senate Bill 1. The regional plan for the Dallas-Fort Worth region includes plans for TRWD to develop an additional 489 MGD through the year 2070 at an estimated cost of \$5.62 billion. These projects include water conservation, reuse, reservoir, and pipeline construction.

Under the terms of the Amendatory Contract, the City pays TRWD an amount equal to the City's proportionate share of TRWD's "Annual Requirement." Said annual requirement includes the costs of operation and maintenance of TRWD's raw water supply facilities, debt service on TRWD's bonds and any future bonds it might issue, including deposits to any special or reserve fund established in TRWD's bond resolutions. Based upon the projected usage of the City for the 2020–2021 fiscal year, the budgeted monthly purchase price to be paid by the City under the revised water contract is \$2,051,488, which results in a rate of approximately \$1.25448 per one thousand gallons. Such amount is subject to adjustment as provided in the Amendatory Contract. The City is obligated to pay TRWD for all water used by it, and under the Amendatory Contract, the minimum amount of water the City shall be deemed to have used shall be calculated at an amount equal to the greater of 30 MGD or the average MGD actually used by the City during the period of the immediately preceding five consecutive annual periods.

The Amendatory Contract provides that all payments to be made under said Contract shall constitute reasonable and necessary operating expenses of the System, and thus the City's requirement to make such payments from its revenues to the System shall have priority over any obligation to make payments from such revenues, including payment of principal and interest on the City's Outstanding Bonds and any additional Bonds.

DROUGHT CONTINGENCY PLAN. . . The City continues to work closely with TRWD to plan for and execute drought contingency measures. TRWD updated its Emergency Water Management and Drought Contingency Plans in April 2019, in accordance with the Texas Commission of Environmental Quality (TCEQ) directives. Regular meetings were held to discuss evolving approaches to water conservation and extending supplies during drought or emergency situations. TRWD's customers had extensive input defining drought conditions and prescribing conservation measures related to each drought stage. All major customers agreed to specific, staged measures related to emergency conditions brought on by drought-induced water supply depletion or failure of components in TRWD's supply system.

Arlington Water Utilities also updated its Drought Contingency Plan in 2019. The drought plan is based on a statistical analysis of 43-year weather patterns in North Texas and their potential effects on water supplies to establish drought triggers. The responses for each drought stage are triggered by two sets of conditions – water supply levels or excessive demand and emergency situations. The City Manager or his/her official designee may order the implementation of a drought response stage when one or more of the trigger conditions for that stage is met. Drought stages imposed by TRWD action must be initiated by the City of Arlington. For other trigger conditions, the City Manager or his/her official designee may decide not to order the implementation of a drought response stage even though one or more of the trigger criteria for the stage are met. Factors which could influence such a decision include, but are not limited to, the time of the year, weather conditions, the anticipation of replenished water supplies, or the anticipation that additional facilities will become available to meet needs. The reason for this decision will be documented. Drought stages are triggered when the total combined raw water supply within the TRWD western and eastern division reservoir system drops below 75, 60 and 45 percent of conservation storage. Other conditions that would activate a drought response would include situations where:

- Reduction in available water supply up to a repeat of the drought of record.
- Water production or distribution system limitations.
- Supply source becomes contaminated.
- System outage due to the failure or damage of major water system components.
- The General Manager, with concurrence of the TRWD Board of Directors, finds that conditions warrant the declaration of a drought stage.

The City coordinated with TRWD, its customer cities and other North Texas water suppliers to take a regional approach in updating its Drought Contingency Plan in the spring of 2019. The Drought Contingency Plan, per TCEQ requirements, was adopted in April 2019. The Emergency Management Plan was also updated and adopted by the Arlington City Council in April 2019. Because of this proactive approach to addressing drought conditions and managing emergency demand, combined with an excellent track record in planning and system development initiatives, the City does not anticipate, and did not recently experience with implementation of the Drought Contingency Plan, any System supply problems. However, steps will be taken in the event of a prolonged drought to ensure that the financial condition of the System remains strong.

CONSUMER ANALYSIS DATA. . . The following data provides information as to the average daily water consumption, excluding sales to municipalities, by user category for the fiscal years ended September 30, 2016 through September 30, 2020.

Category	Average Daily Consumption (MGD)				
	2020	2019	2018	2017	2016
Residential	25.45	22.20	26.83	23.65	24.00
Commercial	8.18	9.07	9.32	8.82	9.18
Fire lines, Sprinklers	4.27	3.44	5.07	4.14	4.44
Apartment Units	7.55	7.51	7.84	7.87	7.94
Mobile Homes, Condominiums, Townhouses	0.44	0.43	0.44	0.58	0.61
Wholesale	1.13	0.64	0.40	0.32	0.00
Total	47.02	43.29	49.90	45.38	46.17

Source: The City of Arlington, Texas.

The following table shows the number of units served, excluding sales to municipalities, by user category for the fiscal years ended September 30, 2016 through September 30, 2020.

Category	Number of Units Served				
	2020	2019	2018	2017	2016
Residential	98,121	97,099	96,339	95,358	94,796
Commercial	4,932	4,937	4,918	4,876	4,874
Fire lines, Sprinklers	1,164	1,140	1,115	1,085	1,075
Apartment Units	45,901	45,848	45,802	45,849	45,825
Mobile Homes, Condominiums, Townhouses	2,144	2,122	2,125	2,127	2,124
Total	152,262	151,146	150,299	149,295	148,694

Source: The City of Arlington, Texas.

The following is a listing of the top ten water customers of the City, ranked by consumption during the fiscal year ended September 30, 2019. Billing will vary based on the number of meters, increased minimum charges for larger meters, and higher commodity charges for sprinkler usage. During this period, the top ten customers' total annual water billings, which represented 8.68 percent of the System's water sales, were as follows:

	Consumption	
	in 1,000 Gallons	Billing
EUSB/General Motors	294,570	\$1,058,588
University of Texas at Arlington	283,280	1,388,577
Arlington Independent School District	162,727	1,292,510
City of Arlington	152,709	1,280,988
Mansfield ISD	77,251	651,440
Arlington Memorial Hospital	73,979	304,577
Cobblestone Apartments	68,668	266,550
Cowboy Stadium	68,337	404,288
Hurricane Harbor	54,467	196,145
Six Flags Over Texas	48,636	238,499
Total	1,284,624	\$7,082,162

Source: The City of Arlington, Texas.

The following table lists certain data on historical water consumption during the last five fiscal years.

Historical Water Consumption Data						
Fiscal Year Ended (9/30)	Total Accounts in Service	Total Water Pumped MG	Average Water Pumped MGD	Maximum Day Pumpage MGD	GDP Per Account	Ratio Maximum Day to Average Day
2016	108,437	21,039	57.64	102.46	531	1.78
2017	108,945	18,746	51.36	76.83	471	1.50
2018	109,706	18,367	50.32	108.17	459	2.15
2019	110,486	18,816	51.55	88.40	467	1.71
2020	111,334	18,474	50.61	89.24	455	1.76

Source: City of Arlington’s Water Utilities Department

WASTEWATER FACILITIES . . . The wastewater collection system that serves all developed areas within the City limits is comprised of approximately 1,244 miles of sanitary sewer mains ranging in size from six to seventy-two inches. Although the City owns and maintains an extensive wastewater collection system, it does not treat its own wastewater. Wastewater produced in the City is treated under contract by the Trinity River Authority’s (TRA) Central Regional Wastewater System (CRWS). As the city with the largest population in the CRWS service area, Arlington contributes the highest daily flow of all TRA regional plant customers. The CRWS Plant meets the effluent permit conditions to treat 162 MGD as set by the TCEQ and Environmental Protection Agency (EPA).

The following is a list of Arlington’s wastewater flows treated by TRA’s CRWS plant during the last five fiscal years.

	Wastewater Treated (Millions of Gallons)				
	2020	2019	2018	2017	2016
TRA CRWS Plant	13,194	14,473	12,660	12,857	14,278

TREATMENT CONTRACT WITH TRINITY RIVER AUTHORITY (TRA) . . . The City's wastewater is treated under the terms of a 50-year contract with TRA dated October 10, 1973. Contract term limits are automatically extended based upon outstanding system debt service. TRA is the owner and operator of the CRWS Plant and the interceptor pipeline system, which serves part of Dallas, Dallas-Fort Worth International Airport, and 19 other Dallas County and Tarrant County municipalities. Under the terms of the contract, each contracting party contributes to TRA's "Annual Requirements" in proportion to its contributing flow of wastewater into the CRWS Plant. The "Annual Requirements" include cost of operation and maintenance of the system and debt service on TRA's bonds issued to construct the system, including deposits to special funds established by the bond resolution. Based upon actions approved in 1996, TRA began treating all of the City’s wastewater when facilities constructed by the City were completed in September 2000. These pipeline facilities convey west Arlington wastewater to TRA System facilities, and on to the TRA treatment plant for final treatment. This Arlington to TRA pipeline project cost was \$11,000,000.

For TRA's fiscal year beginning December 1, 2019, the volume of contributing flow by the City is estimated to average 36.313 MGD, which amounts to approximately 26.06 percent of the total volume of wastewater flow into the CRWS plant. This percentage of wastewater flow is used to determine the City's annual requirements under this contract. Arlington has the largest service area population and contributes the highest average daily flow of all TRA CRWS Plant customers. The City's cost of wastewater treatment budgeted for 2020 was \$39,798,331.

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TABLE 1 - DEBT SERVICE REQUIREMENTS

The following table sets forth the debt service requirements on the Bonds and the Outstanding Bonds of the System.

Fiscal Year Ended 9/30	Existing Debt Service			The Bonds			Total Debt Service Requirements	% of Principal Retired	Fiscal Year Ended 9/30
	Principal	Interest	Total	Principal	Interest	Total			
2021	\$ 21,865,000	\$ 7,377,558	\$ 29,242,558	\$ -	\$ -	\$ -	\$ 29,242,558		2021
2022	21,050,000	6,786,306	27,836,306	2,200,000	1,489,677	3,689,677	31,525,983		2022
2023	21,020,000	6,254,994	27,274,994	2,205,000	1,587,100	3,792,100	31,067,094		2023
2024	20,240,000	5,716,659	25,956,659	2,205,000	1,476,850	3,681,850	29,638,509		2024
2025	19,415,000	5,163,694	24,578,694	2,205,000	1,366,600	3,571,600	28,150,294	32.79%	2025
2026	19,405,000	4,646,776	24,051,776	2,205,000	1,256,350	3,461,350	27,513,126		2026
2027	19,410,000	4,062,943	23,472,943	2,205,000	1,146,100	3,351,100	26,824,043		2027
2028	18,240,000	3,499,187	21,739,187	2,205,000	1,035,850	3,240,850	24,980,037		2028
2029	16,470,000	2,980,137	19,450,137	2,205,000	925,600	3,130,600	22,580,737		2029
2030	16,450,000	2,555,593	19,005,593	2,205,000	815,350	3,020,350	22,025,943	62.26%	2030
2031	15,330,000	2,167,874	17,497,874	2,205,000	705,100	2,910,100	20,407,974		2031
2032	15,330,000	1,810,014	17,140,014	2,205,000	594,850	2,799,850	19,939,864		2032
2033	14,495,000	1,480,370	15,975,370	2,205,000	506,650	2,711,650	18,687,020		2033
2034	14,050,000	1,168,742	15,218,742	2,205,000	418,450	2,623,450	17,842,192		2034
2035	13,210,000	870,937	14,080,937	2,205,000	330,250	2,535,250	16,616,187	86.60%	2035
2036	12,295,000	598,943	12,893,943	2,205,000	264,100	2,469,100	15,363,043		2036
2037	9,985,000	353,379	10,338,379	2,200,000	220,000	2,420,000	12,758,379		2037
2038	7,135,000	168,642	7,303,642	2,200,000	176,000	2,376,000	9,679,642		2038
2039	5,500,000	56,548	5,556,548	2,200,000	132,000	2,332,000	7,888,548	99.36%	2039
2040	-	-	-	2,200,000	88,000	2,288,000	2,288,000		2040
2041	-	-	-	2,200,000	44,000	2,244,000	2,244,000	100.00%	2041
	<u>\$ 300,895,000</u>	<u>\$ 57,719,294</u>	<u>\$ 358,614,294</u>	<u>\$ 44,070,000</u>	<u>\$ 14,578,877</u>	<u>\$ 58,648,877</u>	<u>\$417,263,170</u>		

ANTICIPATED ISSUANCE OF WATER AND WASTEWATER SYSTEM REVENUE BONDS... The City does not anticipate the issuance of additional water and wastewater system revenue bonds within the next twelve months.

WATER AND WASTEWATER SYSTEM CAPITAL IMPROVEMENT PROGRAM...The City's Water Utilities Department maintains a program of annually updating its estimate of foreseeable System capital improvements. This is accomplished through the joint efforts of the Operations, Treatment and Business Services Divisions of the Water Utilities Department and for independent consulting engineers. The Water Utilities Department annually reviews its proposed Capital Improvement Program with the Council.

The following table represents the estimated amount of financing for the proposed Capital Improvement Program for the fiscal years shown.

PROPOSED SYSTEM CAPITAL IMPROVEMENT PROGRAM

PROPOSED CAPITAL IMPROVEMENT PROGRAM			
Fiscal Year	Planned Capital Expenditures	Planned Bond Sale ⁽¹⁾	Other Capital Financial Sources
2021	\$ 57,520,000	\$ 50,500,000 ⁽²⁾	\$ 7,020,000
2022	23,140,000	-	23,140,000
2023	18,270,000	7,500,000	10,770,000
2024	34,990,000	25,000,000	9,990,000
2025	31,180,000	20,700,000	10,480,000

⁽¹⁾ Includes annual budgeted amounts for the water and wastewater main replacement program, cash contributions from the System’s operating fund to the capital fund and remaining bond proceeds from prior debt issuances.

⁽²⁾ Includes the Bonds.

WATER AND WASTEWATER RATES... The Council is authorized by its City Charter and by laws of the State of Texas to establish and to amend rates charged for water and wastewater service. Rates fixed by the Council for domestic application are not subject to review by any other regulatory agency.

The two components of the rate structure are a fixed monthly charge based upon meter size and a volumetric charge per 1,000 gallons used. A separate fixed monthly fee was established for residential class customers with 5/8 x 3/4-inch meters whose water and wastewater use is less than 2,000 gallons per month. The fixed charge, for meter sizes other than 5/8 x 3/4-inch, increases with meter size to recognize the additional demands that large meter installations can place on the System.

The water volumetric charge is designed to encourage customers to efficiently use water. The volumetric charge increases with higher volumes of water usage for both residential and commercial class customers. Unlike the variable water volumetric rate, the wastewater volumetric rate per 1,000 gallons is a flat rate for all account classifications that will not change based on usage.

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**CITY OF ARLINGTON WATER UTILITIES
FIXED MONTHLY FEE
Effective January 1, 2021**

Meter Size	Water	Wastewater
5/8 x 3/4" (<2,000 gal)	\$ 7.10	\$ 7.64
5/8 x 3/4" (>2,000 gal)	10.30	12.94
1"	20.30	23.52
1 1/2"	46.40	52.12
2"	81.00	87.73
3"	191.00	271.15
4"	304.00	404.55
6"	708.00	1,100.55
8"	1,107.00	1,450.00
10"	1,664.00	2,114.10

**CITY OF ARLINGTON WATER UTILITIES
CONSERVATION RATES BLOCK STRUCTURE
Effective January 1, 2020**

RESIDENTIAL

Usage (1,000 gal)	Water	Wastewater
0-2	\$ 2.02	\$ 5.13
3-10	2.79	5.13
11-15	4.02	5.13
16-29	5.63	5.13
≥ 30	6.78	5.13

COMMERCIAL

Usage (1,000 gal)	Water	Wastewater
0-15	\$ 3.20	\$ 5.13
≥ 16	3.38	5.13

IRRIGATION

Usage (1,000 gal)	Rate
0-29	\$ 5.63
≥ 30	6.78

CONSTRUCTION

Usage (1,000 gal)	Rate
0-99	\$ 5.90
≥ 100	7.44

HISTORICAL RATE ADJUSTMENTS . . . Changes in revenue requirements during the past twenty years have resulted in the following changes in rates for the average residential customer. The overall System average residential customer usage is 7,000 gallons of water. Until December 1988, residential customers were also billed for up to 12,000 gallons of wastewater flows. At that time, the wastewater maximum for residential customers was reduced to 9,000 gallons. Since March 1990, wastewater flows have been based on average winter water consumption. Each residential customer's average winter wastewater flows are calculated according to their water use during the billing periods of December through March. The overall System winter average for a residential customer is approximately 4,000 gallons of wastewater flow.

**Rate Changes by Percent
Average Residential Customer
Using 10,000 Gallons Water and 6,000 Gallons Wastewater**

Fiscal Year	Water	Wastewater	Total
2011	2.8	3.5	3.2
2012	0.1	1.8	0.9
2013	0.0	2.4	1.2
2014	9.7	8.0	8.8
2015	6.6	2.8	4.7
2016	9.7	1.5	5.7
2017	0.0	10.8	5.4
2018	3.7	8.7	6.2
2019	0.0	9.0	4.6
2020	0.0	5.5	2.9

Source: City Water Utilities Department.

OPERATING RESERVE . . . The current policy, authorized by the Council, requires the operating reserve to equal a minimum of 60 days of the proposed operating and maintenance expense budget, excluding debt service (Resolution No. 11-363). Additionally, the reserve can be increased to a 60-day level using excess unbudgeted revenues, if available. The reserve fund balance as of September 30, 2020 was \$19,203,867 which equals 60 days of operating and maintenance expense.

RATE STABILIZATION FUND... The Water Utilities Department maintains a rate stabilization fund to assist in offsetting temporary increases to the budget and increases from mid-year settle-ups from TRA and TRWD. Use of the funds requires authorization from the Council. Additionally, the fund shall not exceed 3% of the total Water Utilities expenditure budget, less interfund transfers. The rate stabilization fund balance as of September 30, 2020 was \$7,152,998.

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HISTORICAL FINANCIAL INFORMATION...The following three tables present five-year historical information and selected financial ratios for the System. Unless otherwise noted, all information is from the City's respective comprehensive annual financial reports. The tables are titled Water and Wastewater Schedule of Net Assets, Historical Net Revenues Available for Debt Service, and Historical Net Revenues of the System and Financial Ratios.

TABLE 2- WATER AND WASTEWATER SYSTEM SCHEDULE OF NET ASSETS

	Fiscal Years Ended 9/30,				
	(000's)				
	2020	2019	2018	2017	2016
<u>Assets</u>					
Cash and cash equivalents	\$ 33,823	\$ 32,062	\$ 25,453	\$ 24,580	\$ 23,709
Receivable (net allowances for uncollectibles)	20,307	21,908	19,450	19,364	20,338
Inventory of Supplies, at cost	1,231	1,054	1,846	1,330	1,824
Prepaid Expenditures	-	-	-	-	2,160
Restricted assets					
Bond Contingency	28,581	28,359	23,044	19,898	16,698
Capital/Bond construction	211,247	237,918	148,506	117,787	86,204
Meter deposits	7,364	6,685	6,051	5,659	5,429
Property, plant and equipment less accumulated depreciation	742,103	725,125	698,422	673,637	651,874
Total Assets	\$ 1,044,656	\$ 1,053,111	\$ 922,772	\$ 862,255	\$ 808,236
Deferred Outflows of Resources:					
Deferred Loss on Debt Refunding	16,229	10,814	5,991	6,208	7,069
Total Assets & Deferred Outflows of Resources	\$ 1,060,885	\$ 1,063,925	\$ 928,763	\$ 868,463	\$ 815,305
<u>Liabilities and Net Position</u>					
Current Liabilities:					
Accounts payable and accrued liabilities	\$ 4,494	\$ 4,834	\$ 3,414	\$ 3,616	\$ 2,918
Revenue bonds payable from unrestricted assets	9,367	8,496	1,567	703	10,139
Payable from restricted assets	26,160	27,363	28,975	24,907	12,759
Accrued compensated absences	86	93	98	116	123
Rebate arbitrage payable	201	169	-	-	-
Compensated Absences	2,409	2,096	1,962	1,735	1,470
Revenue bonds, net of discount, payable from unrestricted assets	291,334	314,873	225,969	192,376	162,283
Net Pension Liability	9,138	14,025	7,036	11,066	10,840
OPEB Liability	8,174	7,797	7,972	-	-
Total Liabilities	\$ 351,363	\$ 379,746	\$ 276,993	\$ 234,519	\$ 200,532
Deferred Inflows of Resources:					
Deferred Inflow - Actuarial Assumption GASB 68	\$ 2,677	\$ 2,947	\$ 3,905	\$ 588	\$ 561
Invested in Capital Assets	\$ 559,032	\$ 532,367	\$ 582,690	\$ 574,450	\$ 560,229
Restricted	106,207	117,415	37,965	20,334	18,150
Unrestricted	41,606	31,450	27,210	38,572	35,833
Total Net Position	\$ 706,845	\$ 681,232	\$ 647,865	\$ 633,356	\$ 614,212
Total Liabilities and Net Position	\$ 1,060,885	\$ 1,063,925	\$ 928,763	\$ 868,463	\$ 815,305

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TABLE 3 - HISTORICAL NET REVENUES AVAILABLE FOR DEBT SERVICE

	Fiscal Years Ended 9/30, (000's)				
	2020	2019	2018	2017	2016
Revenues					
Water Sales	\$81,555	\$75,933	\$81,476	\$71,151	\$69,628
Wastewater Service	73,241	70,492	67,071	60,324	55,188
Interest Income	1,804	4,073	859	444	546
Other Income	10,251	8,764	7,411	6,532	6,270
Total Revenues	\$166,851	\$159,262	\$156,817	\$138,451	\$131,632
Expenses					
Labor Costs	\$16,962	\$16,834	\$15,519	\$15,602	\$14,290
Supplies	2,766	3,338	2,046	2,051	2,499
Maintenance	4,235	4,198	3,936	4,021	4,724
Water Supply (The District)	20,406	19,781	22,622	24,905	19,743
Wastewater Treatment Contracts	38,731	36,780	34,550	32,884	29,383
Utilities	2,461	2,330	2,204	2,875	3,090
Other Expenses	4,449	4,493	4,327	4,293	4,559
Total Operating Expenses Before Depreciation	\$90,010	\$87,754	\$85,204	\$86,631	\$78,288
Net Revenues of the System	\$76,841	\$71,508	\$71,613	\$51,820	\$53,344
Interest During Construction Included Above	0	(1,129)	(786)	(418)	(185)
Net Revenues Available for Debt Service	\$76,841	\$70,379	\$70,827	\$51,402	\$53,159
Debt Service Paid ⁽¹⁾	\$30,971	\$24,899	\$21,823	\$18,419	\$16,235
Debt Service Coverage (times)	2.48 x	2.83 x	3.25 x	2.79 x	3.27 x

⁽¹⁾ Excludes TRA Revenue Bonds, accrued interest from bond sales, and refunding or cash defeasances.

TABLE 4 - HISTORICAL NET REVENUES OF THE SYSTEM AND FINANCIAL RATIOS

	Fiscal Years Ended 9/30, (000's)				
	2020	2019	2018	2017	2016
Gross Operating Revenues	\$ 165,047	\$ 155,189	\$ 155,958	\$ 138,007	\$ 131,086
Interest Revenues (Excluding Interest During Construction)	1,804	2,944	73	26	361
Operating Expenses Before Depreciation	(90,010)	(87,754)	(85,204)	(86,631)	(78,288)
Net Revenues Available for Debt Service	\$ 76,841	\$ 70,379	\$ 70,827	\$ 51,402	\$ 53,159
Average Annual Debt Service	18,874	19,514	14,744	12,651	10,559
Average Annual Debt Service Coverage (times)	4.07 x	3.61 x	4.80 x	4.06 x	5.03 x
Accounts Receivable to Gross Operating Revenues (%)	12%	14%	12%	14%	16%
Unrestricted Cash to Unrestricted Current Liabilities (times)	2.43 x	2.39 x	5.01 x	5.54 x	3.27 x
Unrestricted Current Assets to Unrestricted Current Liabilities (times)	3.97 x	4.10 x	9.20 x	10.21 x	15.79 x
Long-term debt to Capital Assets Net Accumulated Depreciation (%)	39%	43%	32%	29%	25%

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INVESTMENTS

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

LEGAL INVESTMENTS

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; (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 (A) guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor or (B) are invested through (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the City adopts or (ii) a depository institution with a main office or branch office in this State that the City selects; and (a) the broker or depository institution selected arranges for the deposit of the funds in the banking deposits in one or more federal insured depository institutions, regardless of where located, for the City's account; and (b) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (c) the City appoints as the City's custodian of the banking deposits issued for the City's account: (1) the depository institution selected pursuant to (ii) above or (2) an entity described by Section 2257.041(d); or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3; (8) certificates of deposit (i) issued by a depository institution that has its main office or a branch office in the State, that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for City deposits, or a) where the funds are invested by an investing entity through: (i) a broker that has its main office or a branch office in this State and is selected from a list adopted by the City; or (ii) a depository institution that has its main office or a branch office in this State and that is selected by the investing entity; (b) where the broker or the depository institution selected by the investing entity under (a) 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; (iii) 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 (iv) the investing entity appoints the depository institution selected by the investing entity under (a), an entity described by Section 2257.041(d), or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the investing entity with respect to the certificates of deposit issued for the account of the City, (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1), which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City with a third party selected and approved by the City and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (10) 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 (7) 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 (7) above, clauses (12) through (14) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (11) 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, (12) 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, (13) 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 and (14) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than "AAA" or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

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

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all City funds must be invested in investments that protect principal, and consistent with the operating requirements of the City, and yield a market rate of return. Under Texas law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” No person may invest City funds without express written authority from the Council or Chief Financial Officer of the City.

At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and fully accrued interest during the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the 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 strategy statements and (b) state law. No person may invest City funds without express written authority from the Council.

ADDITIONAL PROVISIONS... Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt an order 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 said order or resolution, (3) require any investment officers’ with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Council; (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) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in 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 services, and to invest no portion of bond proceeds, reserves and funds held for debt service in mutual funds; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

CURRENT INVESTMENTS...The City’s primary investment objective is to provide for the protection of principal with an emphasis on safety and liquidity. The City maintains a comprehensive cash management program that includes prudent investment of its available funds. Investment maturities are targeted to provide available cash for the operating requirements of the City.

As of March 31, 2021, the following percentages of the City’s operating funds were invested in the following categories of investments:

TABLE 5 - CURRENT INVESTMENTS ⁽¹⁾

Type of Investment	% Invested
Treasury Securities	8.59%
Federal Agencies	57.36%
Statewide Local Government Investment Pools ⁽²⁾	19.03%
Municipals	5.08%
Commercial Paper	9.28%
Cash	0.66%
Totals	100.00%

⁽¹⁾ Reflects current investments for all City funds.

⁽²⁾ Currently invested in TexStar, TexPool, Texas Daily, TexPool Prime, Texas CLASS, and Texas CLASS Gov.

As of March 31, 2021, the weighted average maturity of the City’s operating portfolio was 403 days and the market value of the operating portfolio was 100.1 percent of its book value. No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

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SELECTED PROVISIONS OF THE ORDINANCE

The following is a summary of certain provisions of the Ordinance that authorizes the issuance of the Bonds. Such summary does not purport to be complete and reference should be made to the Ordinance for the complete provisions and the precise wording thereof. Copies of the Ordinance are available from the Department of Finance of the City of Arlington upon request.

The Bonds are parity "Additional Bonds" as defined in the Ordinance. The Bonds, the Outstanding Bonds and any Additional Bonds hereafter issued, are and shall be equally and ratably secured by and payable from a first lien on and pledge of the Net Revenues of the System.

DEFINITIONS

(a) The term "Additional Bonds" means the additional parity bonds which the City reserves the right to issue under the Ordinance.

(b) The term "Bonds" means the City's Water and Wastewater System Revenue Bonds, Series 2021.

(c) The term "Net Revenues" means all income, revenues, and receipts of every nature derived from and received by virtue of the operation of the System (including interest income and earnings received from the investment of monies in the special Funds created by the Ordinance or ordinances authorizing the issuance of the Outstanding Bonds and any Additional Bonds) after deducting and paying, and making provision for the payment of, current expenses of maintenance and operation thereof, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however that only such expenses for repairs and extensions as in the judgment of the City Council, reasonably and fairly exercised, are necessary to keep the System in operation and to render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair any obligations payable from the Net Revenues of the System, shall be deducted in determining "Net Revenues." Contractual payments for the purchase of water or the treatment of sewage shall be maintenance and operating expense of the System to the extent provided in the contract incurred therefore and as may be authorized by law. Depreciation shall never be considered as an expense of operation and maintenance.

(d) The term "Outstanding Bonds" means the City's outstanding: Water and Wastewater System Revenue Bonds, Series 2010, authorized by an ordinance of the City Council passed October 19, 2010; Water and Wastewater System Revenue Bonds, Series 2012 authorized by an ordinance of the City Council passed June 5, 2012; Water and Wastewater System Revenue Bonds, Series 2013A authorized by an ordinance of the City Council passed June 18, 2013; Water and Wastewater System Revenue Refunding Bonds, Series 2013B authorized by an ordinance of the City Council passed June 18, 2013; Water and Wastewater System Revenue Bonds, Series 2014 authorized by an ordinance of the City Council passed February 25, 2014; Water and Wastewater System Revenue Bonds, Series 2014A and Water and Wastewater System Revenue Refunding Bonds, Series 2014B authorized by an ordinance of the City Council passed June, 10, 2014; Water and Wastewater System Revenue Bonds, Series 2015A and Water and Wastewater System Revenue Refunding Bonds, Series 2015B authorized by an ordinance of the City Council passed May, 26, 2015; Water and Wastewater System Revenue Bonds, Series 2016 authorized by an ordinance of the City Council passed May 10, 2016; Water and Wastewater System Revenue Bonds, Series 2016A authorized by an ordinance of the City Council passed May 10, 2016; Water and Wastewater System Revenue Bonds, Series 2017 authorized by an ordinance of the City Council passed April 11, 2017; Water and Wastewater System Revenue Bonds, Series 2017A authorized by an ordinance of the City Council passed June 13, 2017; Water and Wastewater System Revenue Bonds, Series 2017B (TWDB) authorized by an ordinance of the City Council passed on December 5, 2017, Water and Wastewater System Revenue Bond, Series 2017A authorized by an ordinance of the City Council passed June 13, 2017, Water and Wastewater System Revenue Bonds, Series 2018 (TWDB) authorized by an ordinance of the City Council passed April 24, 2018, Water and Wastewater System Revenue Bonds, Series 2018A authorized by an ordinance of the City Council passed June 12, 2018, Water and Wastewater System Revenue Bonds, Series 2019A authorized by an ordinance passed on April 23, 2019, Water and Wastewater System Revenue Refunding Bonds, Series 2019B authorized by an ordinance passed on April 23, 2019, Water and Wastewater System Revenue Bonds, Series 2019C (TWDB) authorized by an ordinance passed on June 25, 2019, and Water and Wastewater System Revenue Refunding Bonds, Series 2020A authorized by an ordinance passed on April 28, 2020.

(e) The term "System" means the City's existing combined water system and wastewater system, formerly known as the City's combined waterworks and sewer system, including all properties (real, personal or mixed and tangible or intangible) owned, operated, maintained, and vested in, the City for the supply, treatment and distribution of treated water for domestic, commercial, industrial and other uses and the collection and treatment of water-carried wastes, together with all future additions, extensions, replacements and improvements thereto.

RATE AND CHARGES. . . The City hereby covenants that, for the benefit of the Initial Purchasers and any and all subsequent holders of the Bonds, the Outstanding Bonds and any Additional Bonds, or any part thereof, and in addition to all other provisions and covenants contained in this Ordinance, it is expressly agreed that the City shall, at all times while any of the Bonds, the Outstanding Bonds or any Additional Bonds are outstanding and unpaid, fix and maintain rates and collect charges for the facilities and services afforded by the System, which will provide revenues annually at least equal to the amount required to:

(a) pay for all operation, maintenance, depreciation, replacement and betterment charges of the System;

(b) establish and maintain the Interest and Sinking Fund and Reserve Fund requirements contained in this Ordinance and in the ordinances authorizing the Outstanding Bonds and any Additional Bonds; and

(c) produce Net Revenues each year in an amount not less than 1.25 times the average annual principal and interest requirements of the Bonds, the Outstanding Bonds and any Additional Bonds from time to time outstanding.

VARIOUS FUNDS...The City covenants and agrees that all revenues derived from the operation of the System shall be kept separate from other funds of the City. To that end, the following special Funds shall be established and maintained in an official depository bank of the City so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds are outstanding and unpaid: the "Revenue Fund," the "Interest and Sinking Fund" and the "Reserve Fund."

Revenue Fund. The City shall deposit, from day to day as collected, all revenues of every nature derived from the operation of the System into the Revenue Fund and the money from time to time on deposit therein shall be appropriated to the following uses in the following order of priority, to wit: (a) to the payment of all necessary and reasonable expenses of operation and maintenance of the System as said expenses are defined by law; (b) to the Interest and Sinking Fund and the Reserve Fund when and in the amounts required by the Ordinance and ordinances authorizing the Outstanding Bonds, and any Additional Bonds and for the payment of the principal of and interest on the Bonds, the Outstanding Bonds and any Additional Bonds when and as due and payable and for the creation of a reserve therefore; and (c) to any other purpose of the City now or hereafter permitted by law.

Interest and Sinking Fund. The Interest and Sinking Fund shall be used solely for the purpose of paying the principal of and interest on the Outstanding Bonds, the Bonds, and any Additional Bonds as such principal matures and such interest becomes due and payable.

Reserve Fund. The City covenants and agrees that it will continuously maintain in the Reserve Fund an amount of Reserve Fund Obligations equal to not less than the average annual principal and interest requirements on the Bonds, the Outstanding Bonds, and any Additional Bonds from time to time outstanding (the "Reserve Fund Requirement"), and that upon issuance of Additional Bonds, it will increase, if necessary and accumulate the amount to be deposited in the Reserve Fund in accordance with the requirements set forth in the Ordinance; provided that, any amounts deposited in the Reserve Fund that are attributable to gross proceeds of the Bonds, the Outstanding Bonds, and any Additional Bonds will not exceed an amount equal to the least of 10 percent of the stated principal amount of such bonds (or, if any issue has more than a de minimus amount of original issue discount or premium, the issue price of such issue will be used instead of the stated principal amount), the maximum annual principal and interest requirements on such bonds or 125 percent of the average annual principal and interest requirements on such bonds. For so long as the funds on deposit in the Reserve Fund are equal to the Reserve Fund Requirement, no additional deposit need be made therein, but should the Reserve Fund at any time contain less than the Reserve Fund Requirement, then, subject and subordinate to making the required deposits to the credit of the Interest and Sinking Fund, the City shall restore such deficiency by depositing additional Reserve Fund Obligations into the Reserve Fund in monthly installments of not less than 1/24th of the Reserve Fund Requirement on or before the 10th day of each month following such deficiency, termination, or expiration. The money on deposit in the Reserve Fund shall be used solely for the purpose of paying the principal of and interest on the Bonds, the Outstanding Bonds and any Additional Bonds at any time there are not sufficient moneys on deposit in the Interest and Sinking Fund.

The City may, at its option, withdraw all surplus in the Reserve Fund over the Reserve Fund Requirement and deposit the same in the Revenue Fund; provided, however, that to the extent such surplus monies constitute bond proceeds, including interest and income derived therefrom, such amounts shall not be deposited to the Revenue Fund and shall only be used for the purposes for which bond proceeds may be used.

For the purpose of determining compliance with the requirements of subsection (a) of this Section, Reserve Fund Obligations shall be valued each year as of the last day of the City's fiscal year at their cost or market value, whichever is lower, except that any direct obligations of the United States (State and Local Government Series) held for the benefit of the Reserve Fund in book-entry form shall be continuously valued at their par value or face principal amount.

"Reserve Fund Obligations" means cash, investment securities of any of the type or types permitted under the Ordinance, any "Credit Facility" or any combination thereof. "Credit Facility" means (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, provided that a "Rating Agency" having an outstanding rating on such obligations would rate such obligations which are fully insured by a standard policy issued by the issuer in its two highest generic rating categories for such obligations; and (ii) a letter or line of credit issued by any financial institution, provided that a "Rating Agency" having an outstanding rating on the Bonds would rate the Bonds in its two highest generic rating categories for such obligations if the letter or line of credit proposed to be issued by such financial institution secured the timely payment of the entire principal amount of the bonds and the interest thereon. As used herein, "Rating Agency" means any nationally recognized securities rating agency which has assigned a rating to the Bonds.

Investment of Funds. Money in any Fund established pursuant to the Ordinance or any ordinance authorizing the issuance of Outstanding Bonds, and any Additional Bonds, may, at the option of the City, be invested in time deposits or certificates of deposit secured in the manner required by law for public funds, or invested in direct obligations of, including obligations the principal and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities thereof, or in such other investments as are permitted under the Public Funds Investment Act of 1987, Chapter 2256, Texas Government Code, as amended, or any successor law, as in effect from time to time; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investment with any primary dealer of such agreements) that the money required to expended from any Fund will be available at the proper time or times. Such investments shall be valued each year in terms of current market value as of the last day of the City's fiscal year. For purposes of maximizing investment returns, to the extent permitted by law, money in such Funds may be invested in common investments of the kind described above, or in a common pool of such investment which shall be kept and held at an official depository bank, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such fund are held by or on behalf of each such Fund. If necessary, such investments shall be promptly sold to prevent any default.

ADDITIONAL BONDS...In addition to the right to issue bonds of inferior lien as authorized by law, the City reserves the right to issue Additional Bonds under and in accordance with the Ordinance for the purpose of improving, extending, equipping and repairing the System and for the purpose of refunding, in any lawful manner, any part or all of the Bonds, the Outstanding Bonds and any Additional Bonds then outstanding. The Additional Bonds shall be secured by and payable from a first and superior lien on and pledge of the Net Revenues in the same manner and to the same extent as the Bonds and the Outstanding Bonds; and the Bonds, any Outstanding Bonds, and the Additional Bonds then proposed to be issued shall in all respects be on a parity and of equal dignity as to lien and right. Additional Bonds may be issued under the Ordinance in one or more installments; provided, however, that none of the Additional Bonds shall be issued unless and until the following conditions have been met:

- (a) The City is not then in default as to any covenant, condition or obligation prescribed by any ordinance authorizing the issuance of the Outstanding Bonds;
- (b) Each of the special Funds created for the payment and security of the Bonds and the Outstanding Bonds contain the amount of money then required to be on deposit therein;
- (c) The City has secured from a Certified Public Accountant a certificate showing that the Net Earnings (definition under paragraph (f) below) of the System for either the completed fiscal year next preceding the date of the Additional Bonds or a consecutive twelve-month period out of the last fifteen months next preceding the date of the Additional Bonds is equal to at least 1.25 times the average annual principal and interest requirements (calculated on a fiscal year basis) of all bonds, which will be outstanding after the issuance of the proposed Additional Bonds. However, should the certificate of the accountant certify that the Net Earnings of the System for the period covered thereby were less than required above, and a change in the rates and charges for water and sewer services afforded by the System became effective at least 60 days prior to the last day of the period covered by the accountant's certificate, and an independent engineer or engineering firm having a favorable reputation with respect to such matters will certify, that, had such change in rates and charges been effective for the entire period covered by the accountant's certificate, the Net Earnings of the System covered by the accountant's certificate would have been, in his or their opinion, equal to at least 1.25 times the average annual principal and interest requirements (calculated on a fiscal year basis) of the Outstanding Bonds after giving effect to the issuance of the Additional Bonds, then, in such event, the coverage specified in the first sentence of this paragraph shall not be required for the period specified, and such accountant's certificate will be sufficient if accompanied by an engineer's certificate to the above effect;
- (d) The ordinance authorizing the Additional Bonds (A) requires that deposits shall be made into the Interest and Sinking Fund in amounts adequate to pay the principal and interest requirements of the Additional Bonds as the same become due; and (B) provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be increased to an amount equal to the Reserve Fund Requirement for all Bonds to be outstanding after the issuance of said Additional Bonds. Such additional amount shall be so accumulated in not more than sixty months from the date of the Additional Bonds, in equal monthly installments, commencing on the 25th day of the month immediately succeeding the Closing Date, and on the 25th day of each month thereafter until an amount equal to the Reserve Fund Requirement is on deposit; and
- (e) The Additional Bonds are scheduled to mature only on June 1, and the interest thereon is scheduled to be paid on June 1 and December 1.

The term "Net Earnings" shall mean all income, receipts and revenues derived from the operation of the System, including interest earned on invested monies in the special Funds created for the payment and security of obligations payable from the Net Revenues, after deduction of maintenance and operating expenses but not deducting depreciation, debt service payments on the Bonds, the Outstanding Bonds and any Additional Bonds and other expenditures which, under standard accounting practice, should be classified as capital expenditures. Revenues and receipts resulting solely from the ownership of the System (grants, meter deposits and gifts) and interest earned on construction funds created from bond proceeds shall not be treated or included as income, revenues or receipts from the operation of the System for purposes of determining "Net Earnings."

AMENDMENTS ... The City may, without consent of or notice to any owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the owners of the Bonds holding a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all owners of outstanding Bonds, no such amendment, addition, or rescission shall (i) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, or interest on the Bonds, (ii) give any preference to any Bond over any other Bond, or (iii) reduce the aggregate principal amount of Bonds required to be held by owners for consent to any such amendment, addition, or rescission.

COVENANTS BY THE CITY...The City covenants that so long as any principal or interest pertaining to any of the Bonds, the Outstanding Bonds and any Additional Bonds remains outstanding and unpaid, it will not authorize or issue any further bonds of the City secured by a lien on and pledge of the revenues of the System superior or senior to the pledge and lien created herein for the Bonds, the Outstanding Bonds and any Additional Bonds, or secured by a lien on and pledge of the revenues of the System on a parity with the Bonds, the Outstanding Bonds and any Additional Bonds except in conformity with the provisions of the Ordinance.

The City covenants that the System shall be operated on a fiscal year basis and shall be maintained in good condition and operated in an efficient manner and at reasonable cost. So long as any of the Bonds, the Outstanding Bonds and any Additional Bonds are outstanding, the City agrees to maintain insurance on the System of a kind and in an amount customarily carried by municipal corporations in the State of Texas.

The City covenants that so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or any interest thereon remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the operation of the System and its component parts separate and apart from all other records and accounts of the City in accordance with accepted accounting practices prescribed for municipal corporations, and complete and correct entries shall be made of all transactions relating to the System, as provided by Chapter 1502, Texas Government Code, as amended.

For so long as any of the Bonds, the Outstanding Bonds and any Additional Bonds or any interest thereon remain outstanding, the City will not sell or encumber the physical properties of the System or any substantial part thereof; provided, however, this covenant shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System.

The City covenants that following the close of each fiscal year, it will cause an audit of such books and accounts of the System to be made by an independent firm of Certified Public Accountants which shall include, among other things, a detailed statement of the income and expenditures of the components of the System for such fiscal year; a balance sheet as of the end of such fiscal year; and a detailed statement of the source and disposition of all funds of the System during such fiscal year. Copies of these annual audits shall be immediately furnished, upon written request, to the original purchasers and any subsequent holder of the Bonds, the Outstanding Bonds and any Additional Bonds.

No free service of the System shall be allowed, and should the City or any of its agents or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of funds from sources other than the revenues and income of the System.

Remedies in Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in any payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds, the holder or holders of any of the Bonds, the Outstanding Bonds or any Additional Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance or any ordinance authorizing the issuance of the Outstanding Bonds or any Additional Bonds. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

TAX EXEMPTION

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Code and is not a specific preference item for purposes of the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Initial Purchaser with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds, regardless of the ultimate outcome of the audit.

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

Collateral Tax Consequences

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

Tax Accounting Treatment of Original Issue Premium

The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

Tax Accounting Treatment of Original Issue Discount

The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – Tax Exemption" and "TAX MATTERS – Additional Federal Income Tax Considerations – Collateral Tax Consequences" and "—Tax Legislative Changes" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) 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 (ii) the amounts payable as current interest during such accrual period on such Bond.

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

Tax Legislative Changes

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City made the following agreement for the benefit of the holders and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the 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 free of charge via the Electronic Municipal Market Access ("EMMA") System at www.emma.msrb.org.

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 the final Official Statement, being information described in Tables 1 through 5, including financial statements of the City if audited financial statements of the City are then available, and (2) if not provided as part of such financial information and operating data, audited financial statements of the City, within 12 months after the end of each fiscal year when and if available. Any financial statements so 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, by State law or regulation, and (ii) audited, if the City commissions an audit of such 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.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule").

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year for the preceding year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

NOTICE OF CERTAIN EVENTS... The City shall notify the MSRB, in a timely manner not in excess of ten (10) business days after the occurrence of the event, of any of the following events with respect to the Bonds: (1) Principal and interest payment delinquencies; (2) Non-payment related defaults, if material; (3) Unscheduled draws on debt service reserves reflecting financial difficulties; (4) Unscheduled draws on credit enhancements reflecting financial difficulties; (5) Substitution of credit or liquidity providers, or their failure to perform; (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) Defeasances; (10) Release, substitution, or sale of property securing repayment of the Bonds, if material; (11) Rating changes; (12) Bankruptcy, insolvency, receivership or similar event of the City; (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, 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 Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material; (15) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide required annual financial information and event notices in accordance with their agreement described under "Annual Reports".

For the purposes of the event identified in (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City; and the words used in clauses (15) and (16) in the immediately preceding paragraph and in the definition of Financial Obligation have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. The Ordinance defines “Financial Obligation” as a (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 defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule. All documents provided to the MSRB pursuant to this section shall be in electronic format and accompanied by identifying information as prescribed by the MSRB.

AVAILABILITY OF INFORMATION FROM MSRB... The City has agreed to provide the foregoing information, only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

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 Bonds 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 Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell the Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and Beneficial Owners of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS... The City issued its Water and Wastewater System Revenue Bonds, Series 2019D in a private placement sale with the Texas Water Development Board on September 20, 2019, but did not make an event filing with respect to the incurrence of a Financial Obligation pursuant to the Rule. An event filing was subsequently made with the MSRB on March 30, 2020.

OTHER INFORMATION

RATINGS... The Bonds have been rated “Aa1” by Moody’s Investors Service, Inc. (“Moody’s”), “AAA” by S&P Global Ratings, Standard & Poor’s Financial Services LLC (“S&P”), and “AAA” by Fitch Ratings (“Fitch”). The unenhanced outstanding water and wastewater revenue debt of the City is rated “Aa1” by Moody’s, “AAA” by S&P and “AAA” by Fitch. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by any or all of such rating companies, if in the judgment of any or all companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Bonds.

LITIGATION... The City is currently involved in some lawsuits in which some liability is possible. The City intends to defend itself vigorously against the lawsuits; however, no prediction can be made, as of the date hereof, with respect to the potential aggregate liability of the City for the claims or the final outcome of the lawsuits.

The City is currently involved in an employment lawsuit regarding the termination of employment of a former Arlington police officer. The trial court previously ruled that the employee was subject to back pay award of \$164,471. However, that case was appealed, and a new arbitration was ordered. The new arbitration was held, and the City is waiting for a ruling. It is possible, although unlikely, that the City could be required to pay back pay from January 21, 2011 to the time of a final court ruling.

The City is currently involved in litigation with the family of an individual who was fatally shot after he ran over an Arlington police officer during a traffic stop. The Plaintiffs assert a civil rights claim alleging excessive use of force.

The City is currently involved in litigation with the family of an individual who was fatally shot during a traffic stop after he drove away during the stop with an officer standing on the running boards of his vehicle. This officer has been indicted on a charge of criminally negligent homicide and is awaiting trial. The passenger of the vehicle is also a Plaintiff in this lawsuit. The Plaintiffs assert a civil rights claim alleging excessive use of force. The district court ruled in the City's favor. The matter is currently on appeal. The City is waiting for a decision from the appellate court.

The City is involved in a premise liability lawsuit regarding an incident that occurred on a jogging trail at one of Arlington's public parks when a tree allegedly fell on the Plaintiff.

The City is currently involved in litigation with the family of an individual that was tased by police after he doused himself and his home in gasoline while threatening to ignite the lighter in his hand and set himself and the home on fire. The individual died at the hospital. The Fifth Circuit Court of Appeals ruled in the City's favor. However, the Plaintiffs filed a motion for rehearing.

The City is involved with litigation regarding the implementation of civil service for firefighters working for the City. The 96th Judicial District Court of Tarrant County, Texas previously denied the Plaintiff's motion for temporary injunctive relief. The City filed motions for summary judgment on all claims. The Plaintiffs seek changes to their employment benefits, seek to enforce promotions under the pre-civil service system, and allege violations of state law civil rights. The trial court ruled in the City's favor. However, the case is currently on appeal; the City is waiting for a ruling from the Court of Appeals.

The City is involved in litigation filed by several short-term rental owners alleging that Arlington's new ordinances violate the Texas Constitution by infringing on their rights as private property owners. Plaintiffs are seeking a temporary restraining order, injunction and declaration that the ordinances are unconstitutional. All of Plaintiffs' requests have been denied so far and this matter is on appeal. The City is waiting for a ruling from the Court of Appeals.

The City is involved in litigation brought by a group of homeowners concerning a privately owned dam. After the dam failed through lack of repair and maintenance by the homeowners, the City breached the dam to control the situation. The homeowners brought suit seeking to have the City repair the dam or otherwise improve the property or pay for alleged damages.

The City is involved in litigation with an individual who was a suspect in a car theft. When approached by a City police officer, the individual ran. He was eventually "tazed" by two officers and apprehended. When the suspect was tased, he fell face first and received relatively minor injuries. The individual alleges an excessive use of force and is suing for damages. The district court ruled in favor of the officers, finding that no constitutional violation had been committed. The individual has filed a notice of appeal.

The City is involved in litigation with an individual who was caught shoplifting electronics. The individual resisted arrest. Ultimately he was handcuffed and arrested by three officers. The individual alleges excessive force was used, although no firearm or "tazer" was used in effecting the arrest. The individual is suing for damages.

The federal department of Housing and Urban Development has threatened to bring suit against the City on behalf of a developer whose project was denied. HUD generally alleges that the City was discriminatory in favor of housing projects for older individuals and against younger family units with children.

In addition, the City has received a notice of claim involving an accident where a police officer shot at a dog, which accidentally resulted in a fatality of an individual in the background.

As of April 21, 2021, there are twenty-nine lawsuits pending against the City seeking monetary damages and/or injunctive relief. Eleven of the cases assert state law tort claims which are subject to the Texas Tort Claims Act (TTCA). The TTCA limits liability for money damages to \$250,000 for each person and \$500,000 for each single occurrence for bodily injury and death. Further, the TTCA limits liability for property damage to \$100,000.00 for each single occurrence. See Texas Civil Practice and Remedies Code, Section 101.023(c). In addition to the twenty-nine lawsuits, the City is engaged in two eminent domain lawsuits, in which the City is seeking to acquire property.

Various other claims and lawsuits are pending against the City. In the opinion of City management, the potential losses, in excess of Arlington's Self Insurance & Risk Management Program limitations (see Note 13 of the City's audited basic financial statements in Appendix B hereto) of insurance coverage, if any, on all claims will not have a material adverse effect on the City's financial position as a whole.

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

On March 13, 2020, Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including taking action to suspend any regulatory statute prescribing the procedures for conduct of state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued several executive orders relating to COVID-19 preparedness, mitigation and reopening Texas businesses.

On March 2, 2021, the Governor issued Executive Order GA-34, effective March 10, 2021, which among other things rescinds and supersedes various prior executive orders and provides that in all counties not in an “area with high hospitalizations” as defined in Executive Order GA-34 (i) there are no COVID-19 related operating limits for any business or other establishment and (ii) no person may be required by any jurisdiction to wear or to mandate the wearing of a face covering. In “areas with high hospitalizations” a county judge may impose COVID-19 related mitigation strategies, including reinstating business occupancy limits, subject to certain limitations. Tarrant County is not currently an “area with high hospitalizations.” The Governor retains the right to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within the City. The Bonds are secured by Net Revenues of the System. The continued effects of the Pandemic on the economy and employment may have a negative effect on the ability of residents to pay rates for services, including water, sewer and stormwater drainage fees. Actions taken to slow the Pandemic are expected to continue to reduce economic activity within the City and a reduction in the collection of taxes, System revenues and other fees and charges collected by the City may negatively impact the City’s operating budget and overall financial condition.

The financial and operating data contained herein are as of the dates and are inclusive of periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the current financial condition or future prospects of the City. The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of Pandemic upon the City. While the long-term impact of the Pandemic on the City cannot be quantified at this time, the continued spread of COVID-19 could have an adverse effect on the City’s operations and financial condition.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE...The sale of the Bonds has not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon exemptions provided therein; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities act of any jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemptions from securities registration or qualification provisions.

LEGAL MATTERS... The City will furnish the Initial Purchasers with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Bonds are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under “TAX MATTERS,” the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Bonds will also be furnished. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Ordinance. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. Certain legal matters will be passed upon by West & Associates, L.L.P. Dallas, Texas, Disclosure Counsel. The legal fees to be paid Bond Counsel and Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS...Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State of Texas. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds (See “OTHER INFORMATION – RATINGS” herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The 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 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

INITIAL PURCHASER OF THE BONDS . . . After requesting competitive bids for the Bonds, the City accepted the bid of Citigroup Global Markets Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page of the Official Statement at a price of 115.27% of par. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

FINANCIAL ADVISOR...Estrada Hinojosa & Company, Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Estrada Hinojosa & Company, 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 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies. The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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

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

CERTIFICATION OF THE OFFICIAL STATEMENT...At the time of payment for and delivery of the Bonds, the Initial Purchasers of the Bonds will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in this Official Statement and any addenda, supplement or amendment thereto, for its Bonds, on the date of such Official Statement, on the date of sale of said Bonds and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities other than the City and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2020, the date of the last audited financial statements of the City appearing in the Official Statement.

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.

In the Bond Ordinance, the City Council authorized the Authorized Officer to approve, for and on behalf of the City, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Initial Purchasers' use of this Official Statement in connection with the public offering and the sale of the Bonds, all of which the Authorized Officer approved in the Pricing Certificate.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY OF ARLINGTON

The City

The City is located in the eastern part of Tarrant County, equidistant between Dallas and Fort Worth on Interstate Highways 20 and 30, which are limited access highways. The City's location places it at the geographical center of the Dallas-Fort Worth metropolitan area. The land area of the City contained within its corporate boundaries is approximately 99.5 square miles.

The City was incorporated January 17, 1920, under the provisions of the Home Rule Amendment to the Texas State Constitution. The City provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and wastewater utilities, and general administrative services.

General

The City operates under the Council-Manager form of government as established by its home rule charter (the "City Charter"). There is a nine member City Council (the "Council") vested with local legislative power. Three council members and the Mayor are elected "at large" and five council members are elected in five single member districts. All members of the Council are elected for terms of two years, with the elections being held in even/odd years for approximately half the seats. The Council elects both a Mayor Pro Tem and a Deputy Mayor Pro Tem from among its members.

Mayor and City Council

Policy-making and supervisory functions are the responsibility of and are vested in the Council under provisions of the City Charter. Ordinance, resolutions and zoning decisions are presented at Council meetings at 6:30 p.m. on the second and fourth Tuesday of each month. Council meetings are broadcast on the local cable public access station and webcast. A simple majority of the Council constitutes a quorum. The Mayor is required to vote on all matters considered by the Council, but has limited power to veto Council actions that can be overridden by simple majority action of the Council.

Administration

The City Manager is the administrative head of the municipal government and carries out the policies of the Council. With the assistance of two Deputy City Managers and an Assistant City Manager, he coordinates the functions of the various municipal agencies and departments responsible for the delivery of services to residents. The City Manager is appointed by the Council and serves at the pleasure of the Council.

Excluding the positions and offices of the City Attorney, City Auditor and certain others whose appointments are reserved for Council action, the City Manager appoints and removes all City employees. The City Manager exercises control over all City departments and divisions and supervises their personnel; recommends Council legislative actions; advises Council on the City's financial conditions and needs; prepares and submits to Council the annual budget; and performs such duties required by Council.

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ECONOMIC AND DEMOGRAPHIC FACTORS

Population

**Population and Rates of Change
Arlington and the United States
Selected Years**

Year	Arlington	Annual Rate of Change	United States	Annual Rate of Change
1980	160,113	7.66%	226,545,805	1.15%
1990	261,721	6.35%	248,765,170	0.98%
2000	332,969	2.72%	281,421,906	1.31%
2010	365,438	0.98%	308,745,538	0.97%
2011	365,530	0.03%	312,759,230	1.30%
2012	365,860	0.09%	314,395,013	0.52%
2013	365,930	0.02%	316,128,839	0.55%
2014	369,508	0.98%	318,857,056	0.86%
2015	379,370	2.67%	321,418,820	0.80%
2016	380,740	0.36%	323,127,513	0.53%
2017	382,230	0.39%	326,474,013	1.04%
2018	383,950	0.45%	327,747,936	0.39%
2019	386,180	0.58%	329,180,367	0.44%
2020	390,540	1.13%	330,376,491	0.36%

Source: U.S. Census, and North Central Texas Council of Governments.

EMPLOYMENT

Unemployment data for the City, Texas, and the United States is shown below.

**Unemployment Rate
Annual Average Rates
2017 to 2021**

	February 2021	February 2020	February 2019	February 2018	February 2017
Arlington	7.3%	3.2%	3.5%	3.8%	4.4%
Texas	7.5%	3.5%	3.8%	4.2%	4.9%
United States	6.6%	3.8%	4.1%	4.4%	4.9%

Source: Texas Labor Market Information.

Arlington Major Employers

Employer	Type of Business	Number of employees ⁽¹⁾
Arlington Independent School District	Public Education	8,200
University of Texas at Arlington	Higher Education	5,300
General Motors	Automobile Assembly	4,484
Texas Health Resources	Medical	4,063
Six Flags Over Texas	Amusement Park	3,800
The Parks Mall at Arlington	Retail	3,500
GM Financial	Automobile Financing	3,300
City of Arlington	Municipality	2,487
J.P. Morgan Chase	Banking Services	1,965
Texas Rangers Baseball Club	Major League Baseball	1,881
Total		38,980

Source: City of Arlington Finance Department.

⁽¹⁾ Includes part-time and peak seasonal employees.

Building Permits

	2020		2019		2018	
	Permits	Declared Value	Permits	Declared Value	Permits	Declared Value
New Single Family	788	\$ 171,710,356	794	\$ 196,695,469	566	\$ 143,824,017
New Multifamily	35	97,733,878	17	84,688,224	21	98,308,576
New Commercial	84	81,211,188	169	264,916,391	116	981,290,295
Other (Residential and Commercial)	8,630	321,476,106	8,749	362,113,580	8,783	392,518,994
Grand Total	9,537	\$ 672,131,528	9,729	\$ 908,413,664	9,486	\$ 1,615,941,882

Source: City of Arlington Building Inspections Division

APPENDIX B

**AUDITED BASIC FINANCIAL STATEMENTS OF
THE CITY OF ARLINGTON
YEAR ENDED SEPTEMBER 30, 2020**

Independent Auditor's Report

The Honorable Mayor, City Council, and City Manager
The City of Arlington, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of Arlington, Texas (City) as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Arlington Housing Authority, the Arlington Convention and Visitors Bureau, Inc., or the Arlington Tourism Public Improvement District (component units), discretely presented component units, which statements reflect 10%, 8%, and 69% of assets, net position, and revenues, respectively, of the aggregate discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2020, 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.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining financial statements, individual fund budgetary comparison schedules, the schedules of capital assets used in the operation of governmental funds and statistical section, as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

The Honorable Mayor, City Council, and City Manager
The City of Arlington, Texas
Page 3

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

BKD, LLP

Dallas, Texas
March 3, 2021

CITY OF ARLINGTON, TEXAS

Management's Discussion and Analysis For the Year Ended September 30, 2020 (Unaudited)

As management of the City of Arlington (City), we offer readers of the City's Comprehensive Annual Financial Report this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2020. We encourage readers to consider the information presented here in conjunction with additional information furnished in the letter of transmittal, which can be found beginning on page vii of this report.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$2.77 (net position). Of this amount, \$128.6M represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position increased \$390M during the current period primarily due to increases to net investment in capital assets and the amount restricted for debt service.
- At the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$353M, an **increase** of \$8M in comparison with the prior year. Within this total, \$221M is restricted for specific legal requirements and \$119M has been committed or assigned to specific types of expenditures. The remaining unassigned fund balance in the general fund and can be used for any lawful purpose.
- At the end of the current fiscal year, unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) for the governmental fund was \$129M, or approximately 27% of total governmental fund expenditures.
- The City's total outstanding long-term debt of \$1.53B **increased** \$171M during the year. Debt issues in 2020 include \$8.7M in Permanent Improvement Refunding Bonds, \$9.2M in Certificates of Obligation Bonds, \$39.6M in Permanent Improvement Bonds, \$174.7 General Obligation Pension Bonds, \$5.3M in Water and Wastewater System Revenue and Refunding bonds, \$9.8M in Stormwater Revenue bonds, and \$13.5M in Storm Water Refunding Revenue bonds. Bond principal payments for 2020 total \$59.2M on existing obligations. Exclusive of special venue debt, City of Arlington debt is allocated 64% for general government, with the remaining 36% to water, wastewater, and storm water activities.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis provided here is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This is the portion of the CAFR on which the auditors express an opinion. The report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-wide financial statements

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

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

The Statement of Activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported when 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 result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). In the aforementioned statements, the City's business is divided into three types of activities:

- **Governmental Activities** – Functions of the City that are principally supported by taxes and intergovernmental revenues are reported here including general government, public safety, public works, public health, parks and recreation, public welfare, convention and event services and interest and fiscal charges. Property taxes, sales taxes, and franchise fees provide the majority of funding for these activities, with the addition of charges for services, grants and contributions.
- **Business-type Activities** – Functions that are intended to recover all or a significant portion of their costs through user fees and charges are reported here. The City's water and sewer system and storm water utilities are reported here.
- **Component Units** – For fiscal year 2020, the City includes seven discretely presented component units in its report – Arlington Housing Authority (AHA), Arlington Convention and Visitors Bureau (ACVB), Arlington Housing Finance Corporation (AHFC), Arlington Tomorrow Foundation (ATF), Arlington Economic Development Corporation (no activity), the Arlington Convention Center Development Corporation (ACDC) and Arlington Tourism Public Improvement District (ATPID).

The government-wide financial statements can be found on pages 17-21 of this report.

Fund Financial Statements

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

Governmental Funds

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains twenty-one individual governmental funds. 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, Streets Capital Projects Fund, and the Ballpark Venue Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregate, nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the report.

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

The basic governmental fund financial statements can be found beginning on page 22 of this report.

Proprietary Funds

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer and storm water utilities operations. The City uses its internal service funds to account for its fleet services and self-insurance functions. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer and Storm Water Utilities funds. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in the Comprehensive Annual Financial Report.

The basic proprietary fund financial statements can be found beginning on page 26 of this report.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reported in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The City is the trustee, or fiduciary, for several funds, including the Part-Time Deferred Income Trust, Thrift Savings Plan, and Disability Income Plan, as well as certain amounts held on behalf of developers, property owners and others. All of the City's fiduciary activities are reported in separate Statements of Fiduciary Net Position and Changes in Fiduciary Net Position.

The fiduciary fund financial statements can be found beginning on page 30 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 33 of this report.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's progress in funding its obligation to provide pension and OPEB benefits to its employees. Required supplementary information can be found on page 87 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information. Combining and individual fund statements and schedules can be found on pages 101-137 of this report.

Government-wide Overall Financial Analysis

As noted earlier, net position may serve as a useful indicator of a government's financial position. The City's combined net position was \$2.77B as of September 30, 2020. The largest portion of the City's net position \$2.43B (50%) reflects its investments in capital assets (e.g. land, building, equipment, improvements, and infrastructure), less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens. Accordingly, these assets are not available for future spending. They do, however, represent an obligation on the part of the City to maintain these assets into the future.

City of Arlington's Net Position

(Amounts Expressed in Millions)

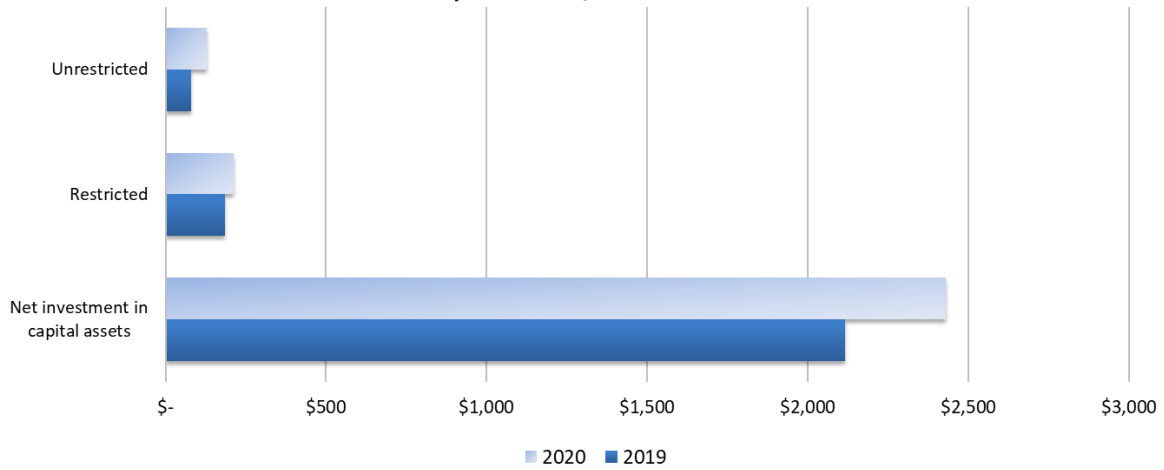
	Governmental		Business-type		Total	
	Activities		Activities			
	2019	2020	2019	2020	2019	2020
Current and other assets	\$ 436	\$ 501	\$ 362	\$ 339	\$ 798	\$ 840
Capital assets	2,534	2,920	850	882	3,384	3,802
Total assets	2,970	3,421	1,212	1,221	4,182	4,642
Total deferred outflows of resources	144	224	11	16	155	240
Long-term liabilities outstanding	1,460	1,580	399	379	1,859	1,959
Other liabilities	28	35	19	20	47	55
Total liabilities	1,488	1,615	418	399	1,906	2,015
Total deferred inflows of resources	47	95	3	3	50	98
Net position:					-	-
Net investment in capital assets	1,463	1,752	653	690	2,116	2,442
Restricted for debt service	56	63	119	107	175	170
Restricted for special revenue	-	30	-	-	-	30
Restricted for use of impact fees	10	11	-	-	10	11
Unrestricted	50	80	30	38	80	118
Total net position	\$ 1,579	\$ 1,936	\$ 802	\$ 835	\$ 2,381	\$ 2,771

Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of \$212M (7.7%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$128M (4.6%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City reports positive balances in all reported categories of net position, both for the governmental and business-type activities. Overall net position increased \$390M from the prior fiscal year.

**City of Arlington's Net Position (amounts expressed in millions)
September 30, 2019 and 2020**

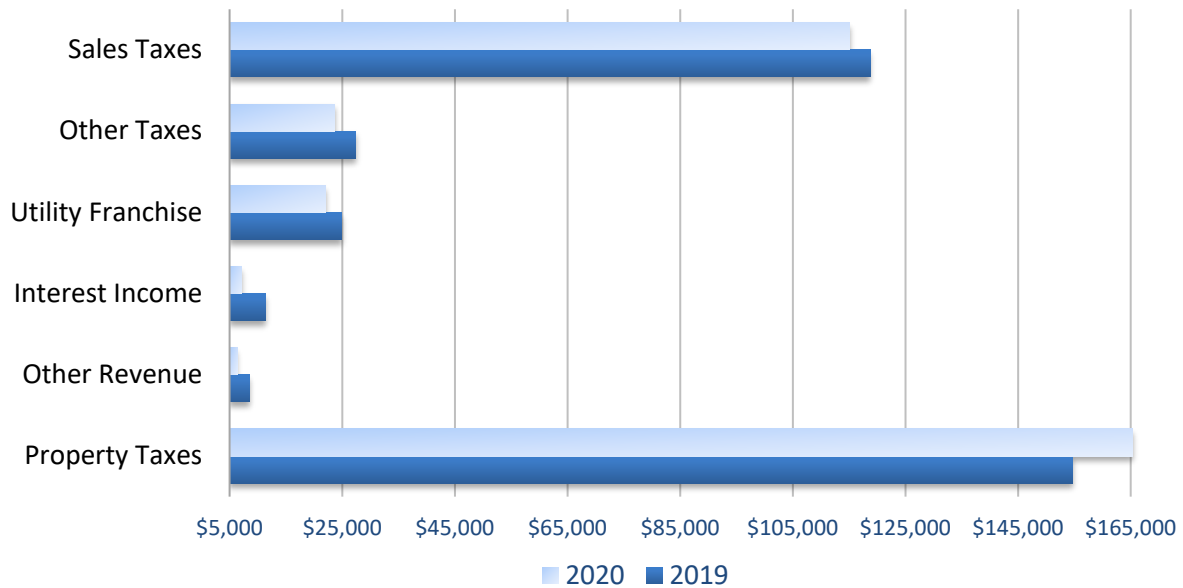


Governmental Activities

The City's general revenues decreased compared to the prior year, decreasing overall by 1.7%. Sales tax revenue and interest earnings accounted for much of the decrease this year compared to last.

Property tax collections were up from the prior year by about \$10.7M and Arlington once again saw growth in assessed valuation. The residential property values increased by 11.6% and commercial property values increased by 13.0% compared to the prior year. The City does not anticipate property values to increase with continued state of economic conditions. The property tax rate for 2020 was set at \$0.6240 per \$100 assessed valuation: down .0108 from \$0.6348 in the prior year.

**General Revenue Comparison (in thousands)
September 30, 2019 and 2020**



Sales tax revenue decreased by \$3.6M, down 3.1% from the prior year. Due to the Covid-19 pandemic, all revenues except property tax were reduced during the year. Utility franchise fee collections decreased by 11.5% in 2020.

Charges for services increased \$4.4M with most of the increase resulting from the increase in business-type activities revenues related to water usage. Capital grants and contributions decreased by \$32M due to reduced capital contributions related to the new Rangers ballpark. Operating grants and contributions increased \$5.3M compared to the prior year due to increased grant income related to the Covid-19 pandemic. Interest income decreased by \$7.1M due to lower returns compared to the prior year.

Overall, expenses increased approximately \$28.4M (4.99%) from the prior year. Increases are primarily attributed to an increase in Public Welfare due to increased spending in the Innovation and Venture Capital fund for various projects in the City. Public Works decreased capital outlay in the prior year compared to the current year. Public welfare expenses increased significantly due to grant money received to assist with the pandemic. Interest and fiscal charges increased due to higher interest and increase in bond related expenses.

City of Arlington's Changes in Net Position

(Amounts expressed in thousands)

	Governmental Activities		Business-type Activities		Total	
	2019	2020	2019	2020	2019	2020
Revenues						
Program Revenues:						
Charges for services	\$ 64,652	\$ 57,585	\$ 173,203	\$ 184,697	\$ 237,855	\$ 242,282
Operating grants and contributions	15,849	21,193	-	-	15,849	21,193
Capital grants and contributions	410,903	380,662	4,978	3,194	415,881	383,856
General Revenues:						
Taxes	300,702	304,051	-	-	300,702	304,051
Utility franchise fees	24,921	22,048	-	-	24,921	22,048
Interest income	11,329	7,077	4,676	1,872	16,005	8,949
Other	8,568	6,328	-	-	8,568	6,328
Total revenues	836,924	798,944	182,857	189,763	1,019,781	988,707
Expenses						
General government	82,037	90,202	-	-	82,037	90,202
Public Safety	187,839	184,574	-	-	187,839	184,574
Public Works	75,818	78,174	-	-	75,818	78,174
Public Health	3,610	3,219	-	-	3,610	3,219
Parks and recreation	37,161	34,190	-	-	37,161	34,190
Public welfare	11,132	25,028	-	-	11,132	25,028
Convention and event services	15,416	18,041	-	-	15,416	18,041
Interest and fiscal charges	37,378	38,627	-	-	37,378	38,627
Water, sewer and storm water	-	-	119,752	126,554	119,752	126,554
Total expenses	450,391	472,055	119,752	126,554	570,143	598,609
Increase in net position before transfers	386,533	326,889	63,105	63,209	449,638	390,098
Transfers and capital contributions	18,769	29,314	(18,769)	(29,314)	-	-
Increase (decrease) in net position	405,302	356,203	44,336	33,895	449,638	390,098
Net Position, October 1	1,173,566	1,578,868	757,465	801,801	1,931,031	2,380,669
Net Position, September 30	\$ 1,578,868	\$ 1,935,071	\$ 801,801	\$ 835,696	\$ 2,380,669	\$ 2,770,767

Business-type Activities

During the current fiscal year, net position for business-type activities increased \$33.9M from the prior fiscal year for an ending balance of \$835.7M. The increase in overall net position of business-type activities is the result of the increased amount restricted for debt service. The revenue increase of \$6.9M in business-type activities (Water and Wastewater/Storm Water Utility) is a result of an increase in water sales and sewer service revenues reported in service charges and interest for the current year. Expenses were reduced a minimal amount from the previous year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

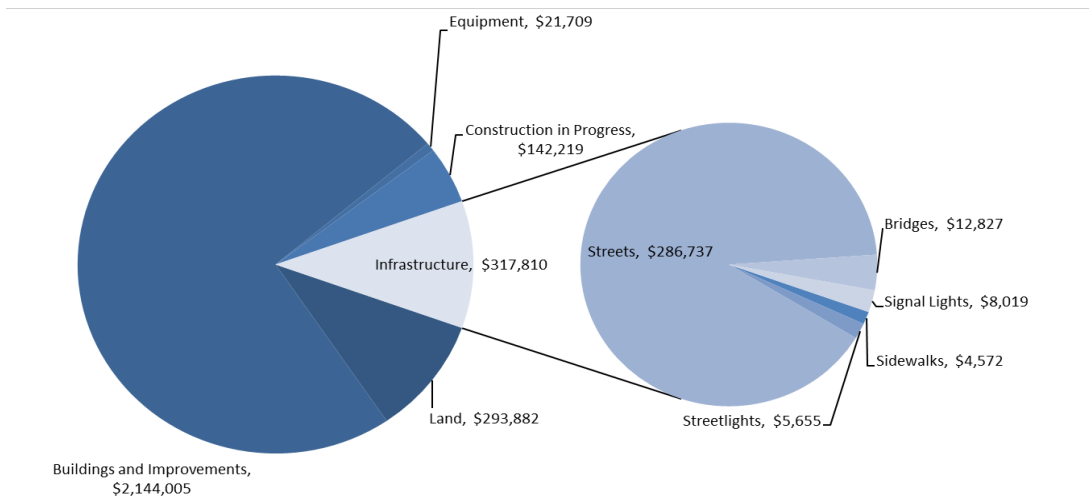
The City’s net investment in capital assets for its governmental and business-type activities as of September 30, 2020, amounts to \$3.8B (net of accumulated depreciation). This investment in capital assets includes land, buildings, machinery, equipment, vehicles, park facilities, roads, highways, bridges, water treatment plants, and stadiums. The total increase in capital assets for the current fiscal year was \$417M. This is a 12.3% increase over the prior fiscal year. Footnote 5 in the notes to the financial statements provides more detailed information regarding the City’s capital asset activity.

City of Arlington's Capital Assets						
(in thousands, net of depreciation)						
	Governmental activities		Business-type activities		Total	
	2019	2020	2019	2020	2019	2020
Land	\$ 243,968	\$ 293,882	\$ 23,002	\$ 23,757	\$ 266,970	\$ 317,639
Buildings and improvements	910,454	2,144,004	2,626	7,416	913,080	2,151,420
Machinery and equipment	56,904	21,709	328	216	57,232	21,925
Construction in progress	1,022,432	142,219	98,003	98,697	1,120,435	240,916
Infrastructure	300,901	317,810	-	-	300,901	317,810
Drainage system	-	-	82,102	87,478	82,102	87,478
Water and sewer system	-	-	644,019	664,060	644,019	664,060
Totals	\$ 2,534,659	\$ 2,919,624	\$ 850,080	\$ 881,624	\$ 3,384,739	\$ 3,801,248

Major capital asset events during the current fiscal year included the following:

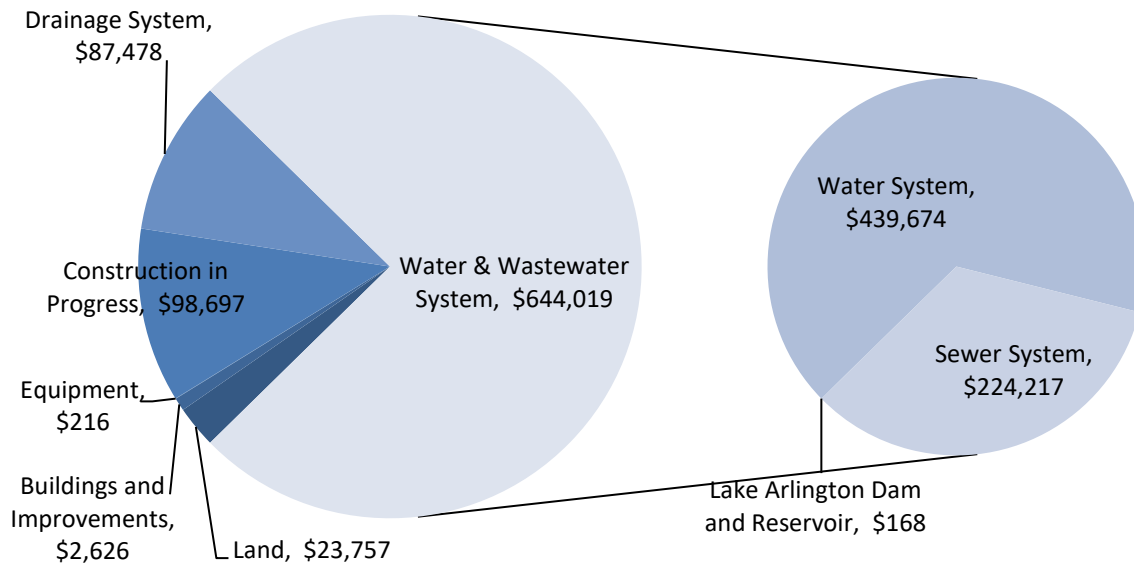
- Private developer capital contributions of \$3.2M to the City’s water and sewer infrastructure in connection with various residential and commercial developments
- Water and sewer system capital improvements and expansion of \$33.8M
- Storm drainage system capital improvements and expansion of \$17.2M
- Street construction projects capital outlay totaling \$29.0M
- Improvements to parks and recreation facilities of \$34.2M

The City’s governmental activities infrastructure investment, including accumulated depreciation, breaks down as follows (in thousands):



Asset	Book Value	Accumulated Depreciation	Net Value
Sidewalks	\$ 69,399	\$ (64,827)	\$ 4,572
Streetlights	19,202	(13,547)	5,655
Streets	896,129	(609,392)	286,737
Bridges	43,200	(30,373)	12,827
Signal Lights	19,861	(11,842)	8,019
	<u>\$ 1,047,791</u>	<u>\$ (729,981)</u>	<u>\$ 317,810</u>

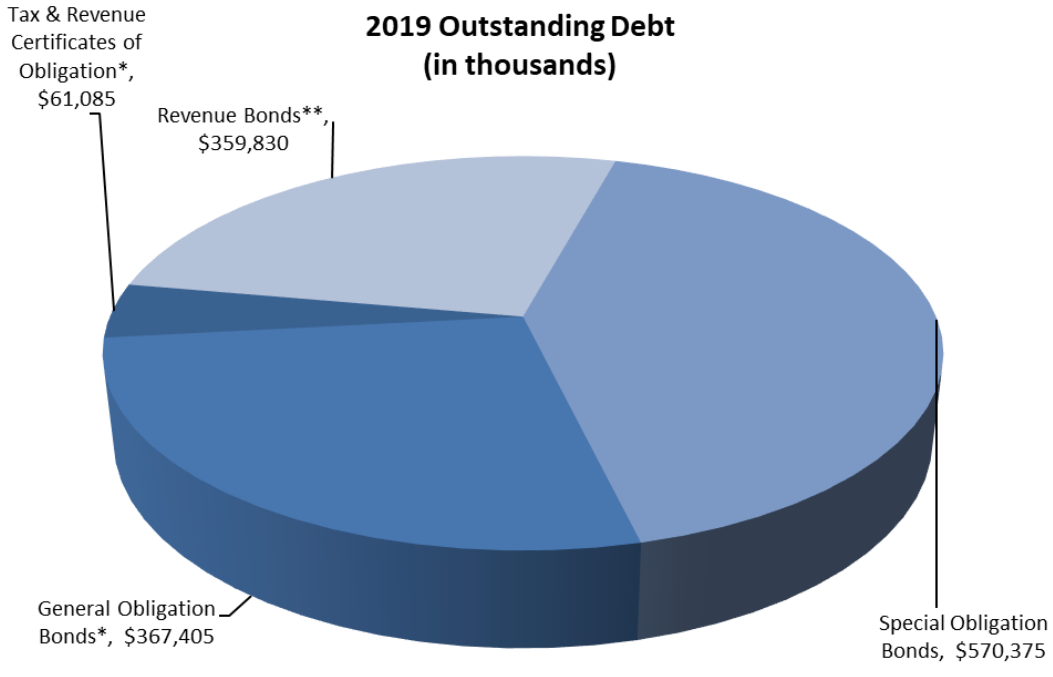
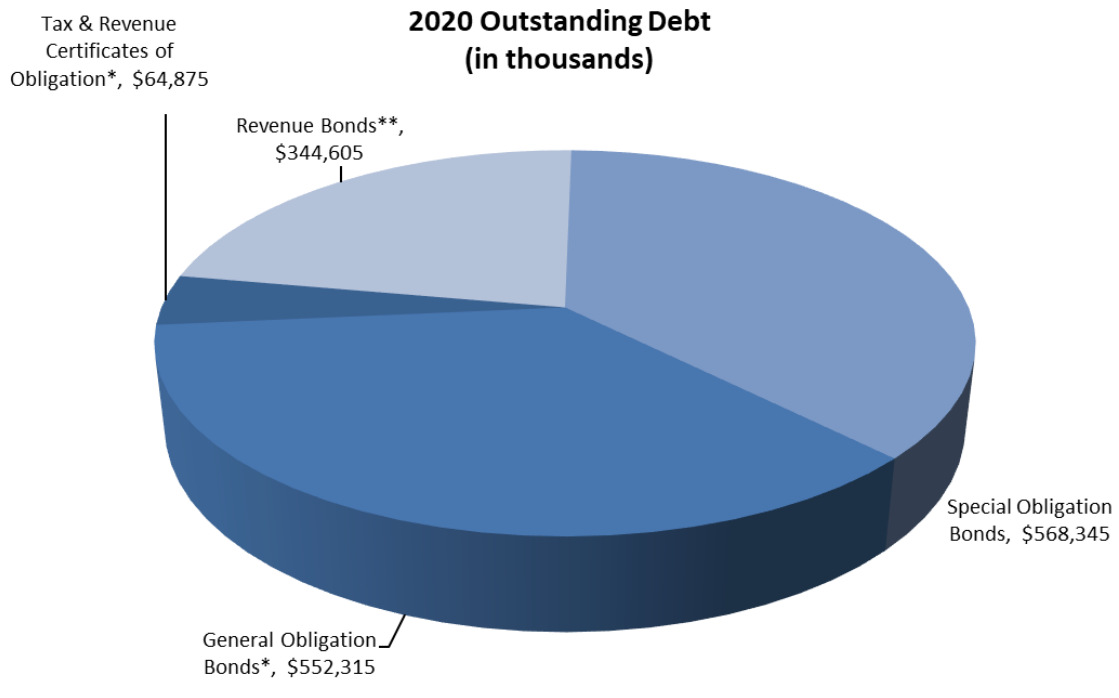
The City's business-type activities infrastructure investment, including accumulated depreciation, breaks down as follows (in thousands):



Asset	Book Value	Accumulated Depreciation	Net Value
Lake Arlington Dam and Reservoir	\$ 2,619	\$ (2,451)	\$ 168
Water System	679,292	(239,618)	439,674
Sewer System	353,063	(128,846)	224,217
	<u>\$ 1,034,974</u>	<u>\$ (370,915)</u>	<u>\$ 664,059</u>

Debt

At the end of the current fiscal year, the City had total bonded debt outstanding of \$1.53B, an increase of \$171.4M from 2019. The increase in total debt is due to new debt issuances.



**Secured by City Tax Base*

***Secured by Water and Sewer or Drainage Revenue*

City of Arlington's Outstanding Debt

(in thousands, net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2019	2020	2019	2020	2019	2020
General obligation bonds (backed by the City)	\$367,405	\$ 552,315	\$ -	\$ -	\$ 367,405	\$ 552,315
Combination tax and revenue certificates of obligation (backed by the City)	61,085	64,875	-	-	61,085	64,875
Special tax revenue bonds	570,375	568,345	-	-	570,375	568,345
Revenue bonds (backed by fee revenues)	-	-	359,830	344,605	359,830	344,605
Total	\$998,865	\$ 1,185,535	\$ 359,830	\$344,605	\$1,358,695	\$1,530,140

During the current fiscal year, the City issued \$8.7M in Permanent Improvement Refunding Bonds, \$9.2M in Certificate of Obligation Bonds, \$39.6M in Permanent Improvement Bonds, \$174.7M General Obligation Pension Bonds, \$5.29M in Water and Wastewater System Revenue and Refunding Bonds, \$9.8M in Municipal Stormwater Revenue Bonds, and \$13.5M in Stormwater Refunding Revenue Bonds. Footnote 8 in the notes to the financial statements provides more detailed information regarding the City's long-term debt activity.

In 2020, the City's debt ratings were as follows by type and agency:

	Fitch	S&P	Moodys
City GO/CO	AAA	AAA	Aa1
WWS Revenue	AAA	AAA	Aa1
Storm Water Revenue	AAA	AAA	Aa1
Venue (Sales Tax/HOT/STMV) Underlying	AA+	A+	A1
		AA (2018A &	A3
Venue (Sales Tax/HOT/STMV) Insurance ^		C)	(2018C)
Stadium (Ticket and Parking Tax) *	NR	NR	NR
Ballpark Ticket and Parking Tax)	NR	NR	NR

^ Series 2018A insured by Assured Guaranty Municipal Corp (AGM)

^ Series 2018C insured by Build America Mutual Assurance Company (BAM)

* AMBAC insured / AMBAC no longer rated

General bonded debt per capita increased from \$1,160 in 2019 to \$1,647 in 2020.

The City is permitted by Article XI, Section 5, of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 assessed valuation for general governmental services including the payment of principal and interest on general obligation long-term debt. The current ratio of net bonded debt to assessed value of all taxable property is 2.2%.

The City maintains a self-insurance program for bodily injury, property damage, personal injury, advertising injury, regulatory injury and worker's compensation. Claims for worker's compensation over \$750,000 per occurrence are covered by a private insurance company. Claim liabilities are actuarially determined and take into consideration

claim experience, adjustment expenses, economic, and other factors which can vary considerably from year to year. Total estimated claims liability at September 30, 2020 was \$10.0M.

THE CITY'S FUNDS

The governmental funds of the City reported a combined fund balance of \$353.3M. The General Fund balance was \$70.6M, which was \$4.7M more than the previous year, primarily due to the increase in lease receivable. The Debt Service fund balance increased \$7.3M, ending the year with \$63.3M. The increase was a result of the additional debt issuances during the fiscal year. Other changes in fund balances noted include:

- Street Capital Projects fund balance increased in fiscal year 2020, up from \$88M to \$100M. The \$12M increase in fund balance is primarily due to debt issuance of \$39.1M, offset by \$29M spent on capital outlay and contribution and interest revenues of \$2.9M.
- The City's water and sewer fund net position of \$706.8M increased by \$25.6M in the current year. The increase in net position is primarily due to operating revenues exceeding expenses by \$55M, capital contributions of \$3M and net transfers out of \$27.8M.
- The Storm Water Utility fund saw an increase of \$8.6M to net position in 2020. Storm water fee revenues exceeded fund expenses by \$12.7M and transfers out of \$1.5M were completed, increasing net position to \$133.6M at the end of the fiscal year.

GENERAL FUND BUDGET HIGHLIGHTS

During fiscal year 2020, there were no operating budget amendments.

Actual expenditures on a budgetary basis of \$250.2M were less than budgeted expenditures of \$265.4M. Savings were due to cost cutting measures implemented in all categories of the expenditures due to the Covid-19 pandemic.

Revenues on a budgetary basis were lower than the budgeted amount of \$259M by \$10.2M. Franchise fees, taxes, fines and forfeitures, and other revenues were lower than budgeted and are attributable to the variance because of the pandemic.

ECONOMIC FACTORS AND FISCAL YEAR 2021

Each year, the City Council identifies community priorities that guide how to allocate the City's resources. The annual Budget and Business Plan are developed to address the City Council's adopted priorities. Economic development continues to be a priority in order to capitalize on development throughout the region. The City must continue to look for ways to innovate, provide the highest value possible to residents, respond to challenges, and plan for the future. The 2021 Budget also focuses on public safety funding, opening and maintaining City facilities. General Fund property tax revenues increased to \$115M and sales taxes were lower in 2020. Key budget priorities in 2021 are:

- Enhance regional mobility
- Support youth and families
- Champion great neighborhoods
- Invest in our economy
- Put technology to work

The City's total General Fund revenues and transfers for 2021 are budgeted at \$247.6M, and total General Fund expenditures are expected to be \$249.6M, a decrease of \$7M over 2020.

The General Fund's largest single revenue source is property taxes. This revenue represents 43.3% of the General Fund budget. The property tax rate for 2021 is \$0.6225 per \$100 valuation, the fifth time it has decreased since 2001. The tax rate is split out into two categories, operations and maintenance, \$0.4085 per \$100 valuation, to the

General Fund, and interest and sinking, \$0.2140 per \$100 valuation, for debt service. The General Fund property tax revenue for 2020 is estimated to be \$107M, down \$12.0M (11%) from last year's estimate.

The City's portion of the local 8 cent sales tax rate is one and three-quarter cents. The General Fund receives one cent, one-quarter cent is dedicated to the Street Maintenance Fund, and one-half cent provides for debt service for venue debt. Sales tax revenue for the General Fund for fiscal year 2021 is estimated at \$61.6M, a decrease of \$6.8M from 2020 estimates.

The City's Water and Sewer Fund accounts for approximately 24% of the City's revenue. The mission of the Water Utilities Department is to provide a continuous supply of high-quality drinking water and ensure safe disposal of wastewater in a responsive, cost-effective manner while continuing to improve service to citizens and planning for future needs. The largest revenue sources for the Water and Sewer Fund is water sales and wastewater treatment budgeted at \$79.6M and \$73.1M respectively for FY 2021. The City maintains a rate structure designed to ensure that each category of service is self-supporting.

Details of the City of Arlington Fiscal Year 2021 Operating Budget can be accessed on the City's website: <http://www.arlington-tx.gov/budget/>.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances and to show the City's fiscal accountability. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Amy Trevino, Controller (amy.trevino@arlingtontx.gov), in the Finance Department, at the City of Arlington, 101 S. Mesquite St., Suite 800, Arlington, TX 76010. The City is also an active member of MSRB's Electronic Municipal Market Access (EMMA), which keeps the Arlington CAFR on file. Additionally, the CAFR can be found on the City's website at <http://www.arlington-tx.gov/finance/financial-reports/>.



**CITY OF ARLINGTON, TEXAS
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Cash and cash-equivalents	\$ 372,754	\$ 36,525	\$ 409,279	\$ 24,226
Investments	-	-	-	67,796
Land held for resale	7,653	-	7,653	-
Receivables (net of allowance for uncollectibles):				
Taxes	4,832	-	4,832	-
Sales taxes	21,735	-	21,735	-
Trade accounts	111	12,112	12,223	-
Franchise fees	5,257	-	5,257	-
Unbilled trade accounts	-	9,929	9,929	-
Special assessments	122	-	122	-
Accrued interest	1,777	33	1,810	5
Ballpark lease	41,801	-	41,801	-
Settlement agreement	3,328	-	3,328	-
Other	5,277	539	5,816	673
Internal balances	4,814	(4,814)	-	-
Due from other governments	6,877	-	6,877	-
Inventory of supplies	2,302	1,231	3,533	-
Prepaid expenses	-	-	-	35
Net Pension Asset	275	-	275	-
Net OPEB Asset	65	-	65	-
Restricted assets-				
Bond contingency-				
Investments	-	29,619	29,619	-
Capital construction-				
Investments	-	167,036	167,036	-
Escrow	-	80,334	80,334	-
Meter deposits-				
Investments	-	7,364	7,364	-
Closure/Post-Closure trust fund				
Investments	22,313	-	22,313	-
Capital Assets-				
Land	293,882	23,757	317,639	4,654
Buildings and improvements	2,597,854	9,261	2,607,115	677
Water and sewer system	-	1,034,974	1,034,974	-
Machinery and equipment	137,719	12,474	150,193	1,130
Infrastructure	1,047,791	-	1,047,791	-
Drainage systems	-	136,828	136,828	-
Construction in progress	142,219	98,697	240,916	-
Accumulated depreciation	(1,299,841)	(434,367)	(1,734,208)	(1,395)
Total Assets	<u>3,420,917</u>	<u>1,221,532</u>	<u>4,642,449</u>	<u>97,801</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred loss on debt refunding	11,257	763	12,020	-
Deferred outflow-contributions pension/OPEB	187,283	13,669	200,952	-
Deferred outflow-investment/actuarial assumption changes pension/OPEB	25,880	1,797	27,677	-
Total Assets and Deferred Outflows of Resources	<u>3,645,337</u>	<u>1,237,761</u>	<u>4,883,098</u>	<u>97,801</u>

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

**CITY OF ARLINGTON, TEXAS
STATEMENT OF NET POSITION
AS OF SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
LIABILITIES				
Accounts payable and accrued liabilities	\$ 25,780	\$ 5,637	\$ 31,417	\$ 1,925
Retainage payable	3,752	-	3,752	-
Accrued interest	5,496	-	5,496	-
Payable from restricted assets-				
Accounts payable and accrued liabilities	-	2,236	2,236	-
Retainage payable	-	1,400	1,400	-
Accrued interest	-	3,108	3,108	-
Meter deposits	-	7,933	7,933	-
Noncurrent liabilities				
Due within one year:				
Estimated claims payable	4,365	-	4,365	-
General obligation and certificates of obligation debt	43,470	-	43,470	-
Special tax revenue debt	3,510	-	3,510	-
Accrued compensated absences	1,394	102	1,496	-
Revenue bonds	-	24,940	24,940	-
Due in more than one year:				
Estimated claims payable	5,671	-	5,671	-
Rebatable arbitrage payable	-	201	201	-
Total other postemployment benefit liability	117,587	8,174	125,761	-
General obligation and certificates of obligation debt	602,069	-	602,069	-
Special tax revenue debt	613,596	-	613,596	-
Landfill closure accrued liabilities	22,313	-	22,313	-
Accrued compensated absences	35,269	2,779	38,048	-
Revenue bonds	-	333,740	333,740	-
Net pension liability	131,452	9,138	140,590	-
Total Liabilities	1,615,724	399,388	2,015,112	1,925
DEFERRED INFLOWS OF RESOURCES				
Deferred inflow - pension/OPEB	38,654	2,677	41,331	-
Deferred inflow - lease & settlement agreements	55,888	-	55,888	5,893
Total Liabilities and Deferred Inflows of Resources	1,710,266	402,065	2,112,331	7,818
NET POSITION				
Net investment in capital assets	1,751,589	689,342	2,440,931	5,066
Restricted for debt service	63,286	107,246	170,532	-
Restricted for special revenue	30,447	-	30,447	-
Restricted for use of impact fees	10,836	-	10,836	-
Restricted for housing assistance	-	-	-	232
Restricted for endowments	-	-	-	81,906
Unrestricted	78,913	39,108	118,021	2,779
Total Net Position	\$ 1,935,071	\$ 835,696	\$ 2,770,767	\$ 89,983

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



CITY OF ARLINGTON, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 90,202	\$ 25,378	\$ 71	\$ 47
Public safety	184,574	13,655	10,671	-
Public works	78,174	1,983	119	3,376
Public health	3,219	4,513	-	-
Parks and recreation	34,190	10,916	602	377,239
Public welfare	25,028	198	9,730	-
Convention and event services	18,041	942	-	-
Interest and fiscal charges	38,627	-	-	-
Total Governmental Activities	472,055	57,585	21,193	380,662
Business-Type Activities:				
Water and sewer	116,975	165,047	-	3,194
Storm water utility	9,579	19,650	-	-
Total Business-Type Activities	126,554	184,697	-	3,194
Total Primary Government	\$ 598,609	\$ 242,282	\$ 21,193	\$ 383,856
Component Units:				
Arlington Housing Authority	\$ 33,466	\$ -	\$ 33,815	\$ -
Arlington Convention and Visitors Bureau	5,514	5,065	948	-
Arlington Tomorrow Foundation	4,804	-	-	-
Arlington Housing Finance Corporation	37	414	-	-
Arlington Tourism Public Improvement District	1,936	1,756	-	-
Arlington Convention Center Development Corp	9,221	-	9,222	-
Arlington Economic Development Corp	-	-	-	-
Total Component Units	\$ 54,978	\$ 7,235	\$ 43,985	\$ -

General Revenues:

Taxes:
Property taxes
Sales taxes
Criminal justice tax
State liquor tax
Bingo tax
TIF/TIRZ
Occupancy tax
Franchise fees based on gross receipts
Interest
Net increase in fair value of investments
Other
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			
Governmental Activities	Business-type Activities	Total	Component Units
\$ (64,706)	\$ -	\$ (64,706)	\$ -
(160,248)	-	(160,248)	-
(72,696)	-	(72,696)	-
1,294	-	1,294	-
354,567	-	354,567	-
(15,100)	-	(15,100)	-
(17,099)	-	(17,099)	-
(38,627)	-	(38,627)	-
<u>(12,615)</u>	<u>-</u>	<u>(12,615)</u>	<u>-</u>
-	51,266	51,266	-
-	10,071	10,071	-
-	61,337	61,337	-
<u>\$ (12,615)</u>	<u>\$ 61,337</u>	<u>\$ 48,722</u>	<u>\$ -</u>
\$ -	\$ -	\$ -	\$ 349
-	-	-	499
-	-	-	(4,804)
-	-	-	377
-	-	-	(180)
-	-	-	1
-	-	-	-
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,758)</u>
165,284	-	165,284	-
115,098	-	115,098	-
340	-	340	-
1,601	-	1,601	-
100	-	100	-
13,577	-	13,577	-
8,051	-	8,051	-
22,048	-	22,048	-
7,077	1,466	8,543	6,037
943	406	1,349	3,615
5,385	-	5,385	(1,767)
29,314	(29,314)	-	-
<u>368,818</u>	<u>(27,442)</u>	<u>341,376</u>	<u>7,885</u>
356,203	33,895	390,098	4,127
1,578,868	801,801	2,380,669	85,856
<u>\$ 1,935,071</u>	<u>\$ 835,696</u>	<u>\$ 2,770,767</u>	<u>\$ 89,983</u>

**CITY OF ARLINGTON, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)**

	General	Debt Service	Street Capital Projects	Ballpark Venue	Other Nonmajor Funds	Total Governmental Funds
ASSETS						
Cash and cash-like investments	\$ 55,414	\$ 56,259	\$ 103,439	\$ -	\$ 137,255	\$ 352,367
Land held for resale	-	-	-	-	7,653	7,653
Receivables (net of allowance for uncollectibles)						
Taxes	4,154	205	-	-	473	4,832
Sales taxes	12,420	6,210	-	-	3,105	21,735
Franchise fees	5,257	-	-	-	-	5,257
Special assessments	-	-	122	-	-	122
Accrued interest	1,089	612	-	-	-	1,701
Lease and settlement agreements	45,129	-	-	-	-	45,129
Other	3,929	-	-	-	1,236	5,165
Due from other funds	4,266	-	-	-	-	4,266
Due from other governments	-	-	-	-	6,877	6,877
Inventory of supplies, at cost	2,160	-	-	-	142	2,302
Total Assets	\$ 133,818	\$ 63,286	\$ 103,561	\$ -	\$ 156,741	\$ 457,406
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
Liabilities:						
Accounts payable and accrued liabilities	\$ 9,384	\$ -	\$ 2,555	\$ -	\$ 13,045	\$ 24,984
Retainage payable	-	-	902	-	2,850	3,752
Unearned Revenue	2,322	-	123	-	17,147	19,592
Due to other funds	-	-	-	-	4,266	4,266
Total Liabilities	11,706	-	3,580	-	37,308	52,594
Deferred inflows of resources:						
Taxes	4,315	-	-	-	-	4,315
Landfill lease	2,058	-	-	-	-	2,058
Gas lease	-	-	-	-	23	23
Lease and settlement agreements	45,129	-	-	-	-	45,129
Total Deferred Inflows of Resources	51,502	-	-	-	23	51,525
Fund Balances:						
Nonspendable:						
Inventory	2,160	-	-	-	142	2,302
Prepays	5	-	-	-	-	5
Restricted for:						
Debt service	-	63,286	-	-	-	63,286
Capital projects	-	-	99,981	-	27,077	127,058
Special revenue	-	-	-	-	30,539	30,539
Committed to:						
Capital projects	-	-	-	-	27,252	27,252
Special revenue	-	-	-	-	32,553	32,553
Assigned to:						
Working capital	20,426	-	-	-	-	20,426
Subsequent years' expenditures	11,440	-	-	-	-	11,440
Compensated absences	1,561	-	-	-	-	1,561
Other post employment benefits	1,718	-	-	-	-	1,718
Future initiatives	17,151	-	-	-	-	17,151
Dispatch	617	-	-	-	-	617
Information technology	232	-	-	-	-	232
Business Continuity	4,062	-	-	-	-	4,062
Park performance	-	-	-	-	744	744
Special revenue	-	-	-	-	1,103	1,103
Unassigned	11,238	-	-	-	-	11,238
Total Fund Balances	70,610	63,286	99,981	-	119,410	353,287
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 133,818	\$ 63,286	\$ 103,561	\$ -	\$ 156,741	\$ 457,406

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

**CITY OF ARLINGTON, TEXAS
RECONCILIATION OF THE BALANCE SHEET TO THE
STATEMENT OF NET POSITION OF GOVERNMENTAL FUNDS
AS OF SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)**

Total fund balances per balance sheet \$ 353,287

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds (excluding \$13,845 recorded in the internal service funds). 2,905,779

Landfill Closure/Post-closure 22,313

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.

	Fund Deferred Inflows	Net Position Deferred Inflows	
Taxes	\$ 4,315	\$ -	
Landfill	2,058	2,058	
Grant revenue	16,908	19,592	
Ballpark lease	41,801	34,217	
Ballpark Settlement	3,328	-	
Unearned	2,684	-	15,227
	71,094	55,867	

Internal service funds are used by management to charge the cost of fleet services, knowledge services, risk management, workers' compensation and group health to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net position. 29,251

Long-term liabilities, including bonds payable, arbitrage and compensated absences, are not due and payable in the current period and therefore, are not reported in the funds.

Bonds payable		\$ (1,185,535)	
Premium general obligation debt		(79,080)	
Discount on bonds		1,970	
Deferred outflow of resources (refunding)		11,257	
Accrued interest payable		(5,496)	
Landfill Closure/Post-closure		(22,313)	
Compensated absences		(36,663)	
Pension:			
Net pension asset (liability)	\$ (131,177)		
Deferred inflow-actuarial gain	\$ (33,918)		
Deferred outflow-assumption changes	14,973		
Deferred outflow-contributions	182,659	32,537	
Other Post Employment Benefits (OPEB)			
Total OPEB Liability	(117,522)		
Deferred inflow-OPEB expected/actual	(4,736)		
Deferred outflow-assumption changes	10,907		
Deferred outflow-contributions	4,624	(106,727)	
Estimated claims		(736)	(1,390,786)

Net position of governmental activities \$ 1,935,071

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)

	General	Debt Service	Streets Capital Projects	Ballpark Venue	Other Nonmajor Funds	Total Governmental Funds
REVENUES						
Taxes	\$ 181,320	\$ 85,949	\$ -	\$ -	\$ 36,824	\$ 304,093
Licenses and permits	9,796	-	-	-	-	9,796
Utility franchise fees	22,048	-	-	-	-	22,048
Fines and forfeitures	9,205	-	-	-	-	9,205
Leases, rents and concessions	9,752	-	-	-	2,500	12,252
Service charges	7,940	-	-	-	14,419	22,359
Interest revenue	2,356	874	1,360	-	1,914	6,504
Net increase (decrease) in fair value of investments	140	8	281	-	226	655
Contributions	1,882	-	1,541	377,239	-	380,662
Intergovernmental revenues	71	-	-	-	21,120	21,191
Gas lease royalty	-	-	-	-	3,874	3,874
Gas lease other	-	-	-	-	99	99
Other	12	64	-	-	3,582	3,658
Total Revenues	<u>244,522</u>	<u>86,895</u>	<u>3,182</u>	<u>377,239</u>	<u>84,558</u>	<u>796,396</u>
EXPENDITURES						
Current-						
General government	40,454	-	-	-	5,645	46,099
Public safety	167,040	-	-	-	11,757	178,797
Public works	23,816	-	-	-	30,427	54,243
Public health	2,412	-	-	-	575	2,987
Public welfare	-	-	-	-	25,001	25,001
Parks and recreation	16,644	-	-	-	12,242	28,886
Convention and event services	-	-	-	-	17,898	17,898
Capital outlay	-	-	29,030	377,239	45,676	451,945
Debt service-						
Principal retirement	-	35,920	-	-	-	35,920
Interest and fiscal charges	-	44,910	-	-	-	44,910
Total Expenditures	<u>250,366</u>	<u>80,830</u>	<u>29,030</u>	<u>377,239</u>	<u>149,221</u>	<u>886,686</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,844)</u>	<u>6,065</u>	<u>(25,848)</u>	<u>-</u>	<u>(64,663)</u>	<u>(90,290)</u>
OTHER FINANCING SOURCES (USES)						
Issuance of bonds	-	183,385	30,047	-	9,579	223,011
Amount to fund escrow	-	(173,273)	-	-	-	(173,273)
Issuance of certificates of obligation	-	-	2,854	-	6,351	9,205
Refunding Bond Principal	-	(9,826)	-	-	-	(9,826)
Bond premium	-	959	6,224	-	2,643	9,826
Transfers in	22,042	-	-	-	44,655	66,697
Transfers out	(11,486)	-	(831)	-	(14,599)	(26,916)
Total Other Financing Sources and Uses	<u>10,556</u>	<u>1,245</u>	<u>38,294</u>	<u>-</u>	<u>48,629</u>	<u>98,724</u>
Net Change in Fund Balances	4,712	7,310	12,446	-	(16,034)	8,434
Fund Balances, October 1,	65,898	55,976	87,535	-	135,444	344,853
Fund Balances, September 30	<u>\$ 70,610</u>	<u>\$ 63,286</u>	<u>\$ 99,981</u>	<u>\$ -</u>	<u>\$ 119,410</u>	<u>\$ 353,287</u>

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

**CITY OF ARLINGTON, TEXAS
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, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)**

Net change in fund balances - total governmental funds \$ 8,434

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount of capital assets recorded in the current period. 457,562

Depreciation on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation is not reported as expenditures in the governmental funds. (71,229)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 1,025

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while 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 issuance costs, 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.

Issuance of certificates of obligation	(232,216)	
Repayment of general obligation debt	45,746	
Proceeds from issuance of bonds	(9,228)	
Amount to fund escrow	173,273	
Amortization of bond premium	5,684	
Repayment of capital lease	5,731	
	<hr/>	(11,010)

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.

Compensated absences	(2,832)	
Accrued interest expense	(6)	
Estimated pollution remediation	-	
Net pension asset (liability)	(20,676)	
Net OPEB liability	(1,260)	
Estimated salary expense	(736)	
	<hr/>	(25,510)

Internal service funds are used by management to charge the costs of fleet management and management information systems, property liability loss, health claims and offices services to individual funds. The net expenses of certain activities of internal service funds is reported within governmental activities. (3,069)

Change in net position of governmental activities \$ 356,203

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

**CITY OF ARLINGTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)**

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Water and Sewer	Storm Water Utility	Total	
ASSETS				
Current Assets:				
Cash and cash equivalent investments	\$ 33,823	\$ 2,702	\$ 36,525	\$ 20,387
Receivables (net of allowances for uncollectibles):				
Trade accounts	10,694	1,418	12,112	111
Accrued Interest	33	-	33	76
Unbilled trade accounts	9,041	888	9,929	-
Other	539	-	539	112
Inventory of supplies, at cost	1,231	-	1,231	-
Subtotal	<u>55,361</u>	<u>5,008</u>	<u>60,369</u>	<u>20,686</u>
Restricted Assets:				
Bond contingency-cash and cash-like investments	12,498	-	12,498	-
Capital construction-cash and cash-like investments	23,433	36,123	59,556	-
Total Current Assets	<u>91,292</u>	<u>41,131</u>	<u>132,423</u>	<u>20,686</u>
Noncurrent Assets:				
Restricted Assets:				
Bond contingency- Investments	16,083	1,038	17,121	-
Capital construction- Investments	107,480	-	107,480	-
Escrow	80,334	-	80,334	-
Meter deposit investments	7,364	-	7,364	-
Capital Assets:				
Land	7,929	15,828	23,757	-
Buildings and improvements	9,261	-	9,261	467
Water and sewer system	1,034,974	-	1,034,974	-
Machinery and equipment	12,451	23	12,474	53,476
Drainage system	-	136,828	136,828	-
Construction-in-progress	62,482	36,215	98,697	-
Accumulated depreciation	(384,994)	(49,373)	(434,367)	(40,098)
Total Capital Assets Net of Accumulated Depreciation	<u>742,103</u>	<u>139,521</u>	<u>881,624</u>	<u>13,845</u>
Total Noncurrent Assets	<u>953,364</u>	<u>140,559</u>	<u>1,093,923</u>	<u>13,845</u>
Total Assets	<u>1,044,656</u>	<u>181,690</u>	<u>1,226,346</u>	<u>34,531</u>
Deferred Outflows of Resources:				
Deferred charges on debt refunding	763	-	763	-
Deferred outflow - contributions pension/OPEB	13,669	-	13,669	-
Deferred outflow - invest/actuarial pension/OPEB	1,797	-	1,797	-
Total Assets and Deferred Outflows of Resources	<u>\$ 1,060,885</u>	<u>\$ 181,690</u>	<u>\$ 1,242,575</u>	<u>\$ 34,531</u>

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

(continued)

CITY OF ARLINGTON, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
AS OF SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Water and Sewer	Storm Water Utility	Total	
LIABILITIES				
Current Liabilities:				
Accounts payable and accrued liabilities	\$ 4,494	\$ 1,143	\$ 5,637	\$ 796
Accrued compensated absences	86	16	102	-
Revenue bonds payable from unrestricted assets	9,367	3,075	12,442	-
Current Liabilities Payable From Restricted Assets:				
Accounts payable and accrued liabilities	2,236	-	2,236	-
Retainage payable	785	615	1,400	-
Accrued interest	2,708	400	3,108	-
Estimated claims payable	-	-	-	3,627
Revenue bonds payable from restricted assets	12,498	-	12,498	-
Meter deposits	7,933	-	7,933	-
Total Current Liabilities	<u>40,107</u>	<u>5,249</u>	<u>45,356</u>	<u>4,423</u>
Noncurrent Liabilities:				
Estimated claims payable	-	-	-	5,671
Rebatable arbitrage payable	201	-	201	-
Compensated absences	2,409	370	2,779	-
Revenue bonds payable from unrestricted assets	291,334	42,406	333,740	-
Net pension liability	9,138	-	9,138	-
OPEB liability	8,174	-	8,174	-
Total Noncurrent Liabilities	<u>311,256</u>	<u>42,776</u>	<u>354,032</u>	<u>5,671</u>
Total Liabilities	<u>351,363</u>	<u>48,025</u>	<u>399,388</u>	<u>10,094</u>
Deferred Inflows of Resources:				
Deferred inflow - pension/OPEB benefits/contribution	327	-	327	-
Deferred inflow - investment/actuarial pension/OPEB	2,350	-	2,350	-
Total Liabilities and Deferred Inflows of Resources	<u>354,040</u>	<u>48,025</u>	<u>402,065</u>	<u>10,094</u>
NET POSITION				
Net investment in capital assets	559,795	129,547	689,342	13,845
Restricted for debt service	106,207	1,039	107,246	-
Unrestricted	40,843	3,079	43,922	10,592
Total Net Position	<u>\$ 706,845</u>	<u>\$ 133,665</u>	<u>\$ 840,510</u>	<u>\$ 24,437</u>
Reconciliation to government-wide statements of net position:				
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(4,814)	
Net position of business-type activities			<u>\$ 835,696</u>	

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

CITY OF ARLINGTON, TEXAS
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Water and Sewer	Storm Water Utility	Total	
Operating Revenues:				
Water sales	\$ 81,555	\$ -	\$ 81,555	\$ -
Sewer service	73,241	-	73,241	-
Storm water fee - commercial	-	9,257	9,257	-
Storm water fee - residential	-	10,330	10,330	-
Service charges	-	-	-	33,341
Sundry	10,251	-	10,251	-
Miscellaneous	-	63	63	-
Total Operating Revenues	165,047	19,650	184,697	33,341
Operating Expenses:				
Purchase of water	20,406	-	20,406	-
Purchase of sewage treatment	38,731	-	38,731	-
Salaries and wages	14,896	2,397	17,293	-
Employees' retirement	2,066	355	2,421	-
Supplies	2,766	53	2,819	1,632
Maintenance and repairs	4,235	275	4,510	632
Utilities	2,461	17	2,478	50
Claims (net of adjustments)	25	-	25	30,527
Legal and professional	240	-	240	91
Depreciation	20,061	2,658	22,719	3,924
Miscellaneous services	4,184	1,193	5,377	2,833
Total Operating Expenses	110,071	6,948	117,019	39,689
Operating Income (Loss)	54,976	12,702	67,678	(6,348)
Nonoperating Revenues (Expenses):				
Interest revenue	1,466	-	1,466	350
Net increase in the fair value of investments	338	68	406	288
Miscellaneous Revenue	-	-	-	883
Gain (loss) on sale of assets	-	-	-	(2)
Interest expense and fiscal charges	(6,551)	(2,631)	(9,182)	-
Total Nonoperating Revenues (Expenses)	(4,747)	(2,563)	(7,310)	1,519
Income (loss) before transfers and contributions	50,229	10,139	60,368	(4,829)
Contributions in aid of construction	3,194	-	3,194	-
Transfers in	11,874	-	11,874	1,407
Transfers out	(39,684)	(1,504)	(41,188)	-
Change in Net Position	25,613	8,635	34,248	(3,422)
Total Net Position, October 1	681,232	125,030	806,262	27,859
Total Net Position, September 30	\$ 706,845	\$ 133,665	\$ 840,510	\$ 24,437
Net change in net position - total proprietary funds			\$ 34,248	
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(353)	
Change in net position of business-type activities			\$ 33,895	

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

**CITY OF ARLINGTON, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)**

	Business-type Activities Enterprise Funds			Governmental Activities- Internal Service Funds
	Water and Sewer	Storm Water Utility	Total	
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers	\$ 166,632	\$ 19,513	\$ 186,145	\$ 33,346
Cash payments to suppliers	(70,581)	(1,422)	(72,003)	(34,877)
Cash payments to employees	(28,766)	(2,647)	(31,413)	-
Net Cash Provided By (Used For) Operating Activities	67,284	15,444	82,728	(1,531)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	11,874	-	11,874	1,407
Transfers out	(39,684)	(1,504)	(41,188)	-
Net Cash Provided By (Used For) Noncapital Financing Activities	(27,810)	(1,504)	(29,314)	1,407
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Acquisition and construction of capital assets	(33,845)	(17,224)	(51,069)	(2,619)
Increase/Decrease in escrow balance	11,278	-	11,278	-
Proceeds from sales of capital assets	-	-	-	59
Proceeds from issuance of long-term debt	5,185	11,353	16,538	-
Repayment of long-term debt	(28,182)	(2,345)	(30,527)	-
Interest payment long-term debt	(8,467)	(1,455)	(9,922)	-
Net Cash Provided By (Used For) Capital Related Financing Activities	(54,031)	(9,671)	(63,702)	(2,560)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Proceeds from interest earnings	1,486	1,137	2,623	1,531
Net increase in the fair value of investments	338	68	406	17
Purchase of investments	(296,974)	(57,611)	(354,585)	-
Maturities/sales of investments	286,077	55,533	341,610	-
Net Cash Provided By (Used For) Investing Activities	(9,073)	(873)	(9,946)	1,548
Net Decrease In Cash And Cash-Like Investments	(23,630)	3,396	(20,234)	(1,136)
Cash and cash equivalent investments, October 1	93,384	35,429	128,813	21,523
Cash and cash equivalent investments, September 30	\$ 69,754	\$ 38,825	\$ 108,579	\$ 20,387
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 54,976	\$ 12,702	\$ 67,678	\$ (6,348)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	20,061	2,658	22,719	3,924
Amortization of bond premium	1,677	262	1,939	-
Amortization of deferred loss on bond refunding	(797)	-	(797)	-
Provision for bad debts	229	5	234	-
(Increase) decrease in- Receivables	1,471	(138)	1,333	5
Inventory of supplies	(177)	-	(177)	-
Prepaid expenses	-	-	-	-
Increase (decrease) in- Accounts payable and accrued liabilities	(499)	328	(171)	312
Net pension/OPEB liability	(10,804)	-	(10,804)	-
Estimated claims payable	-	-	-	576
Retainage payable	(407)	(373)	(780)	-
Meter deposits	1,248	-	1,248	-
Accrued compensated absences	306	-	306	-
Total adjustments	12,308	2,742	15,050	4,817
Net Cash Provided By (Used For) Operating Activities	\$ 67,284	\$ 15,444	\$ 82,728	\$ (1,531)
Noncash investing, capital, and financing activities:				
Contributions of capital assets from developers	3,194	-	3,194	-

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

**CITY OF ARLINGTON, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
AS OF SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)**

	Pension Trust and Other Employee Benefit Funds	Agency Funds
	<u> </u>	<u> </u>
ASSETS		
Cash and cash-equivalent investments	\$ 133	\$ 7,634
Investments		
Investment retired city mgr 401(k) plan	59	-
Money market fund	43,230	-
Corporate bonds	2,844	-
Fixed income mutual bond funds	22,987	-
Common stock mutual bond funds	125,301	-
Balanced mutual funds	54,441	-
Participant borrowing	5,593	-
Self directed brokerage accounts	12,112	-
Total Investments	<u>266,567</u>	<u>-</u>
Total Assets	<u><u>\$ 266,700</u></u>	<u><u>\$ 7,634</u></u>
 LIABILITIES		
Accounts payable and accrued liabilities	\$ -	\$ 7,634
Retired city mgr 401(k) plan payable	59	-
Total Liabilities	<u><u>\$ 59</u></u>	<u><u>\$ 7,634</u></u>
 NET POSITION		
Restricted for pensions	\$ 265,263	
Restricted for OPEB	1,377	
Total Net Position	<u><u>\$ 266,640</u></u>	

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

**CITY OF ARLINGTON, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2020
(AMOUNTS EXPRESSED IN THOUSANDS)**

	Pension Trust and Other Employee Benefit Funds
	<hr/>
ADDITIONS	
Employer contributions	\$ 4,065
Employee contributions	9,606
Net appreciation in fair value of investments	34,665
Other additions	214
Total Additions	<hr/> 48,550 <hr/>
DEDUCTIONS	
Benefits	13,318
Plan administration	272
Other deductions	80
Total Deductions	<hr/> 13,670 <hr/>
Increase in Net Position	34,880
Net Position, October 1	231,760
Net Position, September 30	<hr/> \$ 266,640 <hr/> <hr/>

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



CITY OF ARLINGTON, TEXAS

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2020

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The City of Arlington, Texas (the "City") was incorporated April 19, 1884 and the city charter was adopted January 17, 1920, under the provisions of the Home Rule Amendment to the State Constitution. The City operates under a Council Manager form of government and provides the following services to the citizens of the City: public safety (police and fire), public works, public welfare, parks and recreation, public health, water and sewer utilities, and general administrative services.

The accompanying financial statements of the City include all funds and component units. The financial statements of the City have been prepared to conform to generally accepted accounting principles (GAAP) 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 more significant accounting and reporting policies and practices used by the City are described below.

A. Financial Statement Presentation

The basic financial statements are prepared in conformity with GAAP which requires the government-wide financial statements to be prepared using the accrual basis of accounting and the economic resources measurement focus. Government-wide financial statements do not provide information by fund, but distinguish between the City's governmental activities, business-type activities and activities of its discretely presented component units on the statement of net position and statement of activities. Significantly, the City's statement of net position includes both non-current assets and non-current liabilities of the City. In addition, the government-wide statement of activities reflects depreciation expenses on the City's capital assets, including infrastructure.

In addition to the government-wide financial statements, the City has prepared fund financial statements, which use the modified accrual basis of accounting and the current financial resources measurement focus for governmental funds. The accrual basis of accounting and the economic resources measurement focus is utilized by proprietary fund types and the pension trust fund.

GAAP also requires supplementary information presented as Management's Discussion and Analysis which includes an analytical overview of the City's financial activities. A budgetary comparison schedule is presented that compares the originally adopted and final General Fund budget with actual results, and supplementary information for pension and other postemployment benefit retirement plans are provided, as required, in the Required Supplementary Information section.

B. Reporting Entity

The City is governed by an elected mayor and eight-member council. As required by GAAP, these financial statements present the City (the primary government) and its component units, entities for which the government is considered to be financially accountable.

GASB Statement No. 14, *The Financial Reporting Entity*, as amended, defines component units as legally separate entities that meet any one of the following tests:

- The City appoints the voting majority of the board of the component unit and:
 - Is able to impose its will on the component unit and/or
 - Is in a relationship of financial benefit or burden with the component unit
- The component unit is both:
 - fiscally dependent upon the City, and
 - there is a financial benefit or burden.
- The financial statements of the City would be misleading if data from the component unit were omitted.

The financial statements of the component units may be discretely presented in a separate column from the primary government or blended with the financial statements of the primary government. The financial statements of the following component units have been "discretely presented" in the accompanying report because (i) their governing boards are not substantially the same as the governing body of the City, or (ii) the component unit provides services entirely or almost entirely to the citizenry and not the City.

Arlington Housing Authority

The Arlington Housing Authority (the "AHA") provides low income housing assistance within the City. The AHA's board of commissioners is appointed by the Mayor. The AHA's management is designated by the City. The employees who are responsible for daily operations of the AHA are City employees. The City has financial accountability over the AHA's activities. The audited financial statements of the AHA are prepared in accordance with accounting principles generally accepted in the United States. Separate AHA component unit financial statements can be obtained from the AHA at 501 W. Sanford Street, Suite 20, Arlington, Texas 76010.

Arlington Convention and Visitors Bureau, Inc.

The Arlington Convention and Visitors Bureau, Inc. (the "ACVB") promotes tourism within the City. The ACVB's board of directors is appointed by the City Council. The primary source of revenue for the ACVB is a professional services support contract with the City; therefore, the City has financial accountability over the ACVB's activities. Separate ACVB component unit financial statements can be obtained from the ACVB at 1905 E. Randol Mill Road, Arlington, Texas 76011.

Arlington Tomorrow Foundation

The Arlington Tomorrow Foundation (ATF) oversees an endowment fund with a corpus of \$70.6 million created by natural gas revenues to be used for the benefit of the Arlington community. The City Council acts as the board of directors. The ATF's management is designated by the City, and City employees are responsible for the daily activities of the ATF; accordingly, the City has financial accountability over ATF's activities. Separate ATF component unit financial statements are not prepared.

Arlington Housing Finance Corporation

The Arlington Housing Finance Corporation (the "AHFC") provides financial assistance to low income, multi-family residences and single-family homebuyers within the City. The AHFC's board of directors is appointed by the City Council. The AHFC's management is designated by the City, and City employees are responsible for the daily activities of the AHFC; accordingly, the City has financial accountability over AHFC's activities. Separate AHFC component unit financial statements are not prepared.

Arlington Convention Center Development Corporation

Arlington Convention Center Development Corporation (the "ACDC") was formed to encourage and assist with planning, designing, constructing and maintaining a convention center complex, sports facility or hotel facility. The City Council serves as the board of directors. Separate ACDC component unit financial statements are not prepared.

Arlington Economic Development Corporation

The Arlington Economic Development Corporation was formed in 2015 for the purpose of undertaking projects that contribute to the quality of life and economic growth. The board of directors is made up of the mayor, three council members, and three citizens. Separate Arlington Economic Development Corporation component unit financial statements are not prepared.

Arlington Tourism Public Improvement District

The Arlington Tourism Public Improvement District (ATPID) was created in fiscal year 2017 to improve convention and group hotel bookings and hotel room night consumption in the City. Funds are provided through a 2% tax applied to hotels with 75 or more rooms within the designated district within the City. A board consisting of participating ATPID hotel/motel members direct the use of all funds generated. The City authorized the creation of the district and must approve a budget annually. The board (ATPID) has contracted with the City to collect the funds, and with ACVB to administer the programs and use the funds. Separate component unit financial statements can be obtained from the ACVB at 1905 E. Randol Mill Road, Arlington, Texas 76011.

C. Government-wide and Fund Financial Statements

The basic financial statements include both government-wide (based on the City as a whole) and fund financial statements. The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. The exception is that inter-fund services provided and used are not eliminated. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely significantly on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The government-wide statement of activities demonstrates the degree to which the direct expenses of a functional category (Public Safety, Public Works, etc.) or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with 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 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. All franchise fees are based on gross receipts and are included in general revenues.

The net cost by function is normally covered by general revenue (property and sales taxes, franchise fees, intergovernmental revenues, interest income, etc.).

Separate fund-based financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. 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, Street Capital Projects Fund, and Ballpark Venue Fund. The enterprise funds are made up of the Water and Sewer Utility and Storm Water Utility funds. GAAP sets forth minimum criteria (percentage of assets, liabilities, deferrals, revenues or expenditures/expenses of either fund category for the governmental and enterprise combined) for the determination of major funds. The nonmajor funds are combined in a column in the fund financial statements. The nonmajor funds are detailed in the combining section of the Comprehensive Annual Financial Report.

Internal Service Funds, which provide services primarily to other funds of the government, are presented in summary form as part of the proprietary fund financial statements. Financial statements of internal service funds are allocated between the governmental and business-type activities column when presented at the government-wide level. To

the extent possible, the costs of these services are reflected in the appropriate functional activity (Public Safety, Public Works, etc.).

The City's fiduciary funds are presented in the fund financial statements by type. Since by definition these assets are being held for the benefit of a third party (other local governments, individuals, pension participants, etc.) and cannot be used to address activities or obligations of the government, these funds are not incorporated into the government-wide 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, as well as the fiduciary funds, (by category). Each presentation provides valuable information that can be analyzed and compared to enhance the usefulness of the information.

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 funds and fiduciary fund statements. Agency funds, however, report only assets and liabilities and therefore have no measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers taxes and other revenue to be available if they are collected within 60 days of the end of the current fiscal period, while grants typically are received within 90 days. Expenditures are recorded when a liability is incurred, as under accrual accounting, except debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, which are recorded only when the liability has matured, and payment is due.

Ad valorem, franchise and sales tax revenues in the General Fund and ad valorem tax revenues recorded in the Debt Service Fund are recognized under the susceptible to accrual concept. The City has agreements with various entities in which a portion of the sales tax is rebated. The sales tax revenue is reported net of the rebate. Licenses and permits, charges for services, fines and forfeitures, contributions, and miscellaneous revenues are recorded as revenues when received in cash as the resulting receivable is not measurable. Investment earnings are recorded as earned since they are measurable and available. In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. Intergovernmental grant revenues are recognized when all eligibility requirements have been met. Additionally, funds received in advance for which all eligibility requirements have not been met are considered unearned revenue.

Business-type activities and all proprietary funds, and the pension trust fund are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and 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 position. 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. The principal operating revenues of the City's water and sewer fund and storm water utility fund are charges to customers for sales and services. Operating expenses for the enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major funds, nonmajor funds and other funds, by fund category and fund type are reported by the City:

1. Governmental Funds:

The focus of Governmental fund measurement (in the Fund Financial Statements) is upon determination of financial position and changes in financial position (sources, uses, and balances of financial resources) rather than upon net income. The following is a description of the Governmental Funds of the City:

Major Funds:

- a. General Fund accounts for several of the City's primary services (Public Safety, Public Works, Public Health, Public Welfare, Parks and Recreation, etc.) and is the primary operating unit of the City.
- b. Debt Service Fund accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.
- c. Street Capital Projects Fund (capital projects fund) accounts for the purchase of rights of way and land, construction of streets and related facilities, and to account for various other projects related to street construction. Funds are provided primarily through bond sales, interest earnings, and impact fees.
- d. Ballpark Venue Fund (capital projects fund) accounts for the costs associated with the building of the new Ballpark Venue for the Texas Rangers Baseball Club.
- e. Other Governmental Funds is a summarization of all the nonmajor governmental funds, including capital project and special revenue funds.

2. Proprietary Funds:

Proprietary funds are classified into two fund types; enterprise funds and internal service funds.

The focus of Enterprise Fund measurement is upon determination of operating income, changes in net position, financial position, and cash flows, which is similar to businesses. The City's Enterprise Funds are the Water and Sewer Utility Fund and the Storm Water Utility Fund, both of which are major funds. The Water and Sewer Utility Fund accounts for the administration, operation and maintenance of the water and sewer utility system, as well as 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 revenue bonds and obligations under capital leases when due throughout the year. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary, to ensure integrity of the Fund. The City's solid waste function is contracted out. The billings for this function are done by the City as a conduit for the contractor. The fee for this service is accounted for in the Water Utility Fund, while revenues from solid waste franchise fees and landfill royalties are accounted for in the General Fund. The Storm Water Utility Fund accounts for the design, construction and maintenance of the City's storm water drainage systems.

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, generally on a cost reimbursement basis. These services include

fleet services; self-insurance; workers' compensation insurance; and group health insurance. Major fund reporting requirements do not apply to internal service funds.

.3. Fiduciary Fund Types:

The City additionally reports the following fiduciary fund types (major fund reporting requirements do not apply to fiduciary funds):

- a. Agency Funds are used to account for assets held by the City in an agency capacity for payroll related benefits, escheat property for the state, and other assets held for individuals, local law enforcement agencies and developers.
- b. Pension Trust Funds are used to account for the accumulation of resources to be used for the retirement and disability benefit payments to qualified City employees.

E. Cash, Cash-Equivalent Investments and Investments

To facilitate cash management, the operating cash of certain funds and component units is pooled into a cash management pool for the purpose of increasing income through combined investment activities. This cash and investment pool is available for use by all funds and component units except the Trust Funds and the AHA, which maintain separate investments. Each fund's portion of this pool is allocated through its cash and cash-equivalent investment account on the balance sheet. In addition, certain other investments are separately held by several of the City's funds. Interest is allocated on a monthly basis to all funds in the investment pool based on their average balance at the end of each month. Interest earned by separate investments is credited to the respective funds.

For purposes of the statement of cash flows, the City considers all unrestricted investments included in its cash management pool to be cash-equivalent investments as these balances are used essentially as demand deposit accounts by the individual funds. Investments included in the cash management pool which are restricted for use are reported as investments. Additionally, certificates of deposit and temporary investments held separately from the City's cash management pool and which are purchased with original maturities at the time of purchase of three months or less are reported as cash equivalent investments.

The City elects to exclude investments with an original maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost.

Texas statutes authorize the City to invest in obligations of the U.S. Treasury, agencies and instrumentalities, fully collateralized certificates of deposit, repurchase agreements, commercial paper, and direct obligations of cities within the state of Texas. The City is also authorized to invest in direct obligations of the state of Texas or its agencies, obligations of states, agencies, counties, and other political subdivisions, money market mutual funds, prime bankers' acceptances, and reverse repurchase agreement.

In accordance with GASB Statement No. 31, investments with maturities greater than one year at time of purchase are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a transaction between willing parties.

The City implemented GASB Statement No. 72, *Fair Value Measurement and Application* in its September 30, 2016 financial statements. The City's investments were categorized as Level 2 only and there were no Level 1 or Level 3 investments.

F. Inventories and Prepaid Items

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used.

In governmental funds, prepaid items are accounted for using the purchases method. Under this method prepaid items are treated as expenditures when purchased rather than accounted for as an asset. Funds under the accrual basis of accounting recognize the proportionate amount of expense in each benefitting period.

G. Capital Assets

Capital assets purchased or acquired are carried at historical cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a services concession agreement are recorded at acquisition value. Public domain (infrastructure) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems have been recorded at estimated historical cost. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year.

Major outlays for capital assets and improvements are capitalized as projects are completed.

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

<u>Assets</u>	<u>Years</u>
Buildings	45 - 50
Improvements other than buildings	20 - 40
Equipment	4 - 10
Drainage improvements	35 - 50
Meters	10
Streets	20 - 25
Storm/sanitary sewer	50
System infrastructure	20 - 50

H. Capitalization of Interest

The City early implemented GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* in fiscal 2020. Interest costs incurred before the end of a construction period is recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. Interest incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

I. Arbitrage Liability

The City accrues a liability for an amount of arbitrage rebate resulting from investing low-yielding, tax-exempt bond proceeds in higher-yielding, taxable securities. Such investment activities can result in interest revenue exceeding interest cost. The arbitrage liability is payable to the federal government every five years; however, the City calculates and records its arbitrage liability annually. The arbitrage liability is recorded as a liability in the government-wide and proprietary fund types, as applicable, on the accrual basis and as a reduction of interest income on the invested debt proceeds.

J. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions an amendment of GASB Statement No. 27*, as amended.

Beginning in fiscal year 2015, and in accordance with GASB 68 and 71, the City's net pension liability is recorded on the face of the financial statements. The City elected to allocate the net pension liability among governmental and business type activities based on measurement year contribution percentages. The City elected to absorb fund allocations of less than 1.25% of total contributions to Governmental activities. Component units' contributions total 0.91% of total contributions and are not allocated separately, due to the threshold percentage. The estimated amount of net pension liability included in governmental activities for component units is \$1.279M. Detailed pension information is discussed in footnote 6.

K. Compensated Absences

The City's employees earn vacation leave for each month of work performed. The accrual rate increases with years of service up to a maximum of 20 days per year for 15 years of service and over. On specified anniversary dates, additional days are credited, up to certain amounts, according to length of service. Accrued vacation is paid to non-civil service employees upon termination of employment for employees who have completed at least six months of continuous service. Civil service employees lose any unused vacation.

The City's employees accumulate 1.25 days of sick leave per month with a maximum accrual of 150 days (90 for civil service). The full amount of accumulated sick pay up to 120 days maximum is paid if termination is through retirement or death.

Accumulated vacation and sick leave is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. The General Fund is usually used to liquidate the liability for governmental activities' compensated absences.

L. Long-term Obligations

In the government-wide financial statements, and proprietary fund types in the 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.

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

M. Nature and Purpose of Classifications of Fund Equity

Fund balances for governmental funds are reported based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Nonspendable fund balance includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance. Assigned fund balances are constrained by the intent to be used for specific purposes, but do not meet the criteria to be classified as restricted or committed. The City Council has, by resolution 11-361 dated September 27, 2011 adopting the fund balance policy, authorized the City Manager or his designee to assign fund balance to a specific purpose.

The City may fund outlays for a particular purpose from both restricted and unrestricted (the total of committed, assigned, and unassigned) fund balance. In order to calculate the amounts reported as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

N. Minimum Fund Balance Policy

It is the desire of the City to maintain adequate General Fund balance to maintain liquidity and in anticipation of economic downturns or natural disasters. The City Council has adopted a financial standard to maintain a General Fund working capital reserve at a minimum level of 8.33% (1/12th) of annual General Fund expenditures. Total General Fund balances shall be maintained at a minimum of 15% of annual General Fund expenditures.

O. Net Position

Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources. Net position invested in net capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. When both restricted and unrestricted resources are available for the same purpose, it is the City's policy to consider restricted net position to be depleted before unrestricted net position is applied.

P. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future reporting period(s) and so will not be recognized as an outflow of resources (reduction of liability/expense/expenditure) until then. The City has two items that qualify for reporting in this category. One is the deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded and refunding debt. The other is deferred pension and OPEB related items reported in the government-wide statement of net position.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future reporting period(s) and so will not be recognized as

an inflow of resources (revenue) until that time. The City has two types of items that qualify for reporting in this category. At the governmental fund level, revenues that have been billed but not yet collected are reported as unavailable revenues. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred pension related items and lease and settlement agreements are reported in the government wide statement of net position and in fund level statements.

Q. New Accounting Pronouncements

During fiscal year 2020, the City adopted the following Governmental Accounting Standards Board (“GASB”) Statements:

Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

The GASB has issued the following statements which will be effective in future years as described below, based on Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*:

Statement No. 84, *Fiduciary Activities*, which is effective for the City beginning in fiscal year 2021. This statement improves guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

Statement No. 87, *Leases*, which is effective for the City beginning in fiscal year 2022. The objective of this statement is to improve accounting and financial reporting for leases; enhancing the comparability of financial statements between governments; and also enhancing the relevance, reliability and consistency of information about the leasing activities of governments.

Statement No. 90, *Majority Equity Interests*, an amendment of GASB Statements No. 18 and No. 61, which is effective for the City beginning in fiscal year 2022. The objectives of this statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units.

Statement No. 91, *Conduit Debt Obligations*, which is effective for the City beginning in fiscal year 2023. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures.

Statement No. 92, *Omnibus 2020*, which is effective for the City beginning in fiscal year 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB statements.

Statement No. 93, *Replacement of Interbank Offered Rates*, which is effective for the City beginning in fiscal year 2022. This Statement addresses accounting and financial reporting implications that result from the replacement of an Interbank Offered Rate (IBOR).

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*, which is effective for the City beginning in fiscal year 2023. The objective of this statement is to improve financial reporting by addressing issues related to public-private and public-

public partnership arrangements (PPPs). This Statement also provides guidance for accounting and financial reporting for availability payment arrangements APAs).

Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, which is effective for the City immediately. The primary objective of this Statement is to provide temporary relief to governments and stakeholders in light of the COVID-19 pandemic. This is accomplished by postponing the effective dates of certain provisions in Statements and implementation Guides that first became effective for periods beginning after June 15, 2018, and later. These date changes have been reflected in the Statements listed above.

Statement No. 96, *Subscription-Based Information Technology Arrangements*, which is effective for the City beginning in fiscal year 2023. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset - an intangible asset- and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires notes disclosures regarding a SBITA.

Statement No. 97, *Certain Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an Amendment of GASB Statements No. 14 and No. 84 and a Suppression of GASB Statement No. 32*, which is effective for the City beginning in Fiscal Year 2022. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The City has not yet determined the impact of implementing the above new pronouncements.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

The City Council adopts an annual legal budget, which covers the General Fund, the Debt Service Fund, the Enterprise Funds, and certain Special Revenue Funds (Park Performance, Convention and Event Services and Street Maintenance). All unencumbered appropriations lapse at fiscal year-end, except certain of those of the Special Revenue Funds. The budgets for the General Fund, the Debt Service Fund, and certain Special Revenue Funds are prepared on the modified accrual basis except for encumbrances which are treated as expenditures on the budgetary basis and interdepartmental expenses which are eliminated. The budgets for the Enterprise Funds are prepared on the modified accrual basis and include encumbrances, debt principal retirements and capital outlays as expenses. Additionally, the Enterprise Funds do not include depreciation as a budgetary expense. The schedules comparing budget and actual amounts for these governmental funds include adjustments to those budgetary basis for the differences noted above and for certain other revenue and expenditure items which are reported in the City's budget differently than they are reported for accounting principles generally accepted in the United States. Budgetary level of control is exercised at the fund level. The City Manager is authorized to transfer budgeted amounts within and among departments; however, any revisions that alter total expenditures of the General Fund, Debt Service Fund, and certain Special Revenue funds must be approved by the City Council. During Fiscal Year 2020, there were no operating budget amendments.

The Budgetary Comparison Schedule presents a comparison of budgetary data to actual results of operations for the General Fund, for which an annual operating budget is legally adopted. This fund utilizes the same basis of accounting for both budgetary purposes and actual results, with the following exceptions:

Certain interdepartmental revenues and expenses are included in budgetary basis revenues and expenditures but are eliminated from actual revenues and expenditures.

General Fund encumbrances are added to the actual expenditures for budgetary comparison. Budgetary data for the project-length Special Revenue Funds and Capital Projects Funds have not been presented. Receipts of revenues cannot be estimated for all Special Revenue Funds and are not budgeted. Expenditures are limited to total revenues over the life of the funds. Capital Projects Funds are budgeted over the life of the respective project and are reviewed and approved by the City Council in an annual Capital Improvements Program plan.

The City utilizes encumbrance accounting to ensure appropriated funds are adequately committed and remaining unspent balances are carried forward into the next fiscal year. Encumbrances are created for purchase order, grant match requirements, and capital project funding. These amounts are reported in fund balance as follows (in thousands):

<u>General</u> <u>Fund</u>	<u>Street Capital</u> <u>Projects Fund</u>	<u>Other Nonmajor</u> <u>Funds</u>	<u>Total</u>
\$ 4,077	\$ 27,356	\$ 28,254	\$ 59,687

B. Excess of expenditures over appropriations

For the year ended September 30, 2020, there were no expenditures exceeding budget in the aggregate.

C. Deficit fund equity

There were no funds with a deficit fund balance as of September 30, 2020.

III. DETAILED NOTES ON ALL FUNDS

1. CASH, CASH-EQUIVALENT AND INVESTMENTS

Deposits - At September 30, 2020, the carrying amount of the City's demand deposits was \$39,245,000 (bank balance, \$40,810,000). The balance in cash on hand was \$30,000 at year end.

Investments - State statutes, the City's Investment Policy and the City's Depository Agreement govern the investments of the City. The City is authorized to invest in United States Treasuries, its agencies or instrumentalities, other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of the United States or its agencies and instrumentalities, obligations of Texas and its agencies, counties and cities, and other political subdivisions rated not less than AA, obligations of other states, its agencies, counties, cities, and other political subdivisions rated not less than AA, fully insured or collateralized certificates of deposit, fully collateralized repurchase agreements, Guaranteed Investment Contracts, commercial paper rated A-1+, P-1 with an underlying long-term rating of AA or better, government pools and money market funds consisting of any of these securities listed. Major provisions of the City's investment policy include the following: depositories must be FDIC-insured institutions, depositories must fully insure or collateralize all deposits, and investments must be purchased in the name of the City and be delivered to the City's agent for safekeeping. For additional information see the City of Arlington Investment Policy at www.arlingtontx.gov. The City elects to exclude investments with an original maturity of one year or less from date of purchase from fair value reporting. These investments are reported at amortized cost. The City does not invest in derivatives.

Cash, Cash-equivalent investments and investments include: (amounts in thousands) Governmental Activities \$395,067, Business-type Activities \$240,544 and Agency and Pension Trust Funds \$7,634.

As of September 30, 2020, the City had the following investments (amounts in thousands):

Cash, Cash-Equivalent Investments and Investments	Fair Value	Weighted	Credit Risk
		Avg Maturity (in days)	
Treasury	\$ 3,009	1374	AA+
Agency	280,901	848	AAA
Texas Municipal	11,657	915	AA+
Non-Texas Municipal	4,857	1064	AA+
Certificates of Deposit	-	-	AAA
Money Market Fund	75,439	1	AAA
Total Fair Value	<u>\$ 375,863</u>		

The City has investments in government pools at September 30, 2020 totaling \$228,107 (amount in thousands) which are recorded at amortized cost or net asset value (NAV) and have a credit risk rating of AAA.

Interest Rate Risk. In accordance with its investment policy, the City manages its exposure to declines in fair values by limiting the maximum maturity of any single investment and the weighted average maturity of combined investments by fund groups. While the interest income derived from these particular types of investments fluctuate based on market movements and the characteristics of the pools and funds, the value of the principal is not affected.

The following table lists the fund groups authorized in the City's investment policy and the maximum maturity and maximum weighted average maturity ("WAM"):

Fund	Maximum Maturity	Maximum WAM
General Operating	3 Years	18 Months
Capital Project	3 Years	18 Months
Working Capital Reserve	5 Years	4 Years
Dallas Cowboy Complex Development Debt Service Reserve	10 Years	10 Years
Debt Service Sinking & Debt Service	10 Years	10 Years
Closure/Post-closure Trust Fund	10 Years	8 Years

Credit Risk. In accordance with its investment policy, the City minimizes credit risk by limiting investments to the safest type of investments.

Concentration of Credit Risk. The City's investment policy places the following limits on the amount the City may invest in any one issuer. All securities are rated AA or better.

<u>Security</u>	<u>% of Portfolio</u>
United States Treasury	100% of portfolio per Issuer
U.S. Agencies and Instrumentalities	100% of portfolio 35% per Issuer
Other Obligations guaranteed by U.S.	100% of portfolio 10% per Issuer
Obligations of Texas and its subdivisions	10% of portfolio 2% per Issuer

Obligations of other states and its subdivisions	10% of portfolio 2% per Issuer
Certificates of Deposit	50% of portfolio 20% per Issuer
Repurchase Agreements	40% of portfolio 15% per counterparty
Guaranteed Investment Contract	100% of bond funds
Commercial Paper	20% of portfolio 5% per Issuer
Money Market Mutual Fund	100% of portfolio 15% per MMF
Local Government Investment Pools	100% of portfolio 25% per pool

Custodial Credit Risk. State statutes require that all City deposits in financial institutions be fully insured by the Federal Deposit Insurance Corporation (FDIC), collateralized by U. S. Government obligations or obligations of Texas and its agencies that have a market value of not less than the principal amount of the deposits, or by a Letter of Credit from a Federal Agency.

Following the criteria for GASB Statement No. 79, Certain External Investment Pools and Pool Participants, TexPool Prime and TexPool use amortized cost and Texas CLASS, AND Texas Term use NAV to value portfolio assets. As is legally permissible for municipalities and school districts in the state, TexPool and TexasDaily, and TexStar invest in a high-quality portfolio of debt securities, Texas Class Government, and Texas Class invests in a high-quality portfolio of short-term investments.

The City's investments in local government investment pools include investments in TexPool Prime, TexPool, TexasDaily, TexStar, Texas Class Government and Texas Class. These are public funds investment pools operating as an SEC 2a-7 like pool in full compliance with the Public Funds Investment Act and are rated as AAA money market funds by Standard & Poor's. The City has Local Government Investment Pools of \$228,107 and Money Market Funds of \$75,439 (amounts in thousands).

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of September 30, 2020 (amounts in thousands):

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets 9/30/2020 (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investments by fair value level			
Debt Securities			
Treasury	3,009	3,009	-
Agency	280,901	-	-
Texas Municipal	11,657	-	-
Non-Texas Municipal	4,857	-	-
	300,424	300,424	-

Debt securities classified in Level 2 of the fair value hierarchy are valued by Interactive Data Corp (IDC) using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to benchmark quoted prices.

Management believes it is generally compliant with applicable requirements of (PFIA/PFCA).

2. PROPERTY TAXES

Property Taxes are levied on October 1 on the assessed value listed as of the prior January 1 and are due and payable at that time. All unpaid taxes attach as a lien on property as of January 1 and become enforceable February 1. Penalties and interest are charged at 7 percent on delinquent taxes beginning February 1 and increase each month to 18 percent on July 1.

Appraised values are established by the Tarrant Appraisal District at 100 percent of estimated market value and certified by the Chief Appraiser. The total market value for FY20 was \$43,090,778,000 which encompasses all properties in Arlington, including real estate, personal, and mineral properties prior to any exemptions or abatements. The assessed value for the tax roll as of September 1, 2019 upon which the original FY20 levy was based, was \$25,921,882,000.

City property tax revenues are recorded as receivables and unearned revenues at the time the tax levy is billed. Current year revenues recognized are those collected within the current period, or soon enough thereafter to pay current liabilities, generally within sixty days after year-end. An allowance is provided for delinquent property taxes not expected to be collected in the future.

For the fiscal year ended September 30, 2020, the City had a tax rate of \$0.6240 (\$0.4467 for general government and \$0.1773 for debt service) per \$100 assessed valuation with a tax margin of \$1.876 per \$100 valuation based upon a maximum ad valorem tax of \$2.50 per \$100 valuation permitted by Article XI, Section 5, of the State of Texas Constitution. Additional revenues up to approximately \$486,294,506 could be raised per year before the limit is reached, based on the current year's appraised net taxable value of approximately \$25,921,822,000.

In Texas, county-wide central appraisal districts are required to assess all property within the appraisal district on the basis of 100 percent of its appraised value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years. The City may challenge appraised values established by the appraisal district through various appeals, and, if necessary, legal action. Under this system, the City sets tax rates on City property. However, if the effective tax rate, excluding tax rates for bonds and other contractual obligations, adjusted for new improvements, exceeds the rate for the previous year by more than 8 percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than 8 percent above the tax rate of the previous year.

3. VENUE DEVELOPMENT PROJECT

Overview

The City is the home to both AT&T Stadium, the home of the Dallas Cowboys, and Globe Life Field, the home of the Texas Rangers. The City financed a portion of the construction of both venues through the issuance of special tax revenue bonds.

The 2004 Venue Election and the Cowboys Project

At an election held in the City, on November 2, 2004 pursuant to Chapter 334, Texas Local Government Code, as amended, a majority of the voters voting at said election voted in favor of a proposition authorizing the City to (i) establish and finance the Dallas Cowboys Complex (the "Cowboys Project") as a sports and community venue project of the type described and defined in the Act, (ii) impose a sales and use tax within the City at a rate of one-half of one percent (0.5%) (the "Sales Tax"), (iii) impose a tax at a maximum rate of five percent (5%) on the gross rental receipts from the short-term rental in the City of a motor vehicle (the "Motor Vehicle Rental Tax"), (iv) impose a tax on the occupancy of a room in a hotel located within the City, at a maximum rate of two percent (2%) of the price paid for such room (the "Hotel Occupancy Tax" and together with the Sales Tax and the Motor Vehicle Rental Tax, the "Pledged Special Taxes"), (v) impose an admissions tax on each ticket sold as admission to an event held at the Cowboys Project, at a rate not to exceed ten percent (10%) of the price of the ticket sold as admission (the "Cowboys

Admissions Tax”), and (vi) to impose a tax, not to exceed three dollars (\$3.00) per vehicle, on each parked motor vehicle parking in a facility of the Cowboys Project (the “Cowboys Parking Tax”) for the purpose of financing the Cowboys Project. The Dallas Cowboys are based in the City of Frisco, Texas, and play their home games at AT&T Stadium located in Arlington. The Dallas Cowboys are a professional football team owned by the Dallas Cowboys Football Club, Ltd., a Texas limited partnership (the “Cowboys’ Owner”), operating under a franchise issued by the National Football League (the “NFL”) in 1960.

The City financed a portion of AT&T Stadium through the issuance of \$297,990,000 of special tax revenue bonds in three issuances, Series 2005A, Series 2005B, and Series 2005C (collectively the “Series 2005 Bonds”). The Series 2005B Bonds were refinanced by the issuance of the City’s \$112,185,000 Special Tax Revenue Bonds, Series 2008 (the “Series 2008 Bonds”) and the City’s \$62,820,000 Special Tax Revenue Bonds, Series 2009 (the “Series 2009 Bonds” and together with the Series 2008 Bonds, the “Prior Obligations”). Subsequently, all outstanding Series 2008 and Series 2009 Bonds were refinanced by the issuance of the City’s \$110,200,000 Senior Lien Special Tax Revenue Refunding Bonds, Series 2017 (the “Series 2017 Bonds”).

Stadium Lease - As part of the Funding Agreement, the City entered into a lease agreement with the Cowboys Stadium, L.P. (the “Tenant”) for lease of the Complex. The Lease Agreement calls for an initial term of 30 years. Monthly lease payments of \$166,666.67 began in June, 2009 for an annualized rental rate of \$2 million per year. The Lease Agreement contains several renewal options at guaranteed annual rental payments of \$1 million per year for the first 10 years and \$1.25 million per year for all remaining renewals. The Lease Agreement also provides the Tenant with an option to purchase the Complex from the City at the end of the initial lease term and each renewal option thereafter. Under the lease, the Tenant pays for all costs of operation and maintenance of the Complex. The tenant will also make separate annual payments to the City, beginning during the construction period, equal to five percent of the net naming rights revenue, if any, received by the Tenant, capped at \$500 thousand per year. The revenue for this fiscal year was \$500,000. The lease is accounted for as an operating lease. The cost of the stadium is \$1,109,951,954 with accumulated depreciation of \$265,971,843.

Conduit Debt - In 2006, \$147,865,000 Cowboy Complex Admissions and Parking Taxes Revenue Bonds, Taxable Series 2006 (the “Cowboys Admission and Parking Taxes Revenue Bonds”) with a pledge of a 10% admissions tax and a \$3 parking tax for events held at the Complex, with additional security provided by a Guaranty Agreement from The Cowboys Stadium, L.P., were issued to fund a portion of the Dallas Cowboy’s funding for the Complex. The Cowboys Admission and Parking Taxes Revenue Bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City’s revenue sources and accordingly have not been reported as a liability in the City’s financial statements but are disclosed here as conduit debt. At September 30, 2020, outstanding conduit debt was \$128,130,000.

Franchise - The City and the Dallas Cowboys Football Club, LTD. entered into a franchise agreement that requires the Dallas Cowboys NFL football franchise to remain in Arlington and to play 7 of 8 of the team’s regular season home games in the Complex for a minimum of 30 years after the Complex opens. If the lease renewal options are exercised, the Cowboys’ obligation to stay in Arlington is extended for the renewal term.

In July 2013, an agreement was reached between the Cowboys and AT&T for naming rights to the stadium. The City receives 5% of the revenue as additional rent from the naming rights deal, up to \$500,000 annually.

The 2016 Venue Election and the Rangers Project

At an election held in the City on November 8, 2016, pursuant to Chapter 334, Texas Local Government Code, as amended, a majority of the voters of the City voting at said election voted in favor of a proposition authorizing the City to provide for the planning, acquisition, establishment, development, construction and financing of the Texas Rangers Complex Development Project (the “Rangers Project” and together with the Cowboys Project, the “Arlington Venue Projects”) within the City and (i) to impose a parking tax, at a rate not to exceed three dollars (\$3.00) on each parked motor vehicle parking in a parking facility of the Rangers Project (the “Rangers Parking Tax”); (ii) to impose an admissions tax on each ticket sold as admission to an event held at the Rangers Project, at a rate not to exceed ten percent (10%) of the price of the ticket sold as admission (the “Rangers Admissions Tax”); (iii) to authorize the

use of the existing hotel occupancy tax, at a rate not to exceed two percent (2%) of the price paid for such room; (iv) to authorize the use of the existing sales tax within the City at a rate of one-half of one percent (0.5%); and (v) to authorize the use of the existing motor vehicle rental tax at a maximum rate of five percent (5%) for the purpose of financing the Rangers Project. The Texas Rangers are a professional baseball team operating under and pursuant to the rules and regulations of Major League Baseball. The Texas Rangers are based in the City and currently play their home games at Globe Life Park located in the City. The City's prior financing related to Globe Life Park is no longer outstanding and has been paid in full. Construction of the Rangers Project began in 2018, and the Texas Rangers began playing in the new ballpark starting in the 2020 baseball season. The Rangers Project will be a flexible, retractable roof, multi-purpose, multifunctional ballpark and sports, special events, concert and community and entertainment venue project designed to seat approximately 40,000 spectators to be used for the home games for the Texas Rangers and which may also be used for one or more additional professional or amateur sporting events, and which may also contain additional retail, restaurant and food establishments, team training facilities and museums, and which also includes water, sewer, drainage and road improvements necessary to service the Rangers Ballpark, as well as parking facilities adjacent to the Rangers Ballpark.

Stadium Lease - As part of the Funding Agreement, the City entered into a lease agreement with the Rangers Stadium Company LLC. (the "Tenant") for lease of the Rangers Complex. The Lease Agreement calls for an initial term from commencing upon occupation through January 1, 2054. Monthly lease payments of \$166,666.67 began upon occupation for an annualized rental rate of \$2 million per year. The Lease Agreement contains several renewal options at guaranteed annual rental payments of \$1 million per year for two successive renewal periods of five years each. The Lease Agreement also provides the Tenant with an option to purchase the Complex from the City at the end of the initial lease term and each renewal option thereafter. Under the lease, the Tenant pays for all costs of operation and maintenance of the Complex. The lease is accounted for as an operating lease. The cost of the stadium is \$1,284,106,396 with accumulated depreciation of \$13,751,310.

Conduit Debt - In 2020, \$321,717,000 Rangers Baseball Complex Admissions and Parking Taxes Revenue Bonds, Taxable Series 2020 (the "Rangers Admission and Parking Taxes Revenue Bonds") with a pledge of a 10% admissions tax and a \$3 parking tax for events held at the Complex. The Rangers Admission and Parking Taxes Revenue Bonds are not payable from or secured by any money raised or to be raised from property taxes or any other of the City's revenue sources and accordingly have not been reported as a liability in the City's financial statements but are disclosed here as conduit debt. At September 30, 2020, outstanding conduit debt was \$321,717,000.

Franchise - The City and Rangers Baseball LLC. entered into a non-relocation agreement that requires the Texas Rangers franchise to remain in Arlington and to play the team's regular season home games in the existing Ballpark during the construction of the new Ballpark. Once the new Ballpark is operational, the team is to remain in Arlington and to play the team's regular season home games through January 1, 2054. If the lease renewal options are exercised, the Rangers' obligation to stay in Arlington is extended for the renewal term.

Venue Project Debt

In 2018, the City issued an additional \$266,080,000 Senior Lien Special Tax Revenue Bonds, Series 2018A, \$28,250,000 Senior Lien Special Tax Revenue Bonds, Series 2018B, and \$171,095,000 Subordinate Lien Special Tax Revenue Bonds, Series 2018C for the City's portion of the Ballpark Venue's construction.

4. RECEIVABLES

Receivables at September 30, 2020 for the government's individual major and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, consist of the following (amounts expressed in thousands):

	General	Debt Service	Storm Water Utility	Water & Sewer	Street Capital Projects	Other Nonmajor Governmental Funds	Internal Service Funds	Total
Receivables:								
Taxes	\$ 12,743	\$ 205	\$ -	\$ -	\$ -	\$ 473	\$ -	\$ 13,421
Franchise Fees	5,257	-	-	-	-	-	-	5,257
Trade Accounts	-	-	1,502	12,269	-	-	111	13,882
Unbilled Trade Accounts	-	-	888	9,369	-	-	-	10,257
Special Assessments	-	-	-	-	122	-	-	122
Sales Taxes	12,420	6,210	-	-	-	3,105	-	21,735
Lease and settlement agreements	45,129	-	-	-	-	-	-	45,129
Accrued Interest	1,089	612	-	33	-	-	76	1,810
Other	3,929	-	-	539	-	1,236	112	5,816
Gross Receivables	80,567	7,027	2,390	22,210	122	4,814	299	117,429
Less: Allowance for Uncollectibles	(8,589)	-	(84)	(1,903)	-	-	-	(10,576)
Net total Receivables	\$ 71,978	\$ 7,027	\$ 2,306	\$ 20,307	\$ 122	\$ 4,814	\$ 299	\$ 106,853

5. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2020 was as follows:

(Amounts expressed in thousands)

	Balance at Beginning Of Year		Additions	Retirements	Balance at End Of Year	
Governmental activities:						
Capital assets, not being depreciated:						
Land	\$ 243,968	\$ 49,914	\$ -	\$ -	\$ 293,882	
Construction in progress-other	1,022,432	456,042	(1,336,255)		142,219	
Total capital assets, not being depreciated	1,266,400	505,956	(1,336,255)		436,101	
Capital assets, being depreciated:						
Buildings and improvements	1,347,385	1,250,469	-	-	2,597,854	
Equipment	133,904	4,959	(1,144)		137,719	
Infrastructure	1,012,741	35,050	-		1,047,791	
Total capital assets, being depreciated	2,494,030	1,290,478	(1,144)		3,783,364	
Less accumulated depreciation for:						
Buildings and improvements	407,369	46,481	-		453,850	
Equipment	106,562	10,531	(1,083)		116,010	
Infrastructure	711,840	18,141	-		729,981	
Total accumulated depreciation	1,225,771	75,153	(1,083)		1,299,841	
Total capital assets, being depreciated, net	1,268,259	1,215,325	(61)		2,483,523	
Governmental activities capital assets, net	\$ 2,534,659	\$ 1,721,281	\$ (1,336,316)		\$ 2,919,624	

	Balance at Beginning			Balance at End	
	<u>Of Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Of Year</u>	
Business-type activities:					
Capital assets, not being depreciated:					
Land	\$ 23,002	\$ 755	\$ -	\$ 23,757	
Construction in progress	98,003	54,845	(54,151)	98,697	
Total capital assets, not being depreciated	<u>121,005</u>	<u>55,600</u>	<u>(54,151)</u>	<u>122,454</u>	
Capital assets, being depreciated:					
Buildings and improvements	4,337	4,924	-	9,261	
Drainage System	128,794	8,034	-	136,828	
Water and sewer system	995,118	39,856	-	1,034,974	
Machinery and equipment	12,474	-	-	12,474	
Total capital assets, being depreciated	<u>1,140,723</u>	<u>52,814</u>	<u>-</u>	<u>1,193,537</u>	
Less accumulated depreciation for:					
Buildings and improvements	1,712	133	-	1,845	
Drainage System	46,692	2,658	-	49,350	
Water and sewer system	351,100	19,814	-	370,914	
Machinery and equipment	12,144	114	-	12,258	
Total accumulated depreciation	<u>411,648</u>	<u>22,719</u>	<u>-</u>	<u>434,367</u>	
Total capital assets, being depreciated, net	<u>729,075</u>	<u>30,095</u>	<u>-</u>	<u>759,170</u>	
Business-type activities capital assets, net	<u>\$ 850,080</u>	<u>\$ 85,695</u>	<u>\$ (54,151)</u>	<u>\$ 881,624</u>	

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

Governmental activities:	
General Government	\$ 39,520
Public Safety	4,200
Parks and recreation	5,930
Public works	21,579
Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets	<u>3,924</u>
Total depreciation expense – governmental activities	<u>\$75,153</u>
Business-type activities:	
Storm Water Utility	2,658
Water and sewer	<u>\$ 20,061</u>
Total depreciation expense – business-type activities	<u>\$ 22,719</u>

Discretely presented component units:

(amounts expressed in thousands)

	<u>Balance at</u> <u>Beginning of</u>	<u>Transfer and</u>	<u>Transfers and</u>	<u>Balance at End</u>
	<u>Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>of Year</u>
Arlington Housing Authority, Inc.				
Capital assets, being depreciated:				
Buildings and improvements	\$ 563	\$ 114	\$ -	\$ 677
Machinery and equipment	382	-	-	382
Total capital assets, being depreciated	<u>945</u>	<u>114</u>	<u>-</u>	<u>1,059</u>
Less accumulated depreciation for:				
Buildings and improvements	(351)	(12)	-	(363)
Machinery and equipment	(370)	(10)	-	(380)
Total accumulated depreciation	<u>(721)</u>	<u>(22)</u>	<u>-</u>	<u>(743)</u>
Arlington Housing Authority, Inc.				
Capital assets, net	<u>\$ 224</u>	<u>\$ 92</u>	<u>\$ -</u>	<u>\$ 316</u>

	<u>Balance at</u> <u>Beginning of</u>	<u>Transfer and</u>	<u>Transfers and</u>	<u>Balance at End</u>
	<u>Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>of Year</u>
Arlington Convention and Visitors Bureau, Inc.				
Capital asset, being depreciated:				
Machinery and equipment	\$ 739	\$ 9	\$ -	\$ 748
Total capital assets, being depreciated	<u>739</u>	<u>9</u>	<u>-</u>	<u>748</u>
Less accumulated depreciation for:				
Machinery and equipment	(578)	(74)	-	(652)
Total accumulated depreciation	<u>(578)</u>	<u>(74)</u>	<u>-</u>	<u>(652)</u>
Arlington Convention and Visitors Bureau, Inc.				
Capital assets, net	<u>\$ 161</u>	<u>\$ (65)</u>	<u>\$ -</u>	<u>\$ 96</u>

6. PENSION AND EMPLOYEE BENEFIT PLANS

Texas Municipal Retirement System

A. Plan Description

The City provides pension benefits for all its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), one of 888 administered by TMRS, an agent, multiple-employer public employee retirement system. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Members can retire at age 60 and above with 5 or more years of service or with 20 years of service regardless of age. A member is vested after 5 years. The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. The contribution rate for the employees is 7%, and the city matching ratio is currently 2 to 1, both as adopted by the governing body of the city.

Initiated in 1998, the City provides on an annually repeating basis annuity increases for retirees, which are also referred to as cost of living adjustments (COLAS). Currently, that amount is equal to 50% of the change in the consumer price index (CPI). The amount of the COLA percentage can only be changed by a City-adopted ordinance.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,876
Inactive employees entitled to but not yet receiving benefits	1,204
Active Employees	<u>2,578</u>
	5,658

C. Contributions

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

Employees for the City of Arlington were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Arlington were 15.96% and 16.29% in calendar years 2019 and 2020, respectively. The City's contributions to TMRS for the year ended September 30, 2020, were \$29,866,086 and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	2.75% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

Salary increases were 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 0219 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 is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and a 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.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class in fiscal year 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
Total	100.0%	

Discount Rate:

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a)-(b)
Balance at 10/01/2019	\$ 1,249,596,102	\$ 1,033,827,549	\$ 215,768,553
Changes for the year:			
Service Cost	30,217,987	-	30,217,987
Interest	83,399,154	-	83,399,154
Change of benefit terms	-	-	-
Difference between expected and actual experience	7,744,979	-	7,744,979
Changes of assumptions	4,696,314	-	4,696,314
Contributions-employer	-	29,405,052	(29,405,052)
Contributions-employee	-	13,023,433	(13,023,433)
Net investment income	-	159,738,998	(159,738,998)
Benefit payments, including refunds of employee contributions	(58,324,155)	(58,324,155)	-
Administrative expense	-	(903,100)	903,100
Other changes	-	(27,128)	27,128
Net changes	67,734,279	142,913,100	(75,178,821)
Balance at 09/30/20	\$ 1,317,330,381	\$ 1,176,740,649	\$ 140,589,732

Plan fiduciary net position as a percentage of the total pension liability	89.33%
Covered payroll	\$185,842,479
Net pension liability as a percentage of covered payroll	75.65%

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

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

	Discount Rate (5.75%)	Discount Rate (6.75%)	Discount Rate (7.75%)
City’s net pension liability	\$325,286,635	\$140,589,732	(\$11,108,370)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the internet at www.tmr.com

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

For the year ended September 30, 2020, the City recognized pension expense of \$39,821,981.

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ -	\$36,149,000
Changes of assumptions	15,983,000	-
Net difference between projected actual earnings on pension plan investments	-	-
Contributions subsequent to the measurement date	195,990,000	-
Total	\$211,973,000	\$36,149,000

\$195,990,000 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year Ended September 30:	
2020	\$ (5,007,046)
2021	(5,559,008)
2022	6,744,899
2023	(16,344,882)
2024	-
Thereafter	-
Total	\$ (20,166,037)

Part-Time, Seasonal and Temporary Employees Deferred Income Plan

The Part-Time, Seasonal and Temporary Employees Deferred Income Plan (PSTDIP) provides a retirement benefit for those employees not eligible to participate in the Texas Municipal Retirement System. PSTDIP issues stand-alone financial statements that can be obtained from the City of Arlington at 101 S. Mesquite Street, Suite 800, Arlington, TX 76010.

Plan Description

Plan administration. The City's Retirement Committee administers the Part-time, Seasonal and Temporary Employees Deferred Income Plan (PSTDIP) – a single-employer defined benefit pension plan that provides benefits for all part-time, seasonal and temporary employees. Management of the PSTDIP is vested in the City's Retirement Committee consists of an odd number of persons, but not less than three, that are determined and appointed by the City acting through City Council. The Committee includes the Director of Human Resources appointed as Chair, the Chief Financial Officer, and a representative of the City Manager's Office. The Committee meets on a quarterly basis and has final approval for all administrative actions.

Benefits. PSTDIP provides retirement, disability and death benefits for part-time, seasonal and temporary employees. Monthly retirement benefits for plan members are calculated as the lesser of a) a life annuity with an actuarial equivalent value equal to 2.5 times employee contributions with interest, or b) average compensation times percentage of average pay times credited service not in excess of 30. Average compensation is determined by dividing the sum of monthly compensation by the months of credited service earned prior to termination. Percentage of average pay ranges from 1.5 percent to 2.0 percent based on number of months of credited service. A plan member is eligible to retire upon attaining age 65. If an employee is terminated by reason of total and permanent disability, the employee will be eligible for a life only annuity in an amount actuarially equivalent to a lump sum payment equal to 2.5 times employee contributions with interest. With the approval of the Retirement Committee, the Disability Retirement Pension shall be paid as a lump sum in lieu of a life annuity. Death benefits are the same as for disability.

Contributions. The Retirement Committee establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by plan members during the year. The City is required to contribute the difference between the actuarially determined rate and the contribution rate of plan members. For the year ended June 30, 2020, the active member average contribution rate was 3.0 percent of annual pay and the City's average contribution rate was 2.6 percent of annual payroll. The city's contributions to the plan for the year ended September 30, 2020, was \$76,850 and was equal to the required contributions.

At the June 30, 2020 valuation and measurement date, the following employees were covered by the terms:

Inactive employees or beneficiaries currently receiving benefits	23
Inactive employees entitled to but not yet receiving benefits	3,528
Active Employees	<u>778</u>
	4,329

Net Pension Liability (Asset)

The City's Net Pension Liability (Asset) was measured as of June 30, 2020 and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions

The Total Pension Liability in the June 30, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.00% per year
Discount Rate	5.00%

Mortality rates were based on the RP2000 Combined Tables with Blue Collar Adjustment, projected with Scale BB. Active rates were multiplied by 54.5% for males and 51.5% for females. Retiree rates were multiplied by 109% for males and 103% for females.

Discount Rate:

The discount rate used to measure the Total Pension Liability was 5.00%.

Changes in the Net Pension Liability

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a)-(b)
Balance at 10/01/2019	\$ 2,799,188	\$ 2,999,905	\$ (200,717)
Changes for the year:			
Service Cost	174,664	-	174,664
Interest	141,268	-	141,268
Change of benefit terms	-	-	-
Difference between expected and actual experience	-	-	-
Changes of assumptions	-	-	-
Contributions-employer	-	76,850	(76,850)
Contributions-employee	-	98,126	(98,126)
Net investment income	-	248,242	(248,242)
Benefit payments, including refunds of employee contributions	(122,330)	(122,330)	-
Administrative expense	-	(57,037)	57,037
Other changes	-	24,800	(24,800)
Net changes	193,602	268,651	(75,049)
Balance at 09/30/20	\$ 2,992,790	\$ 3,268,556	\$ (275,766)

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the net pension asset of the City, calculated using the discount rate of 5.00%, as well as what the City's net pension asset would be if it were calculated using a discount rate that is 1-percentage-point lower (4.00%) or 1-percentage-point higher (6.00%) than the current rate:

	Discount Rate (4.00%)	Discount Rate (5.00%)	Discount Rate (6.00%)
City's net pension asset	(\$4,699)	(\$275,766)	(\$498,367)

Pension Plan Fiduciary Net Position

The financial statements of the plan are presented below.

City of Arlington, Texas
Part-time, Seasonal and Temporary
Employees Deferred Income Plan

Statement of Fiduciary Net Position
June 30, 2020

Assets	
Cash and deposits	\$ 88,210
Receivables	9,226
Accrued Interest	-
Investments	
Mutual funds - bonds	2,442,388
Mutual funds - equities	<u>728,732</u>
Total investments	<u>3,171,120</u>
Total assets	<u>\$ 3,268,556</u>
Liabilities	
Accrued expenses	<u>\$ -</u>
Net position restricted for pensions	<u>\$ 3,268,556</u>

Statement of Changes in Fiduciary Net Position
for the Year Ended June 30, 2020

Additions	
Contributions:	
Employer	\$ 76,850
Employees	<u>98,126</u>
Total contributions	<u>174,976</u>
Net investment income	
Interest and dividends	17,261
Net appreciation in fair value of investments	<u>230,981</u>
Total investments	<u>248,242</u>
Other	<u>24,800</u>
Total additions	<u>448,018</u>
Deductions	
Benefit payments	122,330
Administrative expenses	<u>57,037</u>
Total deductions	<u>179,367</u>
Net increase in net position	268,651
Net position restricted for pensions	
Beginning of year	<u>2,999,905</u>
End of year	<u>\$ 3,268,556</u>

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

For the year ended September 30, 2020, the City recognized pension expense of \$98,126.

At September 30, 2020, the city reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflow of Resources	Deferred Inflow of Resources
Differences between expected and actual economic experience	\$ -	\$ -
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	28,227	118,146
Contributions subsequent to the measurement date	20,000	-
Total	\$48,227	\$118,146

\$20,000 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2021. 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:	
2021	\$ (18,155)
2022	(19,268)
2023	(32,823)
2024	(19,673)
2025	-
Thereafter	-
Total	\$ (89,919)

Expenses (Reduction) of Expenses

The amount of expenses recognized for the current year for the net pension liability recognized this year is as follows:

TMRS	(\$163,317)
PST DIP	<u>15</u>
Total	(\$163,302)

Thrift Savings Plan

All full-time City employees may participate in the Thrift Savings Plan (the "Thrift"), a single-employer defined contribution plan administered by the Retirement Committee at the City. The plan provisions and contribution savings are adopted and amended by the City Council, within the options available in the federal statutes governing Internal Revenue Code, section 401(k). This voluntary IRS Code 401(k) plan allows all full-time City employees to contribute between 1 percent to 10 percent of their salary with the City matching the first 6 percent of employee contributions at 50 cents to the dollar. Partial vesting of employer contributions begins after three years of

participation with full vesting taking place after six years of participation. At September 30, 2020, the Thrift plan was fully funded and the fair market value of plan assets, including accrued interest, was \$261,957,000.

The City's total payroll during fiscal 2020 was \$191,207,000. The current year contribution was calculated based on a covered payroll of \$134,460,000, resulting in a required and actual employer contribution of \$3,738,000 and actual employee contributions of \$9,483,000. The employer contribution represents 2.91 percent of the covered payroll. The employee contribution represents approximately 7.08 percent of the covered payroll.

There were no material changes to the Thrift plan during fiscal 2020. There were no related-party transactions. The Thrift Plan does not issue separate stand-alone financial statements.

Its financial statements are presented below as of and for the year-ended September 30, 2020. (amounts in thousands):

ASSETS	
Investments	261,957
Total Assets	<u>\$ 261,957</u>
LIABILITIES	
Accounts Payable	-
Retired City Mgr 401(k) plan payable	59
Total Liabilities	<u>\$ 59</u>
NET POSITION	
Held in trust for pension benefits	261,898
Assigned pension trust	-
Total Net Position	<u>261,898</u>

Changes in Net Position
Thrift Savings Plan

ADDITIONS	
Employer contributions	\$ 3,914
Employee contributions	9,524
Net appreciation in fair value of investments	34,387
Other additions	100
	<u>47,925</u>
DEDUCTIONS	
Benefits	13,154
Plan administration	142
Other deductions	80
	<u>13,376</u>
Increase in Net Position	34,549
Net Position, October 1	227,349
Net position, September 30	<u>\$ 261,898</u>

City contributions for the above plans for the year ended September 30, 2020, are as follows (amounts in thousands):

TMRS	\$29,866
THRIFT	3,914
PTDIT	<u>75</u>
	<u>\$33,857</u>

7. OTHER EMPLOYEE AND POSTEMPLOYMENT BENEFITS

Disability Income Plan

Plan Description

Effective October 1, 1992, the City began providing active employees with disability insurance through a policy obtained from a commercial carrier. Previously, all City employees had participated in a Disability Income Plan (DIP), a single-employer other postemployment benefit disability plan, which had been funded by actuarially determined contributions. This plan had been accounted for in the DIP fund. Benefits to employees who were disabled while participating under the previous plan will continue to be paid from the remaining assets of the DIP fund, a fiduciary fund of the City.

Plan Description. DIP is a single-employer defined benefit disability income plan that covers the employees of the City. The plan originally provided in-service death benefits and long term disability benefits commencing upon disablement. The plan was amended to eliminate the in-service death benefit and to start disability payments at age 65. The plan contemplates that long term disability benefits will be provided through a separate LTD insurance contract prior to age 65. The retired life liability for current disabled employees (many of whom are under age 65) is retained under the plan.

The Disability Income Plan does not issue separate GAAP financial reports. Its financial statements are presented below as of and for the year-ended September 30, 2020. (amounts in thousands):

ASSETS

Cash and cash-like investments	\$ -
Investments:	
U.S. Government securities	25
Common stock mutual funds	802
Balanced mutual funds	268
Participant borrowing	282
Total investments	1,377
	<u>-</u>
Total Assets	<u>\$ 1,377</u>

LIABILITIES

Accounts payable	<u>-</u>
Total Liabilities	<u>-</u>

NET POSITION

Restricted for OPEB	<u>1,377</u>
Total Net Position	<u>\$ 1,377</u>

**Changes in Net Position
Disability Income Plan**

Additions	
Employer contributions	77
Other additions	114
Total Additions	191
 Deductions	
Benefits	119
Plan Administration	24
Total Deductions	143
Increase in Net Position	48
Net Position, October 1	1,329
Net Position, September 30	\$ 1,377

Benefits Provided

The amount of monthly benefit payable to the employee is provided by 60% of basic earnings not less than \$50 less the sum of TMRS benefit plus worker’s compensation plus social security benefit.

In September of 2012, the City amended the Disability Income Plan to limit benefit eligibility to:

- a. Former employees who were receiving disability income from the trust as of September 18, 2012, and
- b. Former employees who, as of September 18, 2012, were receiving benefits from the City’s Long Term Disability (LTD) plan and were in active service prior to January 1, 1993.

Because the amendment closed the plan to any future disabled employees, there is no longer any liability attributable to the City’s active employees.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees and Beneficiaries	10
Inactive, Nonretired Members	1
Active Members	0
	11

Contributions

The retirement committee of the City has the authority to establish and amend contribution requirements of the plan. The City’s contribution is determined through an actuarial valuation. For the year ended September 30, 2020, the City contributed \$77,000 to the plan. Administrative costs of DIP are financed through investment earnings.

Net Disability Income Plan Liability

The City’s Total Disability Income Plan Liability was measured as of December 31, 2019.

Actuarial assumptions:

The Total Disability Income Plan Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Individual Entry Age Normal
Discount Rate	5%
Inflation	2.5%
Salary Increases	N/A; no active employees
Cost of Living Adjustment	The TMRS offset is assumed to increase by 1.25% per annum. The Social Security offset is assumed to increase 2.5% per annum. The offsets are assumed to increase in January.
Commencement of Plan Benefits	Age 65 for participants on the LTD plan

Changes in the Net Disability Income Plan Liability

	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability (Asset)
Balance at 10/01/2019	\$1,408,844	\$1,246,151	\$162,693
Changes for the year:			
Service Cost	-	-	-
Interest on total OPEB liability	67,549	-	67,549
Change of benefit terms	-	-	-
Difference between expected and actual experience	(91,774)	-	(91,774)
Changes of assumptions or other inputs	-	-	-
Employer contributions	-	80,319	(80,319)
Net investment income	-	155,531	(155,531)
Benefit Payments	(115,737)	(115,737)	-
Administrative expense		(32,464)	32,464
Net changes	(139,962)	87,649	(227,611)
Balance at 9/30/20	\$1,268,882	\$1,333,800	\$ (64,918)

Sensitivity of the Total OPEB (Asset) Liability to Changes in the Discount Rate

Regarding the sensitivity of the net OPEB (asset) liability to changes in the Single Discount Rate, the following presents the plan's net OPEB liability, calculated using a discount rate of 5.00%, as well as what the plan's net OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

	Discount Rate (4.00%)	Discount Rate (5.00%)	Discount Rate (6.00%)
City's net OPEB liability	\$44,895	(\$64,918)	(\$159,475)

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to disability income plan from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ -
Changes of assumptions and other inputs	-	-
Contributions subsequent to the measurement date	56,785	-
Net difference between projected and actual earnings on OPEB plan investments	-	36,320
Total	\$56,785	\$ 36,320

Deferred outflows and deferred inflows of resources, by year, to be recognized in future OPEB expense (excluding City-provided contributions made subsequent to the measurement date):

Plan Year Ended September 30:	
2021	(8,003)
2022	(8,002)
2023	(1,331)
2024	(18,984)
Thereafter	-
Total	\$ (36,320)

Retiree Health Insurance

The City of Arlington administers a single-employer self-funded health care plan. The plan provides post-retirement health care benefits to eligible retirees and their dependents.

To be eligible for retiree health insurance, an employee must be eligible to retire from the City of Arlington based upon the policies and requirements of the Texas Municipal Retirement System (“TMRS”) and elect to retire at the time of separation from the City. If a retiree has coverage through another employer, they must waive the City retiree coverage until the employer-based coverage terminates. As of December 31, 2019, there were 250 retired employees who met this requirement.

An employee may retire from the City based on one of the following circumstances: (1) the employee becomes eligible and elects to retire under the Texas Municipal Retirement System (TMRS) after either 20 years of service credit at any age, or after a minimum of five years of service at age 60; (2) the employee becomes eligible and elects to retire under the provisions of TMRS relating to disability retirement.

Benefits Provided

A Retiree may be eligible for insurance benefits that include: medical, dental, and vision benefits, regardless of the number of years worked for the City. However, to be eligible for a contribution from the City toward medical insurance, the Retiree must meet all of the following requirements:

- Be a minimum of age 50 and have a minimum of 10 years of full-time service with the City of Arlington and age plus years of service with the City must equal at least 70.
- Elect to receive their TMRS pension at the time of separation from the City of Arlington.
- Be hired/re-hired OR transferred to a Full-time status prior to January 1, 2006.

Retiree Health Insurance City Benefit Payments

The City’s payment toward Retiree health insurance premiums is based upon five criteria: Date of Hire, Re-hire, or Full-time Status; Years of Full-time Service with the City of Arlington; Age; Election of TMRS Pension; and Date of Retirement.

1. Retirees who were hired/re-hired or transferred into a full-time status prior to 1/1/2006 have a City contribution based on their years of eligible service with the City. Retirees who were hired/re-hired or transferred into a full-time status after 1/1/2006 have no City contribution; however they may elect to pay the full cost and remain on the City’s health plan.
2. Retirees who are TMRS eligible and elect a pension, are a minimum of age 50 and have 10 years of full-time service with the City of Arlington are eligible for a City contribution if hired, re-hired, or transferred into a full-time status prior to 1/1/2006.
3. Retirees who are TMRS eligible, have elected a pension but have less than 10 years of full-time service with the City of Arlington are not eligible for the City contribution, but may elect insurance benefits and pay the full premium.
4. Retirees who retired prior to 1/1/2008 have a City contribution toward their dependent’s health coverage. Retirees who are retiring after 1/1/2008 do not have a contribution toward their dependent’s health care.
5. Effective January 1, 2014, the City’s retiree contribution was changed to a flat rate based on date of retirement. The contribution for retirees over the age of 65 has \$50 of the contribution designated for Medicare pharmacy coverage.

Benefit Payments The City Council through the budget process has the authority to establish and amend payment requirements of the plan. Currently the plan is funded on a pay-as-you-go basis. The City’s payments for the year ended September 30, 2020 were \$6,583,000.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	815
Inactive employees entitled to but not yet receiving benefits	250
Active Employees	<u>2,475</u>
	3,540

Net OPEB Liability

The City’s Total OPEB Liability was measured as of December 31, 2019.

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

.Actuarial Cost Method	Individual Entry-Age
Discount Rate	2.75%
Inflation	2.50% per year
Salary Increases	3.50% to 10.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2018 as conducted for the Texas Municipal Retirement System (TMRS).
Mortality	For healthy retirees, the 2019 Municipal Retirees of Texas mortality tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rate in the MP tables.
Health Care Trend Rates	Pre-65: Initial rate of 7.10% declining to an ultimate rate of 4.25% after 14 years; Post-65: Initial rate of 6.40% declining to an ultimate rate of 4.25% after 14 years
Participation Rates	Following rates apply for retirees that are eligible for a subsidy and retire between the ages of 50 and 65: 45% for retirees with 10-14 years of service; 55% for retirees with 15-19 years of service; 65% for retirees with 20-24 years of service; 75% for retirees with 25-29 years of service; 80% for retirees with 30 or more years; 95% for retirees that are eligible for a subsidy and retire after the age of 65; 20% for retirees that are not eligible for a subsidy from the City; 10% for retirees that are eligible for a subsidy and retire before the age of 50

Discount Rate:

The discount rate used to measure the Total OPEB Liability was changed from 3.71% as of December 31, 2018 to 2.75% as of December 31, 2019.

Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balance at 10/01/19	\$ 111,705,193
Changes for the year:	
Service Cost	2,267,816
Interest on total OPEB liability	4,077,730
Change of benefit terms	-
Difference between expected and actual experience	(3,486,806)
Changes of assumptions or other inputs	6,920,378
Benefit Payments	(5,854,499)
Net changes	3,924,619
Balance at 9/30/20	115,629,812

Covered-employee payroll	\$167,712,006
Total OPEB liability as a percentage of covered payroll	68.95%

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 2.75%, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	Discount Rate (1.75%)	Discount Rate (2.75%)	Discount Rate (3.75%)
City’s total OPEB liability	\$128,058,769	\$115,629,812	\$104,908,358

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

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

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
City’s total OPEB liability	\$110,791,044	\$115,629,812	\$121,232,749

At September 30, 2020, the City reported deferred outflows of resources and deferred inflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,267,375	\$ 2,988,042
Changes of assumptions and other inputs	9,105,098	1,770,276
Benefit payments subsequent to the measurement	4,827,540	n/a
Total	\$ 15,200,013	\$ 4,758,318

Deferred outflows and deferred inflows of resources, by year, to be recognized in future OPEB expense (excluding City-provided benefit payments made subsequent to the measurement date):

Year Ended September 30:	
2021	\$ 1,177,302
2022	1,177,302
2023	1,177,302
2024	1,177,302
2025	420,309
Thereafter	484,638
Total	\$ 5,614,155

Supplemental Death Benefits Plan

Plan Description

Texas Municipal Retirement System ("TMRS") administers a single-employer defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF"). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an other postemployment benefit ("OPEB") and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated in a trust that meet the criteria in paragraph 4 of GASB75).

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

Benefits Provided

TMRS provides death benefits to retirees at a fixed amount of \$7,500.

At the December 31, 2019 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	1,500
Inactive employees entitled to but not yet receiving benefits	391
Active Employees	<u>2,578</u>
	4,469

Contributions

The total contribution rate is for .15% of employee gross earnings, with .04% of that rate being the retiree portion. The City's contributions to TMRS for the year ended September 30, 2020, were \$74,422.

Net Pension Liability

The City's Total OPEB Liability was measured as of December 31, 2019

Actuarial assumptions:

The Total OPEB Liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.50% per year
Overall payroll growth	3.50% - 11.5% per year
Discount Rate	2.75%

Salary increases were based on a service-related table. Mortality rates for service retirees were based on the 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. For disabled retirees, the 2019 Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and

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

Actuarial assumptions used in the December 31, 2019, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period January 1, 2014 through December 31, 2018.

Discount Rate:

The discount rate used to measure the Total OPEB Liability was 2.75%, down from 3.75% in the previous year..

Changes in the Total OPEB Liability

	Total OPEB Liability (a)
Balance at 10/01/2019	\$ 8,249,995
Changes for the year:	
Service Cost	241,595
Interest on total OPEB liability	309,177
Change of benefit terms	-
Difference between expected and actual experience	(238,208)
Changes of assumptions or other inputs	1,642,715
Benefit Payments	(74,337)
Net changes	1,880,942
Balance at 9/30/20	10,130,937

Total OPEB liability as a percentage of covered payroll 5.45%

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 2.75%, 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 (1.75%) or 1-percentage-point higher (3.75%) than the current rate:

	Discount Rate (1.75%)	Discount Rate (2.75%)	Discount Rate (3.75%)
City’s total OPEB liability	\$12,377,822	\$10,130,937	\$8,398,096

At September 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$268,405
Changes of assumptions and other inputs	1,293,821	-
Benefits subsequent to the measurement date	56,336	n/a
Total	\$1,350,157	\$268,405

Deferred outflows and deferred inflows of resources, by year, to be recognized in future OPEB expense (excluding City-provided benefits made subsequent to the measurement date):

Year Ended September 30:	
2021	\$ 236,733
2022	236,733
2023	220,873
2024	131,120
Thereafter	199,957
Total	\$ 1,025,416

8. DEBT AND LIABILITIES

General Obligation Bonds

On May 15, 2020, the City issued Permanent Improvement Refunding Bonds, Series 2020 of \$8,720,000 with an interest rate of 2.00 to 5.00 percent and serial maturities on August 15 from 2021 through 2030. Interest on the bonds is due every February 15 and August 15, beginning February 15, 2021. The bonds were issued to refund currently outstanding obligations of the City, in order to achieve debt service savings; and paying the costs of issuing the 2020 bonds. Total interest requirements for the Series 2020 bonds at a rate from 2.00 to 5.00 percent is \$1,465,915 in the aggregate.

On July 15, 2020 the City issued Permanent Improvement Bonds, Series 2020A of \$39,625,000 with an interest rate of 2.00 to 5.00 percent and serial maturities on August 15 from 2022 through 2040. Interest on the bonds is due every February 15 and August 15, beginning February 15, 2021. The bonds were issued to provide funds for permanent public improvements, to wit: designing, developing, constructing, improving, extending, and expanding streets, thoroughfares, sidewalks, bridges, and other public ways of the City, including streetlighting, right-of-way protection, and related storm drainage improvements; and acquiring rights-of-way in connection therewith; designing, constructing, reconstructing, improving, renovating, expanding, equipping, and furnishing firefighting facilities, including fire station facilities, and administrative facilities; acquiring, developing, renovating and improving parks and open spaces for park and recreation purposes in and for the City; and paying the costs of issuance of the Bonds. Total interest requirements for the Series 2020A bonds at a rate from 2.00 to 5.00 percent is \$15,510,161 in the aggregate.

General obligation bonds currently outstanding are as follows (amounts in thousands):

Purpose	Interest Rates	Amount
Governmental activities	2.00-5.00%	\$ 265,565
Governmental activities - refunding	1.00-5.00%	112,085
Total Governmental		<u>\$ 377,650</u>

Annual debt service requirements to maturity for general obligation bonds are as follows (amounts in thousands):

Year Ending September 30	Principal	Interest
2021	\$ 28,440	\$ 14,382
2022	29,325	13,166
2023	28,100	12,064
2024	27,015	10,840
2025	25,935	9,661
2026-2030	116,315	32,463
2031-2035	85,245	13,390
2036-2040	37,275	2,363
	<u>\$ 377,650</u>	<u>\$ 108,328</u>

General obligation debt authorized and unissued as of September 30, 2020, amounted to \$224,515,000.

General Obligation Pension Bonds

On August 15, 2020, the City issued General Obligation Pension Bonds, Taxable Series 2020 of \$174,665,000 with an interest rate of .206 to 2.146 percent and serial maturities on August 15 from 2021 through 2038. Interest on the bonds is due every February 15 and August 15, beginning February 15, 2021. The bonds were issued to provide funds to pay a portion of the City's accrued unfunded liability to the Texas Municipal Retirement System and to pay the costs of issuance of the bonds. Total interest requirements for the Series 2020 bonds at a rate from 2.00 to 5.00 percent is \$29,124,493 in the aggregate.

Annual debt service requirements to maturity for general obligation pension bonds are as follows (amounts in thousands):

Year Ending September 30	Principal	Interest
2021	\$ 8,620	\$ 2,151
2022	8,975	2,379
2023	9,005	2,352
2024	9,035	2,317
2025	9,090	2,262
2026-2030	46,810	9,961
2031-2035	50,455	6,312
2036-2038	32,675	1,390
	<u>\$ 174,665</u>	<u>\$ 29,124</u>

Certificates of Obligation

On May 15, 2020, the City issued Combination Tax and Revenue Certificates of Obligation, Series 2020 of \$9,205,000 with an interest rate of 2.00 to 5.00 percent. The Series 2020 Certificates will mature on August 15 over a period from 2021 to 2030. Interest is payable February 15 and August 15, beginning February 15, 2021. The total interest

requirement for the Series 2020 at a rate of 2.00 to 5.00 percent is \$1,719,436 in the aggregate. The certificates were issued to provide funds for acquisition and installation of firefighting vehicles and equipment; acquisition and installation of aircraft rescue and firefighting vehicles and equipment; information technology infrastructure and equipment for the City’s public safety operations, design, development, construction, improvement and equipping of City drainage improvements and facilities; and to pay for professional services of attorneys, financial advisors and other professionals in connection with the issuance of the Certificates and the costs of issuance.

Annual debt service requirements to maturity for certificates of obligation of the primary government as of 9/30/20 are as follows (amounts in thousands):

Year Ending September 30	Principal	Interest
2021	\$ 6,410	\$ 2,146
2022	6,615	1,926
2023	6,715	1,745
2024	6,810	1,533
2025	6,050	1,285
2026-2030	21,615	3,759
2031-2035	9,865	1,054
2036-2040	795	24
	<u>\$ 64,875</u>	<u>\$ 13,470</u>

Revenue Bonds

The City also issues bonds where the government pledges income derived from the operations of the Water and Sewer Fund or the Storm Water Utility Fund.

In May 2020, the City issued \$5,185,000 in Water and Wastewater System Revenue Refunding Bonds, Series 2020A. Proceeds from the sale of these bonds will be used to provide funds to refund certain currently outstanding revenue obligations of the City in order to achieve debt service savings and to pay costs of issuance associated with the sale of the 2020A Bonds. These bonds mature June 1 over a period from 2021 to 2030. Interest, at a rate of 2.00 to 5.00 percent, is \$911,310 in the aggregate.

In May 2020, the City issued \$9,845,000 in Municipal Drainage Utility System Revenue Bonds, Series 2020A. Proceeds from the sale of these bonds will be used to pay the costs of drainage improvements, including the acquisition and construction of equipment and facilities of the System and to pay costs of issuance associated with the sale of the 2020A Bonds. These bonds mature June 1 over a period from 2021 to 2040 and as a Term Bond maturing on June 1, 2040. Interest, at a rate of 2.00 to 5.00 percent, is \$3,125,999 in the aggregate.

In May 2020, the City issued \$13,540,000 in Municipal Drainage Utility System Revenue Refunding Bonds, Series 2020B. Proceeds from the sale of these bonds will be used for the purpose of providing funds to refund certain currently outstanding revenue obligations of the City, in order to achieve debt service savings and to pay costs of issuance associated with the sale of the 2020B Bonds. These bonds mature June 1 over a period from 2021 to 2031 and as a Term Bond maturing on June 1, 2031. Interest, at a rate of 1.00 to 1.95 percent, is \$1,310,133 in the aggregate.

The revenue bond debt service requirements to maturity are as follows (amounts in thousands):

Year Ending September 30	Business Activities					
	Water/Wastewater		Water/Wastewater TWDB		Storm Water Utility	
	Principal	Interest	Principal	Interest	Principal	Interest
2021	\$ 15,590	\$ 6,991	\$ 6,275	\$ 387	\$ 3,075	\$ 1,268
2022	14,775	6,409	6,275	378	3,070	1,167
2023	14,750	5,889	6,270	366	3,035	1,087
2024	13,970	5,364	6,270	353	2,980	1,007
2025	13,145	4,827	6,270	337	2,930	928
2026-2030	58,665	16,369	31,310	1,375	14,160	3,322
2031-2035	44,775	6,700	27,640	798	8,945	1,451
2036-2040	16,100	982	18,815	196	5,515	374
	<u>\$ 191,770</u>	<u>\$ 53,531</u>	<u>\$ 109,125</u>	<u>\$ 4,189</u>	<u>\$ 43,710</u>	<u>\$ 10,603</u>

Net revenues of the City's water operations have been pledged for repayment of the City's revenue bonds. The amount of the pledge is equal to the remaining outstanding debt service requirements for these bonds, which were all originally issued to provide funding for construction of the water and wastewater systems. The pledge continues for the life of the bonds. For the year ended September 30, 2020, net pledged revenues for the water enterprise fund were \$81,791,000 and debt service on the revenue bonds was \$27,823,000. The same pledge for repayment applies to the City's Storm Water Utility revenue of \$14,223,000 for the bonds issued in fiscal year 2020.

The following is a summary of long-term liability transactions of the City for the year ended September 30, 2020 (amounts expressed in thousands):

	<u>10/1/2019</u>	<u>Increases</u>	<u>Reductions</u>	<u>9/30/2020</u>	<u>Due Within One Year</u>
Governmental activities:					
General obligation debt	\$ 367,405	\$ 223,011	\$ (38,101)	\$ 552,315	\$ 37,060
Certificates of obligation	61,085	9,205	(5,415)	64,875	6,410
Special tax revenue debt	570,375	-	(2,030)	568,345	3,510
Premium on general bonds	22,868	10,406	(4,313)	28,961	-
Premium on special bonds	53,545	-	(3,427)	50,118	-
Discount on special bonds	(1,512)	(674)	217	(1,969)	-
Net governmental bonds payable	<u>1,073,766</u>	<u>241,948</u>	<u>(53,069)</u>	<u>1,262,645</u>	<u>46,980</u>
Compensated absences	33,831	4,178	(1,346)	36,663	1,394
Claims	9,378	5,436	(4,778)	10,036	4,365
Landfill Closure	22,671	-	(358)	22,313	-
Estimated pollution remediation	476	-	(476)	-	-
Net other post-employ benefit oblg.	112,321	5,428	(228)	117,522	-
Net pension liability*	201,544	-	(70,367)	131,177	-
Total governmental long-term liabilities	<u>\$ 1,453,987</u>	<u>\$ 256,990</u>	<u>\$ (130,622)</u>	<u>\$1,580,356</u>	<u>\$ 52,739</u>
Business-type activities:					
Water and sewer bonds	\$ 324,360	\$ 5,185	\$ (28,650)	\$ 300,895	\$ 21,865
Premium on water and sewer bonds	10,712	468	(1,676)	9,504	-
Storm water utility bonds	35,470	23,385	(15,145)	43,710	3,075
Premium/Discount on storm water utility	<u>1,500</u>	<u>1,071</u>	<u>(801)</u>	<u>1,770</u>	<u>-</u>
Net water and sewer bonds payable	<u>372,042</u>	<u>30,109</u>	<u>(46,272)</u>	<u>355,879</u>	<u>24,940</u>
Compensated Absences	2,470	527	(116)	2,881	102
Net other post-employ benefit oblg.	7,797	377	-	8,174	-
Net pension liability	14,025	-	(4,887)	9,138	-
Rebatable arbitrage payable	<u>169</u>	<u>32</u>	<u>-</u>	<u>201</u>	<u>-</u>
Total business-type long term liabilities	<u>\$ 396,503</u>	<u>\$ 31,045</u>	<u>\$ (51,275)</u>	<u>\$ 376,273</u>	<u>\$ 25,042</u>

9. PRIOR YEAR BOND REFUNDINGS

In FY20 and in prior years, the City legally defeased certain general obligation, revenue, and other bonds by placing cash and/or proceeds of refunding bond issues in an irrevocable trust to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's report. As of September 30, 2020, previously defeased debt still outstanding amounted to \$12,800,000.

Bond	Maturity Date	Interest Rate	Par Amount
Perm Imp & Ref Bds, Series 2010, 2010, SERIALS:	8/15/2021	5.000%	\$ 230,000.00
	8/15/2022	5.000%	230,000.00
	8/15/2023	5.000%	230,000.00
	8/15/2024	5.000%	230,000.00
	8/15/2025	5.000%	225,000.00
	8/15/2026	5.000%	225,000.00
	8/15/2027	5.000%	215,000.00
	8/15/2028	4.000%	1,055,000.00
	8/15/2029	4.125%	1,055,000.00
	8/15/2030	4.250%	1,055,000.00
			\$ 4,750,000.00
Perm Imp Ref Bds, Series 2010A, 2010A, SERIALS:	8/15/2021	4.000%	\$ 2,060,000.00
	8/15/2022	4.000%	2,015,000.00
	8/15/2023	4.000%	800,000.00
			\$ 4,875,000.00
			\$ 9,625,000.00

Bond	Maturity Date	Interest Rate	Par Amount
Water and Wastewater System Revenue and Refunding Bonds, Series 2010, SERIALS:	6/1/2021	5.000%	\$ 1,245,000.00
	6/1/2022	4.000%	490,000.00
	6/1/2023	4.000%	490,000.00
	6/1/2024	4.000%	490,000.00
	6/1/2025	4.000%	490,000.00
	6/1/2026	4.000%	490,000.00
	6/1/2027	4.000%	490,000.00
	6/1/2028	4.000%	490,000.00
	6/1/2029	4.125%	490,000.00
	6/1/2030	4.250%	485,000.00
			\$ 5,650,000.00

Bond	Maturity Date	Interest Rate	Par Amount
Mun Dr Util Sys Rev Bds, Ser 2011, 2011, SERIALS:	6/1/2022	4.000%	\$ 1,280,000.00
	6/1/2023	5.000%	1,280,000.00
	6/1/2024	5.000%	1,280,000.00
	6/1/2025	4.000%	1,280,000.00
	6/1/2026	4.000%	1,280,000.00
	6/1/2027	4.000%	1,280,000.00
	6/1/2028	4.125%	1,280,000.00
	6/1/2029	4.250%	1,280,000.00
	6/1/2030	4.375%	1,280,000.00
	6/1/2031	4.500%	1,280,000.00
			<u>\$ 12,800,000.00</u>

10. INTERFUND TRANSACTIONS

A summary of interfund receivables and payables at September 30, 2019, is as follows (amounts in thousands):

Fund	Interfund Receivables	Interfund Payables
General Fund	\$4,266	\$ -
Nonmajor Funds	<u>-</u>	<u>4,266</u>
	<u>\$4,266</u>	<u>\$4,266</u>

The General Fund receivable represents cash provided to nonmajor funds and will be reimbursed in 2020. Transfers between funds during the year were as follows (amounts in thousands):

	Transfers Out	Transfers In
Major Governmental Funds:		
General Fund	\$ 11,486	\$ 22,042
Street Capital Projects	831	-
Debt Service Fund	<u>-</u>	<u>-</u>
Total Major Governmental Funds	12,317	22,042
Major Enterprise Fund-Water and Sewer	39,684	11,874
Major Enterprise Fund-Storm Water Utility	1,504	-
Other Funds:		
Nonmajor Governmental Funds	14,599	44,655
Internal Service Funds	-	1,407
Government-wide trans to enterprise	<u>11,874</u>	<u>-</u>
Total All Funds	<u>\$79,978</u>	<u>\$79,978</u>

The Water and Sewer, Storm Water Utility, and Convention and Event Services transferred \$5,449,000 to the General Fund to cover their budgeted indirect costs.

The General Fund transferred \$6,141,000 to Street Maintenance Fund and Special Transportation (Handitrans) to cover

budgeted operating expenses.

The Enterprise Funds transferred \$14,029,000 to cover their budgeted operating costs.

The other General Fund transfers were to cover budgeted operating expenses in other funds.

11. MUNICIPAL SOLID WASTE LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

The City accounts for its landfill closure and postclosure care costs in accordance with GASB No. 18, "*Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs.*"

State and federal laws and regulations require the City to place a final cover on its municipal landfill site when it stops accepting waste and to perform certain maintenance functions at the site for thirty years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of the closure and post-closure care costs as a liability on the Statement of Net Position in each period based on landfill capacity used as of each balance sheet date. This liability is offset by an asset recorded for a trust account established for the purpose of paying the closure and post-closure costs as more fully described below. In 2014, the City received a permit for vertical expansion and to open an additional 80 acres, which increased the capacity and the life of the landfill. The \$22,313,000 reported as a landfill closure and post-closure accrued liability at September 30, 2020, represents the cumulative amount reported to date based on the use of approximately 43 percent of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of \$5,555,000 as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2020. The City expects to close the landfill in 2060. Actual costs may change due to inflation, changes in technology, or changes in regulations.

On March 18, 2005, the City entered into a contract with Republic Waste Services of Texas, Ltd. (Republic) for a 20-year renewable operating lease of the landfill. The City received an initial payment of \$15 million; the remaining balance of deferred revenue of \$2,058,000 will be amortized over the life of the lease. Republic is responsible for the funding of monthly contributions to a trust account that will pay closure and post-closure costs as required by state and federal laws and regulations. Republic is in compliance with these requirements and at September 30, 2020, investments are held for these purposes.

12. COMMITMENTS AND CONTINGENCIES

Trinity River Authority

The City entered into a 50-year contract dated October 10, 1973, with the Trinity River Authority (TRA) whereby the TRA agrees to provide supplemental sewage treatment for consideration. Payments by the City are based on metered usage, at rates designed to charge the City a pro rata share of the TRA's annual operating and maintenance expenses, and principal and interest requirements on bonds issued by the TRA.

Grant Audits

The City receives federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agency for expenditures disallowed under terms of the grant. City management believes such disallowances, if any, would be insignificant.

Construction Commitments

The City has various active construction projects as of September 30, 2020. The projects include construction in streets, parks, traffic, library, and water and sewer facilities. At year-end the City's significant commitments with contractors are as follows (amounts in thousands):

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Street Construction	\$ 33,144	\$ 25,341
Park Construction	83,801	8,711
Traffic Construction	7,525	13
Library Construction	5,749	6,246
Storm Water Utility Construction	37,926	16,816
Water and Sewer Construction	48,609	35,221
	<u>\$ 216,754</u>	<u>\$ 92,348</u>

The street and traffic construction projects are funded primarily by permanent improvement bonds proceeds. The park construction projects are funded by permanent improvement bond proceeds, certificate of obligation proceeds, and park fee revenues. Water and sewer and storm water utility construction projects are funded by revenue bond proceeds and cash from operating revenues of the water and sewer and storm water systems.

Litigation

The City is currently involved in several lawsuits in which some liability is probable. The potential liability as of September 30, 2020, cannot be determined. Pursuant to the Texas Tort Claims Act, damages would be capped at \$250,000.

Various other claims and lawsuits are pending against the City. In the opinion of City Attorney's Office, the potential losses, in excess of the Self Insurance Risk Management Fund limitations (see Note 13) of insurance coverage, if any, on all claims will not have a materially adverse effect on the City's financial position as a whole.

13. RISK MANAGEMENT

The City's risk management activities are administered through various internal service funds.

Risk Management Fund (RMF)

The RMF was created for the purpose of acting on the City's behalf in financing various governmental programs as prescribed by ordinance or resolution of the City Council. In October 1986, the City Council adopted an ordinance to establish the City's Self-insurance and Risk Management Program (the "Program"). The purpose of the Program is to provide the City a defined and funded self-insurance program for bodily injury, property damage, personal injury, advertising injury, and regulatory injury.

On June 1, 2016 the City issued Combination Tax and Revenue Certificates of Obligation Series 2016C of \$14,150,000. The certificates were issued with the purpose of providing moneys to fund the Risk Management Fund, a self-insurance fund to protect the City and its officers, employees and agents from any insurable risk or hazard as permitted under Chapter 2259, Texas Government Code, as amended.

The payments out of the RMF for all purposes cannot exceed \$1,500,000 per occurrence and \$3,000,000 in aggregate in one annual period. Should claims exceed this amount, the excess claims are to be funded by other available City resources.

The RMF claims liabilities are actuarially determined annually to include the effects of specific incremental claims, adjustment expenses, and if probable and material, salvage and subrogation. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 1.0 percent.

Workers' Compensation

The City's workers' compensation plan provides City employees with workers' compensation insurance through the Workers' Compensation Fund (the "WCF"). Under this program, the WCF provides coverage for up to a maximum of \$750,000 per claim. The City purchases commercial insurance for claims in excess of coverage provided by the

WCF. Over the past five years there have been seven claims for which payments have been received totaling \$742,448 through the commercial insurance. All City departments participate in the workers' compensation program. Payments to the WCF from such departments are based on actuarial estimates of the amounts needed to pay prior and current year claims and related administrative expenses. The WCF claims liabilities are actuarially determined annually to take into consideration recently settled claims, the frequency of claims and other economic and social factors. The actuarially determined liabilities are reported at their present values using an expected future investment yield assumption of 1.0 percent.

Group Health

Group medical benefits are paid through the Group Health Fund. Revenues are recognized from payroll deductions and from City contributions for employee and dependent coverage. Changes in the balances of claims liabilities during fiscal 2019 and 2018 were as follows (amounts in thousands):

	Workers		Health		Self Insurance		Other	
	Compensation				Risk Management			
	2020	2019	2020	2019	2020	2019	2020	2019
Unpaid claims, Oct 1	\$3,912	\$3,719	\$ 2,226	\$ 2,264	\$2,584	\$2,940	\$ -	\$ -
Incurred Claims (including IBNRs and changes in estimates)	1,057	2,162	28,053	23,024	1,993	362	738	656
Claim payments	(1,237)	(1,969)	(27,832)	(23,062)	(1,458)	(718)	-	-
Unpaid claims, Sept 30	<u>\$3,732</u>	<u>\$3,912</u>	<u>\$ 2,447</u>	<u>\$ 2,226</u>	<u>\$3,119</u>	<u>\$2,584</u>	<u>\$ 738</u>	<u>\$ 656</u>

14. LEASES

As Lessor

Effective October 1, 1983, the City entered into a contract to lease a tract of land for the purpose of constructing and developing a hotel. The term of the lease is for an initial period of fifty years with renewal options for two additional terms of fifteen years each. The rental payments are based upon a percentage (ranging from 1.0 percent - 1.75 percent) of gross revenues (as defined in the agreement) through December 31, 2006. After December 31, 2006, the lessee shall pay the total annual rent of \$250,000. For each year thereafter, the lessee shall pay an annual rent amount equal to the previous year's rent plus an increase not to exceed the effective percentage change in the Consumer Price Index (Specifically CPI-U for Dallas-Fort Worth region) for the previous 12-month period. Total rental payments received in 2020 were approximately \$311,015.

15. SETTLEMENT AGREEMENT

On April 27, 1999, the City entered into a Dispute Settlement Agreement and Agreement Not To Pursue Claim (the "Dispute Settlement Agreement") with the Texas Rangers baseball club (the "Rangers"). The Dispute Settlement Agreement relates to the amount of costs of acquiring certain tracts of land for the Project, which the City alleged should be paid by the Rangers (the "Claim").

The Dispute Settlement Agreement requires the Rangers to make annual installment payments, without interest, to the City on or before December 31 of each year as follows:

<u>Year</u>	<u>Amount</u>
2020	727,500
2021	727,500
2022	727,500
2023	727,500
2024	<u>715,829</u>
	3,625,829
Less Discount	<u>297,503</u>
	<u>\$3,328,326</u>

The total is reported as a settlement agreement receivable by the City. The payment amounts will be reduced effective in fiscal year 2016 to reflect reduced interest rates. The payment in 2024 is due on or before March 1. By entering into this agreement, the City agreed to release and discharge the Rangers from the Claim.

16. TEXAS RANGERS CAPITAL LEASE

In November 2016, Arlington citizens voted to build a new Rangers stadium which was completed in 2020. A lease agreement was executed on 2019 between the Texas Rangers, Ltd. (the Rangers) and the City for the Ballpark Complex Development (the Facility). The lease is a triple net lease to the Rangers, with the Rangers retaining all concession and signage rights. The Rangers agreed to pay a base rent of \$2,000,000 per year for the 30-year term of the lease through 2054. At the end of the lease, the Rangers have the option to purchase the Facility, at a cost of the difference of \$100,000,000 and the sum of all rent paid, all operating costs project costs and tenant specific costs paid by the Rangers.

Pursuant to applicable accounting standards, the lease of the Facility to the Rangers has been accounted for as a capital lease.

Minimum future rentals are as follows:

<u>September 30</u>	
2021	\$2,000,000
2022	2,000,000
2023	2,000,000
2024	2,000,000
2025	2,000,000
Thereafter	<u>58,000,001</u>
	68,000,001
Less Discount	<u>26,199,596</u>
Minimum future lease rentals	<u>\$41,800,405</u>

17. CONDENSED COMPONENT UNIT INFORMATION

The City includes seven discretely presented component units in its reporting entity (see note I.B.). Condensed component unit information for the year ended September 30, 2020, for all discretely presented component units is as follows (amounts in thousands):

Condensed Schedule of Net Position

	<u>Arlington Tomorrow Foundation</u>	<u>Housing Authority</u>	<u>Other Discretely Presented Component Units</u>	<u>Total Discretely Presented Component Units</u>
Current and other assets	\$ 82,732	\$ 6,562	\$ 3,441	\$ 92,735
Capital assets	-	316	4,750	5,066
Total assets	<u>82,732</u>	<u>6,878</u>	<u>8,191</u>	<u>97,801</u>
Other liabilities and deferred inflows of resources	<u>826</u>	<u>1,970</u>	<u>5,022</u>	<u>7,818</u>
Total liabilities	<u>826</u>	<u>1,970</u>	<u>5,022</u>	<u>7,818</u>
Net position:				
Net investment in capital assets	-	316	4,750	5,066
Restricted	81,906	232	-	82,138
Unrestricted	-	4,360	(1,581)	2,779
Total net position	<u>\$ 81,906</u>	<u>\$ 4,908</u>	<u>\$ 3,169</u>	<u>\$ 89,983</u>

Condensed Schedule of Activities

	<u>Arlington Tomorrow Foundation</u>	<u>Housing Authority</u>	<u>Other Discretely Presented Component Units</u>	<u>Total Discretely Presented Component Units</u>
Expenses	<u>\$ 4,804</u>	<u>\$ 33,466</u>	<u>\$ 16,708</u>	<u>\$ 54,978</u>
Program Revenues:				
Charges for services	-	-	7,235	7,235
Operating grants and contributions	-	33,815	10,170	43,985
Capital grants and contributions	-	-	-	-
Net Program (Expense) Revenue	<u>(4,804)</u>	<u>349</u>	<u>697</u>	<u>(3,758)</u>
Interest Revenues	5,968	43	26	6,037
Other NonTax General Revenues	<u>3,612</u>	<u>279</u>	<u>(2,043)</u>	<u>1,848</u>
Change in Net Position	4,776	671	(1,320)	4,127
Net position, October 1	<u>77,130</u>	<u>4,237</u>	<u>4,489</u>	<u>85,856</u>
Net position, September 30	<u>\$ 81,906</u>	<u>\$ 4,908</u>	<u>\$ 3,169</u>	<u>\$ 89,983</u>

18. TAX ABATEMENTS

As of September 30, 2020, the City of Arlington (City) provides for tax abatements and tax rebates through two mechanisms – Tax Abatement Agreements and Chapter 380 Agreements. The City’s Tax Abatements are authorized under Chapter 312 of the Texas Tax Code and the City’s Policy Statement for Tax Abatement. Under a tax abatement agreement, the taxable value is reduced by a specific percentage, and the amount of the abatement is deducted from the recipient’s tax bill. The City’s tax abatements are administered by Tarrant Appraisal District. Chapter 380 agreements are authorized under VTCA Local Government Code Chapter 380 and the City’s Chapter 380 Economic Development Programs Policies and Procedures. Under a 380 agreement, the recipient pays the total taxes due to the City, and the City rebates a portion of taxes paid based on the terms of the agreement.

For financial reporting purposes, a tax abatement is defined as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. A transaction's substance, not its form or title, is the key factor in determining whether the transaction meets the definition of a tax abatement for the purpose of this disclosure. Therefore, the City's 380 agreements are being disclosed, as the substance of the rebates meets the definition of a tax abatement for purposes of financial reporting.

The City provides tax abatements for economic development in three categories – (1) Development and Redevelopment, (2) Recruitment, and (3) Retention:

Development and Redevelopment

The City provides development and redevelopment tax abatements to encourage development of remaining Greenfield sites with highest and best uses, and transformational redevelopment of existing sites with high community impact. Abatements are obtained through an application and evaluation process, with ultimate approval authorized by the City Council. Property owners are required to complete the City's Application for Incentives providing a complete description of the project, method of financing, descriptive list of improvements, schedule for completion, estimated taxable value of improvements, level of abatement requested, jobs created (if applicable), and any other incentives requested. Applications are evaluated to determine if the project meets the criteria for a development/redevelopment tax abatement. The City abates up to 100% percent of the additional property tax resulting from the increased appraised value as a result of the improvements. Property owners are required to pay 100% of the property tax on the base year value. The City may also rebate a portion of the sales, hotel occupancy, and mixed beverage taxes generated by a project. A portion of the City's local tax collections generated by the recipient's purchase or sale of taxable items associated with the project and consummated in the City may be rebated for a specified period. In exchange for the abatement/rebate, the recipient commits to comply with the terms of the agreement, such as project completion deadlines, capital investment, and minimum added value requirements. If the recipient fails to meet the improvement conditions, the agreement enters a breach status, and the City provides a 30-60-day cure period. If the recipient fails to cure the breach, the City may terminate the agreement and recapture any taxes abated/rebated per the terms of the agreement. As part of a tax abatement/rebate, the City may make other commitments to support development and redevelopment projects (e.g., development fee waivers, infrastructure improvements, etc.).

Recruitment

The City offers recruitment tax abatement agreements to attract and incentivize new business to the City. Abatements may be granted to a company agreeing to relocate to the City or to establish new business in the City; the project must meet requirements of the Tax Code and the City's policy statements to be considered for an abatement. The City may grant tax abatements for recruitment if the City Council finds the abatement is in the public interest because it will facilitate one or more of the following objectives: (1) increase tax base, (2) provide quality employment, and (3) contribute to the diversity and quality of Arlington's business community. The value and duration of the tax abatement is determined by the degree to which the project meets the objectives of the City's Economic Development Strategic Plan, number and types of jobs to be created, and sales taxes, hotel taxes or other incomes that would be generated. Additional levels of abatement are considered based upon the project's employment numbers, industry type, and wages. Applicants undergo the same application and evaluation process required for development/redevelopment abatements. The City abates up to 100% percent of the additional property taxes (i.e., real estate, business personal property, or both) resulting from the increased appraised value as a result of the project. The City may also rebate a portion of the sales, hotel occupancy, and mixed beverage taxes generated by a project. A portion of the City's local tax collections generated by the recipient's purchase or sale of taxable items associated with the project and consummated in the City may be rebated for a specified period. In exchange for the abatement/rebate(s), the recipient commits to comply with the terms of the agreement, such as project completion deadlines, added value requirements, job creation, etc. If the recipient fails to comply, the same breach and recapture provisions described above may apply. Based on the economic impact of the project,

the City may make other commitments to the recipient in addition to the tax abatement/rebate. Additional incentives include development fee waivers, infrastructure improvements, and grants for hiring Arlington residents.

Retention

The City offers retention tax abatements to incentivize existing businesses to remain in the City and to encourage renovation, expansion, and job growth. Abatements may be granted to existing businesses looking to expand and renovate existing facilities or to construct new facilities to accommodate product/service demand and employment growth. Criteria for retention abatements include increasing and preserving the City’s tax base, creating and retaining employment opportunities, and updating the skills of existing employees. The value and duration of the tax abatement is determined by the degree to which the project meets the objectives of the City’s Economic Development Strategic Plan, number and types of jobs to be created/retained, community impact, and sales taxes, hotel taxes or other incomes that would be generated. Additional levels of abatement are considered based upon the project’s employment numbers, industry type, and wages. Applicants undergo the same application and evaluation process required for all abatements. The City abates up to 100% percent of the additional property tax (i.e., real estate, business personal property, or both) resulting from the increased appraised value as a result of the project. The City may also rebate a portion of the sales taxes and other income generated from the project. In exchange for abatement/rebate(s), the recipient commits to comply with the terms of the agreement, including project completion deadlines, added value and/or taxable sales requirements, and job creation and retention numbers. If the recipient fails to comply, the same breach and recapture provisions described for all abatements may apply. As part of a tax abatement, the City can make other commitments to support business retention (e.g., development fee waivers, infrastructure improvements, hiring grants, etc.).

Tax Abatement Program

Program	Property Tax	Sales Tax	Hotel Occupancy Tax	Mixed Beverage Taxes	Other Commitments
Development/Redevelopment	904,639	135,540	599,753	205,246	-
Recruitment	514,565	4,273,056	-	-	-
Retention	4,052,620	-	-	-	94,502
Total Tax Abated	5,471,824	4,408,596	599,753	205,246	94,502

For the fiscal year ended September 30, 2020, the City’s property tax revenues were reduced by \$5,471,824 under active tax abatement and Chapter 380 agreements for Development/Redevelopment, Recruitment, and Retention. Sales tax revenues were reduced by a total of \$4,408,596 for Development/Redevelopment and Recruitment abatements. Hotel occupancy tax revenues were reduced by \$599,753 and mixed beverage taxes were reduced by \$205,246 for Development/Redevelopment abatements. In addition to tax abatements/rebatements, recipients qualified for \$94,502 in other commitments from the City in the form of development fee waivers or grants for hiring Arlington residents.

Tax revenues were reduced as a result of the City’s tax abatement agreements only; no other governments’ tax abatement agreements caused a reduction in the City’s tax revenues. However, the City may also act as a conduit for the refunding of state sales, hotel occupancy, and mixed beverage taxes generated by a qualifying project under Sections 151.429 (h), 351.102, and 351.1022 of the Texas Tax Code, Section 2303.5055 of the Texas Government Code, and other applicable laws.

19. POLLUTION REMEDIATION

The City is responsible for following all applicable environmental rules when managing sites with environmental clean-up or management requirements. The Texas Commission on Environmental Quality (TCEQ) requires that the City conduct groundwater monitoring of the leaking petroleum storage tanks. The liability is calculated using the current value of outlays to remediate the properties – the amount that would be paid if all equipment, facilities, and

services included in the estimate were acquired during the current period. The liability is an estimate and is subject to revision as a result of price increases or reductions, changes in technology, or changes in applicable laws or regulations. As of September 30, 2020, the City has no environmental remediation liability as remediation has been completed.

20. SUBSEQUENT EVENTS

There were no subsequent events that require disclosure at this time.

APPENDIX C

FORM OF OPINION OF BOND COUNSEL

BRACEWELL

July 15, 2021

\$44,070,000
CITY OF ARLINGTON, TEXAS
WATER AND WASTEWATER SYSTEM
REVENUE BONDS
SERIES 2021

WE HAVE represented the City of Arlington, Texas (the “Issuer”) as its bond counsel in connection with an issue of bonds (the “Bonds”) described as follows:

CITY OF ARLINGTON, TEXAS, WATER AND WASTEWATER SYSTEM REVENUE BONDS, SERIES 2021, dated June 1, 2021, in the principal amount of \$44,070,000.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer authorizing their issuance (the “Bond Ordinance”) and the pricing certificate (the “Pricing Certificate”) executed pursuant thereto (the Bond Ordinance and Pricing Certificate together are referred to herein as the “Ordinance”).

WE HAVE represented the Issuer as its bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; and customary certificates of officers, agents and representatives of the Issuer, and other public officials; and other certified showings relating to the authorization and issuance of the Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the

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opinions herein. We have also examined executed Bond No. 1 of this issue. Capitalized terms used herein, unless otherwise defined, have the meanings set forth in the Ordinance.

In providing the opinions set forth herein, we have relied on representations and certifications of the Issuer and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the Issuer and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Bonds.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding special obligations of the Issuer;
- (B) The Bonds are payable from and secured by a lien on and pledge of the Net Revenues of the Issuer's water and wastewater system, as defined and described in the Ordinance; and
- (C) Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax.

The rights of the owners of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

Except as stated above, we express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds. Further, in the event that the representations of the Issuer and other parties are determined to be inaccurate or incomplete or the Issuer fails to comply with the covenants of the Ordinance, interest on the Bonds could become includable in gross income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to

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update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

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