

NEW ISSUE - Book-Entry-Only

Dated November 13, 2023

In the opinion of Jackson Walker LLP, Special Tax Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Certificates (as defined below) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Certificates is not a specific preference item for purposes of the federal individual alternative minimum tax. Special Tax Counsel observes that, for tax years beginning after December 31, 2022, interest on the Certificates included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates. (See "TAX MATTERS" herein).

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



\$29,415,000
CITY OF LANCASTER, TEXAS
(Dallas County)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023

Dated Date: November 1, 2023
Interest to accrue from Delivery Date (as defined below)

Due: February 15, as shown below

PAYMENT TERMS . . . The City of Lancaster, Texas (the "City") is issuing its \$29,415,000 City of Lancaster, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2023 (the "Certificates"). Interest on the Certificates will accrue from the Delivery Date (as defined below), and will be payable February 15 and August 15 of each year, commencing August 15, 2024, 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 Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or any integral multiple thereof within a maturity. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and the general laws of the State of Texas (the "State"), particularly, Chapter 271, Subchapter C, Texas Local Government Code, as amended, the City of Lancaster, Texas (the "City") Home Rule Charter, and the ordinance authorizing the issuance of the Certificates adopted by the City Council of the City (the "Ordinance"), and are direct obligations of the City, payable from a combination of (i) the levy and collection of an ad valorem tax, within the limits prescribed by law, on the taxable property located within the City, and (ii) the limited (in an amount not to exceed \$1,000) subordinate pledge of certain revenues of the water and sewer system (the "System") after the payment of all operation and maintenance expenses thereof (the "Net Revenues") (see "THE CERTIFICATES - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Certificates will be used to finance (i) design, construction, repair and improvement of various street and roadways located within the City, including road, street, sidewalks, curb, drainage and related improvements; (ii) design, construction, repair, improvements, and the expansion of Ferris Road from Bellline Road to the City limit, including the road, street, sidewalks, curb, drainage and related improvements; and (iii) professional services rendered in connection with the above listed project.

MATURITY SCHEDULE

CUSIP Prefix⁽¹⁾: 514444

Maturity Schedule (Left)					Maturity Schedule (Right)				
Amount	Feb 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾	Amount	Feb 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix ⁽¹⁾
\$ 880,000	2025	5.000%	3.570%	M70	\$ 1,455,000	2035	5.000%	3.660% ⁽²⁾	N95
925,000	2026	5.000%	3.530%	M88	1,530,000	2036	5.000%	3.810% ⁽²⁾	P28
975,000	2027	5.000%	3.490%	M96	1,605,000	2037	5.000%	3.980% ⁽²⁾	P36
1,025,000	2028	5.000%	3.440%	N20	1,690,000	2038	5.000%	4.070% ⁽²⁾	P44
1,075,000	2029	5.000%	3.450%	N38	1,770,000	2039	4.500%	4.400% ⁽²⁾	P51
1,130,000	2030	5.000%	3.510%	N46	1,850,000	2040	4.500%	4.500%	P69
1,190,000	2031	5.000%	3.550%	N53	1,940,000	2041	4.625%	4.510% ⁽²⁾	P77
1,250,000	2032	5.000%	3.580%	N61	2,035,000	2042	5.000%	4.350% ⁽²⁾	P85
1,315,000	2033	5.000%	3.560%	N79	2,140,000	2043	5.000%	4.400% ⁽²⁾	P93
1,385,000	2034	5.000%	3.580% ⁽²⁾	N87	2,250,000	2044	5.000%	4.430% ⁽²⁾	Q27

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

(2) Yield shown is yield to first call date, February 15, 2033.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after February 15, 2034, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - Optional Redemption").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the Underwriters subject to the approving opinion of the Attorney General of Texas, the opinion of West & Associates L.L.P., Bond Counsel, Dallas, Texas (see APPENDIX C - "Form of Bond Counsel's Opinion") and the opinion of Jackson Walker LLP, Special Tax Counsel, Houston, Texas (see APPENDIX D - "Form of Special Tax Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by its counsel Locke Lord LLP, Dallas, Texas.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on December 12, 2023 (the "Delivery Date").

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

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

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

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

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Preliminary 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. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

NONE OF THE CITY, ITS FINANCIAL ADVISOR, NOR THE UNDERWRITERS OF THE CERTIFICATES MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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

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

References to website addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such websites and the information or hyperlinks contained therein are not incorporated into, and are not a part of, this Official Statement for any purposes.

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

OFFICIAL STATEMENT SUMMARY

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

- THE CITY** The City of Lancaster, Texas (the "City") is a political subdivision and municipal corporation of the State of Texas (the "State") located in Dallas County, Texas. The City was incorporated in 1852, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The City Manager is the chief administrative officer. The City covers approximately 33.15 square miles (see "INTRODUCTION - Description of the City").
- THE CERTIFICATES** The \$29,415,000 Combination Tax and Revenue Certificates of Obligation, Series 2023 (the "Certificates") are scheduled to mature on February 15 in the years 2025 through 2044 (see "THE CERTIFICATES - Description of the Certificates").
- PAYMENT OF INTEREST** Interest on the Certificates accrues from the Delivery Date and is payable August 15, 2024, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - Description of the Certificates" and "- Optional Redemption").
- AUTHORITY FOR ISSUANCE**..... The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, the City's Home Rule Charter, and the ordinance authorizing the issuance of the Certificates adopted by the City Council of the City (see "THE CERTIFICATES - Authority for Issuance").
- SECURITY FOR THE CERTIFICATES** The Certificates constitute direct obligations of the City, payable from (i) ad valorem tax levied, within the limits prescribed by law, on the taxable property located within the City, and (ii) the limited (in an amount not to exceed \$1,000) subordinate pledge of certain revenues of the water and sewer system ("System") after the payment of all operation and maintenance expenses thereof (the "Net Revenues") (see "THE CERTIFICATES - Security and Source of Payment").
- REDEMPTION** The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2034, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - Optional Redemption").
- TAX EXEMPTION**..... In the opinion of the Jackson Walker LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates. See "TAX MATTERS" herein.
- USE OF PROCEEDS** Proceeds from the sale of the Certificates will be used to finance (i) design, construction, repair and improvement of various street and roadways located within the City, including road, street, sidewalks, curb, drainage and related improvements; (ii) design, construction, repair, improvements, and the expansion of Ferris Road from Beltline Road to the City limit, including the road, street, sidewalks, curb, drainage and related improvements; and (iii) professional services rendered in connection with the above listed project.
- RATINGS**..... The Certificates and presently outstanding tax-supported debt of the City are rated "AA" by S&P Global Ratings, a division of S&P Global Inc. ("S&P") and "Aa2" by Moody's Investors Service, Inc. ("Moody's") (see "OTHER INFORMATION - Ratings").
- BOOK-ENTRY-ONLY SYSTEM**..... The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - Book-Entry-Only System").
- PAYMENT RECORD**..... The City has never defaulted on the payment of its tax-supported indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax-Supported Debt ⁽³⁾	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2020	39,040 ⁽¹⁾	\$ 3,060,488,567	\$ 78,394	\$ 71,685,000	\$ 1,836	2.34%	97.70%
2021	41,275 ⁽²⁾	3,009,680,273	72,918	67,645,000	1,639	2.25%	98.60%
2022	41,556 ⁽²⁾	3,572,339,009	85,964	63,130,000	1,519	1.77%	98.00%
2023	41,560 ⁽²⁾	4,353,786,034	104,759	59,710,000	1,437	1.37%	98.38%
2024	41,685 ⁽²⁾	5,267,696,877	126,369	83,175,000 ⁽⁴⁾	1,995	1.58%	N/A

(1) Source: FYE 2022 Audited Financial Statements.

(2) Source North Central Texas Council of Governments or US Census where applicable.

(3) Includes self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting debt from other revenues is subject to change in the future, but the City currently has no plans to change such policy. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Includes the Certificates.

For additional information regarding the City, please contact:

Opal Mauldin-Jones
Christine Harris Reed
City of Lancaster
211 North Henry Street
Lancaster, Texas 75146
(972) 218-1300

or

Nick Bulaich
Hilltop Securities Inc.
777 Main Street, Suite 1525
Fort Worth, Texas 76102-3123
(817) 332-9710

CITY OFFICIALS, STAFF, AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Clyde C. Hairston Mayor	11 Years	May, 2024	Minister
Mitchell Cheatham Mayor Pro Tem, Councilmember, District 5	2 Years	May, 2025	Minister/Retail
Betty Gooden-Davis Deputy Mayor Pro Tem, Councilmember, District 6	3 Years	May, 2026	Retired Educator
Carol Strain-Burk Councilmember, District 1	18 Years	May, 2025	Self-Employed Consultant
Stanley Jaglowski Councilmember, District 2	12 Years	May, 2026	Automotive Service Professional
Marco Mejia Councilmember, District 3	13 Years	May, 2025	Business Owner, Construction Company
Derrick D. Robinson Councilmember, District 4	3 Years	May, 2026	Professional Driver

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with City</u>	<u>Length of Service to Municipal Governments</u>
Opal Mauldin-Jones	City Manager	20 Years	31 Years
Carey Neal Jr.	Deputy City Manager	4 Years	7 Years
Dori Lee	Assistant City Manager	20 Years	20 Years
Christine Harris Reed	Director of Finance	3 Years	5 Years
Sorangel "Angie" Arenas	City Secretary	13 Years	13 Years
David T. Ritter	City Attorney	6 Years	16 Years

INDEPENDENT AUDITORS, CONSULTANTS AND ADVISORS

Independent Auditors	FORVIS, LLP Dallas, Texas
Bond Counsel	West & Associates, L.L.P. Dallas, Texas
Special Tax Counsel	Jackson Walker LLP Houston, Texas
Financial Advisor.....	Hilltop Securities Inc. Fort Worth, Texas

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OFFICIAL STATEMENT
RELATING TO
\$29,415,000
CITY OF LANCASTER, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023

INTRODUCTION

This Official Statement, which includes the cover page, maturity schedule and the appendices hereto, provides certain information regarding the issuance of \$29,415,000 City of Lancaster, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2023 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined below), except as otherwise indicated herein.

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

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 is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1852, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The Mayor and Councilmembers are elected for staggered three year terms with elections held annually in May. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), municipal court, streets, engineering, water and wastewater, sanitation, recreation, public improvements, planning and zoning, and general administrative services. The 2021 Census population for the City was 41,275 while the estimated 2024 population is 41,685. The City covers approximately 33.15 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Certificates will be used to finance the (i) design, construction, repair and improvement of various street and roadways located within the City, including road, street, sidewalks, curb, drainage and related improvements; (ii) design, construction, repair, improvements, and the expansion of Ferris Road from Beltline Road to the City limit, including the road, street, sidewalks, curb, drainage and related improvements; and (iii) professional services rendered in connection with the above listed project.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES . . . The Certificates are dated November 1, 2023, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the date of their initial delivery, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15 of each year, commencing August 15, 2024, until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "-Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the City's Home Rule Charter, the Constitution and general laws of the State, including particularly Chapter 271, Subchapter C, Texas Local Government Code, as amended, and an ordinance adopted by the City Council authorizing the issuance of the Certificates (the "Ordinance").

SECURITY AND SOURCE OF PAYMENT . . . The Certificates constitute direct obligations of the City, payable from an ad valorem tax levied, within the limits prescribed by law, on the taxable property located within the City, sufficient to provide for the payment of principal of and interest on the Certificates. The Certificates are additionally payable from the limited (in an amount not to exceed \$1,000) subordinate pledge of certain revenues of the City's water and sewer system (the "System") after the payment of all operation and maintenance expenses thereof (the "Net Revenues") (see "THE CERTIFICATES - Security and Source of Payment").

TAX RATE LIMITATION . . . All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per each \$100 of taxable assessed valuation for all City purposes. The Home Rule Charter of the City authorizes the constitutionally authorized maximum tax rate of \$2.50 per each \$100 of Taxable Assessed Valuation. Administratively, the Attorney General of the State will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt, based on 90% tax collection rate as calculated at the time of issuance.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2034, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2033, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the maturities of Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

NOTICE OF REDEMPTION . . . Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE Certificates CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY Certificate OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH Certificate OR PORTION THEREOF SHALL CEASE TO ACCRUE, PROVIDED THAT MONIES FOR THE PAYMENT OF THE REDEMPTION PRICE AND THE INTEREST ACCRUED ON THE PRINCIPAL AMOUNT TO BE REDEEMED TO THE DATE OF REDEMPTION ARE HELD FOR THE PURPOSE OF SUCH PAYMENT BY THE PAYING AGENT/REGISTRAR.

With respect to any optional redemption of the Certificates, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Certificates to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption may, at the option of the City, be conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received, such notice shall be of no force and effect, the City shall not redeem such Certificates and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Certificates have not been redeemed.

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

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

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

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered 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 stated maturity and series of the Certificates, 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 issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

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

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

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

Principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on 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, the Paying Agent/Registrar,

or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest 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 one or both series of the Certificates at any time by giving reasonable notice to the City or the respective Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, obligation certificates are required to be printed and delivered.

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

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

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

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System of the Certificates is discontinued, printed certificates will be issued to the DTC Participants or the registered owner of the Certificates, as the case may be, and such Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "THE CERTIFICATES - Transfer, Exchange and Registration" below.

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

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event the Book-Entry-Only System should be discontinued, certificates will be printed and delivered to the registered owners thereof and thereafter may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar of such certificates and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount and series as the Certificates surrendered for exchange or transfer. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Certificate.

Principal of the Certificates will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar. Interest on the Certificates will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of, the registered owner. If the date for the payment of the principal or interest on the Certificates shall be a Saturday, Sunday, legal holiday, or 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 payment date. So long as Cede & Co. is the registered owner of the Certificates, principal of and interest on the Certificates will be made as described in "Book-Entry-Only System".

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

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

CERTIFICATEHOLDERS REMEDIES . . . The Ordinance establishes specific events of default with respect to the Certificates. If the City defaults in the payment of the principal of or interest on the Certificates when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the Certificateholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006) ("*Tooke*"), 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 Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. In *Tooke*, the Court noted the enactment in 2005 of Sections 271.151 through 160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities under certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods and services.

The Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) ("*Wasson I*") 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. On October 5, 2018, the Texas Supreme Court issued a second opinion to clarify *Wasson I*, *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018) ("*Wasson II*" and, together with *Wasson I*, "*Wasson*"), ruling that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function at the time it entered into the contract, not at the time of the alleged breach.

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. 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. The City has not utilized Chapter 1371 in connection with the issuance of the Certificates, and the City has not waived sovereign immunity in the proceedings authorizing the Certificates. As noted above, the Ordinance provides that Certificateholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificateholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors. Initially, the only registered owner of the Certificates will be Cede & Co., as nominee of DTC. See “BOOK-ENTRY-ONLY SYSTEM” herein for a description of the duties of DTC with regard to ownership of the Certificates.

DEFEASANCE . . . The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on such Certificates, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The Ordinance provides that “Government Securities” means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Certificates shall no longer be regarded as outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City’s ability to issue debt or for any other purposes.

AMENDMENTS . . . The City, may, without the consent of or notice to any Holders of the Certificates, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the Holders of the Certificates, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of Holders of the Certificates holding a majority in aggregate principal amount of the Certificates then Outstanding, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all Holders of the Outstanding Certificates, affected by any such amendment, additional or rescission no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Certificates, reduce the principal amount thereof, the redemption price, if applicable, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, or (3) reduce the aggregate principal amount of the Certificates required to be held by Holders for consent to any such amendment, addition, or rescission.

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TAX INFORMATION

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

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

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

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

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

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

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

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

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

FREEPORT AND GOODS-IN-TRANSIT EXEMPTIONS...Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

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

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

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

TEMPORARY EXEMPTION FOR QUALIFIED PROPERTY DAMAGED BY A DISASTER...The Property Tax Code entitles the owner of certain qualified (i) tangible personal property used for the production of income, (ii) improvements to real property, and (iii) manufactured homes located in an area declared by the governor to be a disaster area following a disaster and is at least 15 percent damaged by the disaster, as determined by the chief appraiser, to an exemption from taxation of a portion of the appraised value of the property. The amount of the exemption ranges from 15 percent to 100 percent based upon the damage assessment rating assigned by the chief appraiser. The governing body of the taxing unit is not required to take any action in order for the taxpayer to be eligible for the exemption. If a taxpayer qualifies for the exemption after the beginning of the tax year, the amount of the exemption is prorated based on the number of days left in the tax year following the day on which the governor declares the area to be a disaster area. For more information on the exemption, reference is made to Section 11.35 of the Tax Code, as amended.

CITY AND TAXPAYER REMEDIES...Under certain circumstances, taxpayers and taxing units, including the City, may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code. Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$57,216,456 million for the 2023 tax year and is adjusted annually by the State Comptroller to reflect the inflation rate.

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

LEVY AND COLLECTION OF TAXES...The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax

remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid.

The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain conditions. Taxpayers 65 years old or older are permitted by State law to pay taxes (without penalty and interest) on homesteads in four installments with the first due on or before January 31 of each year and the final installment due on or before July 31.

CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES ...Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the City, having power to tax the property. The City's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

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

After July, penalty remains at 12%, and interest increases at the rate of 1% each month or portion of the month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. In addition, if an account is delinquent in July, an attorney's collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed.

In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

FUTURE AND PROPOSED STATE LEGISLATION

The 88th Texas Legislature began on January 10, 2023, and ended on May 29, 2023 (the "88th Regular Legislative Session"). The Texas Legislature meets in regular session in odd numbered years for 140 days. When the Texas Legislature is not in session, the Governor may call one or more special sessions, at the Governor's discretion, each lasting no more than 30 days, and for which the Governor sets the agenda. During this time, the Texas Legislature may enact laws that materially change current law as it relates to the City. The State concluded the 88th Regular Legislative Session on May 29, 2023, and concluded its first and second called legislative sessions on June 27, 2023 and July 13, 2023, respectively. The Governor has called a third special legislative session of the Legislature that commenced on October 9, 2023.

On July 13, 2023, during the second special session, the Legislature passed Senate Bill 2, which, among other things, includes provisions that prohibit an appraisal district from increasing the appraised value of real property during the 2024 tax year on non-homestead properties (the "subjected property") whose appraised values are not more than \$5 million dollars (the "maximum property value") to an amount not to exceed the lesser of: (1) the market value of the subjected property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of: (a) 20 percent of the appraised value of the subjected property for the preceding tax year; (b) the appraised value of the subjected property for the preceding tax year; and (c) the market value of all new improvements to the subjected property (collectively, the "appraisal cap"). After the 2024 tax year, through December 31, 2026, the maximum property value may be increased or decreased by the product of the preceding state fiscal year's increase or decrease in the consumer price index, as applicable, to the maximum property value. The appraisal cap takes effect on January 1, 2024, if the constitutional amendment proposed by House Joint Resolution 2 during the Second Special Session is approved by the voters on November 7, 2023.

The City makes no predictions with respect to whether the Governor will exercise his authority under the Texas Constitution to call additional special legislative sessions or concerning the substance or effect of any legislation that may be proposed and ultimately passed while the Legislature is in session.

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

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

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

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

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

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

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

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

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

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its de minimis rate, an election must be held to determine whether or not to reduce the adopted tax rate to the voter approval tax rate. A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

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

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

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

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year. The City collects the additional quarter percent sales tax. Taxable sales in the City are currently subject to the maximum 8.25% sales tax (1% of which is the City's portion, .50% LRDC, .25% LEDC and .25% property tax reduction) and the City has not implemented the additional sales tax.

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

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

CITY APPLICATION OF PROPERTY TAX CODE . . . The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$30,000; the disabled are also granted an exemption of \$30,000.

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

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

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

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

The City does not tax nonbusiness personal property and the Dallas County Tax Office collects taxes for the City.

The City does not permit split payments of taxes and discounts for the early payment of taxes are not allowed.

The City does not tax freeport property.

The City has taken action to continue taxing goods-in-transit in 2015 and future years.

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

TAX REBATES . . . The City has outstanding Tax Rebates that are further described below.

TAX INCREMENT FINANCING ZONES . . . Tax Increment Financing District #1, City of Lancaster (the "Inland Port Water Project TIF" or the "TIF"), was created in October 2014, and revised in February 2018 by the City with the consent of other taxing units overlapping the Inland Port Water Project TIF. The 1337.4 acre TIF encompassed by City limits on the North and East, Belt Line Road and Greene Road on the South and an irregular boundary East of Lancaster-Hutchins Road to the South of Pleasant Run Road and the BNSF RR tracks North of Pleasant Run Road, excluding developed property, this area is called an "inland port" because of its unique characteristics including a Union Pacific intermodal facility, which enable it to quickly receive and ship goods from the West Coast, the East Coast, and the Gulf of Mexico. Ad valorem taxes on incremental growth in real property values (levied at the tax rates of each taxing unit assessing real property in the TIF) within the TIF from a base value established on January 1, 2015, are used to contribute to the development of the TIF; these tax increment revenue funds can be used only for public improvements in the TIF. The TIF terminates December 31, 2041, or when the contributions by the City total \$2,781,759. The base assessed value of real property within the Zone is \$2,186,970; the 2023/2024 assessed value is \$41,157,230, representing \$20,777,349 in FY 2023-24 of incremental value. The City's participation is 50% of the taxes paid on the incremental increase in value.

CHAPTER 380 AGREEMENTS . . . The City has twenty-nine (29) active Commercial Development and Job Related Incentive Rebates that develop or redevelop a particular property attracting business that generates incremental tax revenues. In addition to Government Accounting Standards Board Statement No. 77, *Tax Abatement Disclosures* ("GASB 77"), the agreements are subject to Chapter 380 of the Texas Local Government Code that promotes local economic development, commercial activity and business stimulation. The City Council approves the agreements via resolution. As part of the agreement, the City agrees to rebate the ad valorem tax increment and the local sales tax after confirmation of payment. If a business does not meet the obligations as set forth in the agreement, a clawback provision for default on agreement is included in the agreement and the business agrees to return a percentage of the rebate back to the City. Total rebate of taxes for the year ended September 30, 2021 was \$2,60,110.71, and total rebate of taxes for the year ended September 30, 2023 was \$1,237,731.38.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2023/24 Market Valuation Established by Dallas Central Appraisal District		\$ 6,633,386,790
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 73,381,553	
Disabled Veterans Exemptions	50,625,171	
Freeport Exemption	340,135,110	
Capped Value Loss	508,330,785	
Pollution Control Exemption	2,183,331	
Prorated Total Exempt	229,744	
Mineral Rights	460	
Agricultural and Other Exemptions	122,261,959	
Totally Exempt Property	268,541,800	<u>1,365,689,913</u>
2023/24 Taxable Assessed Valuation		\$ 5,267,696,877
City Funded Debt Payable from Ad Valorem Taxes (as of 9-30-23)		
General Obligation Bonds	\$ 56,270,000	
Certificates of Obligation	3,440,000	
The Certificates	<u>29,415,000</u>	
Funded Debt Payable from Ad Valorem Taxes		\$ 89,125,000
Less Self-Supporting Debt: ⁽¹⁾		
Water and Sewer System General Obligation Debt	\$ 4,285,000	
Stormwater System General Obligation Debt	170,000	
Airport System General Obligation Debt	10,000	
Economic Development Corporation General Obligation Debt	775,000	
Recreational Development Corporation General Obligation Debt	<u>895,000</u>	<u>6,135,000</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 82,990,000
Interest and Sinking Fund (as of 9-30-23)		\$ 3,467,733
Ratio Total Funded Debt to Taxable Assessed Valuation		1.69%
Ratio Net Funded Debt to Taxable Assessed Valuation		1.58%

2024 Estimated Population - 41,685
 Per Capita Taxable Assessed Valuation - \$126,369
 Per Capita Total Funded Debt - \$2,138
 Per Capita Net Funded Debt - \$1,991

(1) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 10. It is the City's current policy to provide these payments from the respective system revenues. This policy is subject to change in the future, but the City currently has no plans to change such policy. To the extent such policy is changed and such self-supporting debt is not paid from the respective system revenues, such debt will be paid from ad valorem taxes.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2024		2023		2022	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 2,997,413,240	45.19%	\$ 2,562,332,070	45.84%	\$ 2,033,880,730	46.53%
Real, Residential, Multi-Family	291,018,940	4.39%	251,816,160	4.50%	198,406,530	4.54%
Real, Vacant Lots/Tracts	172,159,660	2.60%	143,112,800	2.56%	117,738,480	2.69%
Real, Acreage (Land Only)	125,470,540	1.89%	136,872,440	2.45%	118,412,640	2.71%
Real, Farm and Ranch Improvements	209,530	0.00%	353,350	0.01%	938,850	0.02%
Real, Commercial	1,743,531,210	26.28%	1,380,431,440	24.69%	978,712,180	22.39%
Real, Industrial	78,649,060	1.19%	71,930,220	1.29%	65,869,010	1.51%
Oil, Gas and Mineral Reserves	460	0.00%	460	0.00%	460	0.00%
Real and Tangible Personal, Utilities	138,690,440	2.09%	137,097,080	2.45%	157,800,070	3.61%
Tangible Personal, Commercial	926,859,270	13.97%	750,903,700	13.43%	571,123,800	13.07%
Tangible Personal, Industrial	147,089,620	2.22%	147,551,240	2.64%	124,939,360	2.86%
Tangible Personal, Mobile Homes	806,410	0.01%	782,530	0.01%	731,080	0.02%
Real Property-Inventory	9,104,000	0.14%	3,388,000	0.06%	-	0.00%
Special Inventory	2,384,410	0.04%	3,618,010	0.06%	2,467,350	0.06%
Total Appraised Value Before Exemptions	\$ 6,633,386,790	100.00%	\$ 5,590,189,500	100.00%	\$ 4,371,020,540	100.00%
Adjustments	-		-		-	
Total Exemptions/Reductions	(1,365,689,913)		(1,236,403,466)		(798,681,531)	
Taxable Assessed Value	<u>\$ 5,267,696,877</u>		<u>\$ 4,353,786,034</u>		<u>\$ 3,572,339,009</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2021		2020	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,811,565,180	48.77%	\$ 1,710,132,620	45.46%
Real, Residential, Multi-Family	163,958,850	4.41%	134,243,830	3.57%
Real, Vacant Lots/Tracts	85,312,580	2.30%	90,708,300	2.41%
Real, Acreage (Land Only)	116,194,630	3.13%	114,218,390	3.04%
Real, Farm and Ranch Improvements	867,300	0.02%	858,680	0.02%
Real, Commercial	722,244,570	19.44%	891,361,780	23.69%
Real, Industrial	55,218,410	1.49%	29,405,890	0.78%
Oil, Gas and Mineral Reserves	460	0.00%	460	0.00%
Real and Tangible Personal, Utilities	189,431,930	5.10%	180,360,270	4.79%
Tangible Personal, Commercial	434,963,450	11.71%	491,096,890	13.05%
Tangible Personal, Industrial	131,266,770	3.53%	116,390,220	3.09%
Tangible Personal, Other	-	0.00%	-	0.00%
Tangible Personal, Mobile Homes	952,160	0.03%	581,780	0.02%
Real Property-Inventory	-		-	
Special Inventory	2,365,600	0.06%	2,770,470	0.07%
Total Appraised Value Before Exemptions	\$ 3,714,341,890	100.00%	\$ 3,762,129,580	100.00%
Adjustments	-		-	
Total Exemptions/Reductions	(704,661,617)		(701,641,013)	
Taxable Assessed Value	<u>\$ 3,009,680,273</u>		<u>\$ 3,060,488,567</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Dallas Central Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year ⁽³⁾	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2020	39,040 ⁽¹⁾	\$ 3,060,488,567	\$ 78,394	\$ 71,685,000	2.58%	\$ 1,836
2021	41,275 ⁽²⁾	3,009,680,273	72,918	67,645,000	2.58%	1,639
2022	41,556 ⁽²⁾	3,572,339,009	85,964	63,130,000	2.58%	1,519
2023	41,560 ⁽²⁾	4,353,786,034	104,759	59,710,000	2.58%	1,437
2024	41,685 ⁽²⁾	5,267,696,877	126,369	83,175,000 ⁽⁴⁾	2.58%	1,995

(1) Source: FYE 2022 Audited Financial Statements

(2) Source: North Central Texas Council of Governments or US Census where applicable.

(3) Projected. Includes self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes for more detailed information on the City’s general obligation self-supporting debt. The City’s policy to pay such self-supporting debt from other revenues is subject to change in the future, but the City currently has no plans to change such policy. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax sufficient to pay such debt service.

(4) Includes the Certificates.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2020	\$ 0.840925	\$ 0.595200	\$ 0.245725	\$ 25,631,903	98.84%	97.70%
2021	0.819736	0.605167	0.214569	28,092,618	98.60%	98.60%
2022	0.769287	0.589061	0.180226	28,706,632	98.00%	98.00%
2023	0.691822	0.531384	0.160438	31,358,549	98.38%	98.38% ⁽¹⁾
2024	0.639004	0.484072	0.154932	33,757,307 ⁽²⁾	N/A	N/A

(1) Collections as of September 30, 2023.

(2) Calculated.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2023/24 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
WalMart Fulfillment Svcs LLC	Warehouse/Distribution	\$ 164,165,650	3.12%
Wayfair LLC	Warehouse/Distribution	83,324,160	1.58%
CSHV 20 35 LLC	Industrial Park	73,693,200	1.40%
Hilltop Bottling Works LLC	Warehouse/Distribution	72,261,820	1.37%
United Natural Foods, Inc.	Warehouse/Distribution	65,290,348	1.24%
Walmart Stores East LP	Retail	64,090,570	1.22%
Midpoint Owner LLC	Industrial Park	63,811,450	1.21%
Ollie's Bargain Outlet Inc.	Warehouse/Distribution	62,908,065	1.19%
ONCOR Electric Delivery	Texas Utilities	56,567,090	1.07%
Liberty Property Limited	Industrial Park	56,231,420	1.07%
		<u>\$ 762,343,773</u>	<u>14.47%</u>

Note: Provided by the Dallas Central Appraisal District.

GENERAL OBLIGATION DEBT LIMITATION . . . Other than as described under "THE CERTIFICATES – Tax Rate Limitation", no general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE CERTIFICATES – Tax Rate Limitation").

TABLE 6 – TAX ADEQUACY ⁽¹⁾

2024 Principal and Interest Requirements	\$ 7,251,773
\$0.1391 Tax Rate at 99.00% Collection Produces	\$ 7,254,093
Average Annual Principal and Interest Requirements, 2024 - 2044	\$ 5,543,171
\$0.1063 Tax Rate at 99.00% Collection Produces	\$ 5,543,566
Maximum Principal and Interest Requirements, 2029	\$ 7,330,359
\$0.1406 Tax Rate at 99.00% Collection Produces	\$ 7,332,318

(1) Includes the Certificates and does not include self-supporting debt.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

Taxing Jurisdiction	2023/24 Taxable Assessed Value	2023/24 Tax Rate	Total Tax Debt	Estimated % Applicable	City's Overlapping Tax Debt As of 9/1/23	Authorized But Unissued Debt as of 9/1/2023
City of Lancaster	\$ 5,267,696,877	\$ 0.639004	\$ 82,990,000 ⁽¹⁾	100.00%	\$ 82,990,000	\$ -
Lancaster Independent School District	4,861,778,321	1.226700	172,992,005	87.91%	152,077,272	-
Dallas Independent School District	176,022,948,626	1.013835	3,794,285,000	0.10%	3,794,285	2,565,375,000
Dallas County	375,100,055,324	0.215718	217,675,000	1.13%	2,459,728	-
Dallas County Community College	386,062,501,713	0.110028	375,515,000	1.13%	4,243,320	752,000,000
Dallas County Hospital District	376,054,417,901	0.219500	543,495,000	1.13%	<u>6,141,494</u>	-
Total Direct and Overlapping Tax Debt					\$ 251,706,097	
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation					4.78%	
Per Capita Overlapping Tax Debt					\$ 6,038.29	_____

(1) Includes the Certificates and does not include self-supporting debt.

TABLE 8 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt ⁽¹⁾		The Certificates ⁽²⁾		Total Outstanding Debt	Less:	Less:	Less:	Less:	Less:	Total Debt Less Self-Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest		W&S Self-Supporting Requirements	Stormwater Self-Supporting Requirements	LEDC Self-Supporting Requirements	LRDC Self-Supporting Requirements	Airport Self-Supporting Requirements		
2024	\$ 5,950,000	\$ 2,148,274	\$ -	\$ 975,628	\$ 9,073,902	\$ 656,841	\$ 42,175	\$ 207,525	\$ 905,472	\$ 10,117	\$ 7,251,773	
2025	3,970,000	1,945,239	880,000	1,423,375	8,218,614	625,334	50,375	214,100	-	-	7,328,805	12.12%
2026	4,105,000	1,801,400	925,000	1,378,250	8,209,650	623,745	48,275	214,900	-	-	7,322,730	
2027	4,275,000	1,639,727	975,000	1,330,750	8,220,477	636,622	46,100	215,050	-	-	7,322,705	
2028	4,035,000	1,473,300	1,025,000	1,280,750	7,814,050	487,698	-	-	-	-	7,326,352	
2029	4,190,000	1,334,366	1,075,000	1,228,250	7,827,616	497,258	-	-	-	-	7,330,359	
2030	4,335,000	1,189,160	1,130,000	1,173,125	7,827,285	501,642	-	-	-	-	7,325,644	41.37%
2031	4,500,000	1,026,890	1,190,000	1,115,125	7,832,015	510,909	-	-	-	-	7,321,106	
2032	4,150,000	863,534	1,250,000	1,054,125	7,317,659	-	-	-	-	-	7,317,659	
2033	3,290,000	720,106	1,315,000	990,000	6,315,106	-	-	-	-	-	6,315,106	
2034	3,445,000	591,169	1,385,000	922,500	6,343,669	-	-	-	-	-	6,343,669	
2035	3,590,000	455,425	1,455,000	851,500	6,351,925	-	-	-	-	-	6,351,925	70.06%
2036	2,075,000	345,775	1,530,000	776,875	4,727,650	-	-	-	-	-	4,727,650	
2037	2,155,000	264,188	1,605,000	698,500	4,722,688	-	-	-	-	-	4,722,688	
2038	2,240,000	179,413	1,690,000	616,125	4,725,538	-	-	-	-	-	4,725,538	
2039	1,670,000	102,800	1,770,000	534,050	4,076,850	-	-	-	-	-	4,076,850	
2040	1,735,000	34,700	1,850,000	452,600	4,072,300	-	-	-	-	-	4,072,300	90.61%
2041	-	-	1,940,000	366,113	2,306,113	-	-	-	-	-	2,306,113	
2042	-	-	2,035,000	270,375	2,305,375	-	-	-	-	-	2,305,375	
2043	-	-	2,140,000	166,000	2,306,000	-	-	-	-	-	2,306,000	97.48%
2044	-	-	2,250,000	56,250	2,306,250	-	-	-	-	-	2,306,250	100.00%
	<u>\$ 59,710,000</u>	<u>\$ 16,115,465</u>	<u>\$ 29,415,000</u>	<u>\$ 17,660,266</u>	<u>\$ 122,900,730</u>	<u>\$ 4,540,047</u>	<u>\$ 186,925</u>	<u>\$ 851,575</u>	<u>\$ 905,472</u>	<u>\$ 10,117</u>	<u>\$ 116,406,595</u>	

DEBT INFORMATION

(1) "Outstanding Debt" includes self-supporting debt and does not include lease/purchase obligations.

(2) Average life of the issue – 12.286 Years. Interest on the Certificates has been calculated at the rates stated on the cover page hereof.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9-30-24.		\$ 7,251,773
Interest and Sinking Fund Balance, 9-30-23 ⁽¹⁾	\$ 3,467,733	
Budgeted Interest and Sinking Fund Tax Levy.....	6,992,095	
Budgeted Transfers	282,342	
Estimated Investment Earnings	<u>288,893</u>	<u>11,031,063</u>
Estimated Balance, 9-30-24		<u>\$ 3,779,291</u>

(1) Preliminary information provided by City Staff.

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

Revenue Available for Debt Service from Waterworks and Sewer System ("System"), Fiscal Year Ended 9-30-23 ⁽²⁾ ...	\$ 9,296,651	
Less: Revenue Bonds Requirements, 2024 Fiscal Year		<u>-</u>
Balance Available for Other Purposes	\$ 9,296,651	
System General Obligation Bond Requirements, 2024 Fiscal Year		<u>656,841</u>
Balance	\$ 8,639,810	
Percentage of System General Obligation Bonds, Self-Supporting		100.00%
Revenue Available for Debt Service from Stormwater Fund, Fiscal Year Ended 9-30-23 ⁽²⁾ ...	\$ 1,450,387	
Stormwater General Obligation Bond Requirements, 2024 Fiscal Year.....		<u>42,175</u>
Balance	\$ 1,408,212	
Percentage of Stormwater General Obligation Bonds, Self-Supporting		100.00%
Revenue Available for Debt Service from LEDC, Fiscal Year Ended 9-30-23 ⁽²⁾	\$ 2,858,063	
LEDC General Obligation Bond Requirements, 2024 Fiscal Year		<u>207,525</u>
Balance	\$ 2,650,538	
Percentage of LEDC General Obligation Bonds, Self-Supporting		100.00%
Revenue Available for Debt Service from LRDC, Fiscal Year Ended 9-30-23 ⁽²⁾	\$ 4,661,421	
LRDC General Obligation Bond Requirements, 2024 Fiscal Year		<u>905,472</u>
Balance	\$ 3,755,949	
Percentage of LRDC General Obligation Bonds, Self-Supporting		100.00%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-23 ⁽²⁾	\$ 133,298	
Airport General Obligation Bond Requirements, 2024 Fiscal Year		<u>10,117</u>
Balance	\$ 123,181	
Percentage of Airport General Obligation Bonds, Self-Supporting		100.00%

(1) It is the City's current policy to pay the above-described self-supporting debt from the respective revenue sources shown above; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax sufficient to pay such debt service.

(2) Preliminary information provided by City Staff.

TABLE 11 – AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

As of September 30, 2023, the City does not currently have authorized but unissued General Obligation Bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . . The City anticipates issuing additional general obligation debt in the approximate amount of \$17,000,000 within the next 12 months.

TABLE 12 - OTHER OBLIGATIONS

Financed purchases represent the remaining principal amounts payable under lease purchase agreements for the acquisition of equipment through the General Fund. The financed purchase agreements are collateralized by the related financed equipment.

As of September 30, 2022, property and equipment under financed purchase agreements is carried at \$2,262,510 with \$461,995 in estimated accumulated depreciation, included in fixed assets. Amortization of these assets is included with depreciation expense.

Fiscal Year	Financed Purchases Government Activities			Fiscal Year	Note Payable Government Activities		
	Principal	Interest	Total		Principal	Interest	Total
2023	\$ 416,039	\$ 18,052	\$ 434,091	2023	\$ 1,055,000	\$ 140,000	\$ 1,195,000
2024	438,103	12,359	450,462	2024	1,040,000	94,050	1,134,050
2025	332,123	6,847	338,970	2025	1,080,000	50,625	1,130,625
2026	243,856	2,168	246,024	2026	190,000	24,100	214,100
2027-2028	359,636	2,991	362,627	2027-2031	145,000	14,900	159,900
Total	<u>\$ 1,789,757</u>	<u>\$ 42,417</u>	<u>\$ 1,832,174</u>	Total	<u>\$ 3,510,000</u>	<u>\$ 323,675</u>	<u>\$ 3,833,675</u>

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within options available in the governing state statutes of TMRS. Lancaster Economic Development Corporation and Lancaster Recreational Development Corporation contribute to the plan with a cost share of 0.98 percent and 4.37 percent, respectively. There were no significant changes in the component unit’s proportion to the plan during fiscal year 2022.

TMRS issues a publicly available comprehensive financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas, 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS’ website at www.TMRS.com.

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

Employee deposit rate	7.00%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	50% of CPI Repeating

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	221
Inactive Employees Entitled to But Not Yet Receiving Benefits	272
Active Employees	259
	<u>752</u>

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the entry age normal actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City's contributions to TMRS for the year ended September 30, 2022, were \$2,675,859, and were equal to the required contributions.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (*i.e.*, December 31, 2012, valuation is effective for the rates beginning January 1, 2014).

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	2.55%, including inflation
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 were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, health 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 percent and 3.0 percent minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The postretirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study. 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 is 6.75 percent. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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 in 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, the actuary focused on the area between: (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

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

Discount Rate:

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 6.75 percent 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:

	Increase (Decrease)		
	Total	Fiduciary	Net Pension
	Pension Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance as of 10/1/2021	\$ 95,302,781	\$ 84,865,481	\$ 10,437,300
Changes for the year:			
Service cost	2,976,346	-	\$ 2,976,346
Interest on total pension liability	6,394,896	-	6,394,896
Effect of difference in expected and actual experience	1,307,190	-	1,307,190
Benefit Payments	(4,103,495)	(4,103,495)	-
Changes in assumptions			
Administrative expenses	-	(51,190)	51,190
Member contributions	-	1,331,273	(1,331,273)
Net investment income	-	11,063,066	(11,063,066)
Employer contributions	-	2,643,238	(2,643,238)
Other	-	351	(351)
Net changes	6,574,937	10,883,243	(4,308,306)
Balance as of 09/30/2022	\$ 101,877,718	\$ 95,748,724	\$ 6,128,994
Proportionate share and net pension liability reported in:			
Primary Government		94.65%	\$ 5,801,180
Lancaster Economic Development Corporation		0.98%	60,265
Lancaster Recreational Development Corporation		4.37%	267,549
		100.00%	\$ 6,128,994

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

The following presents the net pension liability of the City, by primary government and discretely presented component units, calculated using the discount rate of 6.75 percent, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentagepoint lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
Primary Government	\$ 20,771,856	\$ 5,801,180	\$ (6,261,413)
Lancaster Economic Development Corporation	215,789	60,265	(65,046)
Lancaster Recreational Development Corporation	957,993	267,549	(288,775)
Plan's net pension liability	\$ 21,945,638	\$ 6,128,994	\$ (6,615,234)

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.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

For the year ended September 30, 2022, the primary government recognized pension expense, as measured in accordance with Government Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions* ("GASB 68"), of \$665,009.

At September 30, 2022, the primary government reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 857,566	\$ 398,371
Changes of assumptions	26,199.00	-
Net difference between projected and actual investment earnings on pension plan investments	-	5,370,795
Contributions subsequent to the measurement date	2,039,084	-
Total	<u>\$ 2,922,849</u>	<u>\$ 5,769,166</u>

For the year ended September 30, 2022, the primary government reported \$2,039,084 as deferred outflows of resources related to pensions resulting from primary government contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2023.

For the year ended September 30, 2022, Lancaster Economic Development Corporation recognized pension expense, as measured in accordance with GASB 68, of \$6,885.

At September 30, 2022, Lancaster Economic Development Corporation reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,909	\$ 4,138
Changes of assumptions	272	-
Net difference between projected and actual investment earnings on pension plan investments	-	55,794
Contributions subsequent to the measurement date	21,183	-
Total	<u>\$ 30,364</u>	<u>\$ 59,932</u>

For the year ended September 30, 2022, Lancaster Economic Development Corporation reported \$21,183 as deferred outflows of resources related to pensions resulting from Lancaster Economic Development Corporation contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2023.

For the year ended September 30, 2022, Lancaster Recreational Development Corporation recognized pension expense, as measured in accordance with GASB 68, of \$30,704.

At September 30, 2022, Lancaster Recreational Development Corporation reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,551	\$ 18,373
Changes of assumptions	1,208	-
Net difference between projected and actual investment earnings on pension plan investments	-	247,700
Contributions subsequent to the measurement date	94,042	-
Total	<u>\$ 134,801</u>	<u>\$ 266,073</u>

For the year ended September 30, 2022, Lancaster Recreational Development Corporation reported \$94,042 as deferred outflows of resources related to pensions resulting from Lancaster Recreational Development Corporation contributions subsequent to the measurement date and prior to year-end.

This amount will be recognized as a reduction in the net pension liability at September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to the primary government will be recognized in pension expense as follows:

<u>Year Ending September 30,</u>	
2023	\$ (852,156)
2024	(1,935,234)
2025	(1,088,094)
2026	(1,009,917)
Total	\$ (4,885,401)

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

<u>Year Ending September 30,</u>	
2023	\$ (8,823)
2024	(20,037)
2025	(11,266)
2026	(10,625)
Total	\$ (50,752)

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

<u>Year Ending September 30,</u>	
2023	\$ (39,344)
2024	(89,350)
2025	(50,237)
2026	(46,383)
Total	\$ (225,314)

OTHER POST-EMPLOYMENT BENEFITS . . . The City provides post-employment medical care (OPEB) for employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses, and dependents through the City's group health insurance plans, which cover both active and retired members. The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process.

Since no assets are accumulated in a trust that meets the criteria of paragraph four of Government Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* ("GASB 75"), the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

Benefits Provided:

The City provides post-employment medical and dental care benefits to its retirees. Retirees who elect COBRA cannot later elect retiree coverage. To be eligible for coverage an employee must qualify under all three of the following:

1. The retiree must have been covered for medical benefits under the City Health Plan as an employee immediately prior to termination of employment.
2. Apply for pension benefits from TMRS in accordance with their requirements and deadlines, but in no event later than 90 days from termination of employment; and
3. Enroll for retiree Health coverage within 31 days of the date of termination.

Funding Policy

The plan's premium rates are determined annually by City management and approved by the City Council as part of the annual budget. Members receiving HMO medical benefits contribute \$672 per month for retiree-only coverage, \$1,480 per month for retiree and spouse, and \$2,290 per month for retiree and family. Members receiving PPO medical benefits contribute \$822 per month for retiree-only coverage, \$1,808 per month for retiree and spouse, and \$2,798 per month for retiree and family. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual employer contributions each year are equal to the benefits that are paid on behalf of the retirees.

Employees Covered by Benefit Terms

Membership in the Plan by membership class at December 31, 2021, (measurement date based on an actuarial valuation as of December 31, 2020), is as follows:

Inactive Employees or Beneficiaries Currently Receiving Benefits	7
Inactive Employees Entitled to But Not Yet Receiving Benefits	-
Active Employees	<u>252</u>
	259

Total OPEB Liability for Retiree Health Care Plan

The City and its component units' total OPEB liability of \$1,377,637 was measured as of December 31, 2021.

Actuarial Assumptions

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

	<u>December 31, 2021</u>
Measurement Date	December 31, 2021, based on an actuarial valuation as of December 31, 2020
Actuarial Cost Method	Individual Entry-Age
Discount Rate	1.84% as of December 31, 2021 (2.00% as of December 31, 2020)
Inflation	2.50%
Salary Increase	3.50% to 11.50%, 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 gender-distinct 2019 Municipal Retirees of Texas Mortality Tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables to account for future mortality rates.
Health Care Trend Rates	Initial rate of 7.00% declining to an ultimate rate of 4.25% after 13 years
Participation Rates	25% for pre-65 retirees who are at least 50 years old at retirement; 0% for retirees younger than 50 years old at retirement

For plans that do not have a formal trust that meets GASB's requirements, the discount rate equals the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. The discount rate was based on the daily rate closest to but not later than the measurement date of the Fidelity "20-Year Municipal GO AA Index".

For more information concerning the OPEB plan and funding progress relating thereto see "APPENDIX B – Excerpts from City's Annual Comprehensive Financial Report".

FINANCIAL INFORMATION

TABLE 13 – CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2022	2021	2020	2019	2018
<u>Revenues:</u>					
Program Revenues:					
Charges for Services	\$ 10,173,793	\$ 9,743,310	\$ 5,145,928	\$ 6,613,479	\$ 4,802,605
Operating Grants & Contributions	2,272,438	2,546,121	4,496,757	1,273,543	2,184,968
Capital Grants & Contributions	-	-	-	236,500	-
General Revenues:					
Taxes & Fees	42,038,163	37,384,525	34,059,101	31,534,369	30,713,903
Other	2,490,454	652,953	734,266	1,447,619	1,289,978
Total Revenues	<u>\$ 56,974,848</u>	<u>\$ 50,326,909</u>	<u>\$ 44,436,052</u>	<u>\$ 41,105,510</u>	<u>\$ 38,991,454</u>
<u>Expenses:</u>					
Program Expenses:					
General Government	\$ 10,674,597	\$ 6,205,691	\$ 8,618,415	\$ 7,542,414	\$ 6,540,944
Public Safety	23,875,475	22,602,069	21,474,236	22,445,886	20,671,196
Public Works	4,580,441	5,034,667	3,735,538	3,512,367	3,441,079
Community Development and Recreation	2,579,686	2,625,974	2,795,968	2,461,161	2,214,694
Social and Welfare	-	-	-	-	-
Interest and Fiscal Charges	1,969,847	2,331,002	2,794,842	2,928,389	4,304,629
Total Expenses	<u>\$ 43,680,046</u>	<u>\$ 38,799,403</u>	<u>\$ 39,418,999</u>	<u>\$ 38,890,217</u>	<u>\$ 37,172,542</u>
Increase (Decrease in Net Assets Before Transfers)	\$ 13,294,802	\$ 11,527,506	\$ 5,017,053	\$ 2,215,293	\$ 1,818,912
Transfers	1,926,941	1,798,669	1,824,767	1,660,781	2,099,973
Change in Net Assets	\$ 15,221,743	\$ 13,326,175	\$ 6,841,820	\$ 3,876,074	\$ 3,918,885
Net Assets - Beginning	74,718,264	61,392,089	54,550,269	50,674,195	46,531,286
Prior Period Adjustments	-	-	-	-	224,024
Net Assets - Ending	<u>\$ 89,940,007</u>	<u>\$ 74,718,264</u>	<u>\$ 61,392,089</u>	<u>\$ 54,550,269</u>	<u>\$ 50,674,195</u>

TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

Revenues	Fiscal Year Ended September 30,				
	2022	2021	2020	2019	2018
Taxes and Fees	\$ 34,291,405	\$ 29,838,480	\$ 25,731,444	\$ 24,607,671	\$ 23,275,808
Licenses and Permits	3,059,224	2,977,477	944,760	1,096,105	1,416,765
Intergovernmental	690,570	814,155	2,570,448	321,580	249,444
Charges for Services	1,568,509	1,860,833	453,828	2,137,914	1,196,688
Fines and Forfeitures	1,844,042	1,194,753	1,068,206	1,157,393	1,201,137
Interest	269,612	15,878	158,082	328,830	211,996
Miscellaneous	548,227	608,287	314,920	376,574	354,253
Total Revenues	\$ 42,271,589	\$ 37,309,863	\$ 31,241,688	\$ 30,026,067	\$ 27,906,091
Expenditures					
General Government	\$ 10,212,548	\$ 5,463,126	\$ 7,373,944	\$ 5,334,784	\$ 5,045,895
Public Safety	19,407,006	18,324,118	16,826,390	17,873,627	15,974,581
Public Works	2,807,405	2,736,377	1,972,185	1,875,625	1,860,274
Cultural and Recreational	1,886,376	1,838,056	1,983,643	1,667,706	1,320,316
Capital Outlay	1,747,900	3,029,880	2,527,664	1,973,144	2,240,414
Debt Service	-	2,015,115	853,400	810,136	810,136
Total Expenditures	\$ 36,061,235	\$ 33,406,672	\$ 31,537,226	\$ 29,535,022	\$ 27,251,616
Excess (Deficiency) of Revenues					
Over Expenditures	\$ 6,210,354	\$ 3,903,191	\$ (295,538)	\$ 491,045	\$ 654,475
Transfers In	\$ 1,990,448	\$ 1,876,633	\$ 1,886,227	\$ 1,782,356	\$ 2,141,187
Transfers Out	-	-	-	(277,278)	-
Proceeds from Capital Lease	-	1,674,226	-	24,659	431,500
Total Sources (Uses)	\$ 1,990,448	\$ 3,550,859	\$ 1,886,227	\$ 1,529,737	\$ 2,572,687
Net Increase (Decrease)	\$ 8,200,802	\$ 7,454,050	\$ 1,590,689	\$ 2,020,782	\$ 3,227,162
Beginning Fund Balance	23,360,623	15,906,573	14,315,884	12,295,102	9,067,940
Prior Period Adjustments	-	-	-	-	-
Ending Fund Balance	\$ 31,561,425	\$ 23,360,623	\$ 15,906,573	\$ 14,315,884	\$ 12,295,102

TABLE 14 - MUNICIPAL SALES TAX HISTORY

In addition to the sales and use tax levied by the State, the City levies the following local sales and use taxes for the purposes described: (i) a one percent (1%) sales and use tax the proceeds of which are credited to the General Fund of the City and are not pledged to the payment of debt; (ii) a voter-authorized one-half of one percent (1/2 of 1%) sales and use tax collected on behalf of Lancaster Recreational Development Corporation ("LRDC") for park and recreational development; (iii) a voter-authorized one-quarter of one percent (1/4 of 1%) sales and use tax collected on behalf of Lancaster Economic Development Corporation ("LEDC") for economic development and which may be pledged to the payment of debt issued by the LEDC; and (iv) a voter-authorized one-quarter of one percent (1/4 of 1%) sales and use tax for property tax reduction. Collection and enforcement of the sales and use taxes are effected through the Comptroller of Public Accounts, Texas, who remits the proceeds of the taxes, after deduction of a 2% service fee, to the City monthly. **Such sales tax revenues are not pledged to the payment of the Certificates.**

DISTRIBUTION OF SALES AND USE TAXES

Property Tax Relief	0.25%
Economic and Community Development	0.25%
Recreational Development Corporation	0.50%
City Sales & Use Tax	1.00%
State Sales & Use Tax	<u>6.25%</u>
Total	8.25%

GENERAL FUND SALES AND USE TAX

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2019	\$ 6,869,093	31.01%	\$ 0.2244	\$ 179
2020	6,557,347	25.58%	\$ 0.2143	\$ 168
2021	7,817,796	27.83%	0.2598	189
2022	11,394,534	39.69%	0.3190	274
2023	11,710,759 ⁽²⁾	37.34%	0.2690	282

(1) Includes the 1/4% property tax reduction sales tax collection.

(2) Unaudited.

ECONOMIC DEVELOPMENT, RECREATION DEVELOPMENT AND PROPERTY REDUCTION SALES AND USE TAXES

Fiscal Year Ended Collected	1/4% Economic Development Tax Collected	1/2% Recreational Development Tax Collected	1/4% Property Reduction Tax Collected
2019	\$ 1,373,817	\$ 2,747,633	\$ 1,373,817
2020	1,311,469	2,622,938	1,311,469
2021	1,563,519	3,127,039	1,563,519
2022	2,278,907	4,557,813	2,278,907
2023	2,342,152 ⁽¹⁾	4,684,303 ⁽¹⁾	2,342,152 ⁽¹⁾

(1) Unaudited.

FINANCIAL POLICIES

Basis of Accounting . . . The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability occurred, if measurable, except for unmatured interest on general long-term debt.

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

Fund Balances . . . It is the City's policy regarding the General Fund and Enterprise Funds that working capital resources should be maintained at a minimum of 12%, with a stated target of 18% of the respective fund's operating expenditure budget. The City maintains its various debt service funds in accordance with the covenants of the related ordinances.

Use of Bond Proceeds . . . The City's policy is to use bond proceeds for capital expenditures only. Such revenues are never to be used to fund normal City operations.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year between May and July, the City Manager analyzes, and then after review submits, a budget of estimated revenues and expenditures to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with applicable law. The City Council will adopt a budget prior to September 30. If the City Council fails to adopt a budget, then Section 6.05 of the Home Rule Charter states that the budget from the preceding year shall remain in effect .

During the fiscal year, budgetary control is maintained by the monthly review of departmental appropriation balances. Actual operations are compared to the amounts set forth in the budget. Departmental appropriations that have not been expended lapse at the end of the fiscal year. Therefore, funds that were budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change. Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank

that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency, (13) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (14) a no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission that provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than "AAA" or "AAA-m" or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended). All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

ADDITIONAL PROVISIONS . . . Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and

adherence to the City’s investment policy; (6) provide specific investment training for the City’s designated Investment Officer; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 18% of the City’s monthly average fund balance, excluding bond proceeds, reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

TABLE 15 - CURRENT INVESTMENTS

As of September 30, 2023, the City’s investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Market Value</u>
TexPool	14.31%	\$ 19,285,158
Logic	46.46%	62,606,744
Texas Class	39.23%	52,864,593
	<u>100.00%</u>	<u>\$ 134,756,495</u>

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

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TAX MATTERS

In the opinion of Jackson Walker LLP, Special Tax Counsel to the City, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Special Tax Counsel is of the further opinion that interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Jackson Walker LLP is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Certificates is less than the amount to be paid at maturity of such Certificates (excluding amounts stated to be interest and payable at least annually over the term of such Certificates), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest with respect to the Certificates which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Certificates is the first price at which a substantial amount of such maturity of the Certificates is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriter, placement agents or wholesalers). The original issue discount with respect to any maturity of the Certificates accrues daily over the term to maturity of such Certificates on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Certificates to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Certificates. Beneficial owners of the Certificates should consult their own tax advisors with respect to the tax consequences of ownership of Certificates with original issue discount, including the treatment of beneficial owners who do not purchase such Certificates in the original offering to the public at the first price at which a substantial amount of such Certificates is sold to the public.

Certificates purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Certificates") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of Certificates, like the Premium Certificates, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Certificate, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial owners of Premium Certificates should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest with respect to the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest with respect to the Certificates being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Certificates. The opinion of Jackson Walker LLP assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel's attention after the date of execution and delivery of the Certificates may adversely affect the value of, or the tax status of interest on, the Certificates. Accordingly, the opinion of Jackson Walker LLP is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest with respect to the Certificates is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Certificates may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest with respect to the Certificates to be subject, directly or indirectly, in whole or in part, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Certificates. Prospective purchasers of the Certificates should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Jackson Walker LLP is expected to express no opinion.

The opinion of Jackson Walker LLP is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Jackson Walker LLP's judgment as to the proper treatment of the Certificates for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Jackson Walker LLP cannot give and has not given any opinion or assurance about the future activities of the City, or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement while it remains obligated to advance funds to pay such Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB").

ANNUAL REPORTS . . . The City shall provide annually to the MSRB (1) within six months after the end of each fiscal year of the City ending in or after 2023, financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and (2) if not provided as part of such financial information and operating data, audited financial statements of the City when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in the Ordinance or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in this Official Statement, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. 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 Rule 15c2-12 of the United States Securities and Exchange Commission, as amended (the "Rule").

Accordingly, the City must provide updated information included in the above-referenced tables by March 31 in each year, and audited financial statements for the preceding fiscal year must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

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

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

AVAILABILITY OF INFORMATION . . . 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 certain specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for

damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City's continuing disclosure agreement for the Certificates may be amended by the City from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Certificates in the primary offering of such Certificates in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Ordinance that authorizes such an amendment) of the outstanding Certificates consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of such Certificates. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Certificates in the primary offering of such Certificates. If the City amends its agreements, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . Updated unaudited financial information of the general type included in Appendix B has, in each of the last five years, been timely filed in the form of updates to certain tables containing similar information. This information has been subsequently amended when the City's audited financial statements have become available.

OTHER INFORMATION

RATINGS

The Certificates and the presently outstanding unenhanced tax supported debt of the City are rated "AA" by S&P and "Aa2" by Moody's. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such 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 either or both of such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

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

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Certificates (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial 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. The Certificates 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 Certificates 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 the Certificates are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

LEGAL MATTERS

The City will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Certificate and to the effect that the Certificates are valid and legally binding obligations of the City, and based upon an examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect. The City will also furnish an opinion of Special Tax Counsel to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under the captions "THE CERTIFICATES" (excluding the information under the subcaptions "Book-Entry-Only System" and "Certificateholders' Remedies", and "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings") and the "Legal Matters" (except for the last sentence of the first paragraph hereof), "Registration and Qualification of Certificates for Sale" and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in this Official Statement, and such firm is of the opinion that the information relating to the Certificates and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the Ordinance. Special Tax Counsel was not requested to participate, and did not take part, in the preparation of this 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 Special Tax Counsel, such firm has reviewed the information under the captions "TAX MATTERS" in the Official Statement, and such firm is of the opinion that the information relating to the Certificates and the legal issues contained under such caption is an accurate and fair description of the laws and legal issues addressed therein. The legal fees to be paid to Bond and Special Tax Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. Bond and Special Tax Counsels' legal opinions will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Locke Lord LLP, Dallas, Texas, whose fee is also contingent on the sale and delivery of the Certificates.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited and unaudited 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 Ordinance contained in this Preliminary Official Statement are made subject to all of the provisions of such statutes, documents and Ordinance. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

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

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

USE OF AUDITED FINANCIAL STATEMENTS

FORVIS LLP, the City's independent auditor for fiscal year 2022, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the fiscal year 2022 financial statements addressed in that report. FORVIS also has not performed any procedures relating to this Official Statement.

The information contained in this document consists of excerpts from the City of Lancaster, Texas Annual Comprehensive Financial Report for the Year Ended September 30, 2022, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions contained in the bond purchase agreement with the City, to purchase the Certificates from the Issuer at a price of \$30,958,843.75 (representing the par amount of the Certificates of \$29,415,000, plus a reoffering premium of \$1,706,457.35, and less an Underwriters' discount of \$162,613.60). The Underwriters will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Underwriters.

The Underwriters and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriters and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

In the ordinary course of its various business activities, the Underwriters and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

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.

MISCELLANEOUS

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

/s/ CLYDE C. HAIRSTON
Mayor
City of Lancaster, Texas

ATTEST:

/s/ SORANGEL ARENAS
City Secretary
City of Lancaster, Texas

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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LOCATION . . . The City of Lancaster (the “City”) is a growing community located in southern central Dallas County approximately fifteen miles south of the downtown Dallas business district. The City is located near the major intersections of Interstate Highways 35E, 20, 45 and future Loop 9, providing access to all parts of the Dallas-Fort Worth Metroplex.

POPULATION . . . The City has grown steadily from a small bedroom community to a thriving residential and commercial center. The 2024 population is estimated at 41,685 residents.

Population history is as follows:

<u>Year</u>	<u>Population</u>	<u>Year</u>	<u>Population</u>
1970 Census	10,612	2016	37,550
1980 Census	14,807	2017	37,730
1990 Census	22,117	2018	37,880
2000 Census	25,894	2019	38,400
2010 Census	36,361	2020	39,040
2011	36,390	2021 Census	41,275
2012	36,700	2022	41,556
2013	36,980	2023	41,560
2014	37,150	2024	41,685
2015	37,360		

Source: U.S. Census Bureau, North Central Texas Council of Governments, City's FYE 2022 Financial Statements and the City.

EDUCATION . . . Lancaster Independent School District (“LISD”) provides educational facilities including the following: a developmental center, six elementary schools, one 6th grade center (George Washington Carver STEM 6th Grade School), one middle school (Elsie Robertson), one ninth grade center (Barack and Michelle Obama 9th Grade School), and one high school (Lancaster High School). LISD was the first K-12 Science, Technology, Engineering and Mathematics (“STEM”) district in Texas. All campuses in LISD are accredited by the Southern Association of Colleges and Schools and the Texas Education Agency (“TEA”). In 2019, LISD received an overall “B” rating from the TEA. This includes 38 academic distinctions, with 100% of campuses meeting or exceeding standards. LISD also received a coveted District Distinction in Post-Secondary Readiness. LISD was the only district in southwestern Dallas County to receive this Distinction. The high school curriculum offers preparation STEM Early College High School Program with college credit available in senior-level honors courses.

Higher education facilities located within a 45-mile radius of the City include Southern Methodist University, the University of Texas at Arlington, the University of Texas at Dallas, the University of Texas Southwestern Medical School, Texas Christian University, the University of North Texas at Dallas, the University of Dallas, Cedar Valley Community College (and seven other Dallas County Community Colleges), Tarrant County Community College, and Paul Quinn College.

TRANSPORTATION . . . Situated strategically within the vibrant City of Lancaster, the Lancaster Regional Airport stands as a testament to the city's commitment to fostering connectivity and supporting economic growth. Bounded to the west by Interstate Highway 35E, flanked to the east by Interstate Highway 45, delineated to the north by Interstate Highway 20, and skirted by Loop 9 to the south, Lancaster's geographical layout is further complemented by the presence of State Highway 342, which runs through its heart.

Lancaster’s robust transportation network is not limited to its roads. The City boasts connectivity through the BNSF Railroad, and a network of five freight lines. Moreover, Lancaster's location is strategically poised in relation to other major transportation hubs: it lies a mere 33 miles southeast of the Dallas-Fort Worth International Airport and is just 18 miles away from Dallas Love Field Airport.

The Lancaster Regional Airport, known by its identifier LNC, serves as a general aviation reliever airport. Not only does it play a crucial role in decongesting air traffic from the main airports, but it also offers a range of state-of-the-art facilities. The airport proudly features a recently refurbished 6,500-foot runway, which is accompanied by a full-length parallel taxiway, ensuring smooth operations for incoming and outgoing flights. For the convenience of its patrons, the airport provides both full-service and self-service fueling facilities. In terms of infrastructure, the airport encompasses over 180,000 square feet of ramp space, designated helicopter parking circles, and a contemporary 5,600 square foot terminal building. Adding to the passenger experience, the terminal houses an inviting on-site café, catering to travelers and visitors alike.

Furthermore, Lancaster Regional Airport's strategic location adjacent to the city's expanding industrial sector cannot be understated. This proximity positions the airport as a pivotal gateway for businesses and trade, directly contributing to Lancaster's economic vitality. Recently, this industrial expanse has witnessed the establishment of notable enterprises, including Niagara Bottling, Walmart, and McKinley Packaging. The presence of such esteemed companies in the vicinity underscores the airport's significance in facilitating business operations, logistics, and supply chain movements. The synergy between the airport and the industrial area ensures that Lancaster remains at the forefront of commerce and growth, attracting both domestic and international investments.

In essence, the Lancaster Regional Airport is more than just a transportation hub; it is a symbol of Lancaster's vision for the future, blending top-notch facilities with unparalleled convenience for its residents and businesses.

RECREATION . . . Nestled in the heart of Texas, the City of Lancaster boasts a rich tapestry of green spaces and recreational facilities, reflecting its unwavering commitment to enhancing the quality of life for its residents. With a sprawling network of nineteen city parks, Lancaster provides a verdant oasis spread across an impressive 984 acres, seamlessly blending urban living with nature's tranquility.

A jewel in Lancaster's crown of recreational offerings is the Community Park. Not only is it home to a state-of-the-art recreation center with an indoor aquatic center and a senior life center, but it also houses a resource-rich library. This modern library serves as a hub of knowledge and community engagement, offering residents access to a vast collection of books, digital resources, and community programs. While the recreation center and library cater to indoor activities and learning, the park's expansive grounds and diverse amenities beckon outdoor enthusiasts.

Away from the Community Park, the Country View Golf Course stands as a testament to Lancaster's commitment to diverse recreational avenues. Its meticulously maintained greens and fairways offer golf enthusiasts a premium experience, making it a favored destination for both casual and seasoned players.

Further enriching Lancaster's cultural fabric is the State Auxiliary Museum. This institution encapsulates the city's vibrant history, offering residents and visitors a glimpse into Lancaster's storied past and its journey through time.

The city also takes immense pride in its 210-acre nature preserve, a haven for flora and fauna and a sanctuary for those seeking solace in nature's embrace. Athletic facilities are plentiful, from football fields and soccer pitches to illuminated ball diamonds and tennis courts. Equestrians, hikers, and bikers have miles of trails to explore, each offering unique vistas of the city's picturesque landscapes.

The City of Lancaster has meticulously curated spaces and facilities that resonate with every resident's recreational desires. It stands as a beacon where community, nature, and recreation converge, offering an unparalleled living experience.

GROWTH INDICES

Fiscal Year	Population	Building Permits ⁽¹⁾	
		Number	Value
2019	38,400	1,721	80,727,030
2020	39,040	1,098	67,514,853
2021	41,275	1,025	432,053,478
2022	41,556	1,273	266,869,463
2023	41,560	1,319	164,895,891

(1) Sources: City of Lancaster, Planning Department.

ECONOMY . . . The economic landscape of Lancaster has been profoundly active since 2019, demonstrating a notable enhancement across multiple sectors. Over the past few years, the city has successfully attracted substantial investments, diversified its industrial base, and has experienced commendable growth in household incomes and real estate values.

Lancaster's strategic location and robust infrastructure have continued to attract a myriad of significant investments, solidifying its standing as a logistical and industrial hub. A monumental investment came from Walmart, which announced the construction of an eCommerce Fulfillment Center and Cold Storage Facility, bringing in an expected capital expenditure (capex) of \$1.2 billion and necessitating the creation of 1300 jobs (Lancaster Economic Development Department City Council Report).

Prominent companies such as Kodiak Robotics have expanded their operations within the city. Kodiak not only broadened its service network but also enlarged its Lancaster facility, ensuring its continual contribution to the local economy. Their new operational headquarters, inclusive of an internal data center, marked a \$1.5 million capex, signifying a strengthened commitment to Lancaster (Dallas Business Journal).

The city also welcomed a series of noteworthy projects that have fortified its economic foundation. DSV Logistics, Fisher and Paykel, ICU Medical, and Mars Inc are among the corporations that have established extensive facilities in Lancaster, leading to a surge in job creation and economic stimulation. These ventures reflect a remarkable influx of industrial activities within the city (Dallas News).

In line with the targeted industry sectors outlined in the Lancaster Economic Development Strategic Plan, the city has realized meaningful advancements. Notable projects that materialized between 2022 and early 2023 span across sectors such as Artificial Intelligence, Advanced Manufacturing, and High Tech Distribution. This diversified investment landscape underscores the city's strategic focus and adaptability in driving economic growth.

In terms of real estate, Lancaster's housing market has demonstrated robust health. The median sales price of homes soared by 17.6%, emphasizing the escalating demand and value in the city's real estate offerings. Significant projects concerning commercial properties have also been realized, with the industrial vacancy rate plummeting from 13% to a mere 2.1%, marking an impressive uptrend in industrial property occupation (CoStar).

A series of esteemed recognitions such as the Economic Excellence Recognition Award from the Texas Economic Development Council (TEDC) underpin Lancaster's remarkable strides in economic development. Such accolades underscore the city's ongoing efforts and successes in fostering a conducive economic environment (TEDC).

In culmination, Lancaster has cultivated a dynamic and thriving economic landscape characterized by diverse investments, strategic industry expansion, and impressive recognitions. These multifaceted achievements substantiate Lancaster's enhanced economic standing and readiness for a superior bond rating.

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APPENDIX B

EXCERPTS FROM THE
CITY OF LANCASTER, TEXAS
ANNUAL COMPREHENSIVE FINANCIAL REPORT
For the Year Ended September 30, 2022

The information contained in this Appendix consists of excerpts from the City of Lancaster, Texas Annual Comprehensive Financial Report (the "Report") for the Year Ended September 30, 2022, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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Independent Auditor's Report

The Honorable Mayor and
Members of the City Council
City of Lancaster, Texas

Opinions

We have audited the 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 Lancaster, Texas (City) as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

In our opinion, the accompanying 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, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the City, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the City's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The supplementary information including the combining and individual fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The 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 GAAS. In our opinion, the combining and individual fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Information

Management is responsible for the other information included in the annual comprehensive financial report. The other information comprises the introductory section and statistical sections but does not include the financial statements and our auditor's report thereon. Our opinions on the basic financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

FORVIS,LLP

**Dallas, Texas
February 22, 2023**

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City of Lancaster, Texas

Management's Discussion and Analysis (Unaudited)

September 30, 2022

Introduction

The Management's Discussion and Analysis (MD&A) section presents a narrative overview and analysis of the financial activities of the City of Lancaster, Texas (City) for the fiscal year ended September 30, 2022. We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this section.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2022, resulting in \$175,325,058 of net position. Net position associated with governmental activities is \$89,940,004, or 51 percent of the total net position of the City. Net position associated with business-type activities is \$85,385,054, or 49 percent of the total net position of the City. The largest portion of net position consists of net investment in capital assets, which is \$79,780,443.
- Unrestricted net position, which may be used to meet the City's future obligations, consists of \$65,882,656, or 38 percent of the City's total net position. Unrestricted net position for governmental activities is \$22,655,727, or 25 percent of total net position for governmental activities. Unrestricted net position for business-type activities is \$43,226,929 or 51 percent of total net position for business-type activities.
- As of the close of fiscal year 2022, the City's Governmental Funds reported a combined ending fund balance of \$62,307,980, an increase of \$12,839,662 from the prior year.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$6,898,290. This represents approximately 19 percent of General Fund expenditures.

Overview of the Financial Statements

The discussion and analysis 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 report also contains required and other supplementary information in addition to the basic financial statements themselves.

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

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

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2022

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, for example uncollected taxes and earned, but not used, vacation leave.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general administration, public safety, public works, drainage systems, library, human resources and finance. The business-type activities of the City include water and sewer, airport operations, refuse and golf course operations.

The government-wide financial statements include the Economic Development Corporation and the Recreational Development Corporation as part of its reporting entity as discretely presented component units. Discrete presentation entails reporting component unit financial data in columns separate from the financial data of the primary government. The Lancaster Economic Development Corporation and the Lancaster Recreational Development Corporation are legally separate entities.

Fund Financial Statements. A *fund* is defined as a fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Some funds are required to be established by state law and by bond covenants. The City Council also establishes other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities when using certain taxes, grants, or other money. The City's two kinds of funds – Governmental and Proprietary – utilize different accounting approaches.

Governmental Funds. The majority of the City's basic services are reported in Governmental Funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method identified as the modified accrual basis of accounting, which measures cash and all other financial assets that can be readily converted to cash. The Governmental Fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Governmental Fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

By comparing information presented for Governmental Funds with similar information presented for governmental activities in the government-wide financial statements, readers may better understand the long-term impact of the government's near-term financing decisions. The relationships, or differences between governmental activities (reported in the accompanying Statement of Net Position and the Statement of Activities) and Governmental Funds, are detailed in a reconciliation following the fund financial statements.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2022

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

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

The City maintains an Enterprise Fund to account for: (1) water and sewer services provided to the City's retail and wholesale customers, (2) trash collection and disposal services, (3) operation of the City's airport, and (4) operation of the City's golf course. All activities associated with providing such services are accounted for in these funds, including administration, operation, maintenance, debt service, capital improvements, billing, and collection. The City's intent is that the cost of providing the services to the general public on a continuing basis is financed through user charges in a manner similar to a private-sector business enterprise.

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

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's progress in funding its obligations. Required supplementary information immediately follows the notes to the financial statements. Combining statements for Non-major Governmental Funds, Enterprise Funds, and component units fund financial statements follow the section of required supplementary information.

Government-Wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2022, City assets and deferred outflows of resources exceeded its liabilities and deferred inflows resulting in \$175,325,058 of net position.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2022

Statement of Net Position for Governmental and Business-type Activities

	2022			2021		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Current and other assets	\$ 79,873,763	\$ 47,177,928	\$ 127,051,691	\$ 62,994,824	\$ 42,793,428	\$ 105,788,252
Capital assets	99,580,542	47,244,412	146,824,954	102,366,999	48,115,979	150,482,978
Total assets	179,454,305	94,422,340	273,876,645	165,361,823	90,909,407	256,271,230
Deferred outflows of resources	3,763,659	461,210	4,224,869	3,232,356	364,583	3,596,939
Long-term liabilities	70,654,659	5,390,583	76,045,242	78,971,957	6,348,706	85,320,663
Other liabilities	17,043,401	3,569,394	20,612,795	12,126,850	3,323,170	15,450,020
Total liabilities	87,698,060	8,959,977	96,658,037	91,098,807	9,671,876	100,770,683
Deferred inflows of resources	5,579,900	538,519	6,118,419	2,777,111	269,175	3,046,286
Net position						
Net investment in capital assets	37,622,318	42,158,125	79,780,443	40,362,558	42,577,357	82,939,915
Restricted	29,661,959	-	29,661,959	12,231,682	-	12,231,682
Unrestricted	22,655,727	43,226,929	65,882,656	22,124,021	38,755,582	60,879,603
Total net position	\$ 89,940,004	\$ 85,385,054	\$ 175,325,058	\$ 74,718,261	\$ 81,332,939	\$ 156,051,200

By far, the largest portion of the City's net position (46 percent) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources used 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 (17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$65,882,656 is unrestricted and may be used to meet the government's ongoing obligations to its citizens and creditors.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2022

Analysis of City's Operations. The following table provides a summary of the City's operations for the year ended September 30, 2022. Overall, the City had an increase in net position of \$19,273,858.

Revenues and Expenses for Governmental and Business-type Activities

	2022			2021		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues						
Program revenues						
Charges for services	\$ 10,173,793	\$ 25,979,974	\$ 36,153,767	\$ 9,743,310	\$ 21,419,591	\$ 31,162,901
Operating grants and contributions	2,272,438	-	2,272,438	2,546,121	-	2,546,121
Capital grants and contributions	-	-	-	-	-	-
General revenues						
Taxes and fees	42,038,163	-	42,038,163	37,384,525	-	37,384,525
Grants not restricted to specific programs	1,458,905	-	1,458,905	-	-	-
Other	1,031,549	1,349,734	2,381,283	652,953	2,109,440	2,762,393
Total revenues	56,974,848	27,329,708	84,304,556	50,326,909	23,529,031	73,855,940
Expenses						
General government	10,674,597	-	10,674,597	6,205,691	-	6,205,691
Public safety	23,875,475	-	23,875,475	22,602,069	-	22,602,069
Public works	4,580,441	-	4,580,441	5,034,667	-	5,034,667
Community development and recreation	2,579,686	-	2,579,686	2,625,974	-	2,625,974
Interest and fiscal charges	1,969,847	-	1,969,847	2,331,002	-	2,331,002
Water and sewer	-	17,309,616	17,309,616	-	15,673,559	15,673,559
Refuse	-	1,632,505	1,632,505	-	1,702,400	1,702,400
Airport	-	1,135,709	1,135,709	-	891,042	891,042
Golf course	-	1,272,822	1,272,822	-	1,033,880	1,033,880
Total expenses	43,680,046	21,350,652	65,030,698	38,799,403	19,300,881	58,100,284
Increase in Net Position Before Transfers						
	13,294,802	5,979,056	19,273,858	11,527,506	4,228,150	15,755,656
Transfers	1,926,941	(1,926,941)	-	1,798,669	(1,798,669)	-
Change in Net Position	15,221,743	4,052,115	19,273,858	13,326,175	2,429,481	15,755,656
Net Position, Beginning of Year	74,718,261	81,332,939	156,051,200	61,392,086	78,903,458	140,295,544
Net Position, End of Year	\$ 89,940,004	\$ 85,385,054	\$ 175,325,058	\$ 74,718,261	\$ 81,332,939	\$ 156,051,200

Governmental Activities. Governmental activities increased the City's net position by \$15,221,743. Total revenue for the governmental activities (excluding transfers) increased from the previous year by \$6,647,939. General revenue had a net increase of \$6,491,139. Property tax collections increased as a result of new business and property additions as well as due to recent real property reappraisals.

Business-type Activities. Net position from business-type activities increased by \$4,052,115. Total revenue for the business-type activities increased from the previous year by \$3,800,677 primarily due to an increase in charges for services revenue.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2022

Financial Analysis of the City's Funds

Governmental Funds

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

As of the end of the current fiscal year, the City's Governmental Funds reported a combined ending fund balance of \$62,307,980, an increase of \$12,839,662 from the prior year. This amount includes fund balance committed for \$20,075,173 due to adoption of ordinances approved by City Council for special projects. The City has fund balance assigned by the City Manager of \$4,231,873. The City also has fund balance restrictions for court, capital projects, debt service, public works, public improvement districts, police, tourism, law enforcement, parkland dedication, and street maintenance for a total of \$30,944,175. The net unassigned fund balance was \$6,898,290. Components of the net increase of the total fund balance are:

- The General Fund recorded a net increase in fund balance of \$8,200,802, primarily related to increased property and sales tax revenue.
- Capital Projects Fund recorded a net increase in fund balance of \$1,329,331, primarily related to increased impact fees.
- General Obligation Debt Service Fund recorded a net increase in fund balance of \$1,227,783, primarily related to taxes.
- ARPA Fund recorded a net decrease in fund balance of \$555, primarily related to grants.

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$40,867,931, the Airport Fund reported an unrestricted net position of (\$1,669,464) and the Golf Fund reported an unrestricted net position of (\$1,518,057).

Capital Assets

The City's capital assets for its governmental and business-type activities as of September 30, 2022, amount to \$146,824,954 (net of accumulated depreciation). This net investment in capital assets includes land, buildings, park facilities, roads, bridges and water and sewer lines.

Additional information on capital asset activity can be found in *Note 7* of this report.

City of Lancaster, Texas
Management's Discussion and Analysis (Unaudited)
September 30, 2022

	Governmental Activities		Business-type Activities		Totals	
	2022	2021	2022	2021*	2022	2021
Land	\$ 13,262,490	\$ 13,262,490	\$ 4,971,266	\$ 4,971,266	\$ 18,233,756	\$ 18,233,756
Buildings	37,188,289	37,183,289	2,808,948	2,808,948	39,997,237	39,992,237
Equipment	5,437,711	5,437,711	5,069,706	4,396,320	10,507,417	9,834,031
Construction in progress	11,034,531	11,779,491	2,803,869	2,860,748	13,838,400	14,640,239
Improvements	2,083,186	2,083,186	82,482,873	82,005,931	84,566,059	84,089,117
Streets and bridges	116,420,203	114,636,187	-	-	116,420,203	114,636,187
Drainage	7,433,204	7,433,204	-	-	7,433,204	7,433,204
Accumulated depreciation	(93,279,072)	(89,448,559)	(50,892,250)	(48,927,234)	(144,171,322)	(138,375,793)
Total	\$ 99,580,542	\$ 102,366,999	\$ 47,244,412	\$ 48,115,979	\$ 146,824,954	\$ 150,482,978

* Fiscal year 2021 amounts have been restated for GASB 87

Long-term Debt

At the end of the current fiscal year, the City had total bonds outstanding of \$63,130,000, all being tax supported. The City also has \$1,884,854 of debt through financed purchases.

Additional information on long-term debt activity can be found in *Note 8* of this report.

	Governmental Activities		Business-type Activities		Totals	
	2022	2021	2022	2021*	2022	2021
General obligation bonds	\$ 54,530,017	\$ 58,305,017	\$ 5,079,983	\$ 1,119,983	\$ 59,610,000	\$ 59,425,000
Certificates of obligation	3,520,000	3,600,000	-	4,470,000	3,520,000	8,070,000
Financed purchases	1,789,757	2,206,665	95,097	195,997	1,884,854	2,206,665
Total	\$ 59,839,774	\$ 64,111,682	\$ 5,175,080	\$ 5,785,980	\$ 65,014,854	\$ 69,701,665

* Fiscal year 2021 amounts have been restated for GASB 87

The City has an Aa3 rating from Moody's Investors Service and an AA rating from Standard and Poor's.

Economic Factor and Next Year's Budgets and Rates

In the fiscal year 2023 budget, General Fund revenues are budgeted to increase by 10 percent from the 2022 budget year. The budget increase is the direct result of increased property and sales tax revenue.

Property taxes make up about 60 percent of budgeted revenues and sales tax make up about 19 percent of budgeted revenues.

Request for Information

For additional information please contact Director of Finance, Christine Harris, at 972-218-1323 or Finance Department, City of Lancaster, Texas, P.O. Box 940, Lancaster, Texas, 75146, email mdelmore@lancaster-tx.com.

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Basic Financial Statements

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City of Lancaster, Texas
Statement of Net Position
September 30, 2022

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Assets					
Cash and cash equivalents	\$ 66,134,195	\$ 47,269,722	\$ 113,403,917	\$ 8,442,988	\$ 4,227,234
Receivables (net of allowance)					
Notes	3,510,000	-	3,510,000	-	-
Delinquent taxes	833,368	-	833,368	-	-
Leases	-	5,215	5,215	-	-
Accounts	1,645,558	2,830,255	4,475,813	-	60,970
Sales tax	1,806,516	-	1,806,516	361,303	711,148
Fines	941,708	-	941,708	-	-
Due from other governments	2,415	-	2,415	653,488	-
Due from component unit	1,893,485	-	1,893,485	-	-
Prepaid items	49,206	-	49,206	-	15,707
Inventory	109,818	20,230	130,048	-	-
Internal balances	2,947,494	(2,947,494)	-	-	-
Capital assets					
Land and construction in progress	24,297,021	7,775,135	32,072,156	100,378	989,118
Other capital assets, net of accumulated depreciation	75,283,521	39,469,277	114,752,798	299,212	8,097,632
Total assets	<u>179,454,305</u>	<u>94,422,340</u>	<u>273,876,645</u>	<u>9,857,369</u>	<u>14,101,809</u>
Deferred Outflows of Resources					
Deferred charges on refunding	879,815	160,704	1,040,519	-	-
Deferred outflows of resources – Pension	2,654,921	267,927	2,922,848	30,364	134,801
Deferred outflows of resources – OPEB	228,923	32,579	261,502	3,748	18,754
Total deferred outflows of resources	<u>3,763,659</u>	<u>461,210</u>	<u>4,224,869</u>	<u>34,112</u>	<u>153,555</u>
Liabilities					
Accounts payable and contracts payable	2,960,188	699,989	3,660,177	677,560	1,046,439
Accrued liabilities	448,785	172,175	620,960	-	42,529
Accrued interest	268,787	10,301	279,088	5,056	2,603
Due to primary government	-	-	-	-	1,893,485
Due to component unit	-	653,488	653,488	-	-
Deposits	400,567	1,306,508	1,707,075	-	-
Unearned revenue	8,280,445	-	8,280,445	-	-
Noncurrent liabilities:					
Due within one year:					
General obligation bonds	3,815,000	590,000	4,405,000	-	-
Certificates of obligation	80,000	-	80,000	-	-
Notes payable	-	-	-	170,000	885,000
Compensated absences	373,590	41,836	415,426	-	-
Financed purchases	416,039	95,097	511,136	-	-
Due in more than one year:					
General obligation bonds	55,132,375	4,561,894	59,694,269	-	-
Certificates of obligation	3,440,000	-	3,440,000	-	-
Notes payable	-	-	-	880,000	1,575,000
Compensated absences	3,362,310	66,208	3,428,518	-	-
Total OPEB liability	2,111,168	196,389	2,307,557	24,548	122,743
Financed purchases	1,373,718	-	1,373,718	-	-
Net pension liability	5,235,088	566,092	5,801,180	60,265	267,549
Total liabilities	<u>87,698,060</u>	<u>8,959,977</u>	<u>96,658,037</u>	<u>1,817,429</u>	<u>5,835,348</u>
Deferred Inflows of Resources					
Deferred inflows of resources - Lease	-	4,751	4,751	-	-
Deferred inflows of resources – Pension	5,256,547	512,619	5,769,166	59,932	266,073
Deferred inflows of resources – OPEB	323,353	21,149	344,502	2,322	11,610
Total deferred inflows of resources	<u>5,579,900</u>	<u>538,519</u>	<u>6,118,419</u>	<u>62,254</u>	<u>277,683</u>
Net Position					
Net investment in capital assets	37,622,318	42,158,125	79,780,443	399,590	6,626,750
Restricted for					
Court Security	78,707	-	78,707	-	-
Court Technology	118,358	-	118,358	-	-
Capital projects	9,901,782	-	9,901,782	-	-
Debt service	8,406,453	-	8,406,453	-	-
Public works	4,788,022	-	4,788,022	-	-
Public improvement districts	1,801,880	-	1,801,880	-	-
Police grants	136,877	-	136,877	-	-
Tourism, convention centers, arts	1,772,053	-	1,772,053	-	-
Law enforcement purposes	1,445,199	-	1,445,199	-	-
Parkland dedication	553,178	-	553,178	-	-
Street maintenance	659,450	-	659,450	-	-
Unrestricted	22,655,727	43,226,929	65,882,656	7,612,208	1,515,583
Total net position	<u>\$ 89,940,004</u>	<u>\$ 85,385,054</u>	<u>\$ 175,325,058</u>	<u>\$ 8,011,798</u>	<u>\$ 8,142,333</u>

City of Lancaster, Texas
Statement of Activities
For the Year Ended September 30, 2022

Functions/Program	Program Revenues				Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total	Lancaster Economic Development Corporation	Lancaster Recreational Development Corporation
Primary Government									
Governmental activities									
General government	\$ 10,674,597	\$ 1,944,669	\$ -	\$ -	\$ (8,729,928)	\$ -	\$ (8,729,928)	\$ -	\$ -
Public safety	23,875,475	1,964,050	-	-	(21,911,425)	-	(21,911,425)	-	-
Public works	4,580,441	6,143,274	-	-	1,562,833	-	1,562,833	-	-
Community development and recreation	2,579,686	121,800	2,272,438	-	(185,448)	-	(185,448)	-	-
Interest and fiscal charges	1,969,847	-	-	-	(1,969,847)	-	(1,969,847)	-	-
Total governmental activities	43,680,046	10,173,793	2,272,438	-	(31,233,815)	-	(31,233,815)	-	-
Business-type activities									
Water and sewer	17,309,616	21,199,941	-	-	-	3,890,325	3,890,325	-	-
Refuse	1,632,505	2,803,273	-	-	-	1,170,768	1,170,768	-	-
Airport	1,135,709	994,533	-	-	-	(141,176)	(141,176)	-	-
Golf course	1,272,822	982,227	-	-	-	(290,595)	(290,595)	-	-
Total business-type activities	21,350,652	25,979,974	-	-	-	4,629,322	4,629,322	-	-
Total primary government	\$ 65,030,698	\$ 36,153,767	\$ 2,272,438	\$ -	\$ (31,233,815)	\$ 4,629,322	\$ (26,604,493)	\$ -	\$ -
Component units									
Lancaster Economic Development Corporation									
Lancaster Economic Development Corporation	\$ 1,288,058	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,288,058)	\$ -
Lancaster Recreational Development Corporation									
Lancaster Recreational Development Corporation	3,200,383	401,417	-	-	-	-	-	-	(2,798,966)
Total component units	\$ 4,488,442	\$ 401,417	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,288,058)	\$ (2,798,966)
General Revenues									
Taxes									
Property taxes					\$ 28,220,448	\$ -	\$ 28,220,448	\$ -	\$ -
Sales taxes					11,394,534	-	11,394,534	2,278,907	4,557,813
Franchise taxes					2,384,293	-	2,384,293	-	-
Other local taxes					38,888	-	38,888	-	-
Grants not restricted to specific programs					1,458,905	-	1,458,905	-	-
Interest on investments					466,456	323,409	789,865	60,097	26,096
Miscellaneous					565,093	1,026,325	1,591,418	-	23,991
Transfers					1,926,941	(1,926,941)	-	-	-
Total general revenues and transfers					46,455,558	(577,207)	45,878,351	2,339,004	4,607,900
Change in Net Position					15,221,743	4,052,115	19,273,858	1,050,946	1,808,934
Net Position, Beginning of Year					74,718,261	81,332,939	156,051,200	6,960,852	6,333,399
Net Position, End of Year					\$ 89,940,004	\$ 85,385,054	\$ 175,325,058	\$ 8,011,798	\$ 8,142,333

City of Lancaster, Texas
Balance Sheet
Governmental Funds
September 30, 2022

	General Fund	Capital Projects Fund	General Obligation Debt Service Fund	ARPA Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 28,323,245	\$ 10,007,044	\$ 8,391,516	8,279,890	\$ 11,132,500	\$ 66,134,195
Receivables (net of allowance for uncollectibles)						
Notes	-	-	3,510,000	-	-	3,510,000
Delinquent taxes	608,395	-	215,484	-	9,489	833,368
Accounts	1,306,062	-	-	-	339,496	1,645,558
Sales tax	1,806,516	-	-	-	-	1,806,516
Fines	941,708	-	-	-	-	941,708
Due from:						
Component unit	595,984	1,297,501	-	-	-	1,893,485
Other governments	2,415	-	-	-	-	2,415
Other funds	3,181,686	18,468	-	-	-	3,200,154
Inventory, at cost	109,818	-	-	-	-	109,818
Prepaid items	49,206	-	-	-	-	49,206
	<u>\$ 36,925,035</u>	<u>\$ 11,323,013</u>	<u>\$ 12,117,000</u>	<u>\$ 8,279,890</u>	<u>\$ 11,481,485</u>	<u>\$ 80,126,423</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances						
Liabilities						
Accounts and contracts payable	\$ 2,907,901	\$ 2,138	\$ -	\$ -	\$ 50,149	\$ 2,960,188
Accrued liabilities	301,539	-	-	-	147,246	448,785
Deposits	400,567	-	-	-	-	400,567
Unearned revenue	-	-	-	8,280,445	-	8,280,445
Due to other funds	-	-	-	-	252,660	252,660
	<u>3,610,007</u>	<u>2,138</u>	<u>-</u>	<u>8,280,445</u>	<u>450,055</u>	<u>12,342,645</u>
Deferred inflows of resources – unavailable revenue	1,753,603	-	3,710,547	-	11,648	5,475,798
Fund balances						
Nonspendable for inventory and prepaid items	159,024	-	-	-	-	159,024
Restricted for						
Court security	78,707	-	-	-	-	78,707
Court technology	118,358	-	-	-	-	118,358
Capital projects	-	11,320,875	-	-	-	11,320,875
Debt service	-	-	8,406,453	-	-	8,406,453
Public works	-	-	-	-	4,788,022	4,788,022
Public improvement districts	-	-	-	-	1,801,880	1,801,880
Police grants	-	-	-	-	136,877	136,877
Tourism, convention centers, arts	-	-	-	-	1,772,053	1,772,053
Law enforcement purposes	-	-	-	-	1,308,322	1,308,322
Parkland dedication	-	-	-	-	553,178	553,178
Street maintenance	-	-	-	-	659,450	659,450
Committed	20,075,173	-	-	-	-	20,075,173
Assigned	4,231,873	-	-	-	-	4,231,873
Unassigned	6,898,290	-	-	(555)	-	6,897,735
	<u>31,561,425</u>	<u>11,320,875</u>	<u>8,406,453</u>	<u>(555)</u>	<u>11,019,782</u>	<u>62,307,980</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 36,925,035</u>	<u>\$ 11,323,013</u>	<u>\$ 12,117,000</u>	<u>\$ 8,279,890</u>	<u>\$ 11,481,485</u>	<u>\$ 80,126,423</u>

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

Total fund balances – governmental funds		\$ 62,307,980
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets (net of accumulated depreciation) used in governmental activities are not current financial resources and therefore are not reported as assets in the governmental funds. Capital assets are reported in the government-wide financial statements, net of accumulated depreciation.		99,580,542
Interest payable on long-term debt does not require current financial resources, therefore interest payable is not reported as a liability in the governmental funds balance sheet.		(268,787)
Revenues earned but not available within 60 days of the year-end are not recognized as revenue on the fund financial statements.		5,475,798
Deferred outflows of resources and deferred inflows of resources represent flows of resources which relate to future periods and, therefore, are not reported in the fund financial statements. Deferred outflows of resources and deferred inflows of resources at year-end consist of:		
Deferred charges on refunding	\$ 879,815	
Deferred outflows of resources – pension	2,654,921	
Deferred outflows of resources – OPEB	228,923	
Deferred inflows of resources – pension	(5,256,547)	
Deferred inflows of resources – OPEB	<u>(323,353)</u>	(1,816,241)
Long-term liabilities, including bonds payable are not due and payable in the current period and therefore are not reported in the fund financial statements. Long-term liabilities at year-end consist of:		
General obligation bonds	\$ (54,530,017)	
Certificates of obligation	(3,520,000)	
Premiums on bond debt	(4,417,358)	
Net pension liability	(5,235,088)	
Compensated absences	(3,735,900)	
Total OPEB liability	(2,111,168)	
Financed purchase	<u>(1,789,757)</u>	<u>(75,339,288)</u>
Total net position of governmental activities		<u>\$ 89,940,004</u>

City of Lancaster, Texas
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Year Ended September 30, 2022

	General Fund	Capital Projects Fund	General Obligation Debt Service Fund	ARPA Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Taxes and fees	\$ 34,291,405	\$ 1,232,194	\$ 6,665,381	\$ -	\$ 3,848,398	\$ 46,037,378
Licenses and permits	3,059,224	-	-	-	283,347	3,342,571
Intergovernmental	690,570	536,868	1,045,000	1,458,905	-	3,731,343
Charges for services	1,568,509	-	-	-	-	1,568,509
Fines and forfeits	1,844,042	-	-	-	120,008	1,964,050
Interest	269,612	63,924	59,606	-	73,314	466,456
Miscellaneous	548,227	-	-	-	16,866	565,093
Total revenues	42,271,589	1,832,986	7,769,987	1,458,905	4,341,933	57,675,400
Expenditures						
Current						
General government	10,212,548	503,655	-	-	-	10,716,203
Public safety	19,407,006	-	-	1,352,936	256,835	21,016,777
Public works	2,807,405	-	-	-	1,423,300	4,230,705
Community development and recreation	1,886,376	-	-	-	470,715	2,357,091
Capital outlay	1,747,900	-	-	106,524	-	1,854,424
Debt service						
Principal retirement	-	-	4,311,908	-	35,000	4,346,908
Interest and fiscal charges	-	-	2,230,296	-	10,275	2,240,571
Cost of issuance of bonds	-	-	22,900	-	-	22,900
Total expenditures	36,061,235	503,655	6,565,104	1,459,460	2,196,125	46,785,579
Excess (deficiency) of revenues over expenditures	6,210,354	1,329,331	1,204,883	(555)	2,145,808	10,889,821
Other financing sources (uses)						
Transfers in	1,990,448	-	-	-	-	1,990,448
Transfers out	-	-	-	-	(63,507)	(63,507)
Payment to refunded bond escrow agent	-	-	(2,657,100)	-	-	(2,657,100)
Proceeds from refunding bonds issued	-	-	2,680,000	-	-	2,680,000
Total other financing sources (uses)	1,990,448	-	22,900	-	(63,507)	1,949,841
Net Change in Fund Balances	8,200,802	1,329,331	1,227,783	(555)	2,082,301	12,839,662
Fund Balance, Beginning of Year	23,360,623	9,991,544	7,178,670	-	8,937,481	49,468,318
Fund Balances, End of Year	\$ 31,561,425	\$ 11,320,875	\$ 8,406,453	\$ (555)	\$ 11,019,782	\$ 62,307,980

City of Lancaster, 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, 2022

Net change in fund balances – total governmental funds		\$ 12,839,662
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		1,789,017
The net effect of various miscellaneous transactions involving capital assets (i.e., trade-ins, and donations) is to increase net position.		
Loss on sale of assets		(744,960)
Depreciation expense on capital assets is reported in the statement of activities but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditures in the governmental funds.		(3,830,513)
Current year principal payments of long-term liabilities are shown as expenditures in the fund financial statements, but shown as reductions in long-term liabilities in the government-wide financial statements as follows:		
General and certificates of obligation bonds	\$ 3,930,000	
Issuance of refunding bonds	(2,680,000)	
Payment to escrow agent	2,657,100	
Financed purchases	<u>416,908</u>	4,324,008
Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.		380,642
Governmental funds report the effect of losses on refundings when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities.		(114,413)
Current year pension expenditures are reported on the fiscal year basis on the governmental statement of revenues, expenditures and changes in fund balance and as actuarially determined in the government-wide statement of activities. These differences are reflected in deferred outflows of resources and deferred inflow of resources balances.		1,886,452
Current year change in long-term liability for compensated absences and OPEB liability do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		(634,995)
Current year changes in accrued interest payable do not require the use of current financial resources; therefore, are not reported as expenditures in governmental funds.		27,395
Certain revenues in the government-wide statement of activities that do not provide current financial resources are not reported as revenue in the governmental funds. This is the net change in these revenues for the year.		<u>(700,552)</u>
Change in net position of governmental activities		<u>\$ 15,221,743</u>

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

	Water and Sewer Fund	Airport Fund	Golf Fund	Non-major Enterprise Funds	Total Proprietary Funds
Assets and Deferred Outflows of Resources					
Current Assets					
Cash and cash equivalents	\$ 42,044,282	\$ -	\$ -	\$ 5,225,440	\$ 47,269,722
Receivables (net of allowance for uncollectibles):					
Accounts	1,434,437	-	4,656	224,747	1,663,840
Lease	-	5,215	-	-	5,215
Unbilled	1,035,766	-	-	130,649	1,166,415
Inventory	-	20,230	-	-	20,230
Total current assets	<u>44,514,485</u>	<u>25,445</u>	<u>4,656</u>	<u>5,580,836</u>	<u>50,125,422</u>
Capital Assets					
Nondepreciable	1,315,055	6,110,526	349,554	-	7,775,135
Depreciable (net of accumulated depreciation)	<u>32,902,190</u>	<u>4,843,454</u>	<u>1,465,834</u>	<u>257,799</u>	<u>39,469,277</u>
Total non-current assets	<u>34,217,245</u>	<u>10,953,980</u>	<u>1,815,388</u>	<u>257,799</u>	<u>47,244,412</u>
Total assets	<u>78,731,730</u>	<u>10,979,425</u>	<u>1,820,044</u>	<u>5,838,635</u>	<u>97,369,834</u>
Deferred Outflows of Resources					
Deferred charges on refunding	160,704	-	-	-	160,704
Deferred outflows of resources – Pension	236,344	31,583	-	-	267,927
Deferred outflows of resources – OPEB	<u>28,508</u>	<u>4,071</u>	<u>-</u>	<u>-</u>	<u>32,579</u>
Total deferred outflows of resources	<u>425,556</u>	<u>35,654</u>	<u>-</u>	<u>-</u>	<u>461,210</u>
Liabilities, Deferred Inflows or Resources and Net Position					
Current Liabilities					
Accounts and contracts payable	574,751	68,536	56,702	-	699,989
Accrued liabilities	121,864	-	16,866	33,445	172,175
Accrued interest	9,785	516	-	-	10,301
Deposits	1,306,508	-	-	-	1,306,508
Due to:					
Other funds	674,036	824,313	1,449,145	-	2,947,494
Component units	-	653,488	-	-	653,488
General obligation bonds	580,000	10,000	-	-	590,000
Financed purchases	-	-	95,097	-	95,097
Compensated absences	<u>19,598</u>	<u>22,020</u>	<u>-</u>	<u>218</u>	<u>41,836</u>
Total current liabilities	<u>3,286,542</u>	<u>1,578,873</u>	<u>1,617,810</u>	<u>33,663</u>	<u>6,516,888</u>
Non-current Liabilities					
General obligation bonds	4,551,894	10,000	-	-	4,561,894
Compensated absences	65,554	-	-	654	66,208
Net pension liability	497,706	68,386	-	-	566,092
Total OPEB liability	<u>171,841</u>	<u>24,548</u>	<u>-</u>	<u>-</u>	<u>196,389</u>
Total non-current liabilities	<u>5,286,995</u>	<u>102,934</u>	<u>-</u>	<u>654</u>	<u>5,390,583</u>
Total liabilities	<u>8,573,537</u>	<u>1,681,807</u>	<u>1,617,810</u>	<u>34,317</u>	<u>11,907,471</u>
Deferred Inflows of Resources					
Deferred inflows of resources – Lease	-	4,751	-	-	4,751
Deferred inflows of resources – Pension	451,257	61,362	-	-	512,619
Deferred inflows of resources – OPEB	<u>18,506</u>	<u>2,643</u>	<u>-</u>	<u>-</u>	<u>21,149</u>
Total deferred inflows of resources	<u>469,763</u>	<u>68,756</u>	<u>-</u>	<u>-</u>	<u>538,519</u>
Net Position					
Net investment in capital assets	29,246,055	10,933,980	1,720,291	257,799	42,158,125
Unrestricted	<u>40,867,931</u>	<u>(1,669,464)</u>	<u>(1,518,057)</u>	<u>5,546,519</u>	<u>43,226,929</u>
Total net position	<u>\$ 70,113,986</u>	<u>\$ 9,264,516</u>	<u>\$ 202,234</u>	<u>\$ 5,804,318</u>	<u>\$ 85,385,054</u>

City of Lancaster, Texas
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended September 30, 2022

	Water and Sewer Fund	Airport Fund	Golf Fund	Non-major Enterprise Funds	Total Proprietary Funds
Operating Revenues					
Charges for services	\$ 20,040,970	\$ 994,533	\$ 982,227	\$ 2,803,273	\$ 24,821,003
Intergovernmental	-	-	-	-	-
Other revenue	921,427	21,990	82,908	-	1,026,325
Impact fee revenue	1,158,971	-	-	-	1,158,971
Total operating revenues	<u>22,121,368</u>	<u>1,016,523</u>	<u>1,065,135</u>	<u>2,803,273</u>	<u>27,006,299</u>
Operating Expenses					
Personnel services and benefits	1,732,270	251,030	-	-	1,983,300
Maintenance	1,085,831	25,631	43,346	-	1,154,808
Purchase of water	4,747,096	-	-	-	4,747,096
Materials and supplies	85,876	633,746	-	-	719,622
Heat, light and power	197,677	74,154	44,002	-	315,833
Sewage treatment	7,040,353	-	-	-	7,040,353
Special services	493,243	11,207	1,036,372	1,544,726	3,085,548
Bad debt expense	207,187	-	-	-	207,187
Equipment rental	7,965	17,075	5,021	36,510	66,571
Depreciation	1,648,707	120,959	144,081	51,269	1,965,016
Total operating expenses	<u>17,246,205</u>	<u>1,133,802</u>	<u>1,272,822</u>	<u>1,632,505</u>	<u>21,285,334</u>
Operating Income (Loss)	<u>4,875,163</u>	<u>(117,279)</u>	<u>(207,687)</u>	<u>1,170,768</u>	<u>5,720,965</u>
Non-operating Revenues (Expenses)					
Interest revenue	287,331	-	-	36,078	323,409
Interest and fiscal charges	(63,411)	(1,907)	-	-	(65,318)
Total non-operating revenues (expenses)	<u>223,920</u>	<u>(1,907)</u>	<u>-</u>	<u>36,078</u>	<u>258,091</u>
Income (Loss) Before Transfers	<u>5,099,083</u>	<u>(119,186)</u>	<u>(207,687)</u>	<u>1,206,846</u>	<u>5,979,056</u>
Transfers					
Transfers out	(1,760,901)	-	(7,000)	(159,040)	(1,926,941)
Total transfers	<u>(1,760,901)</u>	<u>-</u>	<u>(7,000)</u>	<u>(159,040)</u>	<u>(1,926,941)</u>
Change in Net Position	3,338,182	(119,186)	(214,687)	1,047,806	4,052,115
Net Position, Beginning of Year	<u>66,775,804</u>	<u>9,383,702</u>	<u>416,921</u>	<u>4,756,512</u>	<u>81,332,939</u>
Net Position, End of Year	<u>\$ 70,113,986</u>	<u>\$ 9,264,516</u>	<u>\$ 202,234</u>	<u>\$ 5,804,318</u>	<u>\$ 85,385,054</u>

City of Lancaster, Texas
Statement of Cash Flows
Proprietary Funds
For the Year Ended September 30, 2022

	Water and Sewer Fund	Airport Fund	Golf Fund	Non-major Enterprise Funds	Total
Operating Activities					
Receipts from customers and users	\$ 21,752,038	\$ 1,011,308	\$ 1,065,951	\$ 2,773,673	\$ 26,602,970
Utility deposits collected	45,656	-	-	-	45,656
Payments to employees	(1,889,444)	(255,680)	-	-	(2,145,124)
Payments to suppliers	(13,666,808)	(759,520)	(1,127,257)	(1,703,295)	(17,256,880)
Net cash provided by (used in) operating activities	<u>6,241,442</u>	<u>(3,892)</u>	<u>(61,306)</u>	<u>1,070,378</u>	<u>7,246,622</u>
Noncapital and Related Financing Activities					
Transfers out	(1,760,901)	-	(7,000)	(159,040)	(1,926,941)
Payment to Component Unit	-	(18,750)	-	-	(18,750)
Advances from other funds	-	-	169,205	-	169,205
Net cash provided by (used in) noncapital financing activities	<u>(1,760,901)</u>	<u>(18,750)</u>	<u>162,205</u>	<u>(159,040)</u>	<u>(1,776,486)</u>
Capital and Related Financing Activities					
Acquisition and construction of capital assets	(897,452)	-	-	-	(897,452)
Principal payments on debt	(517,460)	(8,514)	(100,900)	-	(626,874)
Interest payments on debt	(133,861)	(1,907)	-	-	(135,768)
Net cash used in capital and financing activities	<u>(1,548,773)</u>	<u>(10,421)</u>	<u>(100,900)</u>	<u>-</u>	<u>(1,660,094)</u>
Investing Activities					
Interest on investments	287,331	-	-	36,077	323,408
Net cash provided by investing activities	<u>287,331</u>	<u>-</u>	<u>-</u>	<u>36,077</u>	<u>323,408</u>
Increase (Decrease) in Cash and Cash Equivalents	3,219,099	(33,063)	-	947,415	4,133,451
Cash and Cash Equivalents, Beginning of Year	38,825,183	33,063	-	4,278,025	43,136,271
Cash and Cash Equivalents, End of Year	<u>\$ 42,044,282</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,225,440</u>	<u>\$ 47,269,722</u>
Reconciliation of Net Operating Income (Loss) to Net Cash Provided by Operating Activities					
Operating income (loss)	\$ 4,875,163	\$ (117,279)	\$ (207,687)	\$ 1,170,768	\$ 5,720,965
Item not requiring cash					
Depreciation	1,648,707	120,959	144,081	51,269	1,965,016
Changes in					
Accounts receivable	(369,330)	(5,215)	(4,656)	(29,600)	(408,801)
Inventories	-	11,495	-	-	11,495
Deferred outflows of resources	(67,914)	(9,202)	-	-	(77,116)
Accounts payable	191,089	19,536	5,472	(134,542)	81,555
Accrued expenses	52,987	(28,738)	1,484	12,483	38,216
Net pension liability	(320,107)	(43,514)	-	-	(363,621)
Total OPEB Liability	3,337	476	-	-	3,813
Deferred inflows of resources	232,904	36,440	-	-	269,344
Compensated absences	(5,394)	11,150	-	-	5,756
Net cash provided by operating activities	<u>\$ 6,241,442</u>	<u>\$ (3,892)</u>	<u>\$ (61,306)</u>	<u>\$ 1,070,378</u>	<u>\$ 7,246,622</u>

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City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Note 1: Summary of Significant Accounting Policies

The accounting and reporting policies of the City of Lancaster (City) conform to the generally accepted accounting principles (GAAP) applicable to state and local governments. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for establishing governmental accounting and financial reporting principles. The following is a summary of the more significant accounting policies.

Reporting Entity

The City was incorporated in 1853. The City operates as a home-rule city, under a Council-manager form of government and provides the following services as authorized by its charter: public safety (police and fire), highways and streets, water and sewer utilities, sanitation, health and social services, parks and recreation, public improvements, airport, golf course, planning and zoning and general administrative services.

The City's basic financial statements include the separate governmental entities that are controlled by or are dependent on the City. The determination to include separate governmental entities is based on the criteria of GASB Statement No. 14, *The Financial Reporting Entity* (GASB 14), as amended by GASB Statement No.39, *Determining Whether Certain Organizations Are Component Units* and GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB 14 defines the reporting entity as the primary government and those component units for which the primary government is financially accountable. To be financially accountable, a voting majority of the component unit's board must be appointed by the primary government, and either: (1) the primary government must be able to impose its will or (2) the primary government may potentially benefit financially or be financially responsible for the component unit. The Lancaster Economic Development Corporation (Economic) and the Lancaster Recreational Development Corporation (Recreational) are nonprofit industrial development corporations formed in July and October 1995, respectively, under the *Development Corporation Act of 1979*. Both Economic and Recreational are organized exclusively for the purposes of benefiting and accomplishing public purposes and to act on behalf of the City. This includes the construction and renovation of municipal buildings, the acquisition, improvement, and operation of parks as well as other economic development purposes. The affairs of these corporations are managed by two separate Boards of Directors, which are appointed by the City Council. The City Council approves annual budgets and issuances of debt. Economic and Recreational have been discretely presented in the accompanying financial statements. Separate stand-alone financial statements of the individual component units are not available.

City of Lancaster, Texas

Notes to Basic Financial Statements

September 30, 2022

Basis of Presentation

Government-Wide Financial Statements

The government-wide financial statements (the statement of net position and the statement of activities) report information on all of the activities of the City. The effect of interfund activity, within the governmental and business-type activities columns, has been removed from these statements. However, interfund services provided and used are not eliminated in the consolidation process. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

Fund Financial Statements

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

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

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

City of Lancaster, Texas
Notes to Basic Financial Statements
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Capital Projects Fund – The Capital Projects Fund is utilized to account for financial resources to be used for the acquisition or construction of major capital facilities.

General Obligation Debt Service Fund – The Debt Service Fund is used to account for the accumulation of resources and for the payment of general long-term debt principal, interest, and related costs, as well as the payment of lease/purchase items. The revenue source is principally ad-valorem taxes levied by the City and transfers in for the payment of lease/purchases.

ARPA Fund – The ARPA Fund is utilized to account for financial resources and related expenditures from the *America Rescue Plan Act of 2021*.

Proprietary Funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. The accounting objectives are determinations of net income, financial position, and cash flow. All assets, deferred outflows, and inflows of resources and liabilities are included on the Statement of Net Position. The City has presented the following major Proprietary Funds:

Water and Sewer Fund – The Water and Sewer Fund is used to account for the acquisition, operation, and maintenance of a municipal water and sewer utility, supported primarily by user charges to the public.

Airport Fund – The Airport Fund is used to account for the operation of the City’s regional airport.

Golf Course Fund – The Golf Fund is used to account for the operation of the City’s golf course.

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. Operating expenses for the Proprietary Funds include the cost of personnel and contractual services, supplies, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report 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 the resources are considered to be applied. It is the City’s policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the 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.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Classification of Fund Equity

Fund balances are classified as nonspendable, restricted, committed, assigned, or unassigned in governmental funds. Nonspendable fund balance cannot be spent, either because it is not in spendable form or because of legal or contractual requirements. Restricted fund balances have constraints for specific purposes which are externally imposed by providers, such as creditors, grantors, or other governments; or by enabling legislation of the City Council. Committed fund balances can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance or resolution. Assigned fund balances are constrained by intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by City management based on Council direction. Unassigned fund balances include residual positive fund balances within the General Fund that had not been classified within the other mentioned categories. Unassigned fund balances may also include negative balances for any governmental fund if expenditures exceed amounts restricted, committed or assigned for those specific purposes.

The City has established a policy to maintain a reserve account of 18 percent of budgeted expenditures. As of September 30, 2022, the City was in compliance with this policy as unassigned fund balance in the General Fund was equal to 19 percent of current year expenditures.

Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

The governmental fund financial statements are reported using the current financial resources measurement focus. Revenues are recognized as soon as they are both measurable and available.

Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, and claims and judgments, are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and acquisitions under capital leases are reported as other financing sources.

City of Lancaster, Texas
Notes to Basic Financial Statements
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Property taxes, sales taxes, franchise taxes, fines and forfeits, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Licenses and permits, charges for services (except for sanitation services) and rents and concessions are recorded as revenues when received in cash because they are generally not measurable until actually received. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the City.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers cash and cash equivalents to be cash and external investment pools.

Investments

Investments in external investment pools are carried at either net asset value or amortized cost, as determined by each pool's individual investment valuation method and whether there is a readily determinable fair value of the pool as of the City's fiscal year end. In instances where pools transact at amortized cost, no readily determinable fair value is deemed available.

Allowance for Uncollectible Accounts

An allowance for uncollectible taxes including penalties and interest and water and sewer billed receivables is provided based on an analysis of historical trends. The allowances at September 30, 2022, were \$750,272 for uncollectible taxes, \$3,540,503 for water, sewer, and stormwater billings, \$507,074 for court fees and fines and \$650,995 for ambulance fees.

Inventory

Inventories, which are recognized as expenditures as they are consumed, are stated at cost (first-in, first-out). Inventories consist of expendable supplies.

City of Lancaster, Texas
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Prepaid Items

Prepaid balances, which are recognized as expenditures as they are consumed, are for payments made by the City in the current year for services occurring in the subsequent year.

Interfund Receivables and Payables

Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances.”

Interfund Transactions

Interfund services provided and used are accounted for as revenues, expenditures or expenses. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made that are properly applicable to another fund, are recorded as expenditures/expenses in the reimbursing fund and as a reduction of expenditures/expenses in the fund reimbursed. All other interfund transactions, except quasi-external transactions and reimbursements, are recorded as transfers.

Lease Receivable

The City leases a portion of its property to various businesses who use the space to conduct their operations. The City recognizes a lease receivable and a deferred inflow of resources in the government-wide and governmental fund financial statements.

At the commencement of a lease, the City initially measures the lease receivable at the present value of payments expected to be received during the lease term. Subsequently, the lease receivable is reduced by the principal portion of lease payments received. The deferred inflow of resources is initially measured as the initial amount of the lease receivable, adjusted for lease payments received at or before the lease commencement date. Subsequently, the deferred inflow of resources is recognized as revenue over the life of the lease term.

Key estimates and judgments include how the City determines: (1) the discount rate it uses to discount the expected lease receipts to present value, (2) lease term, and (3) lease receipts.

- The City uses its estimated incremental borrowing rate as the discount rate for leases.
- The lease term includes the noncancellable period of the lease. Lease receipts included in the measurement of the lease receivable is composed of fixed payments from the lessee.

The City monitors changes in circumstances that would require a remeasurement of its lease, and will remeasure the lease receivable and deferred inflows of resources if certain changes occur that are expected to significantly affect the amount of the lease receivable.

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Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the fund financial statements for Proprietary Funds. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

All items purchased with a price of \$5,000 or greater and a useful life exceeding one year is placed on the capital asset list. Each department is required to monitor their inventory and is accountable for the location of the asset. Asset tags are issued after payment has been processed. The Purchasing Agent conducts a yearly inventory to verify the inventory.

Assets capitalized have a useful life of over one year. Depreciation is recorded on each class of depreciable property utilizing the straight-line method over the estimated useful lives of the assets. Estimated useful lives of major categories of property are:

Plants and buildings	40 years
Improvements	5 – 50 years
Machinery and equipment	5 – 10 years

Deferred Outflows/Inflows of Resources

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

- Deferred loss on refunding – A deferred loss on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and recognized over the shorter of the life of the refunded or refunding debt.
- Employer Contributions – Pensions and OPEB – These contributions are those made after the measurement date through the fiscal year end (January 1st – September 30th) resulting in a cash outlay not yet recognized in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB 68) and GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). This amount is deferred and recognized in the following fiscal year.
- Experience difference – Pensions and OPEB – These amounts represent the difference in expected and actual pension and OPEB experience. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.

City of Lancaster, Texas
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- Assumption changes – Pensions and OPEB – These amounts represent the difference resulting from a change in assumptions used to measure the underlying total pension liability and total OPEB liability. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period.

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

The City has the following items that qualify for reporting in this category.

- Unavailable revenue – This amount represents uncollected property taxes, municipal court fees, ambulance fees, and notes receivables. This amount is deferred and recognized once payments are made in the follow fiscal year. This item is only presented in the Balance Sheet – Governmental Funds.
- Experience difference – Pensions and OPEB –These amounts represent the difference in expected and actual OPEB experience. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Investment difference – Pensions – These amounts represent the difference in projected and actual earnings on pension plan assets. These differences are deferred and amortized over a closed five-year period.
- Assumption changes – OPEB – These amounts represent the difference resulting from a change in assumptions used to measure the underlying total OPEB liability. These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the beginning of the measurement period.
- Lease related – this represents the initial value of the lease receivable under GASB 87 systematically reduced and recognized as lease revenue over the term of the lease. This deferred inflow is recorded at both the fund level and government-wide financial statements.

Compensated Absences

Sick leave is recorded on governmental activities for the Fire and Police Departments. All other employees are not compensated for unused sick leave. Vacation is earned in varying amounts up to a maximum of 20 days per year for employees with 10 or more years of service. Unused vacation leave carried forward from one year to the next is limited to 260 hours.

The liability for unused vested vacation leave as of September 30, 2022, is shown as a liability for compensated absences in the applicable governmental or business-type activities columns in the government-wide statements and in the fund financial statements for the Proprietary Funds. The amount to be paid from current available financial resources is not considered significant.

City of Lancaster, Texas
Notes to Basic Financial Statements
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Defined Benefit Pension Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS' 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 GASB 68.

Fund allocation of related balances is determined by individual employee assignment. This assignment is uniform with regard to liquidation of the liability.

Defined Benefit Other Postemployment Benefit Plans

The City has two single-employer defined benefit other postemployment benefit (OPEB) plans. For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB and OPEB expense have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms.

Allocation of OPEB related balances to reporting units is determined on the basis of employee payroll funding. The total OPEB liability is generally liquidated in the General Fund.

Unearned Revenue

Governmental funds report a liability, unearned revenue, in connection with resources that have been received, but not yet earned.

Adoption of New Accounting Standards

GASB Statement No. 87, *Leases*, establishes new guidance for lease accounting for lessees and lessors and eliminates the classification of leases as either operating or capital leases. This statement establishes a single model for lease accounting based on the principle that leases are financings of the right-to-use an underlying asset. Lessees will recognize a lease liability and an intangible right-to-use lease asset. Lessors will recognize a lease receivable and a deferred inflow of resources. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021. The City has implemented this Statement in fiscal year 2022. See *Note 6* for additional information. The adoption of this standard had no material impact on the City's net position.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

New Pronouncements

The GASB has issued the following new statements to be implemented in future years.

GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements* (GASB 94):

This statement addresses issues related to public-private and public-public partnership arrangements (PPPs) and availability payment arrangements (APAs). This statement will be effective for the City in fiscal year 2023. The City will evaluate the potential impact on the City's net position.

GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (GASB 96):

This statement provides guidance on subscription-based information technology arrangements (SBITAs) to further report on government's obligations and assets from SBITAs. This statement will be effective for the City in fiscal year 2023. The City will evaluate the potential impact on the City's net position.

Statement No. 99, *Omnibus 2022* (GASB 99):

This statement improves comparability and consistency of application of accounting and financial reporting and also authoritative literature. This statement will be effective for the City in fiscal year 2023. The City will evaluate the potential impact on the City's net position.

GASB Statement No. 100, *Accounting Changes and Error Corrections*—an amendment of GASB Statement No. 62 (GASB 100):

This statement improves the clarity and requirements for accounting changes and error corrections. This statement will be effective for the City in fiscal year 2024. The City will evaluate the potential impact on the City's net position.

GASB Statement No. 101, *Compensated Absences* (GASB 101):

This statement addresses the recognition and measurement of compensated absences. This statement will be effective for the City in fiscal year 2025. The City will evaluate the potential impact on the City's net position.

Note 2: Deposits and Investments

The deposit and investment policies of the City are governed by State Statutes and the adopted City Investment Policy. City policies governing bank deposits require depositories to be FDIC-insured institutions, and depositories must fully collateralize all deposits in excess of FDIC insurance limits.

Statutes authorize the City to invest in obligations of the U.S. Treasury and U.S. agency securities, repurchase agreements, and municipal pools.

City of Lancaster, Texas
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The City utilizes a pooled investment concept for all its funds to maximize its investment program. Investment income from this internal pooling is allocated to the respective funds based upon the sources of funds invested.

During the year ended September 30, 2022, the City invested in Texas CLASS, TexPool, and LOGIC, which are investment pools authorized by the Texas Legislature.

Texas Cooperative Liquid Assets Securities System (Texas CLASS) was created specifically for the use of Texas local government entities and seeks to provide safety, liquidity, convenience, and competitive rates of return. Public Trust Advisors, LLC serves as the pool's administrator and investment adviser. The marketing and operation functions of the portfolio are also performed by Public Trust Advisors, LLC. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board, both of which are elected by the Texas CLASS Participants.

Wells Fargo Bank, N.A. serves as custodian for the pool. The investment objective and strategy of the pool is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds.

Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques. Texas CLASS limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. Texas CLASS is rated AAAM by Standard & Poor's.

The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an Advisory Board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Finally, TexPool is rated AAAM by Standard & Poor's. TexPool is not registered with the Securities and Exchange Commission (SEC) as an investment company.

LOGIC was established pursuant to an Interlocal Agreement, which was subsequently amended and is now entitled Participation Agreement and Trust Instrument (Agreement) between participating Government Entities. Participation in the Pool is limited to those eligible Government Entities which have become parties to the Agreement (Participants). Participants' assets in the Pool are represented by units of beneficial interest (Units), which are issued in discrete series (each a "Portfolio"), as authorized from time to time by the Board. Assets invested in any Portfolio will be managed separately, and segregated from, the assets of every other Portfolio. Since September 2005, J.P. Morgan Investment Management Inc. (JPMIM) has served as investment adviser to LOGIC. FirstSouthwest, a Division of Hilltop Securities (FirstSouthwest) and JPMIM serve as co-administrators to LOGIC, and FirstSouthwest provides administrative, participant support and marketing services.

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JPMorgan Chase Bank N.A. provides custodial services. The investment objective and strategy of the pool is to seek preservation of principal, liquidity, and current income through investment in a diversified portfolio of short-term marketable securities. The pool offers same day access to investment funds. LOGIC is rated AAAM by Standard & Poor's.

TexPool is carried at amortized cost. Texas CLASS and LOGIC are carried at net asset value. Accordingly, the fair value of the position in the pools is the same as the value of the pools shares.

As of September 30, 2022, the City had cash and cash equivalents as classified below:

Primary Government	
Cash	\$ 11,198,412
Cash equivalents	<u>102,205,505</u>
	<u>113,403,917</u>
 Component Units	
Cash	21,271
Cash equivalents	<u>12,648,951</u>
	<u>12,670,222</u>
 Total cash and cash equivalents	 <u><u>\$ 126,074,139</u></u>

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

	Carrying Value	Weighted- Average Maturity (Days)
Primary Government		
TexPool	\$ 25,127,094	30
LOGIC	52,100,907	34
Texas CLASS	<u>24,977,504</u>	22
 Total primary government	 <u>102,205,505</u>	
 Component Units		
TexPool	3,109,729	30
LOGIC	6,448,007	34
Texas CLASS	<u>3,091,215</u>	22
 Total component units	 <u>12,648,951</u>	
 Total investments	 <u><u>\$ 114,854,456</u></u>	

City of Lancaster, Texas
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Interest Rate Risk

The strategy of the City is to maintain sufficient liquidity in its portfolio and structure the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the secondary market prior to maturity.

Custodial Credit Risk

Custodial credit risk is the risk that a government will not be able to recover: (a) deposits if the depository financial institution fails or (b) the value of investment or collateral securities that are in the possession of an outside party if the counterparty to the investment or deposit transaction fails. To minimize such risk, the City requires collateralization of most deposits in excess of coverage, utilizes the delivery vs. payment method for investment purchases and contracts with a third-party safekeeping agent.

Credit Risk

It is the City's policy to follow statutes, which authorize the City to invest in obligations of the U.S. Treasury agencies and instrumentalities, obligations of the state of Texas and related agencies, obligations of states, agencies, counties, cities, and other political subdivisions of any state rated "A" or above by Standard & Poor's Corporation or Moody's, repurchase agreements and designated investment pools. The City's assets in investment pools meet this requirement as noted above.

Note 3: Disclosures About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

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Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2022:

	Fair Value
Investments Measured at Net Asset Value	
LOGIC	\$ 58,548,914
Texas CLASS	28,068,719
Subtotal	86,617,633
Investments Measured at Amortized Cost	
TexPool	28,236,823
Total investments	\$ 114,854,456

Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

Note 4: Property Taxes

Property taxes attach as an enforceable lien on property as of October 1. Taxes are levied on October 1, and are due and payable on or before January 31, of the following year. All unpaid taxes become delinquent February 1, of the following year. Tax collections for the year ended September 30, 2022, were 98.0 percent of the levy. Dallas County bills and collects property taxes for the City. Any uncollected property taxes at September 30, that are collected within 60 days is recognized as revenue and recorded as taxes receivable. Any uncollected property taxes at September 30, which are not expected to be collected within 60 days, are recorded as taxes receivable and deferred inflow of resources in governmental funds. Anticipated refunds of such taxes are recorded as liabilities and reductions of revenue when they are measurable, and their validity seems certain.

The statutes of the state of Texas do not prescribe a legal debt limit, nor does the City's charter provide for a debt limit. However, provision of Article XI, Section 5 of the Texas Constitution applicable to cities with populations greater than 5,000 limits the ad-valorem tax rate to \$2.50 per \$100 assessed valuation. However, as a city operating under a Home Rule Charter, the City has a debt limit of \$1.50 per \$100 assessed valuation. For the year ended September 30, 2022, the City had a tax rate of \$.6918 per \$100.00 assessed valuation, of which \$.5314 was allocated for general government and \$.1604 was allocated for the payment of principal and interest on general obligation debt.

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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; however, the City may, at its own expense, require annual reviews of appraised values.

The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action. Under this legislation, the City continues to set 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 tax rate for the previous year by more than eight percent, qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent above the tax rate of the previous year. This legislation provides that, if approved by the qualified voters in the City, both the appraisal and collection functions may be placed with the appraisal district. In addition, the City may obtain approval from its governing body to place these functions with the appraisal district.

Note 5: Interfund Receivables, Payables, and Transfers

Due To/Due From

Due to and due from other funds are the short-term portion of the advances to and advances from other funds. For the year ended September 30, 2022, due to due from transactions, excluding discretely presented component units were as follows:

	Due to Other Funds	Due from Other Funds
General Fund	\$ -	\$ 3,181,686
Capital Projects Fund	-	18,468
Street Maintenance Fund	252,660	-
Water and Sewer Fund	674,036	-
Golf Fund	1,449,145	-
Airport Fund	824,313	-
Total due to/due from	\$ 3,200,154	\$ 3,200,154

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Interfund Transfers

For the year ended September 30, 2022, interfund transactions, excluding discretely presented component units were as follows:

	Transfers In	Transfers Out
General Fund	\$ 1,990,448	\$ -
Non-major Governmental Funds	-	63,507
Water and Sewer Fund	-	1,760,901
Golf Fund	-	7,000
Non-major Enterprise Funds	-	159,040
Total interfund transfers	\$ 1,990,448	\$ 1,990,448

The interfund transfers to the General Fund from the Water and Sewer Fund, Golf Fund, Non-major Governmental, and Enterprise Funds represent those revenues that are transferred from one fund to another to recover administrative costs of the General Fund. This is sometimes referred to as indirect costs or overhead and are made to recognize and account for the fact that one fund incurs untraceable costs directly associated with another fund. The transfer ensures that each fund pays its fair share of the costs to operate that fund. A transfer is the preferred method to cover these costs and those associated with operating these funds.

Note 6: Lease Receivable

GASB No. 87 Leases - Included

The City leases a portion of its property to various businesses who use the space to conduct their operations, the terms of which expire in 2024. The measurement of the lease receivable is based on the present value of lease payments expected to be received during the lease term, such as fixed payments, variable payments that depend on an index or rate, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, and any lease incentives payable to the lessee.

The City recognized \$2,250 in lease revenue and \$464 in lease interest during the current fiscal year related to these leases. As of September 30, 2022, the City receivable for lease payments was \$5,215. Also, the City has a deferred inflow of resources associated with these leases that will be recognized as revenue over the lease terms. As of September 30, 2022, the balance of the deferred inflow of resources was \$4,751.

City of Lancaster, Texas
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The following is a schedule by year of minimum payments to be received under the City's leases that are included in the measurement of the lease receivable as of September 30, 2022:

Fiscal Year	Business-type Activities		
	Principal	Interest	Total
2023	\$ 3,000	\$ 214	\$ 3,214
2024	2,215	103	2,318
	<u>\$ 5,215</u>	<u>\$ 317</u>	<u>\$ 5,532</u>

GASB No. 87 Excluded Leases – Regulated

In accordance with GASB No. 87, the City does not recognize a lease receivable and a deferred inflow of resources for regulated leases. Regulated leases are certain leases that are subject to external laws, regulations, or legal rulings, e.g. the Federal Aviation Administration, between airports and aeronautical users. Regulated leases include hanger buildings, space in the terminal building, as well as various land leases used for aeronautical purposes. The City recognized \$7,606 in lease revenue and \$198 in lease interest during the current fiscal year related to these leases.

Future minimum lease payments for regulated leases are as follows:

Fiscal Year	Principal
2023	\$ 6,703
2024	6,703
2025	5,857
2026	5,857
2027	5,857
2028-2032	14,030
2033-2037	3,860
2038-2042	2,060
Total	<u>\$ 50,927</u>

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Note 7: Capital Assets

Governmental Activities

Capital assets of the Governmental Activities are as follows:

	Beginning Balance	Increases	Decreases	Transfers	Ending Balance
Governmental Activities					
Capital assets not being depreciated					
Land	\$ 13,262,490	\$ -	\$ -	\$ -	\$ 13,262,490
Construction in progress	11,779,491	-	(744,960)	-	11,034,531
Total capital assets not being depreciated	<u>25,041,981</u>	<u>-</u>	<u>(744,960)</u>	<u>-</u>	<u>24,297,021</u>
Capital assets being depreciated					
Buildings	37,183,289	5,000	-	-	37,188,289
Infrastructure, improvements, equipment, and furniture	129,590,288	1,784,017	-	-	131,374,305
Total capital assets being depreciated	<u>166,773,577</u>	<u>1,789,017</u>	<u>-</u>	<u>-</u>	<u>168,562,594</u>
Less accumulated depreciation for:					
Buildings	11,316,410	836,821	-	-	12,153,231
Infrastructure, improvements, equipment, and furniture	78,132,149	2,993,692	-	-	81,125,841
Total accumulated depreciation	<u>89,448,559</u>	<u>3,830,513</u>	<u>-</u>	<u>-</u>	<u>93,279,072</u>
Total capital assets being depreciated, net	<u>77,325,018</u>	<u>(2,041,497)</u>	<u>-</u>	<u>-</u>	<u>75,283,521</u>
Governmental activities capital assets, net	<u>\$ 102,366,999</u>	<u>\$ (2,041,497)</u>	<u>\$ (744,960)</u>	<u>\$ -</u>	<u>\$ 99,580,542</u>

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

General and administrative	\$ 399,484
Public safety	2,858,698
Public works	349,736
Community development and recreation	<u>222,595</u>
Total depreciation expense – governmental activities	<u>\$ 3,830,513</u>

City of Lancaster, Texas
Notes to Basic Financial Statements
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Business-type Activities

Capital assets of the Business-type Activities are as follows:

	Beginning Balance*	Increases	Decreases	Transfers	Ending Balance
Business-type Activities					
Capital assets not being depreciated					
Land	\$ 4,971,266	\$ -	\$ -	\$ -	\$ 4,971,266
Construction in progress	2,803,869	-	-	-	2,803,869
Total capital assets not being depreciated	<u>7,775,135</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,775,135</u>
Capital assets being depreciated					
Plants and buildings	2,808,948	-	-	-	2,808,948
Other improvements	82,005,931	476,942	-	-	82,482,873
Vehicles	301,258	420,510	-	-	721,768
Machinery and equipment	4,347,938	-	-	-	4,347,938
Total capital assets being depreciated	89,464,075	897,452	-	-	90,361,527
Less accumulated depreciation for:					
Plants and buildings	2,477,774	13,269	-	-	2,491,043
Other improvements	43,101,541	1,672,322	-	-	44,773,863
Machinery and equipment	3,347,919	279,425	-	-	3,627,344
Total accumulated depreciation	<u>48,927,234</u>	<u>1,965,016</u>	<u>-</u>	<u>-</u>	<u>50,892,250</u>
Total capital assets being depreciated, net	<u>40,536,841</u>	<u>(1,067,564)</u>	<u>-</u>	<u>-</u>	<u>39,469,277</u>
Business-type activities capital assets, net	<u>\$ 48,311,976</u>	<u>\$ (1,067,564)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 47,244,412</u>

* Fiscal year 2021 amounts have been restated for GASB 87

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

Water and Sewer	\$ 1,648,707
Airport	120,959
Golf	144,081
Refuse	51,269
	<u>1,965,016</u>
Total depreciation expense – business-type activities	<u>\$ 1,965,016</u>

City of Lancaster, Texas
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Discretely Presented Component Units

Capital assets of the Lancaster Economic Development Corporation are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Lancaster Economic Development Corporation Capital assets not being depreciated Land	\$ 100,378	\$ -	\$ -	\$ 100,378
Capital assets being depreciated Buildings	-	299,212	-	299,212
Total capital assets being depreciated	-	299,212	-	299,212
Less accumulated depreciation for: Buildings	-	-	-	-
Total accumulated depreciation	-	-	-	-
Total capital assets being depreciated, net	-	299,212	-	299,212
Lancaster Economic Development Corporation capital assets, net	\$ 100,378	\$ 299,212	\$ -	\$ 399,590

City of Lancaster, Texas
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Capital assets of the Lancaster Recreational Development Corporation are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Lancaster Recreational Development Corporation Capital assets not being depreciated				
Land	\$ 989,118	\$ -	\$ -	\$ 989,118
Total capital assets not being depreciated	<u>989,118</u>	<u>-</u>	<u>-</u>	<u>989,118</u>
Capital assets being depreciated				
Buildings	15,797,360	-	-	15,797,360
Other improvements	3,965,809	-	-	3,965,809
Machinery and equipment	<u>2,247,657</u>	<u>79,000</u>	<u>-</u>	<u>2,326,657</u>
Total capital assets being depreciated	22,010,826	79,000	-	22,089,826
Less accumulated depreciation for:				
Buildings	8,602,986	394,934	-	8,997,920
Other improvements	3,965,809	-	-	3,965,809
Machinery and equipment	<u>836,517</u>	<u>191,948</u>	<u>-</u>	<u>1,028,465</u>
Total accumulated depreciation	<u>13,405,312</u>	<u>586,882</u>	<u>-</u>	<u>13,992,194</u>
Total capital assets being depreciated, net	<u>8,605,514</u>	<u>(507,882)</u>	<u>-</u>	<u>8,097,632</u>
Lancaster Recreational Development Corporation capital assets, net	<u>\$ 9,594,632</u>	<u>\$ (507,882)</u>	<u>\$ -</u>	<u>\$ 9,086,750</u>

City of Lancaster, Texas
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Note 8: Long-term Liabilities

The following is a summary of changes in long-term liabilities:

	Beginning Balance*	Additions	Retirements	Ending Balance	Due Within One Year
Governmental Activities					
General obligation bonds	\$ 58,305,017	\$ 2,680,000	\$ (6,455,000)	54,530,017	\$ 3,815,000
Certificates of obligation	3,600,000	-	(80,000)	3,520,000	80,000
Premiums on bond debt	4,863,056	-	(445,698)	4,417,358	-
Compensated absences	3,460,870	621,117	(346,087)	3,735,900	373,590
Financed purchases	2,206,665	-	(416,908)	1,789,757	416,039
	<u>\$ 72,435,608</u>	<u>\$ 3,301,117</u>	<u>\$ (7,743,693)</u>	<u>\$ 67,993,032</u>	<u>\$ 4,684,629</u>
Total governmental activities					
Business-type Activities					
General obligation bonds	\$ 1,119,983	\$ 4,635,000	\$ (675,000)	\$ 5,079,983	\$ 590,000
Certificates of obligation	4,470,000	-	(4,470,000)	-	-
Premiums on bond debt	89,832	-	(17,921)	71,911	-
Compensated absences	102,288	36,442	(30,686)	108,044	41,836
Financed purchases	195,997	-	(100,900)	95,097	95,097
	<u>\$ 5,978,100</u>	<u>\$ 4,671,442</u>	<u>\$ (5,294,507)</u>	<u>\$ 5,355,035</u>	<u>\$ 726,933</u>
Total business-type activities					
Discretely Presented Component Units					
Notes payable to primary government	\$ 4,555,000	\$ -	\$ (1,045,000)	\$ 3,510,000	\$ 1,055,000
	<u>\$ 4,555,000</u>	<u>\$ -</u>	<u>\$ (1,045,000)</u>	<u>\$ 3,510,000</u>	<u>\$ 1,055,000</u>
Total discretely presented component units					

* Fiscal year 2021 amounts have been restated for GASB 87

General long-term debt consists of the following: financed purchases; liabilities for accrued vacation leave; general obligation bonds and certificates of obligation along with associated premiums, which are direct obligations; issued on the full faith and credit of the City. Principal and interest payments on the general obligation bonds and certificates of obligation are secured by ad-valorem taxes levied on all taxable property within the City, and surplus revenues of the Water and Sewer Fund and Airport Fund. A portion of the general obligation bonds has been issued on behalf of the Water and Sewer Fund. Although these bonds are secured by the full faith and credit of the City and have no specific claim against Water and Sewer Fund assets, debt service requirements are provided by the Water and Sewer Fund. Accordingly, this debt is reflected as an obligation of the Water and Sewer Fund.

For the governmental activities, compensated absences, net pension liabilities, and total OPEB liabilities are generally liquidated in the General Fund.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

General obligation bonds, certificates of obligation, notes payable and financed purchases outstanding at September 30, 2022, consist of the following:

	<u>Governmental Activities</u>	<u>Water and Sewer</u>	<u>Airport</u>	<u>Total Primary Government</u>
<u>General Obligation Bonds</u>				
\$22,530,000, 2015 General Obligation Refunding Bonds, due in annual installments through February 15, 2035; 2.00% – 3.75%	\$ 18,415,017	\$ 744,983	\$ -	\$ 19,160,000
\$6,575,000, 2016 General Obligation Refunding Bonds, due in annual installments through February 15, 2032; 2.00% – 4.00%	2,645,000	130,000	-	2,775,000
\$9,050,000, 2018 General Obligation Bonds, due in annual installments through February 15, 2038; 3.00% - 3.50%	8,040,000	-	-	8,040,000
\$24,530,000 2020 General Obligation Refunding Bonds, due in annual installments through February 15, 2040; 3.00% - 4.00%	22,815,000	-	-	22,815,000
\$7,315,000 2021 General Obligation Refunding Bonds, due in annual installments through August 15, 2031; 1.17%	<u>2,615,000</u>	<u>4,185,000</u>	<u>20,000</u>	<u>6,820,000</u>
Total general obligation bonds	<u>\$ 54,530,017</u>	<u>\$ 5,059,983</u>	<u>\$ 20,000</u>	<u>\$ 59,610,000</u>
<u>Certificates of Obligation</u>				
\$4,080,000, 2015 Certificate of Obligation Bonds, due in annual installments through February 15, 2035; 2.00% – 3.75%	<u>3,520,000</u>	<u>-</u>	<u>-</u>	<u>3,520,000</u>
Total certificates of obligation	<u>\$ 3,520,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,520,000</u>

City of Lancaster, Texas
Notes to Basic Financial Statements
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During the current fiscal year, the City refunded \$7,165,000 of governmental general obligation (GO) bonds by issuing \$7,315,000 in a taxable refunding issuance entitled GO Refunding Bonds, Series 2021. No additional proceeds were received, and the City paid \$57,837 in issuance costs and underwriter discounts from the Debt Service Fund. As a result of the taxable refunding, the City reduced its total debt service requirements by \$547,426, which resulted in an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$536,350.

	Governmental Activities	Golf	Total Primary Government	Discretely Presented Component Units
<u>Note Payable - Direct Borrowings</u>				
\$11,650,000 note payable, due in annual installments through February 15, 2024; 2.00% – 4.00%	\$ -	\$ -	\$ -	\$ 2,460,000
\$1,125,000 note payable, due in annual installments through February 15, 2027; 2.00% – 3.75%	-	-	-	1,050,000
Total notes payable	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,510,000</u>

Financed Purchases

\$1,250,000 Lease Purchase Agreement due in due in monthly installments through January 15, 2024; 2.08%	\$ 1,328,327	-	\$ 1,328,327	\$ -
\$599,858 Lease Purchase Agreement due in bi-annual installments through May 25, 2025; 1.85%	461,430	-	461,430	-
\$195,997 Lease Purchase Agreement due in bi-annual installments through September 30, 2023; 1.07%	-	95,097	95,097	-
Total financed purchases	<u>\$ 1,789,757</u>	<u>\$ 95,097</u>	<u>\$ 1,884,854</u>	<u>\$ -</u>

Financed purchases represent the remaining principal amounts payable under lease purchase agreements for the acquisition of equipment through the General Fund. The financed purchase agreements are collateralized by the related financed equipment.

As of September 30, 2022, property and equipment under financed purchase agreements is carried at \$2,262,510, with \$461,995 in estimated accumulated depreciation, included in fixed assets. Amortization of these assets is included with depreciation expense.

City of Lancaster, Texas
Notes to Basic Financial Statements
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The annual requirements to amortize the long-term debt as of September 30, 2022, are as follows:

General Obligation Bonds						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2023	\$ 3,815,000	\$ 2,029,371	\$ 5,844,371	\$ 590,000	78,274	\$ 668,274
2024	4,045,000	1,903,749	5,948,749	600,000	66,958	666,958
2025	3,210,000	1,775,425	4,985,425	570,000	55,334	625,334
2026	3,330,000	1,648,950	4,978,950	580,000	43,745	623,745
2027	3,470,000	1,505,325	4,975,325	605,000	31,622	636,622
2028-2030	10,490,000	3,676,150	14,166,150	1,435,000	51,598	1,486,598
2031-2035	16,330,000	3,412,625	19,742,625	699,983	5,909	705,892
2036-2040	9,840,017	926,875	10,766,892	-	-	-
Total	\$ 54,530,017	\$ 16,878,470	\$ 71,408,487	\$ 5,079,983	\$ 333,440	\$ 5,413,423

Certificates of Obligation			
Fiscal Year	Governmental Activities		
	Principal	Interest	Total
2023	\$ 80,000	\$ 120,930	\$ 200,930
2024	80,000	118,530	198,530
2025	190,000	114,480	304,480
2026	195,000	108,705	303,705
2027	200,000	102,780	302,780
2028-2030	635,000	269,079	904,079
2031-2035	2,140,000	238,591	2,378,591
Total	\$ 3,520,000	\$ 1,073,095	\$ 4,593,095

Note Payable – Direct Borrowing			
Fiscal Year	Discretely Presented Component Units		
	Principal	Interest	Total
2023	1,055,000	140,000	1,195,000
2024	1,040,000	94,050	1,134,050
2025	1,080,000	50,625	1,130,625
2026	190,000	24,100	214,100
2027	145,000	14,900	159,900
Total	\$ 3,510,000	\$ 323,675	\$ 3,833,675

Financed Purchases						
Fiscal Year	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2023	416,039	18,052	434,091	\$ 95,097	\$ 3,908	\$ 99,005
2024	438,103	12,359	450,462	-	-	-
2025	332,123	6,847	338,970	-	-	-
2026	243,856	2,168	246,024	-	-	-
2027	247,086	2,168	249,254	-	-	-
2028	112,550	823	113,373	-	-	-
Total	\$ 1,789,757	\$ 42,417	\$ 1,832,174	\$ 95,097	\$ 3,908	\$ 99,005

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Note 9: Employee Retirement System

Plan Description

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide TMRS, an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within options available in the governing state statutes of TMRS. Lancaster Economic Development Corporation and Lancaster Recreational Development Corporation contribute to the plan with a cost share of 0.98 percent and 4.37 percent, respectively. There were no significant changes in the component unit's proportion to the plan during fiscal year 2022.

TMRS issues a publicly available comprehensive financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained by writing to Texas Municipal Retirement System, P.O. Box 149153, Austin, Texas, 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

Deposit rate	7.00%
Matching ratio (City to employee)	2 – 1
Years required for vesting	5
Service retirement eligibility	20 years at any age, 5 years at age 60 and above
Updated service credit	100% Repeating, Transfers
Annuity increase (to retirees)	50% of CPI Repeating

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

Inactive employees or beneficiaries currently receiving benefits	221
Inactive employees entitled to but not yet receiving benefits	272
Active employees	<u>259</u>
Total employees	<u><u>752</u></u>

City of Lancaster, Texas
Notes to Basic Financial Statements
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Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the entry age normal actuarial cost method. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City's contributions to TMRS for the year ended September 30, 2022, were \$2,675,859, and were equal to the required contributions.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (*i.e.*, December 31, 2012, valuation is effective for the rates beginning January 1, 2014).

Net Pension Liability

Actuarial Assumptions

The total pension liability in the December 31, 2021, actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.55%, including inflation
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 were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, health 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 percent and 3.0 percent 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.

City of Lancaster, Texas
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The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study. 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 is 6.75 percent. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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 in 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, the actuary focused on the area between: (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global Equity	35.00%	7.55%
Core Fixed Income	6.00%	2.00%
Non-Core Fixed Income	20.00%	5.68%
Other Public and Private Markets	12.00%	7.22%
Real Estate	12.00%	6.85%
Hedge Funds	5.00%	5.35%
Private Equity	10.00%	10.00%
Total	<u>100.00%</u>	

City of Lancaster, Texas
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Discount Rate

The discount rate used to measure the total pension liability was 6.75 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 6.75 percent 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)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of October 1, 2021	\$ 95,302,781	\$ 84,865,481	\$ 10,437,300
Changes for the year			
Service cost	2,976,346	-	2,976,346
Interest on total pension liability	6,394,896	-	6,394,896
Effect of difference in expected and actual experience	1,307,190	-	1,307,190
Benefit payments	(4,103,495)	(4,103,495)	-
Changes in assumptions	-	-	-
Administrative expenses	-	(51,190)	51,190
Member contributions	-	1,331,273	(1,331,273)
Net investment income	-	11,063,066	(11,063,066)
Employer contributions	-	2,643,238	(2,643,238)
Other	-	351	(351)
Net changes	<u>6,574,937</u>	<u>10,883,243</u>	<u>(4,308,306)</u>
Balances as of September 30, 2022	<u>\$ 101,877,718</u>	<u>\$ 95,748,724</u>	<u>\$ 6,128,994</u>
Proportionate share and net pension liability reported in:			
Primary Government		94.65%	\$ 5,801,180
Lancaster Economic Development Corporation		0.98%	60,265
Lancaster Recreational Development Corporation		4.37%	267,549
Total		<u>100.00%</u>	<u>\$ 6,128,994</u>

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

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

The following presents the net pension liability of the City, by primary government and discretely presented component units, calculated using the discount rate of 6.75 percent, 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 percent) or 1-percentage-point higher (7.75 percent) than the current rate:

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
Primary government	\$ 20,771,853	5,801,180	\$ (6,261,413)
Lancaster Economic Development Corporation	215,786	60,265	(65,046)
Lancaster Recreational Development Corporation	957,993	267,549	(288,775)
Plan's net pension liability	<u>\$ 21,945,632</u>	<u>\$ 6,128,994</u>	<u>\$ (6,615,234)</u>

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.

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

For the year ended September 30, 2022, the primary government recognized pension expense, as measured in accordance with GASB 68, of \$665,009.

At September 30, 2022, the primary government reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 857,566	\$ 398,371
Change of assumptions	26,199	-
Net difference between projected and actual investment earnings plan investments	-	5,370,795
Contributions subsequent to the measurement date	<u>2,039,084</u>	<u>-</u>
Total	<u>\$ 2,922,848</u>	<u>\$ 5,769,166</u>

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

For the year ended September 30, 2022, the primary government reported \$2,039,084 as deferred outflows of resources related to pensions resulting from primary government contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2023.

For the year ended September 30, 2022, Lancaster Economic Development Corporation recognized pension expense, as measured in accordance with GASB 68, of \$6,885.

At September 30, 2022, Lancaster Economic Development Corporation reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,909	\$ 4,138
Change of assumptions	272	-
Net difference between projected and actual investment earnings plan investments	-	55,794
Contributions subsequent to the measurement date	21,183	-
Total	\$ 30,364	\$ 59,932

For the year ended September 30, 2022, Lancaster Economic Development Corporation reported \$21,183 as deferred outflows of resources related to pensions resulting from Lancaster Economic Development Corporation contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2023.

For the year ended September 30, 2022, Lancaster Recreational Development Corporation recognized pension expense, as measured in accordance with GASB 68, of \$30,704.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

At September 30, 2022, Lancaster Recreational Development Corporation reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 39,551	\$ 18,373
Change of assumptions	1,208	-
Net difference between projected and actual investment earnings plan investments	-	247,700
Contributions subsequent to the measurement date	94,042	-
Total	\$ 134,801	\$ 266,073

For the year ended September 30, 2022, Lancaster Recreational Development Corporation reported \$94,042 as deferred outflows of resources related to pensions resulting from Lancaster Recreational Development Corporation contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction in the net pension liability at September 30, 2023.

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

Year Ending September 30,	
2023	\$ (852,156)
2024	(1,935,234)
2025	(1,088,094)
2026	(1,009,917)
Total	\$ (4,885,401)

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

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

Year Ending September 30,	
2023	\$ (8,823)
2024	(20,037)
2025	(11,266)
2026	(10,625)
Total	\$ (50,752)

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

Year Ending September 30,	
2023	\$ (39,344)
2024	(89,350)
2025	(50,237)
2026	(46,383)
Total	\$ (225,314)

Note 10: Other Postemployment Benefits

Retiree Health Care Plan

Plan Description

The City provides post-employment medical care (OPEB) for employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses, and dependents through the City’s group health insurance plans, which cover both active and retired members. The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process.

Since no assets are accumulated in a trust that meets the criteria of paragraph four of GASB 75, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Benefits Provided

The City provides post-employment medical and dental care benefits to its retirees. Retirees who elect COBRA cannot later elect retiree coverage. To be eligible for coverage an employee must qualify under all three of the following:

1. The retiree must have been covered for medical benefits under the City Health Plan as an employee immediately prior to termination of employment.
2. Apply for pension benefits from TMRS in accordance with their requirements and deadlines, but in no event later than 90 days from termination of employment; and
3. Enroll for retiree Health coverage within 31 days of the date of termination.

Funding Policy

The plan’s premium rates are determined annually by City management and approved by the City Council as part of the annual budget. Members receiving HMO medical benefits contribute \$672 per month for retiree-only coverage, \$1,480 per month for retiree and spouse, and \$2,290 per month for retiree and family. Members receiving PPO medical benefits contribute \$822 per month for retiree-only coverage, \$1,808 per month for retiree and spouse, and \$2,798 per month for retiree and family. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual employer contributions each year are equal to the benefits that are paid on behalf of the retirees.

Employees Covered by Benefit Terms

Membership in the Plan by membership class at December 31, 2021, (measurement date based on an actuarial valuation as of December 31, 2020), is as follows:

Inactive employees or beneficiaries currently receiving benefits	7
Inactive employees entitled to but not yet receiving benefits	-
Active employees	252
Total employees	259

Total OPEB Liability for Retiree Health Care Plan

The City and its component units’ total OPEB liability of \$1,377,637 was measured as of December 31, 2021.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Actuarial Assumptions

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

	<u>December 31, 2021</u>
Measurement Date	December 31, 2021, based on an actuarial valuation as of December 31, 2020
Actuarial Cost Method	Individual Entry-Age
Discount Rate	1.84% as of December 31, 2021 (2.00% as of December 31, 2020)
Inflation	2.50%
Salary Increase	3.50% to 11.50%, 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 gender-distinct 2019 Municipal Retirees of Texas Mortality Tables are used. The rates are projected on a fully generational basis using the ultimate mortality improvement rates in the MP tables to account for future mortality rates.
Health Care Trend Rates	Initial rate of 7.00% declining to an ultimate rate of 4.25% after 13 years
Participation Rates	25% for pre-65 retirees who are at least 50 years old at retirement; 0% for retirees younger than 50 years old at retirement

For plans that do not have a formal trust that meets GASB’s requirements, the discount rate equals the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date. The discount rate was based on the daily rate closest to but not later than the measurement date of the Fidelity “20-Year Municipal GO AA Index”.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Changes in Total OPEB Liability for Retiree Health Care Plan

The total OPEB liability and related information are as follows for the City and its component units at September 30, 2022:

	Total OPEB Liability
Balances as of October 1, 2021	\$ 1,399,614
Changes for the year:	
Service cost	89,062
Interest on total OPEB liability	28,451
Difference between expected and actual experience	1,021
Effect of assumption changes (discount rate change)	(97,296)
Benefit payments, age adjusted premiums, net of retiree contributions	(43,215)
Balances as of September 30, 2022	\$ 1,377,637
 City	 \$ 1,294,979
Lancaster Economic Development Corporation	\$ 13,776
Lancaster Recreational Development Corporation	\$ 68,882

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The total OPEB liability of the City and its component units has been calculated using a discount rate of 1.84 percent. The following presents the total OPEB liability using a discount rate one percent higher and one percent lower than the current discount rate.

	1% Decrease 0.84%	Current Discount Rate Assumption 1.84%	1% Increase 2.84%
Total OPEB Liability	\$ 1,521,434	\$ 1,377,637	\$ 1,247,936

Sensitivity of Total OPEB Liability to Changes in the Health Care Trend Rates

The total OPEB liability of the City and its component units has been calculated using assumed trend rates. The following presents the total OPEB liability using a discount rate one percent higher and one percent lower than the current discount rate.

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Total OPEB Liability	\$ 1,189,292	\$ 1,377,637	\$ 1,607,979

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

For the year ended September 30, 2022, the City and its component units recognized OPEB expense of \$122,990. At September 30, 2022, the City and its component units reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 8,864	\$ 104,757
Changes of assumptions	177,145	85,838
Benefit payments subsequent to the measurement date	38,811	-
Total	\$ 224,820	\$ 190,595

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Benefit payments subsequent to the measurement date and before fiscal year-end will be recognized as a reduction of the total OPEB liability in the year ending September 30, 2023. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year Ending September 30	Amortization of Deferred Outflows/(Inflows) of Resources
2023	\$ 5,477
2024	5,477
2025	5,477
2026	5,244
2027	289
Thereafter	(26,550)
Total	\$ (4,586)

Supplemental Death Benefit Fund

Plan Description

The City also participates in the single-employer defined benefit OPEB plan providing group term life insurance which is operated by TMRS and is known as the Supplemental Death Benefits fund (SDBF). The City elected, by ordinance, to provide group term life insurance coverage to active and retired members. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1, of any year to be effective the following January 1.

Benefits Provided

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

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. This 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 prefund retiree life insurance during employees’ entire careers. No assets are accumulated in a trust that meets the criteria in paragraph four of GASB 75.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Employees Covered by Benefit Terms

The following employees were covered by the benefit terms at December 31, 2021, (measurement date), is as follows:

Inactive employees or beneficiaries currently receiving benefits	132
Inactive employees entitled to but not yet receiving benefits	34
Active employees	259
Total employees	425

Total OPEB Liability for Supplemental Death Benefits

The City and its component units total OPEB liability of \$1,077,211 was measured as of December 31, 2021, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

December 31, 2021	
Actuarial Cost Method	Individual Entry-Age
Discount Rate	1.84% as of December 31, 2021 (2.00% as of December 31, 2020)
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees	2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates – disabled retirees	2019 Municipal Retirees of Texas Mortality Tables with a 4-year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees, and the assets are not accumulated in a trust that meets the criteria of paragraph four of GASB 75. Under GASB 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 1.84 percent based on the 20-Year Municipal GO AA Index published by bondbuyer.com is used as of the measurement date of December 31, 2021. At transition, GASB 75 also requires that the Total OPEB Liability (TOL) as of the prior fiscal year end be estimated based on the 20-Year Bond GO Index.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Changes in Total OPEB Liability for Supplemental Death Benefits

The total OPEB liability and related information are as follows for the City and its component units at September 30, 2021:

	Total OPEB Liability
Balances as of October 1, 2021	\$ 1,007,562
Changes for the year	
Service cost	51,349
Interest on total OPEB liability	20,494
Differences between expected and actual experience	(19,014)
Effect of assumption changes (discount rate change)	33,936
Benefit payments and age adjusted premiums, net of retiree contributions	(17,116)
Balances as of September 30, 2022	\$ 1,077,211
 City	 \$ 1,012,578
 Lancaster Economic Development Corporation	 \$ 10,772
 Lancaster Recreational Development Corporation	 \$ 53,861

Sensitivity of Total OPEB Liability to Changes in the Discount Rate

The total OPEB liability of the City and its component units has been calculated using a discount rate of 1.84 percent. The following presents the total OPEB liability using a discount rate one percent higher and one percent lower than the current discount rate.

	1% Decrease	Current Discount Rate Assumption	1% Increase
	0.84%	1.84%	2.84%
Total OPEB Liability	\$ 1,325,994	\$ 1,077,211	\$ 886,969

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

OPEB Expense and Deferred Outflows of Resources

For the year ended September 30, 2022, the City and its component units recognized OPEB expense of \$110,377. At September 30, 2022, the City and its component units reported deferred outflows of resources related to OPEB from the following sources:

	Outflows of Resources	Inflows of Resources
Differences in expected and actual experience	\$ 59,184	\$ -
Changes of assumptions	-	167,839
Total	\$ 59,184	\$ 167,839

Other amounts reported as deferred outflows of resources related to OPEB will be recognized in OPEB expense as follows:

September 30,	Amortization of Deferred Outflows of Resources
2023	\$ 33,444
2024	33,572
2025	29,742
2026	10,840
2027	1,057
Total	\$ 108,655

Note 11: 457(b) Retirement Plans

The City offers all employees an opportunity to participate in two deferred compensation plans that have been established in accordance with Internal Revenue Code Section 457. These plans are 457(b) plans, and one is administered by ICMA, and one is administered by Nationwide. The Plans provisions and contribution requirements are established and may be amended by plan administrator. Vantage Trust Company is the trustee of the ICMA plan and Nationwide is the trustee of its plan. Employees may enroll in the plans and/or change their contribution amounts at any time. The City does not contribute to either plan.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Note 12: Litigation

The City is party to several legal actions arising in the ordinary course of business. In the opinion of the City's legal counsel and management, the City has adequate legal defense and/or insurance coverage regarding each of these actions and does not believe the amount is probable.

Note 13: Commitments and Contingencies

Risk Management

The City is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City is part of the Texas Municipal League Intergovernmental Risk Pool (Pool). Premiums are paid to the Pool, which retain a limit of loss. Reinsurance companies insure the risks beyond those limits. The City retains, as a risk, only the deductible amount of each policy. There were no significant reductions in coverage in the past fiscal year and there were no settlements exceeding insurance coverage in any of the past three fiscal years.

Trinity River Authority of Texas

The City contracts with Trinity River Authority of Texas (TRA), a conservation and reclamation district, whereby TRA finances, constructs, operates and maintains sewage transportation and treatment facilities for the benefit of the City. The current contract is extended through the date until which all bonds have been paid. The City makes payments monthly, which are based on an estimate of its share of costs. The City's share of costs for the fiscal year ended September 30, 2022, was \$6,876,688 for the Ten Mile Creek Regional Wastewater System and \$157,677, for the Red Oak Creek Regional Wastewater System. This estimate is calculated by TRA who makes adjustments for over/under charges in the City's next fiscal year. There were no adjustments to the amounts as calculated by the TRA for the year ended September 30, 2022.

Federal and State Programs

The City participates in several federal and state grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that if the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable at September 30, 2022, may be impaired.

Other Contingencies

There are other claims and pending actions incidental to normal operations of the City. In the opinion of the City administration, the City's potential liability in these matters will not have a material impact in the accompanying financial statements.

City of Lancaster, Texas
Notes to Basic Financial Statements
September 30, 2022

Encumbrances

Budgetary basis of accounting, encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. At year end, the amount of encumbrances expected to be honored upon performance by the vendor in future years were as follows:

General Fund	<u>\$ 2,213,125</u>
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Note 14: Tax Incentive Rebates

The City of Lancaster has active Commercial Development and Job Related Incentive Rebates that develop or redevelop a particular property attracting business that generates incremental tax revenues. In addition to GASB 77, the agreements are subject to Chapter 380 of the Texas Local Government Code that promotes local economic development, commercial activity and business stimulation. City Council approves the agreements via resolution. As part of the agreement, the City agrees to rebate the tax valorem tax increment and the local sales tax after confirmation of payment. If the businesses do not meet the obligations as set forth in the agreement, a clawback provision for default on agreement is included in the agreement and the business agrees to return a percentage of the rebate back to the City. Total rebate of property tax dollars paid out of the general fund for the year ended September 30, 2022 is \$2,533,785.

The City also uses Sales Tax Incentive Programs to spur additional economic development. For the year ended September 30, 2022, sales tax rebates paid out of LEDC was \$180,000.

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Required Supplementary Information

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City of Lancaster, Texas
Required Supplementary Information
Schedule of Changes in Net Pension Liability and Related Ratios
Texas Municipal Retirement System (Unaudited)

	Measurement Year							
	2014	2015	2016	2017	2018	2019	2020	2021
Total Pension Liability								
Service cost	\$ 1,754,296	\$ 2,193,202	\$ 2,335,235	\$ 2,469,383	\$ 2,640,859	\$ 2,815,735	\$ 2,870,095	\$ 2,976,346
Interest (on the Total Pension Liability)	4,600,938	4,801,518	4,963,011	5,149,906	5,442,872	5,772,620	6,130,458	6,394,896
Changes in benefit terms	-	-	-	-	-	-	-	-
Differences between expected and actual experience	(470,634)	190,955	(1,104,406)	312,809	311,293	184,748	(1,122,347)	1,307,190
Changes in assumptions	-	961,057	-	-	-	287,170	-	-
Benefit payments, including refunds of employee contributions	(3,082,997)	(3,394,263)	(3,175,270)	(3,808,922)	(3,546,289)	(3,648,333)	(3,923,955)	(4,103,495)
Net Change in Total OPEB Liability	2,801,603	4,752,469	3,018,570	4,123,176	4,848,735	5,411,940	3,954,251	6,574,937
Total OPEB Liability (Beginning)	66,392,037	69,193,640	73,946,109	76,964,679	81,087,855	85,936,590	91,348,530	95,302,781
Total OPEB Liability (Ending)	<u>\$ 69,193,640</u>	<u>\$ 73,946,109</u>	<u>\$ 76,964,679</u>	<u>\$ 81,087,855</u>	<u>\$ 85,936,590</u>	<u>\$ 91,348,530</u>	<u>\$ 95,302,781</u>	<u>\$ 101,877,718</u>
Plan Fiduciary Net Position								
Contributions – employer	\$ 1,950,250	\$ 2,038,833	\$ 1,994,083	\$ 2,199,587	\$ 2,288,860	\$ 2,416,349	\$ 2,441,668	\$ 2,643,238
Contributions – employee	943,452	1,019,417	1,049,207	1,110,905	1,190,342	1,263,214	1,270,757	1,331,273
Net investment income	3,212,784	87,279	3,975,648	8,679,960	(2,119,471)	10,594,869	6,004,800	11,063,066
Benefit payments, including refunds of employee contributions	(3,082,997)	(3,394,263)	(3,175,270)	(3,808,922)	(3,546,289)	(3,648,333)	(3,923,955)	(4,103,495)
Administrative expense	(33,545)	(53,164)	(44,915)	(44,995)	(40,975)	(59,880)	(38,858)	(51,190)
Other	(2,758)	(2,625)	(2,420)	(2,281)	(2,140)	(1,799)	(1,516)	351
Net Change in Plan Fiduciary Net Position	2,987,186	(304,523)	3,796,333	8,134,254	(2,229,673)	10,564,420	5,752,896	10,883,243
Plan Fiduciary Net Position (Beginning)	56,164,588	59,151,774	58,847,251	62,643,584	70,777,838	68,548,165	79,112,585	84,865,481
Plan Fiduciary Net Position (Ending) (b)	<u>\$ 59,151,774</u>	<u>\$ 58,847,251</u>	<u>\$ 62,643,584</u>	<u>\$ 70,777,838</u>	<u>\$ 68,548,165</u>	<u>\$ 79,112,585</u>	<u>\$ 84,865,481</u>	<u>\$ 95,748,724</u>
City's net pension liability – Ending (a) – (b)	<u>\$ 10,041,866</u>	<u>\$ 15,098,858</u>	<u>\$ 14,321,095</u>	<u>\$ 10,310,017</u>	<u>\$ 17,388,425</u>	<u>\$ 12,235,945</u>	<u>\$ 10,437,300</u>	<u>\$ 6,128,994</u>
Plan fiduciary net position as a percentage of the total pension liability	85.49%	79.58%	81.39%	87.29%	79.77%	86.61%	89.05%	93.98%
Covered payroll	\$ 13,477,886	\$ 14,563,096	\$ 14,988,669	\$ 15,870,071	\$ 17,004,884	\$ 18,038,022	\$ 18,153,669	\$ 19,018,182
City's net pension liability as a percentage of covered payroll	74.51%	103.68%	95.55%	64.97%	102.26%	67.83%	57.49%	32.23%

Changes in assumptions: In the 2015 valuation the investment rate decreased from 7.0 percent to 6.75 percent; the inflation rate was lowered from 3.0 percent to 2.5 percent; the experience study for retirement age was updated.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's measurement date (December 31).

City of Lancaster, Texas
Required Supplementary Information
Schedule of Contributions
Texas Municipal Retirement System (Unaudited)

	Fiscal Year							
	2015	2016	2017	2018	2019	2020	2021	2022
Actuarially determined contribution	\$ 2,012,259	\$ 2,002,110	\$ 2,134,819	\$ 2,285,017	\$ 2,441,322	\$ 2,451,002	\$ 2,467,021	\$ 2,675,859
Contributions in relation to the actuarially determined contribution	<u>2,012,259</u>	<u>2,002,110</u>	<u>2,134,819</u>	<u>2,285,017</u>	<u>2,441,322</u>	<u>2,451,002</u>	<u>2,467,021</u>	<u>2,675,859</u>
Contribution deficiency (excess)	<u>\$ -</u>							
Covered payroll	\$ 14,156,179	\$ 14,839,963	\$ 15,572,564	\$ 16,678,121	\$ 18,031,676	\$ 18,060,708	\$ 18,490,118	\$ 21,593,406
Contributions as a percentage of covered payroll	14.21%	13.49%	13.71%	13.70%	13.54%	13.57%	13.34%	12.39%

Notes to Schedule of Contributions

Valuation Date:

Notes

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	24 years
Asset Valuation Method	10 Year smoothed market; 12% soft corridor
Inflation	2.50%
Salary Increases	3.50% to 11.50%, including inflation
Investment Rate of Return	6.75%
Retirement Age	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the Post retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality	Pre-retirement: PUB(10) mortality rates, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Other Information:

Notes

There were no benefit changes during the year

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the the City's most recent fiscal year-end (September 30).

City of Lancaster, Texas
Required Supplementary Information
Schedule of Proportionate Share of Net Pension Liability and Contributions
Texas Municipal Retirement System (Unaudited)

	Primary Government							
	2015	2016	2017	2018	2019	2020	2021	2022
Proportionate share of net pension liability	94.63%	94.61%	94.62%	94.63%	94.61%	94.62%	94.62%	94.59%
Net pension liability	\$ 9,502,407	\$ 14,285,030	\$ 13,550,087	\$ 9,756,009	\$ 16,451,475	\$ 11,577,744	\$ 9,876,406	\$ 5,801,180
Actuarially determined contribution	\$ 1,904,158	\$ 1,894,295	\$ 1,894,396	\$ 2,162,232	\$ 2,309,775	\$ 2,319,138	\$ 2,334,295	\$ 2,531,095
Covered payroll	\$ 13,395,694	\$ 14,040,821	\$ 14,041,573	\$ 15,781,923	\$ 17,060,067	\$ 17,067,576	\$ 17,177,002	\$ 17,989,298
Proportionate share of net pension liability as a percentage of covered payroll	70.94%	101.74%	96.50%	61.82%	96.43%	67.83%	57.50%	32.25%

	Lancaster Economic Development Corporation							
	2015	2016	2017	2018	2019	2020	2021	2022
Proportionate share of net pension liability	0.95%	0.93%	0.93%	0.95%	0.93%	0.94%	0.95%	0.90%
Net pension liability	\$ 95,378	\$ 140,419	\$ 133,994	\$ 97,894	\$ 161,599	\$ 115,227	\$ 99,040	\$ 60,265
Actuarially determined contribution	\$ 19,113	\$ 18,696	\$ 18,620	\$ 21,696	\$ 22,688	\$ 23,039	\$ 23,410	\$ 24,083
Covered payroll	\$ 134,456	\$ 138,576	\$ 138,012	\$ 158,359	\$ 167,577	\$ 169,557	\$ 172,261	\$ 171,164
Proportionate share of net pension liability as a percentage of covered payroll	70.94%	101.33%	97.09%	61.82%	96.43%	67.96%	57.49%	35.21%

	Lancaster Recreational Development Corporation							
	2015	2016	2017	2018	2019	2020	2021	2022
Proportionate share of net pension liability	4.42%	4.45%	4.45%	4.42%	4.46%	4.44%	4.43%	4.51%
Net pension liability	\$ 444,082	\$ 671,899	\$ 637,014	\$ 456,114	\$ 775,350	\$ 542,973	\$ 461,854	\$ 267,549
Actuarially determined contribution	\$ 88,988	\$ 89,119	\$ 89,094	\$ 101,089	\$ 108,859	\$ 108,824	\$ 109,167	\$ 120,681
Covered payroll	\$ 626,029	\$ 660,566	\$ 660,378	\$ 737,838	\$ 804,033	\$ 800,888	\$ 803,306	\$ 857,720
Proportionate share of net pension liability as a percentage of covered payroll	70.94%	101.72%	96.46%	61.82%	96.43%	67.80%	57.49%	31.19%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's most recent fiscal year-end (September 30).

City of Lancaster, Texas
Required Supplementary Information
Retiree Health Care Plan
Schedule of Changes in the City's Total OPEB Liability and Related Ratios
(Unaudited)

	Measurement Year				
	2017	2018	2019	2020	2021
Total OPEB Liability					
Service cost	\$ 51,667	\$ 65,663	\$ 64,079	\$ 78,688	\$ 89,062
Interest cost	41,389	39,252	44,458	37,706	28,451
Difference between expected and actual experience of the total OPEB liability	(1,641)	(16,374)	12,409	(124,895)	1,021
Changes of assumptions	57,658	2,136	112,094	102,810	(97,296)
Benefit payments	(40,219)	(72,858)	(82,029)	(52,977)	(43,215)
Net Change in Total OPEB Liability	108,854	17,819	151,011	41,332	(21,977)
Total OPEB Liability (Beginning)	<u>1,080,598</u>	<u>1,189,452</u>	<u>1,207,271</u>	<u>1,358,282</u>	<u>1,399,614</u>
Total OPEB Liability (Ending)	<u>\$ 1,189,452</u>	<u>\$ 1,207,271</u>	<u>\$ 1,358,282</u>	<u>\$ 1,399,614</u>	<u>\$ 1,377,637</u>
Covered-employee payroll	15,871,627	17,005,491	17,580,142	18,150,111	19,018,182
Total OPEB liability as a percentage of covered-employee payroll	7.49%	7.10%	8.59%	7.71%	7.24%

Changes of assumptions reflect the effect of changes in the discount rate each period. The following are the discount rates used in each period: 2018 – 3.71%, 2019 – 2.75%, 2020 – 2.00%, 2021 – 1.84%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's measurement date (December 31).

City of Lancaster, Texas
Required Supplementary Information
TMRs Supplemental Death Benefits Plan
Schedule of Changes in the City's Total OPEB Liability and Related Ratios
(Unaudited)

	Measurement Year				
	2017	2018	2019	2020	2021
Total OPEB Liability					
Service cost	\$ 22,218	\$ 27,208	\$ 27,057	\$ 39,938	\$ 51,349
Interest cost	23,780	24,222	26,296	23,779	20,494
Difference between expected and actual experience of the total OPEB liability	-	(16,454)	(39,707)	(33,785)	(19,014)
Changes of assumptions	59,920	(52,661)	141,242	135,647	33,936
Benefit payments	(6,348)	(5,101)	(5,411)	(5,446)	(17,116)
Net Change in Total OPEB Liability	99,570	(22,786)	149,477	160,133	69,649
Total OPEB Liability (Beginning)	621,168	720,738	697,952	847,429	1,007,562
Total OPEB Liability (Ending)	<u>\$ 720,738</u>	<u>\$ 697,952</u>	<u>\$ 847,429</u>	<u>\$ 1,007,562</u>	<u>\$ 1,077,211</u>
Covered-employee payroll	15,870,071	17,004,884	18,038,022	18,153,669	19,018,182
Total OPEB liability as a percentage of covered-employee payroll	4.54%	4.10%	4.70%	5.55%	5.66%

Changes of assumptions reflect the effect of changes in the discount rate each period. The following are the discount rates used in each period: 2018 – 3.71%, 2019 – 2.75%, 2020 – 2.00%, 2021 – 1.84%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the City will present information for only those years for which information is available. Information has been determined as of the City's measurement date (December 31).

City of Lancaster, Texas
Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual
General Fund (Unaudited)
For the Year Ended September 30, 2022

	Budgeted Amounts		Actual GAAP Basis	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes and fees	\$ 28,331,167	\$ 28,331,167	\$ 34,291,405	\$ 5,960,238
Licenses and permits	1,611,000	1,611,000	3,059,224	1,448,224
Intergovernmental	15,000	15,000	690,570	675,570
Charges for services	1,129,600	1,129,600	1,568,509	438,909
Fines and forfeits	797,000	797,000	1,844,042	1,047,042
Interest	30,000	30,000	269,612	239,612
Grant and other income	2,500	2,500	-	(2,500)
Miscellaneous	65,665	65,665	548,227	482,562
	<u>31,981,932</u>	<u>31,981,932</u>	<u>42,271,589</u>	<u>10,289,657</u>
Expenditures				
Current				
General government	6,687,018	6,687,018	10,212,548	(3,525,530)
Public safety	18,771,997	18,771,997	19,407,006	(635,009)
Public works	2,678,204	2,678,204	2,807,405	(129,201)
Community development and recreation	2,640,083	2,640,083	1,886,376	753,707
Capital outlay	4,107,683	4,107,683	1,747,900	2,359,783
	<u>34,884,985</u>	<u>34,884,985</u>	<u>36,061,235</u>	<u>(1,176,250)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,903,053)</u>	<u>(2,903,053)</u>	<u>6,210,354</u>	<u>9,113,407</u>
Other financing sources				
Transfers in	<u>2,577,228</u>	<u>2,577,228</u>	<u>1,990,448</u>	<u>(586,780)</u>
Total other financing sources	<u>2,577,228</u>	<u>2,577,228</u>	<u>1,990,448</u>	<u>(586,780)</u>
Net Change in Fund Balances	<u>(325,825)</u>	<u>(325,825)</u>	<u>8,200,802</u>	<u>8,526,627</u>
Fund Balance, Beginning of Year	<u>23,360,623</u>	<u>23,360,623</u>	<u>23,360,623</u>	<u>-</u>
Fund Balance, End of Year	<u>\$ 23,034,798</u>	<u>\$ 23,034,798</u>	<u>\$ 31,561,425</u>	<u>\$ 8,526,627</u>

City of Lancaster, Texas
Notes to Required Supplementary Information (Unaudited)
September 30, 2022

Budgets and Budgetary Accounting

The City adopts an “appropriated budget” of the General Fund on the modified accrual basis of accounting by department. The City is required to present the adopted and final amended budgeted revenues and expenditures. The City compares the final amended budget to actual revenues and expenditures.

Encumbrances are commitments related to unperformed (executory) contracts for goods or services (i.e., purchase orders, contracts, and commitments). Encumbrance accounting is utilized to the extent necessary to assure effective budgetary control and accountability and to facilitate effective cash planning and control. While all appropriations and encumbrances technically lapse at year end, valid outstanding encumbrances (those for which performance under the executory contract is expected in the next year) are reappropriated and spent in the subsequent year. The variances between General Fund - Budget and Actual Schedule, as noted on the previous page, are a result of prior year encumbrances and not expenditures in excess of current year appropriations.

An operating budget for the General Fund is legally adopted each fiscal year.

The budget is adopted on a basis consistent with generally accepted accounting principles (GAAP).

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

1. A proposed operating budget including proposed expenditures and the means of financing them is submitted to the City Council by the City Manager.
2. Upon receipt of the budget estimates, the City Council holds a first reading on the Budget Ordinance and Tax Roll Ordinance. Information about the Budget Ordinance is then published in the official newspaper of the City.
3. A public hearing on the budget is held.
4. Prior to October 1 the budget is legally enacted through passage of an ordinance. The legal level of budgetary control is at the fund level. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council. Budgetary control has been established at the detail level by line item activity for management control.

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APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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FORM OF BOND COUNSEL OPINION – WEST & ASSOCIATES, LLP

_____, 2023

WE HAVE ACTED as Bond Counsel for the CITY OF LANCASTER, TEXAS, a municipal corporation of the State of Texas (the “City”) in connection with an issue of certificates of obligation (the “Certificates”) described as follows:

CITY OF LANCASTER, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2023, dated November 1, 2023, in the aggregate principal amount of \$29,415,000, maturing on February 15 in the years 2025 through and including 2044. The Certificates are issuable in fully registered form only, in denominations of \$5,000 or integral multiples thereof, bear interest and may be transferred and exchanged as set out in the Certificates and in the ordinance (the “Ordinance”) adopted by the City Council of the City (the “City Council”) authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas. In such capacity we have examined the Constitution and laws of the State of Texas and a transcript of certain certified proceedings pertaining to the issuance of the Certificates, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates. We have also examined executed Certificate No. I-1.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City’s Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently in effect; the Certificates constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Certificates may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium

or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Certificates have been authorized and delivered in accordance with law;

(2) The Certificates are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Certificates; and

(3) The Certificates are further secured by the revenues to be derived from the City's water and sewer system after the payment of all operation and maintenance expenses thereof in a limited (in an amount not to exceed \$1,000) subordinate pledge of certain revenues of the water and sewer system of the City, to the extent that ad valorem taxes are ever insufficient or unavailable for such purposes.

The City has reserved the right to issue, for any lawful purpose at any time, in one or more installments, bonds, certificates of obligation and other obligations of any kind secured by a pledge of the Net Revenues that may be prior and superior in right to, on a parity with, or junior and subordinate to the pledge of net revenues securing the Certificates.

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

Respectfully submitted,

APPENDIX D

FORM OF SPECIAL TAX COUNSEL'S OPINION

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December 12, 2023

Ladies and Gentlemen:

We have served as special tax counsel to the City of Lancaster, Texas (the “Issuer”) in connection with its issuance of a Combination Tax and Revenue Certificates of Obligations, Series 2023 (the “Certificates”), in the principal amount of \$29,415,000. The Certificates mature, bear interest and may be transferred and exchanged as set out in the ordinance adopted by the Issuer authorizing the Certificates (the “Ordinance”).

We have served as special tax counsel for the sole purpose of rendering an opinion with respect to the exclusion of interest on the Certificates from gross income under federal income tax law. In such capacity we have examined the federal income tax law and a transcript of certain certified proceedings pertaining to the issuance of the Certificates. The transcript contains certified copies of certain proceedings of the Issuer; certain certifications and representations and other material facts within the knowledge and control of the Issuer, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates.

Based on our examination as described above and in reliance on the legal opinion of West & Associates, L.L.P., as Bond Counsel, dated the date hereof, that the Certificates have been authorized and issued in accordance with the Constitution and laws of the State of Texas and is a valid and legally binding obligation of the Issuer, we are of the opinion that interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. We observe that, for tax years beginning after December 31, 2022, interest on the Certificates included in adjusted financial statement income of certain corporations is not excluded from the federal corporate alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates.

The opinion set forth in the first sentence of the immediately preceding paragraph is subject to the condition that the Issuer comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Certificates in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Issuer has covenanted in the Ordinance and the Federal Tax Certificate executed by the Issuer on the date hereof, to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Certificates in gross income for federal income tax purposes to be retroactive to the date of issuance of the Certificates. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinion is based, are subject to change,

which could prospectively or retroactively result in the inclusion of the interest on the Certificates in gross income of the owners thereof for federal income tax purposes.

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

JACKSON WALKER L.L.P.

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Municipal Advisory Services
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