

OFFICIAL STATEMENT

Dated: April 25, 2022



Ratings: Fitch Ratings: "AAA"
S&P Global Ratings: "AAA"
(See "RATINGS" herein)

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, interest on the Bonds is excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "TAX MATTERS-Tax Exemption" herein.

\$22,595,000
CITY OF CARROLLTON, TEXAS
(Dallas, Denton and Collin Counties)
GENERAL OBLIGATION IMPROVEMENT AND REFUNDING BONDS,
SERIES 2022

Dated Date: June 1, 2022

Due: August 15, as shown on page ii

Interest to accrue from Date of Delivery

Interest on the \$22,595,000 City of Carrollton, Texas, General Obligation Improvement and Refunding Bonds, Series 2022 (the "Bonds"), will accrue from the date of delivery (the "Delivery Date") and be payable on February 15 and August 15 of each year, commencing February 15, 2023, until maturity or prior redemption. The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount, for any one maturity. Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon their presentation and surrender to the Paying Agent/Registrar (the "Paying Agent/Registrar"), initially U.S. Bank Trust Company, National Association. Interest on the Bonds will be computed on the basis of a 360-day year consisting of twelve 30-day months and is payable to the registered owners appearing on the registration books of the Paying Agent/Registrar on the last business day of the month preceding each interest payment date (the "Record Date"). Interest on the Bonds will be payable, by check, dated as of the interest payment date, and mailed by United States mail, first class postage paid, by the Paying Agent/Registrar to the 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. The City of Carrollton, Texas (the "City"), intends to utilize the Book-Entry-Only System of The Depository Trust Company ("DTC"), but such system could be discontinued in the future. Such Book-Entry-Only System will affect the method and timing of payment and the method of transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein). **No physical delivery of the Bonds will be made to the beneficial owners thereof.**

The Bonds maturing on and after August 15, 2033, are subject to optional redemption prior to maturity, in whole or in part, on August 15, 2032, or any date thereafter, as described herein (see "THE BONDS – Optional Redemption" herein).

The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapters 1207, Chapters 1331 and 1371 Texas Government Code, as amended, an ordinance (the "Bond Ordinance") authorizing the issuance of the Bonds adopted by the City Council of the City, and an election at which certain of the purposes for the Bonds were authorized by the City's electorate. In the Bond Ordinance, the City delegated the authority to certain City officials to execute a "Pricing Certificate" establishing the pricing terms for the Bonds. The Bond Ordinance and the Pricing Certificate are sometimes referred to herein as the "Ordinance." The Bonds constitute direct obligations of the City and are payable both as to principal and interest from the proceeds of a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City.

Proceeds of the Bonds will be used to (i) design, acquire, construct, maintain, renovate, improve, repair, extend, expand, and enhance parks, public safety facilities, streets, including thoroughfares, alleys, sidewalks, bridges, intersections, screening walls, and other public ways, participation in joint projects with federal, state and local public entities and agencies, computerized signalization and monitoring equipment and other traffic controls, grade separations, street lighting, necessary or incidental utility relocation, and drainage improvements in connection with the foregoing and the purchase of land, easements, rights-of-way, and other real property interests necessary therefor; (ii) refund a portion of the City's outstanding general obligation bonds described in **Schedule I** (the "Refunded Bonds") for debt service savings; and (iii) pay the costs associated with the issuance of the Bonds (see "THE BONDS – Purpose" herein).

The Bonds are offered when, as and if issued and accepted by the Initial Purchaser, subject to the approval of legality by the Attorney General of the State of Texas and Norton Rose Fulbright US LLP, Dallas, Texas, Bond Counsel. The Bonds are expected to be available for delivery through DTC on or about June 2, 2022.

MATURITY SCHEDULE

Maturity (8/15)	Principal Amount	Interest Rate	Yield	CUSIP Suffix⁽¹⁾
2023	\$2,335,000	5.000%	2.130%	RY9
2024	1,800,000	5.000%	2.350%	RZ6
2025	1,420,000	5.000%	2.480%	SA0
2026	1,420,000	5.000%	2.540%	SB8
2027	1,420,000	5.000%	2.640%	SC6
2028	1,420,000	5.000%	2.720%	SD4
2029	1,420,000	5.000%	2.810%	SE2
2030	1,420,000	5.000%	2.870%	SF9
2031	1,420,000	5.000%	2.910%	SG7
2032	1,420,000	5.000%	2.950%	SH5
2033	1,420,000	3.250%	3.200%	SJ1
2034	1,420,000	3.350%	3.300%	SK8
2035	1,420,000	3.450%	3.400%	SL6
2036	1,420,000	3.550%	3.500%	SM4
2037	1,420,000	3.600%	3.550%	SN2

(Interest to accrue from Delivery Date)

Optional Redemption... The Bonds maturing on August 15, 2033, and thereafter are subject to redemption, at the option of the City, at par value thereof plus accrued interest on August 15, 2032, or any date thereafter (see “THE BONDS – Optional Redemption”).

⁽¹⁾ CUSIP® is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services (“CGS”), managed on behalf of the American Bankers Association by FactSet Research Systems. This data is included solely for the convenience of the registered owners of the Bonds, 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, nor the Initial Purchaser are responsible for the selection or correctness of the CUSIP numbers set forth herein.

CITY OF CARROLLTON, TEXAS

ELECTED OFFICIALS

CITY COUNCIL

<u>Name</u>	<u>Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Kevin Falconer ⁽¹⁾	Mayor	May 2023	Architect
Steve Babick ⁽¹⁾	Member, Place 1	May 2024	Finance and Business Owner
Adam Polter	Member, Place 2	May 2023	Former Information Technology Executive
Pat Cochran ⁽¹⁾	Mayor Pro Tem, Place 3	May 2024	Real Estate and Business Owner
Andrew Palacios	Deputy Mayor Pro Tem Place 4	May 2023	Educator
Nancy Cline	Member, Place 5	May 2024	Engineer
Young Sung	Member, Place 6	May 2023	Real Estate Broker
H.A. "Rusty" Pendleton	Member, Place 7	May 2024	Construction Manager

⁽¹⁾ The City of Carrollton will hold a special election on May 7, 2022 to fill a vacancy for the unexpired terms for Mayor and City Council Places 1 and 3. Council Members are required to resign from their position if they choose to run for another elective office during their term. The Mayor is currently in the process of running for another elective office. Council Members for Place 1 and 3 have filed to run for Mayor. All positions will continue to serve until fill following the May 7, Special Election.

APPOINTED OFFICIALS

Erin Rinehart, City Manager

Robert B. Scott, Assistant City Manager / CFO⁽²⁾

Chrystal Davis, Assistant City Manager

Marc Guy, Assistant City Manager

Meredith Ladd, City Attorney

Chloe Sawatzky, City Secretary

BOND COUNSEL

Norton Rose Fulbright US LLP
Dallas, Texas

FINANCIAL ADVISOR

PFM Financial Advisors LLC
Dallas, Texas

INDEPENDENT AUDITOR

BKD LLP, Certified Public Accountants
Dallas, Texas

⁽²⁾ Resigned effective April 22, 2022 to accept a similar position in a nearby city.

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Certain information set forth herein in this Official Statement has been furnished by sources other than the City which are believed to be reliable, but such information is not guaranteed by the City as to accuracy or completeness.

Any information and expression of opinion herein contained is subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE" for a description of the City's undertaking to provide certain information on a continuing basis.

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

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

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

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

None of the City, the Financial Advisor, or the Initial Purchaser make any representation regarding the information contained in this Official Statement regarding The Depository Trust Company ("DTC") and its Book-Entry-Only System, as such information was furnished by DTC.

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		The cover page hereof, the section entitled “Official Statement Summary,” this Table of Contents, Schedule I and Appendices A, B and C attached hereto are part of this Official Statement.

SUMMARY STATEMENT

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

The Issuer	The City of Carrollton, Texas (the “City”), a duly incorporated home-rule municipality of the State of Texas, located in Dallas, Denton, and Collin Counties, Texas, having an estimated 2021 population of approximately 139,350.
The Bonds	\$22,595,000 General Obligation Improvement and Refunding Bonds, Series 2022 (the “Bonds”), dated June 1, 2022 (the “Dated Date”), maturing annually on August 15 in each of the years 2023 through 2037, inclusive. Interest on the Bonds will accrue from the date of initial delivery and will be payable February 15 and August 15 of each year, commencing February 15, 2023, until the earlier of maturity or prior redemption.
Purpose of the Bonds	Proceeds of the Bonds will be used to (i) design, acquire, construct, maintain, renovate, improve, repair, extend, expand, and enhance parks, public safety facilities, streets, including thoroughfares, alleys, sidewalks, bridges, intersections, screening walls, and other public ways, participation in joint projects with federal, state and local public entities and agencies, computerized signalization and monitoring equipment and other traffic controls, grade separations, street lighting, necessary or incidental utility relocation, and drainage improvements in connection with the foregoing and the purchase of land, easements, rights-of-way, and other real property interests necessary therefor; (ii) refund a portion of the City’s outstanding General Obligation Bonds described in Schedule I (the “Refunded Bonds”) for debt service savings; and (iii) pay certain costs associated with the issuance of the Bonds (see “THE BONDS – Purpose” herein).
Security for the Bonds	The Bonds constitute direct obligations of the City payable from a continuing direct annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City in an amount sufficient to provide for payment of principal of and interest on all ad valorem tax debt (see “THE BONDS – Security and Source of Payment” herein).
Optional Redemption	The Bonds maturing on or after August 15, 2033, are subject to redemption at the option of the City, in whole or in part, on August 15, 2032, or any date thereafter, at a price of par plus accrued interest to the date fixed for redemption (see “THE BONDS – Optional Redemption” herein).
Ratings	S&P Global Ratings, a division of S&P Global Inc., and Fitch Ratings have assigned municipal bond ratings of “AAA” (Stable Outlook) and “AAA”, respectively, to the Bonds (see “RATINGS” herein).
Book-Entry-Only System	The Bonds will be initially deposited with and registered solely to Cede & Co., the nominee of The Depository Trust Company, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds (see “BOOK-ENTRY-ONLY SYSTEM” herein).
Continuing Disclosure	Pursuant to the Ordinance, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of certain specified events to the Municipal Securities Rulemaking Board (the “MSRB”). Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org (see “CONTINUING DISCLOSURE”).
Tax Exemption	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein.
Payment Record	The City has never defaulted on the payment of its tax-supported debt.
Legal Opinion	Norton Rose Fulbright US LLP, Dallas, Texas.
Delivery	When issued, anticipated to be on or about June 2, 2022.

OFFICIAL STATEMENT RELATING TO

CITY OF CARROLLTON, TEXAS

\$22,595,000

GENERAL OBLIGATION IMPROVEMENT AND REFUNDING BONDS, SERIES 2022

INTRODUCTION

This Official Statement, including the Schedule and Appendices hereto, has been prepared by the City of Carrollton, Texas (the “City”), in connection with the offering by the City of its General Obligation Improvement and Refunding Bonds, Series 2022 (the “Bonds”) identified on the cover page hereof.

The Bonds are being issued pursuant to the general laws of the State of Texas, particularly Texas Government Code, Chapters 1207, 1331 and 1371, as amended, an ordinance adopted by the City Council of the City (the “Bond Ordinance”), an election at which the purposes for the Bonds were authorized by the City’s electorate. In the Bond Ordinance, the City delegated pricing of the Bonds and certain other matters to a “Pricing Officer,” who has executed a “Pricing Certificate” establishing the pricing terms for the Bonds (the Bond Ordinance and the Pricing Certificate are sometimes referred to herein as the “Ordinance”). Capitalized terms used herein have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated.

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 will necessarily continue or be repeated in the future.

There follows in this Official Statement a description of the Bonds and certain information about 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, PFM Financial Advisors LLC, Dallas, Texas.

GLOBAL UNCERTAINTIES

COVID-19 Pandemic

The City is now entering its third year of the COVID-19 pandemic. While certain revenues and expenses have been negatively affected, ad-valorem property taxes and sales tax revenues have continued to experience growth, and funding was received through the Coronavirus Aid, Relief, and Economic Security (CARES) program and the American Rescue Plan (ARP) program. Recent local, state, and national case and hospitalization counts have continued to decline significantly, and the Centers for Disease Control and Prevention (CDC) has recently released new mask guidelines. While these are positive signs, it is possible for a new variant to cause new cases to surge. These continuing impacts may reduce or otherwise negatively affect future property values and/or the collection of sales and other excise taxes, charges, and fees within the City as well as the assets of City pension funds. See “INSURANCE, PENSION PLANS AND DEFERRED COMPENSATION PLANS” and “AD VALOREM PROPERTY TAXATION.” The City remains cautious and with experience gained through previous surges is prepared to respond quickly to changing circumstances. However, the City can make no representation or give any assurance regarding the short or long-term impact that the outbreak of COVID-19 may have on the City or its finances.

Ukraine War, Supply Chain and Inflation

The Russian–Ukraine conflict has furthered aggravated both a fractured supply chain and rapidly escalating prices. The City has responded by ordering products much further in advance, obtaining alternative sources and evaluating maintenance approaches to extend the life of existing vehicles, equipment and infrastructure. The City multi-year budgets include higher prices and annual escalators. The strong Texas economy and growing revenues will help offset some of the impact. However, the City can make no representation or give any assurance regarding the short or long-term impact that a fractured supply chain and rapidly escalating prices may have on the City or its finances.

THE BONDS

General Description

The Bonds will be dated June 1, 2022 (the “Dated Date”), will be issued in fully registered form, and will be issued in denominations of \$5,000 or any integral multiple thereof within a maturity. The Bonds will accrue interest from the date of initial delivery, and interest will be paid semiannually, on each February 15 and August 15 commencing February 15, 2023, until maturity or prior redemption. Interest on the Bonds will be calculated on the basis of a 360-day year composed of twelve 30-day months. The Bonds will mature on the dates and in the amounts and bear interest at per annum rates as set forth on the inside front cover page hereof.

Principal and interest will be paid by U.S. Bank Trust Company, National Association. (the “Paying Agent/Registrar”). Subject to the requirements associated with the use of the Book-Entry-Only System, interest will be paid by check dated as of the interest payment date and mailed by United States mail, first class postage paid, on or before each interest payment date by the Paying Agent/Registrar to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date (herein defined), or by such other method acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, such registered owner. Principal will be paid to the registered owners at maturity or prior redemption upon presentation and surrender of the Bonds to the Paying Agent/Registrar. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due. The City will initially use the Book-Entry-Only System of The Depository Trust Company (“DTC”) in regard to the issuance, payment and transfer of the Bonds. Such system will affect the timing and method of payment of the Bonds (see “BOOK-ENTRY-ONLY SYSTEM” herein).

Purpose

The Bonds are being issued to (i) design, acquire, construct, maintain, renovate, improve, repair, extend, expand, and enhance parks, public safety facilities, streets, including thoroughfares, alleys, sidewalks, bridges, intersections, screening walls, and other public ways, participation in joint projects with federal, state and local public entities and agencies, computerized signalization and monitoring equipment and other traffic controls, grade separations, street lighting, necessary or incidental utility relocation, and drainage improvements in connection with the foregoing and the purchase of land, easements, rights-of-way, and other real property interests necessary therefor; (ii) refund a portion of the City’s outstanding general obligation bonds described in **Schedule I** (the “Refunded Bonds”) for debt service savings; and (iii) pay certain costs associated with the issuance of the Bonds (see “THE BONDS – Purpose” herein).

Refunded Bonds

The principal and interest due on the Refunded Bonds are to be paid on the redemption date of such Refunded Bonds from funds to be deposited pursuant to a certain Escrow Agreement (the “Escrow Agreement”) between the City and U.S. Bank Trust Company, National Association (the “Escrow Agent”). The Ordinance will provide that from the proceeds of the sale of the Bonds received from the Purchaser and other available City funds, if any are necessary, the City will deposit with the Escrow Agent the amount sufficient to pay all amounts coming due on the Refunded Bonds to their redemption date and to accomplish the discharge and final payment of the Refunded Bonds on their redemption date. Prior to the redemption date, such funds will be held by the Escrow Agent in a special escrow account (the “Escrow Fund”) and such funds may be either (i) held uninvested in the Escrow Fund or (ii) used to purchase direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States (the “Escrowed Securities”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of the principal of and interest on the Refunded Bonds. Robert Thomas CPA, LLC, will verify at the time of delivery of the Bonds to the initial purchaser of the Bonds that the Escrowed Securities will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund, will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. Such maturing principal of and interest on the Escrowed Securities will not be available to pay the debt service on the Bonds (see “VERIFICATION OF MATHEMATICAL COMPUTATIONS”). By the deposit of the cash with the Escrow Agent pursuant to the Escrow Agreement, the City will have affected the defeasance of all of the Refunded Bonds in accordance with State law. It is the opinion of Bond Counsel that as a result of such deposit and in reliance upon the report of Robert Thomas CPA, LLC., the Refunded Bonds will be defeased and outstanding only for the purpose of receiving payments from the cash in the Escrow Fund held for such purpose by the Escrow Agent and such Refunded Bonds will not be deemed as being outstanding obligations of the City payable from taxes nor for the purpose of applying any limitation on the issuance of debt, and the City will have no further responsibility with respect to amounts available in the Escrow Fund for the payment of the Refunded Bonds from time to time.

Security and Source of Payment

The Bonds are payable from a continuing direct annual ad valorem tax levied, within limits prescribed by law against all taxable property within the City (see “AD VALOREM PROPERTY TAXATION – Debt Tax Rate Limitations” herein).

Optional Redemption

The City reserves the right, at its option, to redeem the Bonds having stated maturities on or after August 15, 2033, in whole or in part, on August 15, 2032 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Bonds of a maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class postage prepaid, to each registered owner of a Bond 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 last business day next preceding the date of mailing such notice.

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

ANY NOTICE GIVEN SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE, AND ANY REDEMPTION NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND, NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

Limitation on Transfer of Bonds

Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, when such redemption is scheduled to occur within 45 calendar days of the transfer or exchange date; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

Defeasance

The Ordinance provides for the defeasance of the Bonds when the payment of the principal of and premium, if any, on the Bonds, 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 a paying agent, or authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities, certified by an independent accounting or consulting firm to mature as to principal and interest in such amounts and at such times to ensure 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 Bonds.

The Bond Ordinance provides, that unless modified in the Pricing Certificate, the term "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 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, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and 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 and (d) any other then authorized securities or obligations under applicable State law that may be used to defease obligations such as the Bonds.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Ordinance does not contractually limit such investments, registered owners will be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. Upon making such deposit in the manner described, such Bonds shall no longer be deemed outstanding obligations secured by the Ordinance, but will be payable only from the funds and Government Securities deposited in escrow and will not be considered debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. There is no assurance that the ratings for U.S. Treasury securities used for defeasance purposes or that for any other Government Securities will be maintained at any particular rating category. Furthermore, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

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

TAX RATE LIMITATIONS

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on the Bonds, within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and the City's Home Rule Charter adopts the Constitutional maximum ad valorem tax rate for all City purposes of \$2.50 per \$100 taxable valuation. State law provides certain procedures to be followed by the City in setting its annual tax rate, including, in certain instances, the giving of notice of the tax rate and holding a public hearing. State law also provides for a "voter approved tax rate" limit on annual tax increases, although the portion of the tax rate levied to secure payment of tax-supported debt, such as the Bonds, is not subject to the rollback rate limitation (see "AD VALOREM PROPERTY TAXATION – Public Hearing and Maintenance and Operation Tax Rate Limitations").

ENFORCEMENT OF REMEDIES

If the City defaults in the payment of principal, interest or redemption price, as applicable, on the Bonds when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Bonds if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Bonds upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) ("Wasson") that the sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. The Texas Supreme Court reviewed *Wasson* again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims) it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in the 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. If sovereign immunity is determined by a court to exist then the Texas Supreme Court has ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance covenants in the absence of City action. Chapter 1371, Texas Government Code ("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, including the Bonds, but the City has not waived sovereign immunity in connection with the issuance of the Bonds. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. 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 holders of the Bonds 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 creditors' rights would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all

opinions relative to the enforceability of the Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and as to general principals of equity that permit the exercise of judicial discretion.

RECORD DATE FOR INTEREST PAYMENT

The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date is the last business day of the month next preceding such interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (the “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 Bond appearing on the 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.

BOOK-ENTRY-ONLY SYSTEM

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

The City cannot and does not give any assurance that (i) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (ii) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (iii) 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.

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

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

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

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

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

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

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

Effect of Termination of Book-Entry-Only System

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bond certificates will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under caption "REGISTRATION, TRANSFER AND EXCHANGE" below.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank Trust Company, National Association. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Bonds. If the Paying Agent/Registrar is replaced by the City, the Paying Agent/Registrar, promptly upon the appointment of its successor, is required to deliver the registration records to the successor Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a commercial bank, trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties of Paying Agent/Registrar. Upon any change in the Paying Agent/Registrar for the Bonds, the City shall promptly cause a written notice of such change to be sent to each registered owner of the Bonds affected by the change, by United States mail, first class postage prepaid, which notice shall give the address for the new Paying Agent/Registrar.

Future Registration

In the event the use of the Book-Entry-Only System for the Bonds should be discontinued, printed certificates will be delivered to the registered owners of the Bonds, and thereafter such Bonds may be transferred, registered and assigned on the registration books only upon their presentation and surrender of such printed certificates to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner except for any tax or other governmental charges required to be paid with respect to such registration and transfer. The Bonds may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar in lieu of the Bonds being transferred or exchanged at the designated office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the owner's request, risk and expense. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the owner in not more than three (3) business days after the receipt of the Bonds to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 of principal amount for any one maturity or any integral multiple thereof and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer (see "BOOK-ENTRY-ONLY SYSTEM" herein).

AD VALOREM PROPERTY TAXATION

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

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Dallas Central Appraisal District, the Denton Central Appraisal District and the Collin Central Appraisal District (collectively, the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. In the year of a reappraisal, the appraisal is based on the value as of January 1st of that year. Tax years run concurrently with calendar years January 1st-December 31st. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

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

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

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

State Mandated Homestead Exemptions

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

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption

described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

Local Option Freeze for the Elderly and Disabled

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

Personal Property

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

Freeport and Goods-In-Transit Exemptions

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

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days (“Goods-in-Transit”), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer’s motor vehicle, boat, or heavy equipment inventory.

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

Other Exempt Property

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

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. Except in situations where the territory is declared a disaster on or after the date the taxing unit adopts a tax rate for the year in which the disaster declaration is issued, 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 Property Tax Code. Section 11.35 of the Property Tax Code was enacted during the 2019 legislative session, and there is no historical precedent for how the statute will be applied. On April 13, 2020, the Texas Attorney General passed Opinion No. KP-0299 expressing that the temporary tax exemption permitted by Section 11.35 of the Property Tax Code did not apply to purely economic, non-physical damage to property caused by the COVID-19 disaster and a homeowner would not likely be able to claim a temporary tax exemptions for such non-physical damage (see “GLOBAL UNCERTAINTIES – COVID 19 PANDEMIC”).

Tax Increment Reinvestment Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones (“TIRZ”) within its boundaries. At the time of the creation of the TIRZ, a “base value” for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the

base value is known as the “tax increment”. During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

Tax Abatement Agreements

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

For a discussion of how the various exemptions described above are applied by the City, see “THE PROPERTY TAX CODE AS APPLIED TO THE CITY OF CARROLLTON.”

City and Taxpayer Remedies

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

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

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

Levy and Collection of Taxes

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The Property Tax Code permits taxpayers owning homes or certain businesses located in a disaster area and physically damaged as a direct result of the declared disaster to pay taxes imposed in the year following the disaster in four equal installments without penalty or interest, commencing on February 1 and ending on August 1. The Texas Attorney General, has expressed an opinion that this exemption does not apply to purely economic, non-physical damage caused by the global COVID-19 pandemic (see “GLOBAL UNCERTAINTIES - COVID-19 PANDEMIC”).

City’s Rights in the Event of Tax Delinquencies

Taxes levied by the City are a personal obligation of the owner of the property. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the City, having power to tax the property. The City’s tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

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

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

Public Hearing and Maintenance and Operations Tax Rate Limitations

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

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

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

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

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

“unused increment rate” new for tax year 2020 means the cumulative difference between a city’s maintenance & operations voter-approval tax rate and its actual maintenance and operations tax rate for a rolling three years. Unused increment rates carry over for up to three tax years until used to raise the voter approval rate above the 1.035 listed below. Any unused increment rate expires automatically at the end of the third tax year following its creation.

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

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

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

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

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

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

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

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its voter-approval tax rate using a 1.08 multiplier, instead of 1.035, until the earlier of (i)

the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

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

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

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

Debt Tax Rate Limitations

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

THE PROPERTY TAX CODE AS APPLIED TO THE CITY OF CARROLLTON

General Tax Exemptions

The City does not tax non-business personal property such as automobiles (with the exception of leased vehicles), boats or aircraft.

The City Council has taken action granting exemptions from ad valorem taxation of 20% of market value or \$5,000 in value, whichever is greater, on all residential homesteads and an additional \$60,000 on the resident homesteads of taxpayers 65 years old or older and the disabled taxpayers.

The City does not levy a tax against the value of residential homesteads exempted from ad valorem taxes, as mandated or permitted on a local option basis by State tax law, in order to pay debt service on its tax supported indebtedness.

The City has exempted freeport property from ad valorem taxation.

The City has not authorized the tax freeze on the residence homestead of a disabled person or persons 65 years of age or older that became effective under State tax law on January 1, 2004.

City ad valorem taxes levied on properties located in Dallas County are collected by the Dallas County Tax Assessor-Collector, and ad valorem taxes levied on properties in Collin County and Denton County are collected by the Denton County Tax Assessor-Collector.

The City does not grant discounts for early payment of taxes or permit split payment of taxes, as permitted by the Property Tax Code on a local option basis.

Economic Development Incentives

The City has developed and implemented a strategic business development plan designed to be compatible with the goals embodied in the City's Comprehensive Zoning and Subdivision Ordinances in conjunction with other policies. This strategy has been developed because the City is substantially built out and must grow its tax base through redevelopment projects, with a special emphasis on transit oriented development ("TOD"), including redevelopment of areas around light rail stations in the City that are part of the Dallas Area Rapid Transit ("DART") system. The City has adopted criteria for tax abatement in accordance with the provisions of Chapter 312 but currently has no abatement agreements in place. It does have various ad valorem tax grant agreements in accordance with the provisions of Chapter 380. The City's policies for such agreements include incentives targeted to new construction, the relocation, expansion or modernization of companies, including companies with large taxable inventories and neighborhood retail/commercial reinvestment projects. Any consideration for a tax abatement or grant must be reviewed by the City Council and be consistent with the City's policies for such tax incentive. Other factors taken into account in determining whether a project qualifies for such incentives are the number of jobs that will be created or retained, the amount of capital investment to be made by a taxpayer and the location of the project. Agreements for rebate of property taxes call for rebates of 30% to 90% of taxes on incremental values for up to 17 years. In the year ended September 30, 2021, the City made ad valorem tax grants of \$2,931,338 in accordance with its ad valorem tax incentive policy, which was equal to approximately 3.01% of the City's total tax levy for the year ended September 30, 2021 (see "Note 11 – APPENDIX B - GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2021"). The City Council adopted by ordinance and established a Tax Increment Reinvestment Zone ("TIRZ") on January 10, 2006. The TIRZ was created for the purpose of dedicating the increase in tax revenue generated within the TIRZ to provide funds for public infrastructure to encourage accelerated development and redevelopment in the areas surrounding the Downtown and Trinity Mills DART light rail stations. The TIRZ covers an area of approximately 1,047 acres. The TIRZ is a barbell

shaped, contiguous area, with a northern terminus encircling the general area of the Trinity Mills DART station, and with the southern terminus encircling the Downtown DART station. A corridor connects the two light rail station areas, which is bound on the east by Broadway Street and on the west by IH-35E. The base taxable values of the TIRZ are frozen at the level of taxable values for 2006, the year of creation, at \$132,282,229. In tax year 2021, the TIRZ had a taxable value of \$394,671,825 representing \$262,744,522 of incremental value that can be taxed for public infrastructure improvements within the TIRZ. The City and Dallas County are the taxing entities participating in the TIRZ, and the participation is set at 65% of the incremental value within the TIRZ. The City ordinance establishing the TIRZ provides that the TIRZ will terminate on December 31, 2030 or at an earlier time designated by subsequent ordinance of the City Council, or at such time as all project costs and tax increment bonds, if any, have been paid in full. No debt has been issued by the City that is secured by revenues of the TIRZ.

Sales and Use Tax

Sales and use tax is authorized under State law with the City's levy equal to 1% of taxable sales and uses. The Texas Comptroller of Public Accounts collects all sales and use taxes on behalf of the City, remitting all taxes collected less a 2% service fee to the City on a monthly basis.

The State utilizes origin-based sourcing for most municipal sales tax transactions. Under this approach, most sales tax is sourced to the taxing jurisdiction in which the selling business is located regardless of where in the State the purchaser resides, or the product is shipped. Origin sourcing can produce large individual sales taxpayers in specific jurisdictions. As a result, sales can fluctuate not only due to general economic factors, but also due to relocations of businesses between taxing jurisdictions. The Comptroller revised section 3.3334 of the Texas Administrative Code which makes it much more likely that certain sales previously sourced as origin will now be sourced destination. The change in rules was to be effective October 1, 2021, but has been challenged by several cities, including the City. During the pendency of this lawsuit, the effective date has been enjoined until the case can be heard. The identity of and the amount paid by individual sales and use taxpayers is strictly confidential under State law.

Use tax relates to sales of goods or services shipped into the State by sellers without a physical presence in the State. Use tax is generally on a destination basis.

The sales and use taxes collected by the City are not pledged to the payment of the debt service on the Bonds.

CAPITAL IMPROVEMENT PLAN AND ISSUANCE OF ADDITIONAL DEBT

Capital projects involve the acquisition or construction of major facilities and equipment. Each year, the City Council adopts a capital budget that differs from the operating budget because it is a "multi-year" process. "Multi-year" means that the project's budget is active until the project is finished. Due to the multi-year nature of capital projects, budgeted expenditures in these funds consist of carryover projects from previous years and new projects being initiated in the current year. Due to its nature as a planning tool, a capital budget, while identifying and prioritizing capital expenditures, is subject to revision as circumstances change, including changes in the economy and in the need for various governmental services and the placement of such services within the City. Consequently, the inclusion of expenditure in a capital budget is not a firm commitment to a project, particularly as the planning horizon extends into the future.

In fiscal year 1997, the City Council initiated a capital improvement planning process that included creation of the 11-member Capital Improvements Plan Advisory Committee ("CIPAC") composed of residents of the City. The City annually adopts a capital improvement plan (the "CIP") that reflects all capital expenditures planned by the City over a four year period, which includes costs of maintaining City infrastructure, as well as costs of proposed new municipal facilities, including public safety facilities, parks, transportation, public works, storm water drainage and water and wastewater improvements. The annual CIP includes capital expenditures proposed for funding from various sources administered through the City's Capital Project Fund and other funds of the City, and proposed to be funded from a blend of current funds, available reserves and proceeds of tax-supported and enterprise fund bond issues.

The 2022-2025 CIP, included in the fiscal year 2022 budget, reflects the potential expenditure of approximately \$124.462 million over the four-year planning period, with general obligation bonds providing approximately \$82.840 million of the funding. In adopting the 2022-2025 CIP, the City determined to allocate \$0.020540 and \$0.021346 of the \$0.442807 fiscal year 2022 tax rate levy for operating purposes to be segregated into a capital fund for the specific and expressed purpose of TOD and street rehabilitation, and Neighborhood Rehabilitation, respectively.

The fiscal years 2022-2025 capital budget anticipated that the City would issue general obligation debt to fund \$22.795 million in improvements for the City's streets, traffic, parks and public safety improvements in fiscal year 2022. The capital budget also assumes the issuance of \$22.615 million in fiscal year 2023, \$20.725 million in fiscal year 2024 and \$16.705 million in fiscal year 2025. Following the issuance of the Bonds, the City will have approximately \$15.885 million of authorized but unissued general obligation bonds available to fund portions of the current capital budget and is planning to call a bond election for November 2022 for an approximately \$130,000,000 of bonds for street and traffic improvements, public safety facilities, and parks and recreation facilities. The City plans to issue these additional bonds if authorized over the next five to six years (see "Table 14 – Authorized but Unissued General Obligation Bonds – APPENDIX A").

INVESTMENT POLICIES, PROCEDURES, AND PORTFOLIOS

Investments

The City invests available funds in investments authorized by the Public Funds Investment Act of the State and in accordance with investment policies approved by the City Council (see “APPENDIX A – Table 17 – Current Investments”).

Investment Authority and Investment Practices of the City

Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change. Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the States, 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 365 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 365 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.

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

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

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies, (2) require any investment officers with personal business relationships or family relationships with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City, (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements, (4) in conjunction with its annual financial audit, perform a compliance audit of the management controls on investments and adherence to the City's investment policy, (5) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement, (6) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, (7) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements and (8) provide specific investment training for the Treasurer, the Chief Financial Officer (if not the Treasurer) and the Investment Officer.

INSURANCE, PENSION PLANS AND DEFERRED COMPENSATION PLANS

Self-Insurance

The City administers a Self-Insured Retention ("SIR") program within its Risk Management Internal Service Fund in order to deal with potential liabilities. Claims in excess of the self-insured retention amounts are covered through third-party limited-coverage insurance policies. The City is self-insured with excess coverage in these areas: (a) general liability with a \$25,000 per occurrence retention and a \$2,000,000 per occurrence and a \$4,000,000 policy aggregate limit on coverage, (b) law enforcement liability, and errors and omissions with a \$50,000 per occurrence retention and a \$2,000,000 per occurrence and a \$4,000,000 policy aggregate limit on coverage, (c) worker's compensation liability with a \$100,000 per occurrence retention and statutory limit on coverage, (d) property loss with \$25,000 per occurrence retention and a \$206,097,514 limit on coverage, (e) automobile liability with a \$50,000 per occurrence retention and a \$1,000,000 per occurrence limit on coverage, (f) automobile physical damage liability with a \$10,000 retention and an actual cash value or agreed value as a scheduled limit on coverage, and (g) cyber insurance with a \$1,000,000 policy aggregate and multiple aggregate sublimits.

All funds of the City participate in the program and make payments to the Risk Management Fund. As of the end of fiscal year 2020, the loss reserve was \$747,908. During fiscal year 2021, there were claims and changes in estimates of \$1,335,799 and claim payments of \$1,218,624. The loss reserve as of the end of fiscal year 2021 was estimated at \$865,083. (See “Note 10 – APPENDIX B – GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2021”).

Employee Health Plan

The City maintains the Employee Health and Disability Fund for employees and dependents, which is self-insured by the City. Revenues are recognized from payroll deductions and from City contributions with long-term disability claims in excess of one year covered through the third-party insurance policies. In addition, excess insurance has been obtained for an individual employee’s health care claims exceeding \$225,000. At September 30, 2021, there was a liability of \$851,581 in such fund, which represents estimated claims incurred but not yet reported (see “Note 10 – APPENDIX B – GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2021”).

Pension and Retirement Fund

The City provides pension benefits for all eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan administered by Texas Municipal Retirement System (“TMRS”), an agent, multiple-employer public employee retirement system. The City has adopted plan provisions among the options available in the statutes governing TMRS.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service, also known as the matching ratio, are 200% of the employee's accumulated contributions and are only payable in the form of an annuity.

Beginning in 1993, the City granted on an annually repeating (automatic) basis a monetary credit referred to as an updated service credit (“USC”) which is a theoretical amount which takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided on an annually repeating (automatic) basis cost of living adjustments (“COLA”) for retirees equal to a percentage of the change in the consumer price index (“CPI”).

The City adopted various benefit reductions effective January 1, 2009, including reducing USC from 100% to 75%, dropping the transfer feature of USC, and lifting the applicable statutory maximums. Effective January 1, 2010, the City adopted an additional benefit change reducing the annual COLA for retirees from 70% of the change in CPI to 50%. In addition, a resolution adopted by the City Council allows for additional contributions each year above the actuarially determined contribution if certain conditions are met.

Summary of plan provisions for the City:

Employee deposit rate	7%
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	75% Repeating
Annuity Increases to retirees	50% of CPI Repeating

Under State law governing TMRS, the actuary annually determines the City contribution rate per TMRS funding policy and per State statutes on a calendar-year basis. 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 basis for the rate and the calendar year when the rate goes into effect (i.e. December 31, 2018 valuation is effective for rates beginning January 1, 2020). If a change in plan provisions is elected by the City, this rate can change. For fiscal year 2021, the City made contributions of 12.67% for the months in calendar year 2020 and for the months in calendar year 2021, which provided for an additional voluntary contribution of 0.55 percentage points over the required contribution of 12.12% for the months in 2020 and 0.83 percentage points over the actuarially required contribution of 11.84% for the months in 2021. Effective January 1, 2022, the actuarial determined contributions will drop to 10.83%. The City has budgeted 11.83% contributions for 2022.

As of December 31, 2020, the most recent actuarial valuation date, the plan was funded 100.01% on a General Accepted Accounting Principles basis and 96.8% on a funding basis. Asset values are smoothed on a funding basis as compared to asset value per GAAP, resulting in higher funding basis. The actuarial accrued liability for benefits was \$466,999,463, and the actuarial value of assets was \$452,176,561, resulting in an unfunded actuarial accrued liability (“UAAL”) of \$14,822,902. The covered payroll (annual payroll of active employees covered by the plan) was \$64,112,408, and the ratio of the UAAL to the covered payroll was 23.12% (see “Note 7 – APPENDIX B – GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2021” and 2020 TMRS Actuarial Valuation Report -2020 at www.tmrs.org).

Other Post-Employment Benefits

In addition to the TMRS pension benefits, as required by State law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City and who are receiving benefits from a City sponsored retirement program (TMRS, and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit retiree healthcare plan. This healthcare plan provides lifetime insurance to retirees not eligible for Medicare or insurance until age 65 through the City's group health insurance plan. Benefit provisions are established by management and include coverage for retirees and dependents.

In 2009, the City closed its historical retiree health program ("Closed Retiree Health Program") and grandfathered existing employees with select benefits. Grandfathered employees are able to retire, and if they choose to remain on the healthcare plan, they pay both the employee and employer premium that is applicable to active employees. Non-grandfathered retirees who stay on the plan must pay both the employee and employer premium at the higher "age based" rate, which is designed to pay the full cost of coverage. To help offset the higher premiums, non-grandfathered employees receive annual contributions from the City beginning at 10 years of service into an individual Retiree Health Savings Account.

Retirees eligible for the Closed Retiree Health Program contribute the total blended premium for active and retired participants. The City contribution to the Closed Retiree Health Program consists of pay-as-you-go claims in excess of the retiree contributions. Retiree contributions rates for fiscal year 2021 were \$8,745 to \$27,736 per year depending on coverage levels selected. In fiscal year 2021, total member contributions were \$113,432. City contributions to the plan for fiscal year 2021, which are also equal to claims paid in excess of premiums collected, were \$113,432. As of December 31, 2020, the most recent actuarial valuation date, the City's total OPEB liability for benefits was \$18,319,744, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for fiscal year 2020 was \$2,268,981, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 807%. The City received notification that effective January 1, 2021, the largest claimant impacting the Closed Retiree Health Program had obtained alternate coverage and would no longer be participating in the plan. This is expected to have a significant impact on the closed program in future measurement years. Given a December 31, 2020 measurement date, this event is not currently reflected in the City's financial statements. The City is currently evaluating the plan structure for its OPEB plans for future years to take into account these changes (see "Note 13 and Note 15– APPENDIX B – GENERAL PURPOSE EXTERNAL FINANCIAL STATEMENTS FOR THE YEAR ENDED SEPTEMBER 30, 2021").

Effective January 1, 2022 the City re-opened the plan to employees eligible to retire in the City. Employees 60 years of age and with at least ten years of consecutive service with the City will be eligible to pay the same rates as those on the Closed Retiree Health Program. This change was made in response to the unaffordability of age-based rates combined with the highest claimant leaving the closed plan. A OPEB valuation reflecting both these changes is scheduled for December 31, 2021.

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan is administered by the International City/County Management Association Retirement Corporation. The plan, available to all full-time City employees, permits them to defer a portion of their salary until future years with a 2.35% match for employees contributing minimum of 4.6%. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. The total amount contributed by the City for fiscal year 2021 was \$997,265.

RATINGS

The Bonds are rated "AAA" (Stable Outlook) by S&P Global Ratings, a division of S&P Global Inc., and "AAA" by Fitch Ratings. An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings.

The ratings reflect only the view of such organizations at the time such ratings were given and neither the City, nor the Financial Advisor makes any 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 said rating companies, if in the judgment of said rating companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. A credit rating on a security is not a recommendation to buy, sell or hold such securities and may be subject to revision or withdrawal at any time.

PENDING LITIGATION

Various lawsuits pending against the City involve claims relating to general liability, automotive liability, workers' compensation, civil rights actions, labor and employment, statutory interpretation, and various contractual matters. In the opinion of the City Attorney, the outcome of the pending litigation will not have a material adverse effect on the City's financial condition or operations.

At the time of the initial delivery of the Bonds, the City will provide the Initial Purchaser with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Bonds or that affects the payment and security of the Bonds or in any other manner questioning the issuance, sale or delivery of the Bonds.

CYBER SECURITY RISK AND MITIGATION EFFORTS

The City recognizes that effective cyber security is a never-ending process. It has worked diligently to harden and test its systems, added layers of defense and detection using state of the art software and on ongoing training for City staff. External and internal penetration testing is performed on a periodic basis and segregation of systems has also been added. Key applications have been strategically diversified between cloud-based and locally hosted solutions.

LEGAL MATTERS

The City will furnish the Initial Purchaser a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the initial Bonds and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of each such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. The customary closing papers, including a certificate of the City to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds will also be furnished to the Initial Purchaser. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP has reviewed the information in this Official Statement appearing under the captions or subcaptions “THE BONDS”, “TAX RATE LIMITATIONS”, “RECORD DATE FOR INTEREST PAYMENT”, “REGISTRATION, TRANSFER AND EXCHANGE”, “LEGAL MATTERS” (except the last two sentences of the first paragraph thereof), “TAX MATTERS”, “LEGAL INVESTMENTS IN TEXAS”, “REGISTRATION AND QUALIFICATION OF BONDS FOR SALE” and “CONTINUING DISCLOSURE” (except for the subcaption “Compliance with Prior Undertakings”) and such firm is of the opinion that the information contained under such captions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System

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

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the “Code”), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel’s opinion is reproduced as Appendix C hereto.

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

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the “taxpayer”, and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state, or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or

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

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

Tax Accounting Treatment of Discount and Premium on Certain Bonds

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

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

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

The purchase price of certain Bonds (the “Premium Bonds”) paid by an owner may be greater than the amount payable on such Bonds at maturity. An amount equal to the excess of a purchaser’s tax basis in a Premium Bond over the amount payable at maturity constitutes premium to such purchaser. The basis for federal income tax purposes of a Premium Bond in the hands of such purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium that is amortizable each year by a purchaser is determined by using such purchaser’s yield to maturity (or, in some cases with respect to a callable Bond, the yield based on a call date that results in the lowest yield on the Bond).

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

LEGAL INVESTMENTS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are (i) negotiable instruments, (ii) an investment security to which Chapter 8, Texas Business and Commerce Code applies and (iii) legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of not less than “A” or its equivalent as to investment quality by a national rating agency. See “RATINGS” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard,

the Bonds are legal investments for state banks, savings banks, trust companies with a capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are a legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FORWARD-LOOKING STATEMENTS

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

INITIAL PURCHASER

After requesting bids for the Bonds, the City accepted the bid of Raymond James & Associates, Inc. (the "Initial Purchaser" or "Purchaser") to purchase the Bonds at the interest rates shown on the inside front cover page of this Official Statement at a price of \$24,267,172.03.

The Initial Purchaser can give no assurances that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Robert Thomas CPA, LLC, a firm of independent certified public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Escrowed Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds and (b) mathematical computations of yield.

Robert Thomas CPA, LLC, relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Robert Thomas CPA, LLC, has relied on any information provided to it by the City's retained advisors, consultants or legal counsel. Robert Thomas CPA, LLC, was not engaged to perform audit or attest services under

AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

FINANCIAL ADVISOR

PFM Financial Advisors LLC is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement.

CONTINUING DISCLOSURE

In the Ordinance, the City will make the following agreements for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreements for so long as it remains obligated to advance funds to pay the Bonds. Under the agreements, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available free of charge via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

Annual Reports

The City shall provide annually to the MSRB, (1) within six months after the end of each fiscal year of the City ending in or after 2022, financial information and operating data with respect to the City of the general type included in this Official Statement in Appendix A, other than the table related to Estimated Overlapping Bond Debt Payable from Ad Valorem Taxes, and (2) if not provided as part of such financial information and operating data, audited financial statements of the City, within twelve months after the end of each fiscal year of the City ending in or after 2022, when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in Appendix B hereto or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation, and in substantially the form included in the Official Statement, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) 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 notify the MSRB via EMMA.

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation of the City, or a guarantee of any such debt obligation or derivative instrument, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

As used above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the City Council and officials or officers of the City 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. The City intends the words used in the immediately preceding items (15) and (16) to have the meanings ascribed to them in the 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. The information will be available free of charge via the EMMA system 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 or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments or interpretations of the rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the SEC Rule 15c2-12 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 Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

CONCLUDING STATEMENT

This Official Statement has been prepared under the direction of the City Council of the City by City Staff. The Pricing Certificate will approve the Official Statement and authorize its use and distribution by the Initial Purchaser in connection with its offering of the Bonds.

/s/ Claudia Gallegos

Pricing Officer

SCHEDULE OF REFUNDED BONDS

General Obligation Refunding Bonds, Series 2012

<u>Maturity</u>	<u>Interest Rate</u>	<u>Par Amount</u>	<u>Call Date</u>	<u>Call Price</u>
8/15/2023	3.00%	\$ 955,000	8/15/2022	100% of par
8/15/2024	2.75%	\$ 395,000	8/15/2022	100% of par
8/15/2025	3.00%	\$ 405,000	8/15/2022	100% of par

APPENDIX A
FINANCIAL INFORMATION REGARDING THE CITY

FINANCIAL INFORMATION REGARDING THE CITY

**TABLE 1
TAX AND DEBT FINANCIAL INFORMATION**

Tax Year 2021 Appraised Value of Taxable Property⁽¹⁾	\$ 21,128,642,381
Less Exemptions:	
Agricultural Land Use	\$ 58,312,564
Homestead	1,566,921,155
Disabled Veterans	40,368,195
Over 65	501,249,782
Disabled Persons	20,246,204
Totally Exempt	1,039,207,280
Freeport	913,715,124
Capped Value	117,119,165
Low Income Housing	13,005,040
Other Exemptions	<u>5,011,288</u>
Total Property Exemptions	<u>4,275,155,797</u>
Tax Year 2021 Certified Assessed Valuation⁽¹⁾	<u>\$ 16,853,486,584</u>
Gross General Obligation Bonded Debt as of April 1, 2022	
General Purpose Bonds and Certificates	\$ 179,375,000
Less: The Refunded Bonds	(1,755,000)
Plus: The Bonds	<u>22,595,000</u>
Total Gross Debt	\$ 200,215,000
Less: General Obligation Interest and Sinking Fund Balance as of 09/30/2021	<u>(5,391,090)⁽²⁾</u>
Net General Obligation Bonded Debt	<u>\$ 194,823,910</u>
Ratio of Gross General Obligation Bonded Debt to 2021/22 Taxable Valuation	1.19%
Ratio of Net General Obligation Bonded Debt to 2021/22 Taxable Valuation	1.16%

2021 Estimated Population - 139,350
2010 Census Population - 119,097
Per Capita Taxable Valuation - \$120,944
Per Capita Gross General Obligation Bonded Debt - \$1,437
Per Capita Net General Obligation Bonded Debt - \$1,398

⁽¹⁾ Certified tax roll provided by the Dallas Central, Denton Central and Collin Central Appraisal Districts (the "Appraisal Districts") in July 2021 (Fiscal year 2022). State law requires that a "certified" tax roll be submitted to the City by July 25 of each year. The certified roll is the official tax value for the fiscal year, although it is subject to change as supplemental information is reported to the City by the Appraisal Districts throughout the year. The City used an estimated taxable valuation of \$17,027,582,803 which includes an increase of \$174,096,219 for estimated valuation on property under protest less the incremental value assigned to the City's Tax Increment Reinvestment Zone

⁽²⁾ Debt service fund balance at end of year per per Debt Service Fund Schedule of Revenues, Expenditures, and Changes in Fund Balances, GAAP Basis.

Source: City of Carrollton

TABLE 2
VALUATION AND FUNDED DEBT HISTORY

<u>Fiscal Year</u>	<u>Taxable Valuation⁽¹⁾</u>	<u>% Valuation Increase/Decrease Over Prior Year (100% of Market Value Basis)</u>	<u>Funded Debt Outstanding At Year End</u>	<u>Ratio Funded Debt to Taxable Valuation %</u>
2012/13	\$ 9,098,799,667	2.26 %	\$ 155,755,000 ⁽²⁾	1.71 %
2013/14	9,556,642,945	5.03 %	161,780,000 ⁽²⁾	1.69 %
2014/15	10,280,594,071	7.58 %	162,600,000 ⁽²⁾	1.58 %
2015/16	11,086,019,064	7.83 %	165,015,000 ⁽²⁾	1.49 %
2016/17	11,944,206,839	7.74 %	170,030,000 ⁽²⁾	1.42 %
2017/18	13,004,287,702	8.88 %	174,275,000 ⁽²⁾	1.34 %
2018/19	14,235,500,120	9.47 %	173,540,000 ⁽²⁾	1.22 %
2019/20	15,511,037,472	8.96 %	182,420,000 ⁽²⁾	1.18 %
2020/21	15,869,999,604	2.31 %	179,375,000 ⁽²⁾	1.13 %
2021/22	16,853,486,584	6.20 %	184,710,000 ⁽³⁾	1.10 %

⁽¹⁾ Taxable Valuation based on initial Certified Tax Values. Amounts do not include disputed property values at time of tax roll certification.

⁽²⁾ Amount reflects outstanding par amount only at fiscal year end.

⁽³⁾ Amount reflects outstanding par amount less the Refunded Bonds plus the Bonds.

TABLE 3
TOTAL TAXABLE VALUATION BY CATEGORY⁽¹⁾

<u>Fiscal Year</u>	<u>Real Property</u>		<u>Personal & Other Property</u>		<u>Total Taxable Valuation</u>
	<u>Taxable Valuation</u>	<u>% of Total</u>	<u>Taxable Valuation</u>	<u>% of Total</u>	
2012/13	\$ 7,301,613,573	80 %	\$ 1,797,186,094	20 %	\$ 9,098,799,667
2013/14	7,617,660,597	80 %	1,938,982,348	20 %	9,556,642,945
2014/15	8,257,175,594	80 %	2,023,418,477	20 %	10,280,594,071
2015/16	8,943,251,454	81 %	2,142,767,610	19 %	11,086,019,064
2016/17	9,676,011,654	81 %	2,268,195,185	19 %	11,944,206,839
2017/18	10,647,777,273	82 %	2,356,510,429	18 %	13,004,287,702
2018/19	11,773,812,429	83 %	2,461,687,691	17 %	14,235,500,120
2019/20	12,832,632,201	83 %	2,678,405,271	17 %	15,511,037,472
2020/21	13,041,776,312	82 %	2,828,223,292	18 %	15,869,999,604
2021/22	13,970,258,259	83 %	2,883,228,325	17 %	16,853,486,584

⁽¹⁾ Source: Dallas Central, Denton Central and Collin Central Appraisal Districts.

TABLE 4
TOTAL APPRAISED VALUATION BY CATEGORY⁽¹⁾

Property Use Category	Fiscal Years Ending September 30,				
	2022	2021	2020	2019	2018
Real, Residential, Single Family and Mobile Homes Real Residential, Multiple Family	\$ 10,280,684,597	\$ 9,719,635,877	\$ 9,187,906,609	\$ 8,576,816,519	\$ 7,811,217,996
Real, Vacant Lots/Tracts	2,220,965,526	2,121,063,077	1,891,550,100	1,607,676,258	1,335,155,290
Real, Acreage (Land Only)	189,818,844	188,819,991	206,008,675	206,972,910	197,823,560
Real, Commercial, Industrial and Utilities	58,416,485	60,816,853	60,234,015	54,510,365	65,019,202
Tangible Personal, Commercial Industrial and Utilities	3,980,536,656	3,900,831,527	3,731,673,675	3,519,298,365	3,312,197,718
Tangible Personal, Special Inv. Other	3,848,926,523	3,870,808,969	3,252,118,964	3,015,599,099	2,788,510,629
	<u>63,131,869</u>	<u>74,290,228</u>	<u>68,768,520</u>	<u>64,078,220</u>	<u>59,260,487</u>
Total Appraised Valuation⁽¹⁾⁽²⁾	<u>\$20,642,480,500</u>	<u>\$19,936,266,522</u>	<u>\$18,398,260,558</u>	<u>\$17,044,951,736</u>	<u>\$15,569,184,882</u>

⁽¹⁾ The Total Appraised Valuation consists of the market valuation of all property within the City including property under protest, before exemption, and is determined by the Appraisal Districts each July. Certain items of classification have been combined in order to provide a consistent basis of comparison with the presentation from prior years. Amounts include certified values and estimated property under protest, and do not include values for totally exempt properties.

⁽²⁾ Represents gross values, prior to exemptions.

Source: Dallas Central, Denton Central and Collin Central Appraisal Districts.

TABLE 5
PERCENTAGE TOTAL APPRAISED VALUATION BY USE CATEGORY

Property Use Category	Fiscal Years Ending September 30,				
	2022	2021	2020	2019	2018
Real Property					
Single-Family Residential	49.8%	48.8%	49.9%	50.4%	50.1%
Multi-Family Residential	10.8%	10.6%	10.3%	9.4%	8.6%
Vacant Lots/Tracts	0.9%	0.9%	1.1%	1.2%	1.3%
Acreage-Land Only	0.3%	0.3%	0.3%	0.3%	0.4%
Commercial, Industrial, and Utilities	19.3%	19.6%	20.3%	20.6%	21.3%
Tangible Personal Property					
Commercial, Industrial, and Utilities	18.6%	19.4%	17.7%	17.7%	17.9%
Other	<u>0.3%</u>	<u>0.4%</u>	<u>0.4%</u>	<u>0.4%</u>	<u>0.4%</u>
Total	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</u>

TABLE 6
PROPERTY TAX RATES, LEVIES AND COLLECTIONS
(Year Ended 9-30)

<u>Fiscal Year</u>	<u>Tax Rate Distribution</u>			<u>Adjusted Tax Levy for Fiscal Year</u>	<u>Percent of Current Collections</u>	<u>Percent of Total Collections</u>
	<u>Total Tax Rate</u>	<u>Operating/General Fund</u>	<u>Interest and Sinking Fund</u>			
2012/13 ⁽¹⁾	\$ 0.6179	\$ 0.4119	\$ 0.2060	\$ 56,478,911	99.18 %	99.88 %
2013/14 ⁽¹⁾	0.6179	0.4144	0.2034	59,029,578	99.53 %	99.90 %
2014/15 ⁽¹⁾	0.6154	0.4174	0.1980	62,833,173	99.48 %	99.83 %
2015/16 ⁽¹⁾	0.6129	0.4201	0.1928	67,449,420	100.36 %	99.84 %
2016/17 ⁽¹⁾	0.6037	0.4258	0.1779	73,175,957	99.75 %	99.84 %
2017/18 ⁽¹⁾	0.5997	0.4278	0.1719	78,803,242	99.73 %	99.77 %
2018/19 ⁽¹⁾	0.5950	0.4302	0.1648	85,338,491	99.75 %	99.74 %
2019/20 ⁽¹⁾	0.5899	0.4389	0.1510	91,639,078	99.86 %	99.70 %
2020/21 ⁽¹⁾	0.5875	0.4411	0.1464	97,506,175	99.89 %	98.89 %
2021/22 ⁽²⁾	0.5825	0.4428	0.1397	102,873,765	98.20 %	- %

Source: City of Carrollton.

⁽¹⁾ Adjusted Tax Levy and Collections as of September 30, 2021.

⁽²⁾ Adjusted Tax Levy and Collections as of February 28, 2022.

TABLE 7
ESTIMATED OVERLAPPING BOND DEBT PAYABLE FROM AD VALOREM TAXES

Overlapping governments are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping governments that is borne by the residents and businesses of the City. This process recognizes that, when considering any government's ability to issue and repay long-term debt, the entire debt burden borne by the residential and commercial taxpayer should be taken into account. However, this does not imply that every City of Carrollton taxpayer is a property owner and therefore responsible for repaying the debt of any particular overlapping government.

The following statement of direct and estimated overlapping ad valorem tax bonds ("Tax Debt") was developed from information published by the Municipal Advisory Council of Texas. The percentage of overlapping debt applicable is estimated by determining the taxing entity's taxable assessed value within the City's boundaries and dividing by the entity's total taxable assessed value.

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, entities may have programs requiring the future issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping funded Tax Debt of these various taxing entities.

<u>Governmental Unit</u>	<u>General Obligation Bond Debt Total</u>	<u>Estimated % Overlapping⁽¹⁾</u>	<u>Overlapping General Obligation Bond Debt</u>
Carrollton-Farmers Branch Independent School District	\$ 375,315,000	37.25%	\$ 139,804,838
Collin County	526,975,000	0.08%	421,580
Collin County Community College	514,470,000	0.08%	411,576
Coppell Independent School District	351,914,091	0.00%	-
Dallas County	116,665,000	2.52%	2,939,958
Dallas County Community College District	115,750,000	2.52%	2,916,900
Dallas County Hospital District	575,530,000	2.52%	14,503,356
Dallas County Schools	16,679,652	2.52%	420,327
Dallas Independent School District	3,259,600,000	1.16%	37,811,360
Denton County	571,605,000	8.77%	50,129,759
Lewisville Independent School District	1,315,387,636	14.78%	194,414,293
Plano Independent School District	625,625,000	0.19%	1,188,688
Valwood Improvement Authority	10,145,000	54.50%	5,529,025
Total Estimated Overlapping Bonded Debt			<u>\$ 450,491,658</u>
City of Carrollton	\$ 200,215,000	100.00%	\$ 200,215,000
Total direct and estimated overlapping bonded debt			<u>\$ 650,706,658</u>
Ratio, direct and estimated overlapping debt to 2021/22 assessed valuation ⁽²⁾			<u>3.86%</u>
Per capita direct and estimated overlapping bonded debt ⁽³⁾			<u>\$ 4,670</u>

⁽¹⁾ Taxing jurisdictions, appraisal districts and latest publication of the Municipal Advisory Council of Texas.

⁽²⁾ Based upon 2021/22 Certified Taxable Assessed Valuation of \$16,853,486,584.

⁽³⁾ Based upon an estimated 2020 population of 139,350.

⁽⁴⁾ Totals may not add due to rounding.

TABLE 8
TOP TEN TAXPAYERS
(Fiscal Year 2022)

<u>Name</u>	<u>Nature of Property</u>	<u>Taxable Value ⁽¹⁾</u>	<u>% of Total Taxable Value</u>
Pratt & Whitney	(2) Technology	\$ 107,809,667	0.64%
Softlayer	Technology	98,518,210	0.58%
Bioservices Corporation / Amerisource	Pharmaceutical	88,808,268	0.53%
Mansions At Sunset Ridge Partners LP	Apartments	84,976,640	0.50%
Sloa Land LTD	Apartments	75,500,000	0.45%
Imp Castle Hills LP	Apartments	72,470,000	0.43%
Oncor Electric Delivery	Utilities	69,040,460	0.41%
Prologis LP	Real State	69,021,130	0.41%
Cyrusone LLC	Apartments	68,000,000	0.40%
Wal-Mart Stores INC	Retail	66,345,350	0.39%
Meridian Apartments Owner LLC	Apartments	64,800,000	0.38%
Total		<u>\$ 865,289,725</u>	<u>5.12%</u>

⁽¹⁾ Total taxable value including real and personal property is \$16,853,486,584

⁽²⁾ Pratt & Whitney taxable values are normally much lower. Due to COVID-19, lease engines were returned by the airlines in large quantities causing a short-term increase in tangible personal property (tpp). Majority of tpp was subject to a short-term tax rebate by City. Since Pratt & Whitney taxable value is temporary, the City is reporting eleven top taxpayers for full disclosure this year only.

Source: Dallas and Denton County Tax Office, City Report of Property Value, 2021. (Fiscal Year 2022).

TABLE 9
DEBT SERVICE FUND MANAGEMENT INDEX

General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/22	\$ 23,311,943
Debt Service Fund as of 9/30/21	\$ 5,391,090 ⁽¹⁾
Budget for Fiscal Year 2021/22 Debt Service Fund Tax Levy @ 100% Collection ⁽²⁾	<u>23,786,463</u>
Estimated Debt Service Fund Balance, Fiscal Year Ending 9/30/22	<u>\$ 5,865,610</u>

⁽¹⁾ Debt service fund balance at fiscal year end as of September 30, 2021, GAAP Basis.

⁽²⁾ General Fund budget based on a 98% collection rate of the total tax levy.

TABLE 10
TAX ADEQUACY WITH RESPECT
TO THE CITY'S OUTSTANDING TAX SUPPORTED GENERAL OBLIGATION BONDS

Principal and Interest Requirements, Fiscal Year Ending September 30, 2022	\$ 23,311,943
\$0.139693 Tax Rate @ 100% Collection Procedures ⁽¹⁾	23,786,463

⁽¹⁾ Calculation based on 2021/22 taxable value of \$17,027,582,803 which is calculated as: certified taxable value of \$16,853,486,584 plus estimated valuation of property under protest of \$410,076,971 less the incremental value assigned to the City's Tax Increment Reinvestment Zone of \$235,980,752. General Fund budget based on a 98% collection rate of the total tax levy.

TABLE 11
MUNICIPAL SALES TAX

The City has adopted the provision of V.T.C.A., Tax Code, Chapter 321, as amended, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. The proceeds are credited to the General Fund and may not be pledged to debt service and are not pledged to the payment of the Bonds. Collections and enforcement are effected through the offices of the State Comptroller of Public Accounts, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly.

Fiscal Year Ended 9/30	Total Collected	Percentage of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2012	\$ 24,100,500	43.99 % ⁽¹⁾	\$ 0.27 ⁽¹⁾	\$ 198.93
2013	25,480,560	44.60 % ⁽¹⁾	0.28 ⁽¹⁾	208.38
2014	27,491,706	45.05 % ⁽¹⁾	0.28 ⁽¹⁾	220.99
2015	31,146,385	47.81 % ⁽¹⁾	0.29 ⁽¹⁾	248.67
2016	34,553,336	47.81 % ⁽¹⁾	0.29 ⁽¹⁾	269.99
2017	36,626,570	49.93 % ⁽¹⁾	0.30 ⁽¹⁾	279.98
2018	39,632,629	47.17 % ⁽¹⁾	0.28 ⁽¹⁾	299.50
2019	39,603,512	43.52 % ⁽¹⁾	0.26 ⁽¹⁾	290.84
2020	39,836,732	42.24 % ⁽¹⁾	0.25 ⁽¹⁾	289.41
2021	45,814,938	46.90 % ⁽¹⁾	0.27 ⁽¹⁾	328.78 ⁽²⁾

⁽¹⁾ Based on 98% collection rate of the total tax levy used for budget proposes through Fiscal Year 2016, 98.5% from Fiscal Year 2017 to 2019, 99.5% in Fiscal year 2020, and 98% (100% for Debt Service Fund) in Fiscal Year 2021.

⁽²⁾ Based on estimated population of 139,350 as of September 30, 2021. FY 2021 includes thirteen (13) months of sales tax collections to accrue September 2021 taxes received in November 2021. Future fiscal years will continue to include twelve months of sales tax receipts.

Note: The total sales and use tax rate in the City is 8 1/4%, of which 1% is imposed by the City, as described above, 1% is imposed by the Dallas Area Rapid Transit authority, of which the City is a member city, and 6 1/4% is imposed by the State. These amounts do not include sales tax collected on City services and mixed beverage taxes.

TABLE 12
COMPARATIVE MONTHLY SALES TAX COLLECTIONS⁽¹⁾

Month	2021-2022	2020-2021	2019-2020
October			
November	\$ 3,733,305	\$ 3,167,000	\$ 3,645,854
December	3,617,036	2,894,342	3,182,274
January	4,470,246	3,570,489	3,895,631
February	3,781,587	2,984,763	3,045,882
March	2,441,530 ⁽²⁾	2,570,832	2,648,041
April	3,142,415 ⁽²⁾	4,165,168	3,330,011
May	2,955,716 ⁽²⁾	3,936,130	2,794,518
June	2,850,311 ⁽²⁾	3,237,262	3,182,567
July	3,313,259 ⁽²⁾	4,265,688	3,701,656
August	2,875,831 ⁽²⁾	3,466,132	3,196,816
September	2,956,689 ⁽²⁾	3,508,342	3,300,677
September -1	3,129,780 ⁽²⁾	8,048,791 ⁽³⁾	3,912,805
Total	\$ 39,267,705	\$ 45,814,939	\$ 39,836,732

Source: Comptroller of Public Accounts; City of Carrollton

⁽¹⁾ Amount does not include mixed beverage and sales taxes on City services.

⁽²⁾ Projected amount, not actual. Based on City of Carrollton budget projections. Based on year to date sales tax collections, which for the first four months of the fiscal year, have been 35.25% over the original budget and 23.66% over prior year actual collections. Due to the volatility of sales tax revenues, the City adopted a financial policy in early 2013 to mitigate the risk of volatility. Such policy identifies amounts in excess of budgeted sales tax collections as a non-recurring revenue source, which is dedicated to fund capital improvement projects, and is not reflected as a source of operating revenues for the General Fund. Beginning in fiscal year 2019, the City adopted a new policy stating that the capped sales tax will not be allowed to grow more than 8% over the previous year's capped amount, while limiting the percentage of total sales tax spent for recurring items at 75%, with the remaining 25% on one-time non-recurring purposes.

⁽³⁾ FY 2021 includes thirteen (13) months of sales tax collections to accrue September 2021 taxes received in November 2021 for the amount of \$4,536,737. Future fiscal years will continue to include twelve months of sales tax receipts.

TABLE 13
OUTSTANDING DEBT SERVICE REQUIREMENTS - GENERAL OBLIGATION DEBT

Fiscal Year Ended 30-Sep	Outstanding Debt Service			Less:	Plus: The Bonds			Total
	Principal	Interest	Total	The Refunded Bonds	Principal	Interest	Total	Debt Service Requirements
2022	\$ 15,505,000	\$ 7,832,774	\$ 23,337,774	\$ 25,831	\$ -	\$ -	\$ -	\$ 23,311,943
2023	15,475,000	6,929,505	22,404,505	1,006,663	2,335,000	1,225,619	3,560,619	24,958,461
2024	15,600,000	6,214,455	21,814,455	418,013	1,800,000	902,240	2,702,240	24,098,682
2025	16,330,000	5,481,868	21,811,868	417,150	1,420,000	812,240	2,232,240	23,626,958
2026	15,505,000	4,803,438	20,308,438	-	1,420,000	741,240	2,161,240	22,469,678
2027	14,845,000	4,067,038	18,912,038	-	1,420,000	670,240	2,090,240	21,002,278
2028	14,105,000	3,415,288	17,520,288	-	1,420,000	599,240	2,019,240	19,539,528
2029	13,640,000	2,783,581	16,423,581	-	1,420,000	528,240	1,948,240	18,371,821
2030	12,455,000	2,205,669	14,660,669	-	1,420,000	457,240	1,877,240	16,537,909
2031	11,900,000	1,695,700	13,595,700	-	1,420,000	386,240	1,806,240	15,401,940
2032	10,870,000	1,212,925	12,082,925	-	1,420,000	315,240	1,735,240	13,818,165
2033	9,545,000	800,613	10,345,613	-	1,420,000	244,240	1,664,240	12,009,853
2034	7,455,000	452,088	7,907,088	-	1,420,000	198,090	1,618,090	9,525,178
2035	4,535,000	194,050	4,729,050	-	1,420,000	150,520	1,570,520	6,299,570
2036	1,610,000	32,200	1,642,200	-	1,420,000	101,530	1,521,530	3,163,730
2037	-	-	-	-	1,420,000	51,120	1,471,120	1,471,120
Totals	<u>\$ 179,375,000</u>	<u>\$ 48,121,192</u>	<u>\$ 227,496,192</u>	<u>\$ 1,867,657</u>	<u>\$ 22,595,000</u>	<u>\$ 7,383,279</u>	<u>\$ 29,978,279</u>	<u>\$ 255,606,814</u>

Average Annual Debt Service Requirements (2022 - 2037) \$ 15,975,426

Maximum Annual Debt Service Requirement (2023) \$ 24,958,461

TABLE 14
AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS⁽¹⁾⁽²⁾

Authorization Purpose	Authorization Date	Amount Authorized	Prior Issuance	2022 Bonds⁽²⁾	Balance Unissued
Street Improvements & Traffic Flow	5/5/2018	\$ 78,010,000	\$ 50,380,000	\$ 14,995,000	\$ 12,635,000
Public Safety Facilities Improvements	5/5/2018	6,250,000	2,050,000	3,200,000	1,000,000
Parks & Recreation Improvements	5/5/2018	22,420,000	15,570,000	4,600,000	2,250,000
		<u>\$ 106,680,000</u>	<u>\$ 68,000,000</u>	<u>\$ 22,795,000</u>	<u>\$ 15,885,000</u>

⁽¹⁾ This schedule reflects authorizations which have remaining balances outstanding. Prior authorizations have been completely utilized and are reflected in the total debt outstanding.

⁽²⁾ The 2022 Bonds assume use of par and premium against authorization.

TABLE 15
GENERAL FUND⁽¹⁾ COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

	Fiscal Years Ended September 30,				
	2021	2020	2019	2018	2017
Fund Balance -					
Beginning of Year	\$ 40,567,720	\$ 30,737,701	\$ 30,500,768	\$ 20,760,160	\$ 21,555,016
Revenues:					
Taxes & Franchise Fees	119,126,658	105,225,686 ⁽²⁾	101,194,431	97,230,466	90,346,048
Wireless 911 Fees	1,178,780	1,071,761	-	-	-
Charges for Services	5,199,239	4,692,777	5,789,342	5,716,495	6,158,205
Fines and Forfeitures	3,051,687	2,828,801	4,155,874	4,778,759	4,994,567
Investment Income	403,197	1,317,474	1,890,654	936,731	650,967
Licenses and Permits	2,757,109	2,640,242	2,920,751	3,580,421	2,525,756
Intergovernmental	6,739,738	7,985,045	118,961	270,572	111,646
Miscellaneous	582,020	538,171	594,174	583,707	740,709
Total Revenues	<u>139,038,428</u>	<u>126,299,957</u>	<u>116,664,187</u>	<u>113,097,151</u>	<u>105,527,898</u>
Expenditures:					
General Government and					
Administration	19,662,154	19,597,405	17,087,424	15,594,492	15,321,401
Development Services	11,611,302	10,726,575	12,744,091	11,075,739	10,391,297
Public Safety	67,160,136	63,991,068	61,925,374	58,379,196	55,619,820
Cultural and Recreation	12,228,224	11,813,834	12,367,653	12,552,134	12,172,177
Net Transfers	13,671,520	10,341,056	12,302,712	5,754,982	12,818,059
Total Expenditures	<u>124,333,336</u>	<u>116,469,938</u>	<u>116,427,254</u>	<u>103,356,543</u>	<u>106,322,754</u>
Excess/Deficiency of Revenues over Expenditures	<u>14,705,092</u>	<u>9,830,019</u>	<u>236,933</u>	<u>9,740,608</u>	<u>(794,856)</u>
Fund Balance -					
End of Year	<u>\$ 55,272,812</u>	<u>\$ 40,567,720</u>	<u>\$ 30,737,701</u>	<u>\$ 30,500,768</u>	<u>\$ 20,760,160</u>

⁽¹⁾ The General Fund is the main operating fund of the City, used to account for all financial resources not accounted for in other funds. All general tax revenues and other receipts that are not restricted by law or contractual agreement to some other fund are accounted for in the General Fund. General operating expenditures, fixed charges and capital improvement costs that are not paid through other funds are paid from the General Fund. The General Fund includes most of the basic operating services such as fire and police protection, environmental services, parks and recreation, libraries and street maintenance.

⁽²⁾ FY 2021 includes thirteen (13) months of sales tax collections to accrue September 2021 taxes received in November 2021 for the amount of \$4,536,737. Future fiscal years will continue to include twelve months of sales tax receipts.

TABLE 16
GENERAL FUND
CURRENT OPERATIONS

On August 31, 2021, the Fiscal Year 2021-22 budget was adopted by the City Council. The following General Fund Operating Budget is presented on a budget basis presentation.

<u>Revenues</u>	<u>2020-2021</u> <u>Actual⁽¹⁾</u>	<u>2021-2022</u> <u>Adopted Budget⁽³⁾</u>	<u>2021-2022</u> <u>Current Estimate⁽²⁾</u>
Property Taxes	\$ 61,378,906	\$ 63,800,775	\$ 65,277,721
Sales Taxes	46,187,884 ⁽⁴⁾	35,410,487	39,516,517
911 Taxes	1,178,780	1,050,899	1,050,899
Franchise Fees	11,668,365	10,984,493	11,268,780
Licenses and Permits	2,752,359	2,427,637	2,389,178
Charges for Services	4,954,141	5,220,080	4,920,413
Fines and Forfeiture	2,950,177	3,071,419	3,085,646
Other Revenues	7,226,170	391,000	391,000
Investment Income	465,807	641,472	641,472
Transfers In	<u>4,682,719</u>	<u>2,669,036</u>	<u>2,669,036</u>
Total Revenues	<u>\$ 143,445,308</u>	<u>\$ 125,667,298</u>	<u>\$ 131,210,662</u>
 <u>Expenditures</u>			
Personal Services	\$ 70,032,911	\$ 73,026,101	\$ 72,450,978
Supplies and Services	15,995,266	18,319,129	16,695,129
Utilities	2,471,884	2,476,409	2,476,409
Allocations	19,491,619	21,647,611	21,647,611
Capital Outlay	372,695	1,982,987	1,530,617
Transfers Out	<u>19,624,931 ⁽³⁾</u>	<u>13,793,858 ⁽³⁾</u>	<u>16,445,351 ⁽³⁾</u>
Total Expenditures	<u>\$ 127,989,306</u>	<u>\$ 131,246,095</u>	<u>\$ 131,246,095</u>

⁽¹⁾ For annual budget purposes, the City utilizes an Administrative Services Fund for internal allocation of overall costs. For year-end financial reporting purposes, this fund is consolidated with the General Fund in the Comprehensive Annual Financial Report. The above figures represent only the General Fund as presented in the annual budget and do not include consolidation of the Administrative Services Fund.

⁽²⁾ As of February 28, 2022. City Staff monitors actual revenues and expenditures monthly and revisions are made to forecasted budget numbers as necessary to reflect changes in the economy and changes in laws or regulations that might affect operations.

⁽³⁾ The City's will periodically draw down fund balance to more closely reflect its 60-day of expenditure target. This is accomplished through transfers to the Capital Projects fund. Recurring sources and uses will remain in balance.

⁽⁴⁾ FY 2021 includes thirteen (13) months of sales tax collections to accrue September 2021 taxes received in November 2021 for the amount of \$4,536,737. Future fiscal years will continue to include twelve months of sales tax receipts.

TABLE 17
CURRENT INVESTMENTS

As of February 28, 2022 the following percentages of the City's investable funds were invested in the following investment categories and the weighted average maturity of the total City portfolio was 1.16 years.

<u>Type of Investment</u>	<u>Fair Market Value</u>	<u>Percentage</u>
Coupon Agencies	\$ 159,195,675	41.06%
Treasury Notes	79,698,398	20.56%
Municipal Bonds	92,481,436	23.85%
Banks & Government Pools ⁽¹⁾	<u>56,329,495</u>	<u>14.53%</u>
Total Securities	<u>\$ 387,705,004</u>	<u>100.00%</u>

⁽¹⁾The City's government pool investments are in the Texas Local Government Investment Pools ("TexPool") the Local Government Investment Cooperative ("LOGIC"), the Texas Cooperative Liquid Assets Securities System Trust ("TexasCLASS") and the TexasTERM Local Government Investment Pool ("TexasDaily"). All investment pools are rated AAAM by S&P and operate in a manner consistent with Chapter 2256, Texas Government Code referred to as the Public Funds Investment Act.

APPENDIX B

**GENERAL PURPOSE EXTERNAL FINANCIAL
STATEMENTS FROM THE CITY OF CARROLLTON, TEXAS
WITH REPORT OF EXAMINATION FOR THE YEAR ENDED
SEPTEMBER 30, 2021 BY BKD LLP,
CERTIFIED PUBLIC ACCOUNTANTS, DALLAS, TEXAS
AS EXCERPTED FROM THE SEPTEMBER 30, 2021
COMPREHENSIVE ANNUAL FINANCIAL REPORT**

Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Carrollton, Texas (City) of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of September 30, 2021, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

The Honorable Mayor and Members of the City Council
City of Carrollton, Texas
Page 3

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

BKD, LLP

Dallas, Texas
February 2, 2022

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2021

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

February 2, 2022

As management of the City of Carrollton (City), we offer this narrative overview and analysis of the financial activities and financial position of the City for the fiscal year ended September 30, 2021. In the broadest context, the financial well-being of the government lies in the underlying wealth and willingness of its citizens and property owners to pay adequate taxes combined with the vision of the government's elected and appointed leadership to spend those taxes strategically. This allows the City's tax base, service levels, assets and desirability to be maintained, not just for the current year, but well into the future. Financial reporting is limited in its ability to provide this "big picture" but rather focuses on financial position and changes in financial position. In other words, are revenues and or expenses/expenditures higher or lower than the previous year? Has net position (containing both short and long-term assets and liabilities) or fund balances (the current "spendable" assets less current liabilities) of the government been maintained? We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal (pages i-vii of this report), the statistical section (pages 115-138 of this report), as well as information on the City's Council's Strategic Goals, the annual budget and other community information found on the City's website at www.cityofcarrollton.com. It should be noted that the Report of the Independent Auditors' association with various sections of this report and that all of the additional information from the website and other City sources is unaudited and has not been updated for events that may have occurred subsequent to the issuance of the respective report.

IN BRIEF

- The net position of the City at the close of the most recent fiscal year was \$652,188. This number must be viewed in the context that the vast majority of the City's net position of \$396,008 (60.7%) is the net investment in capital assets, and that most capital assets in a government do not directly generate revenue nor can they be sold to generate liquid capital. The net position restricted for specific purposes totals \$12,494 (1.9%). The remaining \$243,686 (37.4%) is the unrestricted net position and may be used to meet the government's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies. Unrestricted net position increased by \$53,241 in fiscal year 2021.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$265,010. Within this total \$44,642 is restricted by specific legal requirements (such as by debt covenants), \$806 is nonspendable for prepaid items and \$165,096 has been committed and assigned to specific types of expenditures. The remaining \$54,413 is an unassigned fund balance in the General Fund and can be used for any lawful purpose.
- The City's long-term liabilities decreased by \$(6,544) due primarily to the elimination of the City's net pension liability due to strong investment returns, netted against an increase in OPEB liabilities and the sale of bonds.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, [2021](#)

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

- In addition to receiving over \$6.7 million in American Rescue Plan (ARP) Act funding and Coronavirus Aid, Relief and Economic Security (CARES) Act funding, the City has continued to see growth in property tax and sales tax revenues. The Economic Factors and Next Year's Budget section on the last page of this discussion provide additional information on the subject.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements are comprised of four components: 1) government-wide financial statements, 2) fund financial statements, 3) notes to the financial statements and 4) required supplementary information which includes this management's discussion and analysis and multi-year funding progress on the City's pension plan and retiree health plan. In addition to the basic financial statements, this report also contains other supplementary information as listed in the Table of Contents.

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 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.

The Statement of Activities presents information showing how the City's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish between functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government and administration, public safety, development services, and cultural recreation. The business-type activities of the City include Water and Sewer, Golf Course and Sanitation operations. The government-wide financial statements can be found on pages 19-20 of this report.

Fund financial statements – A fund is a self-balancing set of accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2021

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

requirements. Funds are also the primary focus of the annual budget process. All of the funds of the City can be divided into two categories – governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Nonfinancial assets such as governmental buildings, roads, drainage ways, park land and long-term liabilities such as bonds payable or long-term liabilities that will not be paid with current assets are excluded. Such information may be useful in evaluating a government's near-term financial requirements.

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

The City maintains twelve governmental funds. Information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the General, Debt Service, Streets and Drainage, and General and Public Facilities funds, all of which are considered to be major funds. Data from the other eight 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 the Annual Comprehensive Financial Report. The basic governmental funds financial statements can be found on pages 21-25.

Proprietary Funds – The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer, golf and sanitation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its fleet services, risk management and employee health and disability programs. Because these services predominantly benefit governmental rather than business-type functions, they have been included within government-wide financial statements.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2021

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer, Golf Course, and Sanitation funds, since all are considered major funds of the City. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for internal service funds is provided in the form of combining statements elsewhere in the Annual Comprehensive Financial Report. The basic proprietary fund financial statements can be found on pages 26-29 of this report.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 31-65.

Other Information – In addition to the basic financial statements, information required by the Governmental Accounting Standards Board is included herein, including this discussion and analysis and information concerning the City's progress in funding its obligation to provide pension and retiree health benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position, and, especially net position by category, may serve over time as a useful indicator of a government's financial position. The City's net position was \$652,188 as of September 30, 2021.

The largest portion of the City's net position \$396,008 (60.7%) reflects its investments in capital assets (e.g., land, building, equipment, improvements and infrastructure), less any debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending, and with exception of business type assets, do not generate direct revenue for the City. They do represent, however, an obligation on the part of the City to maintain these assets into the future. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position of \$12,494 (1.9%) represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position of \$243,686 (37.4%) may be used to meet the government's ongoing obligations to citizens and creditors.

CITY OF CARROLLTON, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2021

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

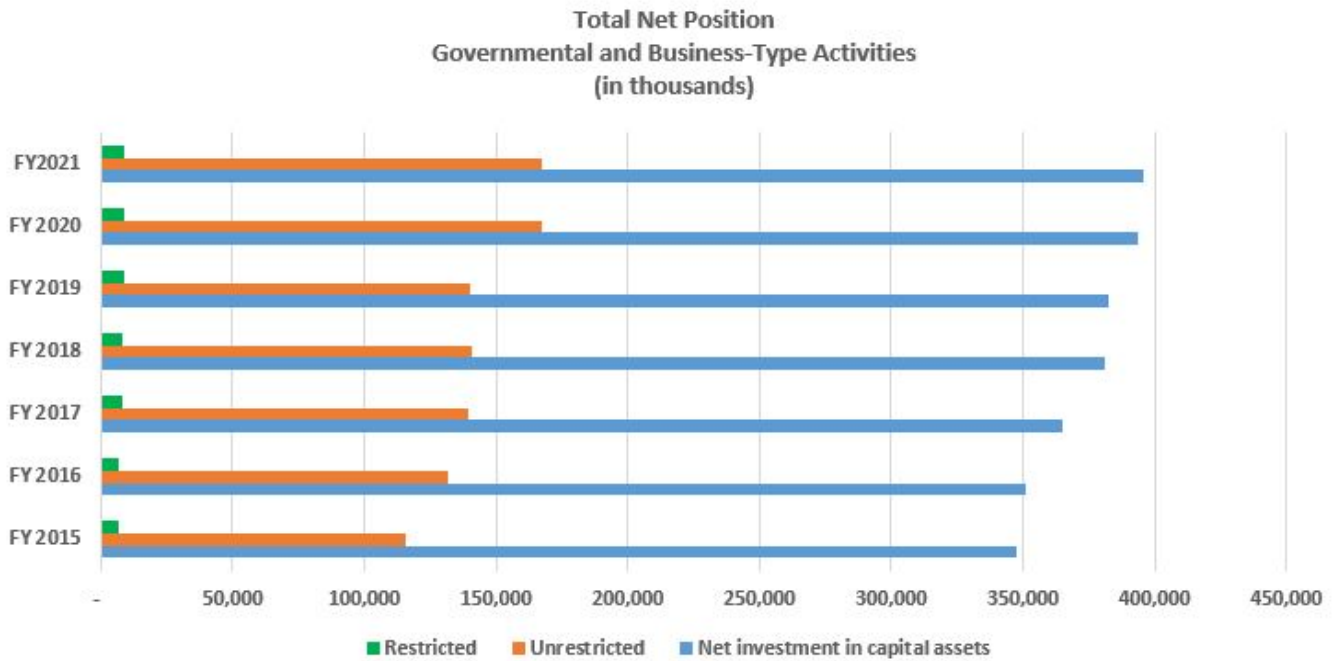
CITY OF CARROLLTON'S NET POSITION						
(Amounts in Thousands)						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	2020	2021	2020	2021	2020	2021
Current and other assets	\$ 278,398	\$ 314,725	\$ 48,418	\$ 48,974	\$ 326,816	\$ 363,698
Capital assets, net	458,428	460,878	120,184	123,228	578,612	584,105
Total Assets	<u>736,826</u>	<u>775,603</u>	<u>168,602</u>	<u>172,202</u>	<u>905,428</u>	<u>947,803</u>
Deferred outflows of resources	7,248	7,280	319	302	7,567	7,582
Long-term liabilities	256,607	252,191	13,856	11,728	\$ 270,463	\$ 263,919
Other liabilities	17,218	17,104	7,533	7,931	24,751	25,034
Total Liabilities	<u>273,825</u>	<u>269,295</u>	<u>21,389</u>	<u>19,659</u>	<u>295,214</u>	<u>288,953</u>
Deferred inflows of resources	14,467	13,671	572	575	15,039	14,245
Net Position:						
Net investment in capital assets	288,355	285,331	113,405	110,677	401,761	396,008
Restricted	9,467	11,507	1,070	987	10,537	12,494
Unrestricted	157,960	203,080	32,485	40,606	190,445	243,686
Total Net Position	<u>\$ 455,781</u>	<u>\$ 499,918</u>	<u>\$ 146,960</u>	<u>\$ 152,270</u>	<u>\$ 602,742</u>	<u>\$ 652,188</u>

As of September 30, 2021, the City has positive balances in all three categories of net position: both for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2021

Amounts in Thousands Unless Stated Otherwise
(Unaudited)



The current and other assets increased in the Governmental activities by \$36,327 and increased in the Business-type activities by \$556. Increase in the Governmental activities assets is primarily due to unspent proceeds from issuance of debt and accumulation of other funds for future capital purchases. The current and other assets in Business-type activities remained flat.

The City's long-term liabilities decreased by \$(6,544) due primarily to the decrease in pension liabilities partially offset by an increase in total OPEB liability and by the issuance of bonds for capital improvement .

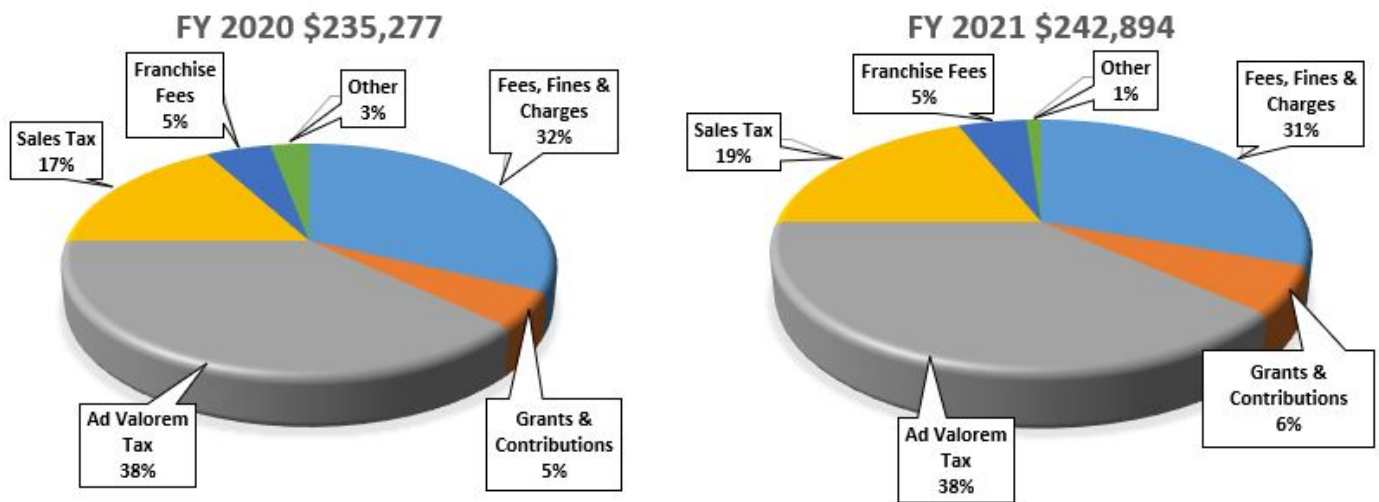
Analysis of the City's Operations – Overall the City had an increase in net position of \$49,446 or 8.2%.

CITY OF CARROLLTON, TEXAS

Management’s Discussion and Analysis
For the Year Ended September 30, 2021

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

**Changes in Net Position
Revenue by Major Category
Governmental and Business-Type Activities**



Governmental Activities: Governmental activities net position increased by \$44,137. Net investment in capital assets decreased by \$(3,024) or (1.05)%. Restricted net position increased \$2,040 or 21.55%. Unrestricted net position increased by \$45,120 or 28.56%.

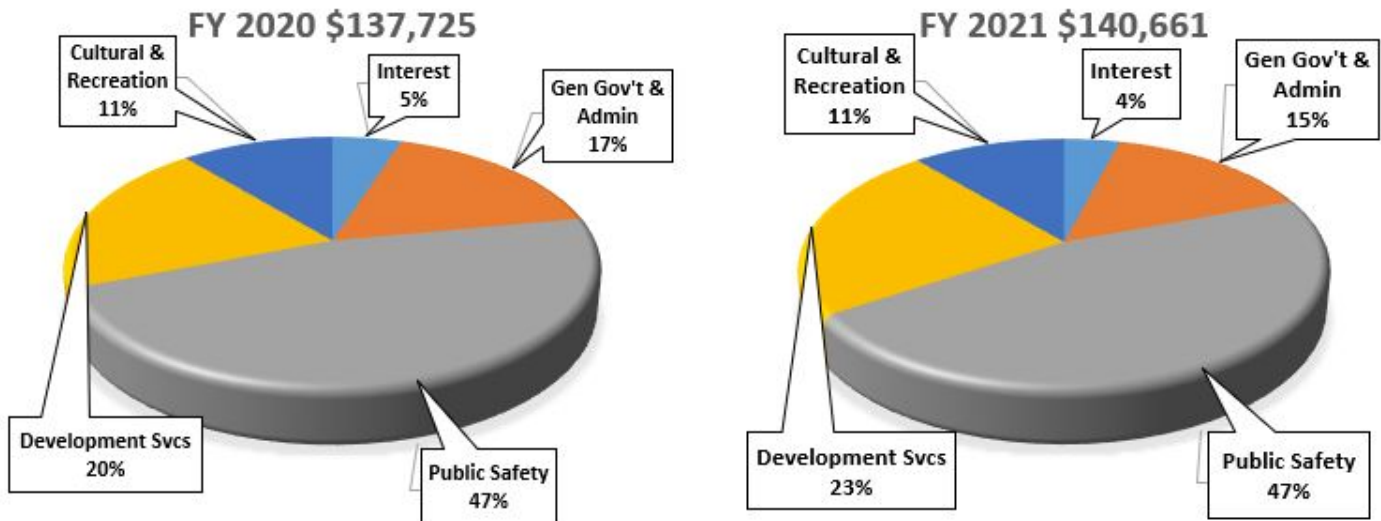
Excluding transfers from business-type activities, total revenues for governmental activities increased from the previous year by \$5,477. General revenue (excluding transfers) had a net increase of \$6,293 or 4.28%. Ad valorem tax experienced an increase of \$4,036 due to growth in assessed valuations from both new construction and increases in existing values. Additionally, a increase was seen in sales taxes of \$6,155. Other general revenues decreased by \$(3,898), primarily due to a decrease in occupancy taxes and in investment income. Program revenues had a net decrease of \$(816) primarily due to a decrease in capital grants and contributions and a decrease in fees, fines and charges for services related to COVID 19. Net transfers from the business-type activities to governmental activities increased by \$1,083 from the previous year.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2021

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

**Expenses by Type
Governmental Activities**



Total expenses for governmental activities increased \$2,936 or 2.13% primarily due to increases in Development Services expenses.

Business-type Activities: Net position from business-type activities increased by \$5,310 or 3.61% from \$146,960 to \$152,270. Net investment in capital assets decreased by \$(2,728) or (2.41)%. Restricted net position decreased by \$(83) or (7.78)%. Program revenues for business-type activities increased by \$2,576 due to increased water utilization and increases in sanitation rates and an increase in developer contributions.

CITY OF CARROLLTON, TEXAS

Management's Discussion and Analysis
For the Year Ended September 30, 2021

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

The following table provides a summary of the City's operations for year ended September 30, 2021 with comparative totals for year ended September 30, 2020

CITY OF CARROLLTON'S CHANGES IN NET POSITION

(Amounts in Thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>
Revenues						
Program Revenues:						
Fees, Fines, and Charges for Services	\$ 14,169	\$ 13,383	\$ 60,729	\$ 60,833	\$ 74,898	\$ 74,216
Operating Grants and Contributions	9,301	8,551	-	-	9,301	8,551
Capital Grants and Contributions	2,336	3,056	727	3,200	3,063	6,255
General Revenues:						
Ad Valorem Taxes	89,122	93,158	-	-	89,122	93,158
Sales Tax	40,033	46,188	-	-	40,033	46,188
Occupancy Tax	212	123	-	-	212	123
Franchise Fees	12,098	11,914	-	-	12,098	11,914
Investment Earnings:						
Net of change in fair value of investments	4,252	921	707	104	4,959	1,025
Gain on Sale of Capital Assets	328	-	18	99	346	99
Miscellaneous	892	926	353	438	1,245	1,364
Total Revenues	\$ 172,743	\$ 178,220	\$ 62,534	\$ 64,674	\$ 235,277	\$ 242,894
Expenses						
General Government and Administration						
Administration	\$ 22,838	\$ 21,796	\$ -	\$ -	\$ 22,838	\$ 21,796
Public Safety	66,626	64,935	-	-	66,626	64,935
Development Services	27,137	32,895	-	-	27,137	32,895
Cultural and Recreational	14,859	15,110	-	-	14,859	15,110
Interest on Long-Term Debt	6,265	5,924	-	-	6,265	5,924
Water and Sewer	-	-	41,908	42,277	41,908	42,277
Golf	-	-	2,205	845	2,205	845
Sanitation	-	-	9,269	9,664	9,269	9,664
Total Expenses	137,725	140,661	53,382	52,787	191,107	193,447
Increase in Net Position before Transfers						
Transfers	35,018	37,559	9,152	11,887	44,170	49,446
Transfers	5,495	6,578	(5,495)	(6,578)	-	-
Increase in Net Position	40,512	44,136	3,656	5,309	44,169	49,446
Net Position October 1	415,269	455,781	143,304	146,961	558,573	602,742
Net Position September 30	\$ 455,781	\$ 499,917	\$ 146,960	\$ 152,270	\$ 602,742	\$ 652,188

CITY OF CARROLLTON, TEXAS

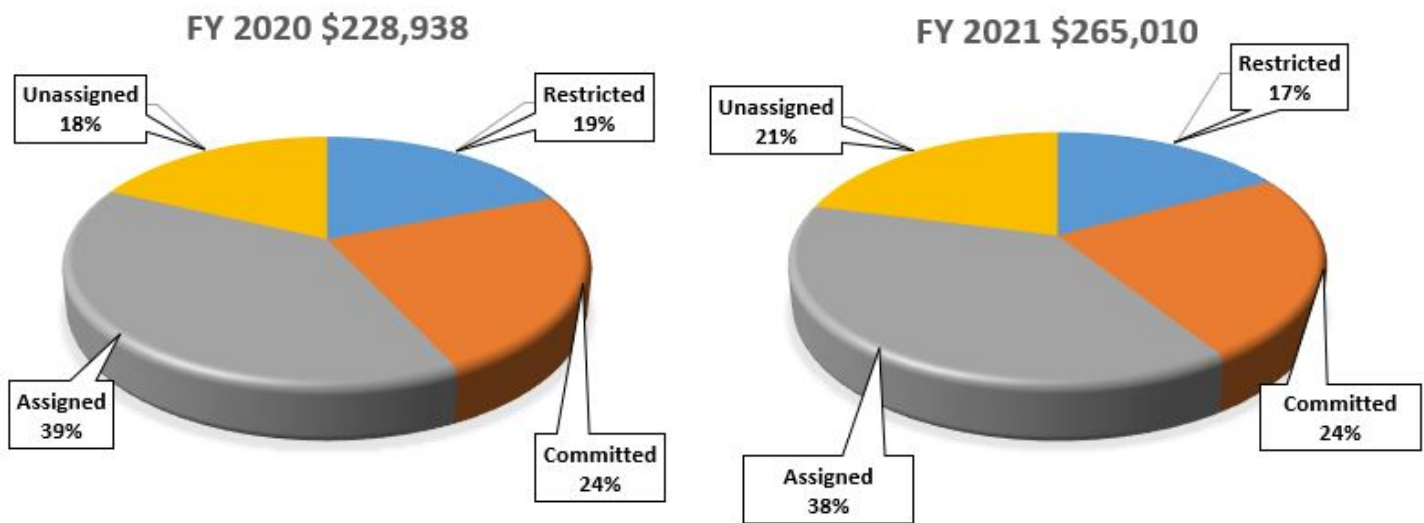
Management’s Discussion and Analysis
For the Year Ended September 30, 2021

Amounts in Thousands Unless Stated Otherwise
(Unaudited)

FINANCIAL ANALYSIS OF THE GOVERNMENT’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 a government’s net resources available for spending in the next fiscal year.

**Fund Balances by Type
Governmental Activities**



At the end of the current fiscal year, the City’s governmental funds reported combined ending fund balances of \$265,010. Within this total, \$44,641 is restricted by specific legal requirements, such as by debt covenants, \$860 for prepaid expenditures, and \$165,096 has been committed and assigned to specific types of expenditure. The remaining \$54,413 is unassigned fund balance in the General Fund and can be used for any lawful purpose.

One of the City’s financial policies is to maintain fund balance in the General Fund equal to 60 days expenditures. When those balances significantly exceed the 60-day target, the excess is transferred to capital project funds to fund pay-as-you-go capital expenditures. During the year, the City experienced a growth in sales tax revenue, the General Fund’s second largest revenue. The nature of sales tax in Texas is discussed in

CITY OF CARROLLTON, TEXAS

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note 6 on pages 50-51 of this report. In order to manage this volatile revenue source, the city council adopted a financial policy to transfer sales tax received in excess of the amount budgeted for recurring purposes to capital projects funds to be used for one-time capital expenditures. The fund balance exceeding the City's financial policy of 60 days will be addressed during the fiscal year 2022 budget deliberations. Additionally, the City received over \$6.7 million in ARPA funding for lost revenue recognition that it used to reimburse firefighter salaries. This significantly improved the fund balance of the General Fund.

Debt service fund balance decreased in 2021 by \$(40). Streets and Drainage Capital Projects fund balance increased by \$6,367 primarily due to the issuance of general obligation bonds and the receipt of transfers in from other funds offset by capital outlay expenditures. The General and Public Facilities Capital Projects fund balance increased by \$8,397 primarily due to capital outlay expenditures offset by the receipt of net transfers in from other funds.

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

Unrestricted net position of the respective enterprise funds is \$39,056 for Water and Sewer, \$1,026 for Golf Course, and \$360 for Sanitation. The total of all enterprise funds' unrestricted net position of \$40,442 is decreased by \$164 for the consolidation of the internal service fund activities related to enterprise funds to equal the total unrestricted net position for business-type activities in the entity-wide statements of \$40,606. Change in net position for enterprise funds in 2021 were \$5,272 in the Water and Sewer Fund, \$(60) in the Golf Course Fund and \$46 in the Sanitation Fund.

General Fund Budgetary Highlights – Actual revenues collected exceeded management's original estimate of the General Fund's revenues by \$20,393 or 17.19% due primarily to the Property Tax, Sales Tax and ARPA funding. Additionally, expenditures were significantly less than budget due to reductions in personnel costs.

PENSIONS AND RETIREE HEALTHCARE

Pensions and retiree health care continue to receive negative media attention as governments around the nation struggle to fund these commitments. The City is committed to providing programs in these areas that are fair to both employees and taxpayers and that can be sustained over the long term.

Effective for fiscal year 2015, Governmental Accounting Standards Board (GASB) Statement No. 68, "Accounting and Financial Reporting for Pensions," an amendment of GASB Statement No. 27, created specific reporting requirements for pensions that are different than that used for funding purposes. Both valuations are important as the reporting valuation provides a rigorous uniform measure that can be used to compare the City's pension liabilities to other governments from around the nation. The funding valuation is important as the actuarial methods used (including strategies for repaying any unfunded actuarial accrued liabilities) combined with the

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City's history of making those contributions provides insights regarding the city's commitment to and the effectiveness of its funding strategy. Information contained in the financial statements themselves, including the first schedule of Required Supplementary Information (RSI), Schedule of Changes in Net Pension Liability and Related Ratios, is based on the reporting valuation. The second schedule in the RSI, Schedule of Contributions, is based on the funding valuation. On a reporting basis, the City's financial statements reflect a Net pensions Asset (NPA) as of September 30, 2021 of \$(444) which is (0.70)% of the City's annual covered payroll of \$63,066. The NPL decreased by \$7,938 from the previous year primarily due to higher than expected investment return and became a NPA. The sizable amount of fiduciary net position invested for the City by TMRS combined with the natural volatility of investment returns from year to year make both the NPL and pension expense volatile.

While the defined benefit portion of the City's retiree health program is closed to new participants, and had 41 total participants as of the actuarial valuation rate, the TOL recorded as of September 30, 2021 is \$18,320. This amount represents a increase of from the previous year due primarily to a change of assumptions. The significant liability is due to catastrophic claims experienced from retirees.

CAPITAL ASSETS

The City's investment in capital assets net of accumulated depreciation for its governmental and business-type activities as of September 30, 2021, amounts to \$584,105 (net of accumulated depreciation). This investment in capital assets includes land, buildings, equipment, intangibles, improvements, and infrastructure and

CITY OF CARROLLTON, TEXAS

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construction in progress. The total increase in the City’s investment in capital assets, net of accumulated depreciation, for the current fiscal year was 0.95% (0.53% increase for governmental activities and 2.53% increase in business-type activities.) Accurately estimating useful lives for purposes of depreciation can be difficult particularly for infrastructure. During fiscal year 2022 the City will be reviewing infrastructure useful lives for both governmental and business type activities.

Capital Assets at Year-End Net of Accumulated Depreciation						
	<u>Governmental Activities</u>		<u>Business-Type Activites</u>		<u>Total</u>	
	2020	2021	2020	2021	2020	2021
Land	\$ 102,489	\$ 100,125	\$ 2,378	\$ 2,378	\$ 104,867	\$ 102,503
Buildings	38,548	36,089	2,466	2,166	41,013	38,255
Equipment	22,907	19,863	3,684	3,102	26,590	22,965
Intangibles	2,742	3,600	59	49	2,801	3,649
Improvements	32,831	32,494	4,304	3,814	37,136	36,308
Infrastructure	255,327	267,180	107,087	107,560	362,414	374,740
Construction in Progress	3,584	1,528	206	4,158	3,790	5,686
Total	<u>\$ 458,428</u>	<u>\$ 460,878</u>	<u>\$ 120,184</u>	<u>\$ 123,228</u>	<u>\$ 578,611</u>	<u>\$ 584,105</u>

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

- Acquisition of vehicles and equipment totaling \$3.59 million, including \$1.4 million of public safety equipment, vehicles and intangibles and \$600 thousand of public works equipment. The public safety equipment included \$1.1 million for the purchase and implementation of the Law Enforcement Management System (LEMS).
- Parks and recreation improvements totaling \$1.7 million including \$690,000 for Trails and \$546 thousand for Josey Ranch, Harold Bessire, RE Good Playground and other Parks improvements.
- Water and sewer system infrastructure improvements totaling \$3.01 million, including \$1.04 million for Golden Bear Pump Station and \$824 thousand for the Northcrest Estates Water & Sewer.
- Street and Alley Improvements of \$18.9 million, including \$3.7 million in Northcrest Estates, \$2.7 million in Residential Street replacement, \$1.3 million in Woodlake 3 Alleys, \$1.2 million in Neighborhood Improvement Programs, and \$1.1 million in Green Ridge and Myerwood improvements.
- Drainage Improvements of \$1.5 million including \$838 thousand in developer contributions for South Broadway and \$681 thousand for Indian Creek Improvements.

Additional information on the City’s capital assets can be found in note 4 on pages 44-45 of this report.

CITY OF CARROLLTON, TEXAS

Management’s Discussion and Analysis
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DEBT ADMINISTRATION

At the end of the current fiscal year, the City had a total bonded debt of \$215,782 including unamortized premiums. Of this amount, \$204,518 comprises bonded debt backed by the full faith and credit of the government, and \$11,264 represents bonds secured solely by water and sewer revenues.

	<u>Outstanding Debt at Year End</u>					
	<u>Bonds Payable</u>					
	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	2020	2021	2020	2021	2020	2021
General Obligation Bonds	\$ 200,505	\$ 204,518	\$ -	\$ -	\$ 200,505	\$ 204,518
Revenue Bonds	-	-	13,130	11,264	13,130	11,264
Total	\$ 200,505	\$ 204,518	\$ 13,130	\$ 11,264	\$ 213,635	\$ 215,782

During the fiscal year, the City’s total debt increased by \$2,147 or 1.00% due to issuance of \$21,306 (including premium) of a new General Obligation Bond new money issue offset by existing debt retirements of \$17,292 and revenue bond retirements of \$1,866.

As a water distribution and sewer collection utility, the City does not have any debt outstanding related to water and sewer treatment. However, it does have long-term contracts with its regional suppliers that have outstanding debt related to the provision of these services. Table 14, “Direct and Contractually Obligated - Property Tax and Revenue Debt,” found on page 131, lists the City’s pro-rata share of debt that is contractually obligated.

The City's General Obligation and Waterworks and Sewer System Revenue Bond ratings are listed below.

	Standard & Poor’s	Fitch
General Obligation Bonds	AAA	AAA
Revenue Bonds	AAA	AAA

Additional information on the City’s long term-debt can be found in note 5 on pages 45-48 of this report.

CITY OF CARROLLTON, TEXAS

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(Unaudited)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

In the fiscal year 2022 Budget, General Fund revenues are budgeted to increase by 4.17% from the fiscal year 2021 final budget with ad valorem taxes making up 54.59% of General Fund budgeted revenues. The certified assessed values for the City increased by 4.95% for the fiscal year 2022 budget, and included over \$234 million in value as a result of new construction. The City Council reduced the tax rate by 0.8% and maintains the ability to use an unused tax increment in the next two years which would allow it to raise the tax rate over the 3.5% cap without requiring an election.

Sales taxes recovered from previous negative impacts. The State of Texas proposed a new adopted rule change that could impact the amount of sales tax that the city could receive from its local businesses. The city reduced its Sales and Use Tax budget to accommodate for this potential decrease. The City's golf course, library, and recreational facilities were open during 2021 resulting in higher revenues which are expected to continue in 2022.

The City continues to develop commercially and recently broke ground on the new Trinity Mills Station Urban Development site that will host an additional transit rail station, office building and mixed use residential buildings. The city also maintains a strong warehouse district that continues to be rented at capacity due to the close proximity to the airport, major highways and the railway.

For the second year in a row, the Water and Sewer Operating Fund has not needed a rate increase due to a net surplus of fund balance generated by a strong fourth quarter.

REQUEST FOR INFORMATION

The financial report is designed to provide our citizens, customers, investors and creditors with a general overview of the City's finances. If you have questions about this report or need any additional information, contact the Department of Finance, Attn: Finance Director, at P.O. Box 110535, Carrollton, Texas 75011-0535, e-mail at Accounting@cityofcarrollton.com or call (972) 466-3110.

CITY OF CARROLLTON, TEXAS

Government-Wide Statement of Net Position
September 30, 2021

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets			
Cash, cash equivalents, and investments	\$ 233,993,282	\$ 36,547,583	\$ 270,540,865
Receivables (net of allowance for doubtful accounts):			
Ad valorem taxes	125,911	-	125,911
Sales taxes	8,045,079	-	8,045,079
Franchise fees	3,102,264	-	3,102,264
Accounts	-	6,750,362	6,750,362
Accrued interest	625,269	153,290	778,559
Other	2,217,991	120,584	2,338,575
Public Improvement District assessment	11,184,546	-	11,184,546
Due from other governments	654,699	-	654,699
Internal balances	(163,972)	163,972	-
Inventories	80,643	-	80,643
Prepays items	1,076,759	-	1,076,759
Pension asset	348,074	95,586	443,660
Equity interest in joint venture	2,257,389	-	2,257,389
Land held for redevelopment	3,680,484	-	3,680,484
Restricted assets:			
Cash, cash equivalents, and investments	47,496,820	5,142,684	52,639,504
Capital assets:			
Land	100,124,774	2,377,918	102,502,692
Buildings	89,821,519	19,998,757	109,820,276
Equipment	53,981,026	9,362,713	63,343,739
Intangibles	10,716,124	828,392	11,544,516
Improvements	58,110,468	16,169,676	74,280,144
Infrastructure	391,614,137	258,743,673	650,357,810
Construction in progress	1,527,705	4,157,999	5,685,704
Accumulated depreciation	(245,018,017)	(188,411,538)	(433,429,555)
Total assets	775,602,974	172,201,651	947,804,625
Deferred outflows of resources			
Deferred charges on refundings	219,654	36,999	256,653
OPEB contributions after measurement date	198,150	-	198,150
Changes in OPEB assumptions	801,690	-	801,690
Difference in expected and actual OPEB experience	105,588	-	105,588
Pension contributions after measurement date	5,955,230	264,982	6,220,212
Total deferred outflows of resources	7,280,312	301,981	7,582,293
Liabilities			
Accounts payable	12,750,004	4,657,576	17,407,580
Accrued interest	1,003,855	164,375	1,168,230
Unearned income	3,349,764	-	3,349,764
Customer deposits payable	-	3,108,668	3,108,668
Noncurrent liabilities:			
Due within one year	19,540,714	2,049,451	21,590,165
Due in more than one year	232,650,604	9,678,936	242,329,540
Total liabilities	269,294,941	19,659,006	288,953,947
Deferred inflows of resources			
Difference in expected and actual pension experience	1,611,350	75,168	1,686,518
Pension investment return difference	12,018,218	497,613	12,515,831
Changes in actuarial assumptions used to determine pension liability	41,072	1,975	43,047
Total deferred inflows of resources	13,670,640	574,756	14,245,396
Net position			
Net investment in capital assets	285,331,250	110,676,871	396,008,121
Restricted for:			
Debt service	5,391,089	986,773	6,377,862
Capital projects	3,467,743	-	3,467,743
Special revenue, public safety	2,648,142	-	2,648,142
Unrestricted	203,079,481	40,606,226	243,685,707
Total net position	\$ 499,917,705	\$ 152,269,870	\$ 652,187,575

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Government-Wide Statement of Activities
For the Year Ended September 30, 2021

Program Activities	Expenses	Program Revenues			Net (Expenses) Revenue and Changes in Net Position		
		Fees, Fines, and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities:							
General government and administration	\$ 21,796,441	\$ 209,167	\$ 6,721,453	\$ -	\$ (14,865,821)	\$ -	\$ (14,865,821)
Public safety	64,935,344	8,663,179	53,265	5,000	(56,213,900)	-	(56,213,900)
Development services	32,895,331	2,273,936	1,776,220	3,050,845	(25,794,330)	-	(25,794,330)
Cultural and recreational	15,110,009	2,236,900	-	-	(12,873,109)	-	(12,873,109)
Interest and fiscal charges	5,924,098	-	-	-	(5,924,098)	-	(5,924,098)
Total governmental activities	140,661,223	13,383,182	8,550,938	3,055,845	(115,671,258)	-	(115,671,258)
Business-type activities:							
Water and Sewer	42,277,481	48,800,443	-	3,199,625	-	9,722,587	9,722,587
Golf	844,841	479,789	-	-	-	(365,052)	(365,052)
Sanitation	9,664,433	11,552,462	-	-	-	1,888,029	1,888,029
Total business-type activities	52,786,755	60,832,694	-	3,199,625	-	11,245,564	11,245,564
Total government	\$ 193,447,978	\$ 74,215,876	\$ 8,550,938	\$ 6,255,470	(115,671,258)	11,245,564	(104,425,694)
General revenues:							
Taxes:							
Ad valorem					93,158,498	-	93,158,498
Sales					46,187,884	-	46,187,884
Occupancy					122,512	-	122,512
Franchise fees based upon gross receipts					11,914,107	-	11,914,107
Investment earnings net of change in fair value of investments					921,062	103,944	1,025,006
Gain on sale of capital assets					-	99,209	99,209
Miscellaneous					926,010	438,352	1,364,362
Transfers					6,577,638	(6,577,638)	-
					159,807,711	(5,936,133)	153,871,578
					44,136,453	5,309,431	49,445,884
					455,781,252	146,960,439	602,741,691
Net position at beginning of year					\$ 499,917,705	\$ 152,269,870	\$ 652,187,575
Net position at end of year							

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Balance Sheet
 Governmental Funds
 September 30, 2021

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Assets						
Cash and cash equivalents	\$ 47,988,480	\$ 5,496,234	\$ 103,419,385	\$ 54,091,589	\$ 49,913,268	\$ 260,908,956
Receivables (net, where applicable, of allowance for doubtful accounts):						
Ad valorem taxes	88,915	36,996	-	-	-	125,911
Sales taxes	8,045,079	-	-	-	-	8,045,079
Franchise fees	3,102,264	-	-	-	-	3,102,264
Accrued interest	54,935	13,070	260,760	119,704	122,454	570,923
Other	2,187,186	-	-	30,805	-	2,217,991
Due from other governments	49,900	-	-	-	604,799	654,699
Prepaid items	860,066	-	-	-	96,326	956,392
Land held for redevelopment	-	-	-	3,680,484	-	3,680,484
Total assets	\$ 62,376,825	\$ 5,546,300	\$ 103,680,145	\$ 57,922,582	\$ 50,736,847	\$ 280,262,699
Liabilities, Deferred Inflows of Resources and Fund Balances						
Liabilities						
Accounts payable	\$ 5,756,537	\$ 155,210	\$ 2,873,483	\$ 1,126,584	\$ 665,482	\$ 10,577,296
Unearned revenue	22,126	-	72,000	3,067,199	188,439	3,349,764
Total liabilities	5,778,663	155,210	2,945,483	4,193,783	853,921	13,927,060
Deferred inflows of resources						
Unavailable revenue	1,325,350	-	-	-	-	1,325,350
Total deferred inflows of resources	1,325,350	-	-	-	-	1,325,350
Fund balances:						
Nonspendable for:						
Prepaid items	860,066	-	-	-	-	860,066
Restricted for:						
Debt service	-	5,391,090	-	-	-	5,391,090
Streets and drainage	-	-	28,346,663	-	-	28,346,663
Public facilities	-	-	-	2,114,201	-	2,114,201
Other capital projects	-	-	-	-	6,149,025	6,149,025
Other purposes	-	-	-	-	2,640,871	2,640,871
Committed to:						
Street rehabilitation	-	-	43,090,080	-	-	43,090,080
Capital projects	-	-	-	-	20,558,077	20,558,077
Assigned to:						
Streets and drainage	-	-	29,297,919	-	-	29,297,919
Public facilities	-	-	-	51,614,598	-	51,614,598
Other capital projects	-	-	-	-	19,478,671	19,478,671
Other purposes	-	-	-	-	1,056,282	1,056,282
Unassigned	54,412,746	-	-	-	-	54,412,746
Total fund balances	55,272,812	5,391,090	100,734,662	53,728,799	49,882,926	265,010,289
Total liabilities and fund balances	\$ 62,376,825	\$ 5,546,300	\$ 103,680,145	\$ 57,922,582	\$ 50,736,847	\$ 280,262,699

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Position
September 30, 2021

Total fund balance - total governmental funds \$ 265,010,289

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

PID Assessment Receivable is not a current financial resource and therefore is not reported in governmental funds balance sheet. 11,184,546

Equity investment in Joint Venture is not a current financial resource and therefore is not reported in the governmental funds balance sheet. 2,257,389

Pension asset is not a current financial resource. 348,074

Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds balance sheet. Includes capital assets of Internal Service Funds. 460,877,736

Deferred outflows of resources are not reported in the governmental funds:

Deferred charges on refundings	\$ 219,654	
Pension contributions after measurement date	5,955,230	
Difference in actual OPEB experience	105,588	
OPEB assumption change	801,690	
OPEB contributions after measurement date	198,150	
		7,280,312

Internal service funds are used by management to charge the cost of certain activities, such as insurance and fleet management, to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the government-wide statement of net position (net of amount allocated to business-type activities, capital assets, and long-term liabilities). Internal Service Fund balances are not included in other reconciling items.

Current assets	\$ 20,836,502	
Accounts payable	(2,172,708)	
Net amount allocated to business-type activities	(163,972)	18,499,822

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. (1,003,855)

Long-term liabilities are not due and payable in the current period, therefore, they are not reported in the governmental funds balance sheet. Includes Internal Service Funds' noncurrent liabilities.

Due within one year	\$ 19,540,714	
Due in more than one year	232,650,604	(252,191,318)

Deferred inflows for unearned revenue related to warrants are not reported in governmentwide statements. 1,325,350

Deferred inflows of resources are not reported in the governmental funds:

Difference in expected and actual pension experience	(1,611,350)	
Difference in pension investment returns	(12,018,218)	
Pension changes in assumptions	(41,072)	(13,670,640)

Net position of governmental activities \$ 499,917,705

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Revenues, Expenditures, and Changes in Fund Balances
 Governmental Funds
 For the Year Ended September 30, 2021

	General	Debt Service	Streets and Drainage	General and Public Facilities	Other Governmental Funds	Total Governmental Funds
Revenues						
Taxes:						
Ad valorem	\$ 60,961,814	\$ 23,633,543	\$ 4,418,783	\$ -	\$ 3,782,242	\$ 92,796,382
Penalty and interest	308,595	53,521	-	-	-	362,116
Sales	46,187,884	-	-	-	-	46,187,884
911 fees	1,178,780	-	-	-	-	1,178,780
Occupancy	-	-	-	-	122,512	122,512
Franchise fees	11,668,365	-	-	245,742	-	11,914,107
Assessments	-	-	-	-	245,151	245,151
Charges for services	5,199,239	-	-	-	114,218	5,313,457
Intergovernmental	6,739,738	-	-	64,475	2,102,282	8,906,495
Licenses and permits	2,757,109	-	-	-	267,048	3,024,157
Fines and forfeitures	3,051,687	-	-	78,789	320,970	3,451,446
Investment earnings net of change in fair value of investments	403,197	4	206,923	81,428	99,726	791,278
PID assessment revenue	-	-	-	-	3,630,288	3,630,288
Miscellaneous	582,020	-	-	1,045,506	94,755	1,722,281
Total Revenues	139,038,428	23,687,068	4,625,706	1,515,940	10,779,192	179,646,334
Expenditures						
Current:						
General government and administration	19,666,339	-	-	-	-	19,666,339
Public safety	67,160,136	-	-	-	288,838	67,448,974
Development services	11,611,302	-	-	-	-	11,611,302
Cultural and recreational	12,228,224	-	-	-	58,298	12,286,522
PID Development Reimbursement	-	-	-	-	3,630,288	3,630,288
Capital outlay	-	-	17,950,685	11,949,794	4,478,794	34,379,273
Debt service:						
Principal retirement	-	15,390,000	-	-	-	15,390,000
Interest and fiscal charges	-	7,621,560	-	-	-	7,621,560
Total Expenditures	110,666,001	23,011,560	17,950,685	11,949,794	8,456,218	172,034,258
Excess (deficiency) of revenues over (under) expenditures	28,372,427	675,508	(13,324,979)	(10,433,854)	2,322,974	7,612,076
Other financing sources (uses):						
Bonds issued	-	7,646,436	12,968,564	1,000,000	3,400,000	25,015,000
Premium on bonds issued	-	-	4,697,762	-	-	4,697,762
Payment to refunded bond escrow agent	-	(8,362,131)	-	-	-	(8,362,131)
Sale of general capital assets	4,185	-	-	(288,085)	-	(283,900)
Transfers in	6,255,538	-	2,025,607	18,119,058	920,000	27,320,203
Transfers out	(19,927,058)	-	-	-	-	(19,927,058)
Total other financing sources (uses)	(13,667,335)	(715,695)	19,691,933	18,830,973	4,320,000	28,459,876
Net change in fund balances	14,705,092	(40,187)	6,366,954	8,397,119	6,642,974	36,071,952
Fund balances at beginning of year	40,567,720	5,431,277	94,367,708	45,331,680	43,239,952	228,938,337
Fund balances at end of year	\$ 55,272,812	\$ 5,391,090	\$ 100,734,662	\$ 53,728,799	\$ 49,882,926	\$ 265,010,289

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, 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, 2021

Net change in fund balances - total governmental funds \$ 36,071,952

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

The City's share of net gain from investment in joint venture is not reflected in fund financial statements \$ 557,049

Revenue from court warrants for the City not recognized in fund financial statements on the modified accrual basis is recognized in the government-wide financial statements on the accrual basis 174,941

Governmental funds report capital outlay as expenditures. However, in the government-wide statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital outlay recorded as capital assets in the current period. 23,531,049

The net effect of various transactions involving capital assets

Capital contributions	\$ 2,700,288	
Asset retirements/disposals	<u>(2,401,041)</u>	299,247

Depreciation expense on capital assets is reported in the government-wide statement of activities, but does not require the use of current financial resources. Therefore, depreciation expense is not reported as expenditure in governmental funds. (22,378,529)

The issuance of long-term debt (e.g. bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bonds issued	\$ (25,015,000)	
Premium on bonds issued	(4,697,762)	
Bond principal retirement	15,390,000	
Payment to refunding bond escrow agent	8,362,131	
Change in accrued interest on Bonds Payable	(54,343)	
Amortization of bond premiums/discounts	1,902,210	
Amortization of deferred charges on refundings	<u>(150,404)</u>	(4,263,168)

Expenditures are recognized in the governmental funds when paid or due for items not normally paid with available financial resources. However, the Statement of Activities is presented on an accrual basis and expenses are reported when incurred. This amount is the net effect of these differences.

Compensated absences expenses	\$ (382,312)	
Pension costs & OPEB, net	<u>7,412,907</u>	7,030,595

Internal service funds are used by management to charge the costs of certain activities, such as insurance and fleet management, to individual funds. The net revenue of the internal service funds is reported with governmental activities net of amount allocated to business-type activities and depreciation expense.

Change in net position	\$ 922,007	
Net of amount allocated to business activities	(50,481)	
Depreciation expense	<u>2,241,791</u>	<u>3,113,317</u>

Change in net position of governmental activities	\$	<u><u>44,136,453</u></u>
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See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

General Fund
 Statement of Revenues, Expenditures, and Changes in Fund Balances
 Budget and Actual
 For the Year Ended September 30, 2021

	<u>Budgeted Amounts</u>		Actual GAAP Basis	Adjustments Budget Basis	Actual Budget Basis	Variance with Final Budget Positive (Negative)
	Original	Final				
Revenues:						
Taxes:						
Ad valorem	\$ 56,464,827	\$ 63,051,962	\$ 60,961,814	\$ -	\$ 60,961,814	\$ (2,090,148)
Penalty and interest	300,000	300,000	308,595	-	308,595	8,595
Sales	36,219,838	39,085,993	46,187,884	-	46,187,884	7,101,891
911 fees	1,212,800	1,050,899	1,178,780	-	1,178,780	127,881
Franchise fees	10,793,109	11,123,762	11,668,365	-	11,668,365	544,603
Charges for services	5,641,262	5,131,982	5,199,239	-	5,199,239	67,257
Intergovernmental	-	-	6,739,738	-	6,739,738	6,739,738
Licenses and permits	2,514,377	2,764,056	2,757,109	-	2,757,109	(6,947)
Fines and forfeitures	3,974,284	3,284,754	3,051,687	-	3,051,687	(233,067)
Investment earnings						
Net of change in fair value of investments	994,389	680,959	403,197	(51,589)	351,608	(329,351)
Miscellaneous	531,000	651,668	582,020	-	582,020	(69,648)
Total revenues	118,645,886	127,126,035	139,038,428	(51,589)	138,986,839	11,860,804
Expenditures:						
Current:						
General government and administration	24,060,937	25,421,875	19,666,339	46,739	19,713,078	5,708,797
Public safety	66,936,574	68,453,132	67,160,136	33,242	67,193,378	1,259,754
Development services	13,559,493	12,722,535	11,611,302	(2,250)	11,609,052	1,113,483
Cultural and recreational	13,977,909	13,795,682	12,228,224	(29,568)	12,198,656	1,597,026
Total expenditures	118,534,913	120,393,224	110,666,001	48,163	110,714,164	9,679,060
Excess (deficiency) of revenues over (under) expenditures	110,973	6,732,811	28,372,427	(99,752)	28,272,675	21,539,864
Other financing sources (uses):						
Sale of general capital assets	-	-	4,185	-	4,185	4,185
Transfers in	3,008,092	4,866,502	6,255,538	-	6,255,538	1,389,036
Transfers out	(15,960,111)	(13,380,347)	(19,927,058)	-	(19,927,058)	(6,546,711)
Total other financing sources (uses)	(12,952,019)	(8,513,845)	(13,667,335)	-	(13,667,335)	(5,153,490)
Net change in fund balances	(12,841,046)	(1,781,034)	14,705,092	(99,752)	14,605,340	16,386,374
Fund balances at beginning of year	40,567,720	40,567,720	40,567,720	-	40,567,720	-
Fund balances at end of year	<u>\$ 27,726,674</u>	<u>\$ 38,786,686</u>	<u>\$ 55,272,812</u>	<u>\$ (99,752)</u>	<u>\$ 55,173,060</u>	<u>\$ 16,386,374</u>

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Net Position
 Proprietary Funds
 For the Year Ended September 30, 2021

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Assets					
Current Assets:					
Cash and cash equivalents	\$ 34,686,140	\$ 914,373	\$ 947,070	\$ 36,547,583	\$ 20,581,146
Receivables (net where applicable of allowance for doubtful accounts)					
Accounts	5,495,061	-	1,255,301	6,750,362	-
Accrued interest	147,049	2,276	3,965	153,290	54,346
Other	-	120,584	-	120,584	-
Inventories	-	-	-	-	80,643
Prepaid items	-	-	-	-	120,367
Pension Asset	95,586	-	-	95,586	-
Restricted assets:					
Cash and cash equivalents	4,155,911	-	-	4,155,911	-
Total current assets	<u>44,579,747</u>	<u>1,037,233</u>	<u>2,206,336</u>	<u>47,823,316</u>	<u>20,836,502</u>
Noncurrent assets:					
Restricted assets:					
Cash and cash equivalents	986,773	-	-	986,773	-
Capital assets:					
Land	1,382,918	995,000	-	2,377,918	-
Buildings	18,073,186	1,925,571	-	19,998,757	176,409
Equipment	6,481,579	1,420,831	1,460,303	9,362,713	24,593,109
Intangibles	828,392	-	-	828,392	104,714
Improvements	-	16,169,676	-	16,169,676	-
Infrastructure	258,743,673	-	-	258,743,673	-
Construction in progress	4,157,999	-	-	4,157,999	-
Accumulated depreciation	(171,743,760)	(15,207,475)	(1,460,303)	(188,411,538)	(15,350,120)
Total capital assets, net of accumulated depreciation	<u>117,923,987</u>	<u>5,303,603</u>	<u>-</u>	<u>123,227,590</u>	<u>9,524,112</u>
Total noncurrent assets	<u>118,910,760</u>	<u>5,303,603</u>	<u>-</u>	<u>124,214,363</u>	<u>9,524,112</u>
Total assets	<u>163,490,507</u>	<u>6,340,836</u>	<u>2,206,336</u>	<u>172,037,679</u>	<u>30,360,614</u>
Deferred outflows of resources					
Deferred charges on refundings	36,999	-	-	36,999	-
Pension contributions after measurement date	264,982	-	-	264,982	-
Total deferred outflows of resources	<u>301,981</u>	<u>-</u>	<u>-</u>	<u>301,981</u>	<u>-</u>
Liabilities					
Current liabilities:					
Accounts payable	2,799,915	11,318	1,846,343	4,657,576	2,172,708
Estimated health claims payable	-	-	-	-	851,581
Customer deposits payable	3,108,668	-	-	3,108,668	-
Revenue bonds payable	1,944,790	-	-	1,944,790	-
Compensated absences	104,661	-	-	104,661	-
Accrued interest	164,375	-	-	164,375	-
Total current liabilities	<u>8,122,409</u>	<u>11,318</u>	<u>1,846,343</u>	<u>9,980,070</u>	<u>3,024,289</u>
Noncurrent liabilities:					
Revenue bonds payable	9,318,940	-	-	9,318,940	-
Compensated absences	359,996	-	-	359,996	46,761
Long-term risk liability	-	-	-	-	865,083
Total noncurrent liabilities	<u>9,678,936</u>	<u>-</u>	<u>-</u>	<u>9,678,936</u>	<u>911,844</u>
Total liabilities	<u>17,801,345</u>	<u>11,318</u>	<u>1,846,343</u>	<u>19,659,006</u>	<u>3,936,133</u>
Deferred inflows of resources					
Difference in expected and actual pension experience	75,168	-	-	75,168	-
Changes in actuarial assumptions used to determine pension liability	1,975	-	-	1,975	-
Net difference in projected and actual earnings on pension plan investments	497,613	-	-	497,613	-
	<u>574,756</u>	<u>-</u>	<u>-</u>	<u>574,756</u>	<u>-</u>
Net Position					
Net investment in capital assets	105,373,268	5,303,603	-	110,676,871	9,524,112
Restricted for:					
Revenue bond retirement	986,773	-	-	986,773	-
Unrestricted	39,056,346	1,025,915	359,993	40,442,254	16,900,369
Total net position	<u>\$ 145,416,387</u>	<u>\$ 6,329,518</u>	<u>\$ 359,993</u>	<u>\$ 152,105,898</u>	<u>\$ 26,424,481</u>
Reconciliation to government-wide statement of net position:					
Adjustment to reflect the consolidation of internal service funds activities related to enterprise funds				163,972	
Net position of business-type activities				<u>\$ 152,269,870</u>	

CITY OF CARROLLTON, TEXAS

Statement of Revenues, Expenses and Changes in Net Position
 Proprietary Funds
 For the Year Ended September 30, 2021

	Business-Type Activities - Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Operating revenues:					
Charges for services	\$ 48,800,547	\$ 580,383	\$ 11,552,462	\$ 60,933,392	\$ 21,544,592
Miscellaneous	337,653	-	-	337,653	-
Total operating revenues	<u>49,138,200</u>	<u>580,383</u>	<u>11,552,462</u>	<u>61,271,045</u>	<u>21,544,592</u>
Operating expenses:					
Personal services	3,765,284	-	-	3,765,284	1,009,771
Supplies and services	30,287,030	44,518	9,508,935	39,840,483	16,886,185
Utilities	885,921	122,132	-	1,008,053	34,153
Allocations	1,123,539	23,055	144,121	1,290,715	85,914
Depreciation	5,968,356	652,727	-	6,621,083	2,241,791
Total operating expenses	<u>42,030,130</u>	<u>842,432</u>	<u>9,653,056</u>	<u>52,525,618</u>	<u>20,257,814</u>
Income (loss) from operations	<u>7,108,070</u>	<u>(262,049)</u>	<u>1,899,406</u>	<u>8,745,427</u>	<u>1,286,778</u>
Nonoperating revenues (expenses):					
Investment earnings net of change in fair value of investments	96,755	2,448	4,741	103,944	40,546
Gain on sale/retirement of capital assets	99,209	-	-	99,209	410,190
Interest expense	(311,618)	-	-	(311,618)	-
Total nonoperating revenues (expenses)	<u>(115,654)</u>	<u>2,448</u>	<u>4,741</u>	<u>(108,465)</u>	<u>450,736</u>
Income/(Loss) before contributions and transfers	6,992,416	(259,601)	1,904,147	8,636,962	1,737,514
Capital contributions	3,199,625	-	-	3,199,625	-
Transfers in	-	200,000	-	200,000	-
Transfers out	<u>(4,919,956)</u>	<u>-</u>	<u>(1,857,681)</u>	<u>(6,777,637)</u>	<u>(815,507)</u>
Change in net position	5,272,085	(59,601)	46,466	5,258,950	922,007
Net position at beginning of year	<u>140,144,302</u>	<u>6,389,119</u>	<u>313,527</u>		<u>25,502,474</u>
Net position at end of year	<u>\$ 145,416,387</u>	<u>\$ 6,329,518</u>	<u>\$ 359,993</u>		<u>\$ 26,424,481</u>
Reconciliation to government-wide statement of activities:					
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds				50,481	
Change in net position of business-type activities				<u>\$5,309,431</u>	

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2021

	Business -Type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Cash flows from operating activities:					
Cash received from customers for services	\$ 49,320,975	\$ 535,345	\$ 11,448,284	\$ 61,304,604	\$ -
Cash received from employees for services	-	-	-	-	2,128,815
Cash received from other funds for services	-	-	-	-	19,415,775
Cash received from loss claim recoveries	-	-	-	-	1,664,842
Other operating cash receipts	337,758	-	-	337,758	-
Cash payments to suppliers for goods and services	(31,133,657)	(166,337)	(9,100,703)	(40,400,697)	(6,224,646)
Cash payments to employees for services	(3,480,027)	-	-	(3,480,027)	(201,165)
Cash payment for loss claims	-	-	-	-	(12,873,009)
Cash payments to other funds for services	(1,872,916)	(23,055)	(109,027)	(2,004,998)	(103,079)
Net cash provided by operating activities	<u>13,172,133</u>	<u>345,953</u>	<u>2,238,554</u>	<u>15,756,640</u>	<u>3,807,533</u>
Cash flows from noncapital financing activities:					
Transfers from other funds	-	200,000	-	200,000	-
Transfers to other funds	(4,919,956)	-	(1,857,681)	(6,777,637)	(815,507)
Net cash provided by (used in) noncapital financing activities	<u>(4,919,956)</u>	<u>200,000</u>	<u>(1,857,681)</u>	<u>(6,577,637)</u>	<u>(815,507)</u>
Cash flows from capital and related financing activities:					
Acquisition and construction of capital assets	(7,199,600)	(18,422)	-	(7,218,022)	(1,366,260)
Proceeds from sale of capital assets	99,209	-	-	99,209	413,254
Interest paid on bonds	(458,075)	-	-	(458,075)	-
Interest paid on intrafund loan	(27,869)	-	-	(27,869)	-
Retirement of bonds	(1,695,000)	-	-	(1,695,000)	-
Retirement of intrafund loan	(2,012,241)	-	-	(2,012,241)	-
Capital contributions	705,690	-	-	705,690	-
Net cash used by capital and related financing activities	<u>(10,587,886)</u>	<u>(18,422)</u>	<u>-</u>	<u>(10,606,308)</u>	<u>(953,006)</u>
Cash flows from investing activities:					
Interest on cash and cash equivalents	120,008	1,186	7,298	128,492	55,939
Net increase (decrease) in cash and cash equivalents	(2,215,701)	528,717	388,171	(1,298,813)	2,094,959
Cash and cash equivalents, October 1	42,044,525	385,656	558,899	42,989,080	18,486,187
Cash and cash equivalents, September 30	<u>\$ 39,828,824</u>	<u>\$ 914,373</u>	<u>\$ 947,070</u>	<u>\$ 41,690,267</u>	<u>\$ 20,581,146</u>

(Continued)

See accompanying notes to basic financial statements.

CITY OF CARROLLTON, TEXAS

Statement of Cash Flows
 Proprietary Funds
 For the Year Ended September 30, 2021

	Business -Type Activities- Enterprise Funds				Governmental Activities- Internal Service Funds
	Water and Sewer	Golf Course	Sanitation	Total	
Reconciliation of income (loss) from operations to net cash provided by operating activities:					
Income (loss) from operations	\$ 7,108,070	\$ (262,049)	\$ 1,899,406	\$ 8,745,427	\$ 1,286,778
Adjustments to reconcile income (loss) from operations to net cash provided by operating activities:					
Depreciation	5,968,356	652,727	-	6,621,083	2,241,791
Provision for doubtful accounts	89,923	-	35,092	125,015	-
Change in assets and liabilities:					
(Increase) decrease in accounts receivable	303,473	-	(104,178)	199,295	-
(Increase) decrease in other receivables	-	(45,038)	-	(45,038)	-
(Increase) decrease in due from other governments	-	-	-	-	-
(Increase) decrease in inventories	-	-	-	-	(36,911)
(Increase) decrease in prepaid items	-	-	-	-	-
(Increase) decrease in pension related deferred outflows	(5,881)	-	-	(5,881)	-
Increase (decrease) in accounts payable	(64,286)	313	408,234	344,261	375,734
Increase (decrease) in estimated health claims payable	-	-	-	-	(175,819)
Increase (decrease) in customer deposits payable	127,033	-	-	127,033	-
Increase (decrease) in net pension liability	(338,164)	-	-	(338,164)	-
Increase (decrease) in liability for compensated absences	(18,999)	-	-	(18,999)	(1,215)
Increase (decrease) in long-term risk liability	-	-	-	-	117,175
Increase (decrease) in pension related deferred inflows	2,608	-	-	2,608	-
Net cash provided by (used in) operating activities	<u>\$ 13,172,133</u>	<u>\$ 345,953</u>	<u>\$ 2,238,554</u>	<u>\$ 15,756,640</u>	<u>\$ 3,807,533</u>

Noncash investing, capital and financing activities:
 During the past year, the Enterprise Funds received \$2,493,935 of noncash capital contributions from developers consisting of water and sewer infrastructure. Retainage payable as of 9/30/2021 equals \$532,161

Reconciliation of total cash and cash equivalents:					
Current assets:					
Cash and cash equivalents	\$ 34,686,140	\$ 914,373	\$ 947,070	\$ 36,547,583	\$ 20,581,146
Restricted assets - cash and cash equivalents	4,155,911	-	-	4,155,911	-
Noncurrent assets:					
Restricted assets - cash and cash equivalents	986,773	-	-	986,773	-
Total cash and cash equivalents	<u>\$ 39,828,824</u>	<u>\$ 914,373</u>	<u>\$ 947,070</u>	<u>\$ 41,690,267</u>	<u>\$ 20,581,146</u>

(Concluded)

See accompanying notes to basic financial statements.



CARROLLTON

T E X A S

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. General Statement

Incorporated on June 14, 1913, the City of Carrollton operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety, development services, culture, recreation and waterworks.

The accounting and reporting policies of the City relating to the funds included in the accompanying basic financial statements conform to accounting principles generally accepted in the United States of America (GAAP) applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB). The more significant accounting policies of the City are described below.

B. Financial Reporting Entity

The City's basic financial statements include the accounts of all City operations. The criteria for including legally separate organizations as component units within the City's reporting entity are set forth in Section 2100 of GASB's Codification of Governmental Accounting and Financial Reporting Standards (GASB Codification). Based on this criterion, the City has no component units.

C. Basis of Presentation

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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges from the City's water, sewer and sanitation functions and various other functions. Elimination of these charges would distort the direct costs reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. 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) operation or capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Taxes and other items not properly included among program revenues are reported instead as general revenues.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

Fund Financial Statements:

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

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

General Fund

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

Debt Service Fund

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

Streets and Drainage Fund

Streets and Drainage Fund is used to account for funds received and expended for the construction and renovation of thoroughfares, arterial streets, and drainage improvements in the City.

General and Public Facilities Fund

General and Public Facilities Fund is used to account for funds received and expended for construction, renovation, expansion, and major improvement of various City facilities, acquisition of land, and other large nonrecurring projects.

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

Water and Sewer Fund

Water and Sewer Fund is used to account for the provision of water and sewer services to the residents of the City. Activities of the fund include administration, operations and maintenance of the water and sewer system, and billing and collection activities. The fund also accounts for the accumulation of resources for, and the payment of, long-term debt principal and interest for water

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

and sewer debt. All costs are financed through charges to utility customers with rates reviewed regularly and adjusted if necessary, to ensure integrity of the funds.

Golf Course Fund

Golf Course Fund is used to account for payments received from the contractor and improvements made to the City's golf course; including administration, operation and maintenance. The City has designated it as a major fund.

Sanitation Fund

Sanitation Fund is used to account for billing, collection, and payment for solid waste collection and disposal services. All costs are financed through charges to sanitation customers. The City has designated it as a major fund.

Additionally, the City reports the Internal Service Funds, which are used to account for the fleet management services, self-funded property and casualty insurance provided to the departments of the City and self-funded health and disability insurance provided to employees of the City.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses for the proprietary funds include the cost of personal and contractual services, supplies and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

D. MEASUREMENT FOCUS/BASIS OF ACCOUNTING

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers most

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

revenues as available if they are collected within 45 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, debt service expenditures, except for interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to compensated absences, are recorded only when payment has matured and will be payable shortly after year-end.

The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income, intergovernmental revenues and court fines and fees. Sales taxes collected and held by the state at year-end on behalf of the government are also recognized as revenue. All other governmental fund revenues are recognized when received as they are deemed immaterial. Taxes, franchise fees, and court fines and fees are deemed available if they are collected within 45 days of the year end. Sales taxes are deemed available if they are collected within 60 days of the year end.

E. Budgetary Control

Annual budgets are adopted for all governmental funds except for the capital projects funds, which adopt project-length budgets.

The City Charter establishes the fiscal year as the twelve-month period beginning October 1. The departments submit to the City Manager a budget of estimated expenditures for the ensuing fiscal year after which the City Manager subsequently submits a budget of estimated expenditures and revenues to the City Council by August 1.

Upon receipt of the budget estimates, the Council holds a public hearing on the proposed budget. Information about the Budget ordinance is then published in the official newspaper of the City.

At least ten days prior to October 1, the budget is legally enacted through passage of an ordinance. The City Manager is authorized to transfer budgeted amounts between line items and department within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgeted amounts are as originally adopted or as amended by the City Council. With the exception of the budget amendments related to COVID 19, individual amendments were not material in relation to the original appropriations, which were adopted. The statement of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual – General Fund presents a comparison of budgetary data to actual results. The General Fund utilizes the same basis of accounting for both budgetary purposes and actual results, except for the effect of encumbrances and unrealized investment gains and losses, which are adjusted to the actual results for this comparison.

F. Cash, Cash Equivalents, and Investments

Cash of all funds, including restricted cash, are pooled into common pooled accounts in order to maximize investment opportunities. Each fund whose monies are deposited in the pooled cash accounts has equity therein, and interest earned on the investment of these monies is allocated

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

based upon relative equity at month end. An individual fund's equity in the pooled cash accounts is available upon demand and are considered to be "cash equivalents" when preparing these financial statements. In addition, any marketable securities not included in the common pooled accounts that are purchased with maturity of ninety days or less are also considered to be "cash equivalents". Negative balances incurred in pooled cash at year-end are treated as interfund receivable of the General fund and interfund payables of the deficit fund.

Investments in government pools are in government agencies and are recorded at amortized cost or NAV. All other investments are recorded at fair value based on quoted market prices. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties.

G. 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".

H. Inventories

The inventories in the Internal Service Funds consist of fuel supplies and are recorded at cost using the first-in/first-out method.

I. Prepaid Items

Prepaid balances are for payments made by the City in the current year to provide services occurring in the subsequent fiscal year.

J. Equity Interest in Joint Venture and Shared Radio System

During Fiscal year 2014, the Town of Addison, City of Carrollton, City of Coppell, and City of Farmers Branch (the "Cities") formed a joint venture, the North Texas Emergency Communications Center, Inc. (NTECC), to establish and operate a joint public safety dispatch center. The cities are responsible for funding capital and operating costs of NTECC. The City of Carrollton's equity interest in NTECC of \$2,257,389 as of September 30, 2021, is recorded as Equity Interest in Joint Venture in the Governmental Activities on the Government-wide Statement of Net Position. Audited financial statements for NTECC can be obtained from the Finance Department at 1945 E. Jackson Rd, Carrollton, TX 75006, by calling 972-466-3110 or by email at Accounting@cityofcarrollton.com.

Additionally, the Cities have also entered into an interlocal agreement to jointly procure a public safety radio system. While this agreement did not include the formation of a separate legal joint venture entity, NTECC has been contracted to manage all shared aspects of the radio system. The Cities are each responsible for funding a portion of the radio system. The City of Carrollton's portion of the system costs as of September 30, 2021 is included in the costs for the Dispatch center.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2021

K. Land Held for Redevelopment

Land held for redevelopment in the General and Public Facilities Capital Project Fund is valued at the lower of estimated realizable value or historical acquisition cost.

L. Restricted Assets

Certain cash and investments balances are restricted by various legal and contractual obligations.

The following table summarizes the restricted cash and investments:

Restricted Cash and Investments	
Governmental Activities:	
Debt Service Fund	\$ 5,496,234
Bond Construction Account	35,596,327
Other Capital Project Funds	3,467,745
Special Revenue Funds	2,936,514
	47,496,820
Business-Type Activities:	
Revenue Bond Accrued Interest Payable	164,375
Current Maturities of Revenue Bonds	729,167
Reserve for Revenue Bond Retirement	986,773
Customer Deposits	3,108,668
Unspent Bond Proceeds	153,701
	5,142,684
Total Restricted Cash and Investments	\$ 52,639,504

M. 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 purchased capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their acquisition value on the date donated. Repairs and maintenance are recorded as expenses. Renewals and betterments are capitalized.

Outlays for capital assets are capitalized as projects are constructed. Infrastructure assets begin depreciating at the end of year in which costs are incurred. Other constructed capital assets begin depreciating when the asset is placed in service.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

Assets capitalized, not including infrastructure assets, have an original cost of \$5,000 or more and over three years of useful life. Infrastructure assets capitalized have an original cost of \$250,000 or more. Depreciation has been calculated on each class of depreciable property using the straight-line method. Estimated useful lives are as follows:

Buildings	20 – 50 Years
Equipment	2.5 – 12 Years
Intangibles	4 – 20 Years
Improvements	10 – 40 Years
Infrastructure	20 – 40 Years

N. Pensions & OPEB

For purposes of measuring the net pension liability/(asset), pension-related deferred outflows and inflows of resources, and pension expense, City-specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS), and additions to/deductions from the City's Fiduciary Net Position, have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Information regarding the City's Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Codification Section P20 – Pension Activities.

For the purpose of measuring the total other post-employment benefits (OPEB) liability, OPEB-related deferred outflows and inflows of resources, and OPEB expense in the City's defined benefit health plan (Plan) have been determined on the same basis as they are reported by the plan. For this purpose, plan benefits are recognized when due and payable in accordance with the benefit terms. The City's Total OPEB Liability is obtained through a report prepared for the City by consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Codification Section P50 - Post-employment Benefits Other than Pensions .

O. Compensated Absences

The City's policy allows employees to accumulate unused sick leave on an unlimited basis and vacation leave up to 432 hours for Fire Shift Civil Service employees and up to 288 hours for all other employees. Upon termination, employees are entitled to be paid for accumulated leave as follows:

Vacation Leave:

- Civil Service employees who have completed six full months of service and Non-Civil Service employees hired on or before January 1, 2011, will be paid any accumulated vacation leave.
- Non-Civil Service employees hired after January 1, 2011, who have completed six full months of service will be paid for accumulated vacation leave up to a maximum of 120 hours.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

Sick Leave:

- Civil Service Fire Shift employees who have completed one full year of service will be paid for accumulated sick leave up to 1,440 hours.
- All other Civil Service employees who have completed one full year of service, and Non-Civil Service employees hired on or before January 1, 2010, will be paid for accumulated sick leave up to 960 hours.
- Non-Civil Service employees hired after January 1, 2010 will not be paid for accumulated sick leave.

P. Nature and Purpose of Classifications of Fund Balances

Governmental Funds fund balances classified as restricted are balances with constraints placed on the use of resources by creditors, grantors, contributors, or laws, or regulations of other governments. Fund balances classified as committed can only be used for specific purposes pursuant to constraints imposed by the City Council through an ordinance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation. Assigned fund balances are constrained by an intent to be used for specific purposes but are neither restricted nor committed. Assignments are made by City management based on Council direction.

For the classification of Governmental Fund balances, the City considers an expenditure to be made from the most restrictive first when more than one classification is available.

Q. Minimum Fund Balance Policy

It is the desire of the City to maintain adequate General Fund balance to maintain liquidity and in anticipation of economic downturns or natural disasters. The City Council has adopted a financial standard to maintain a General Fund minimum fund balance of 60 days budgeted expenditures.

R. Net Position

Net Position represents the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources in the proprietary funds and in the government-wide statements. Net investment in capital assets consists of capital assets net of accumulated depreciation and the outstanding balances of any borrowing spent for the acquisition, construction, or improvements of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Net position restricted for revenue bond retirement in the Water and Sewer Fund is a reserve required by revenue bond covenants.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

S. Transactions Between Funds

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

The City allocates to the Proprietary funds a predetermined allocated amount for administrative services for budget purposes. During the year ended September 30, 2021, the City allocated \$3,854,657 as a budgetary transfer.

T. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position and/or balance sheet reports a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future 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 charges on refunding – A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Pension/OPEB contributions after measurement date – These contributions are deferred and recognized in the following fiscal year.
- Differences between actuarial assumptions used and actual experience for determination of pension or OPEB liability – These differences are deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred and amortized over the estimated average remaining lives of all members determined as of the measurement date.

In addition to liabilities, the statement of financial position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. This year the City has the following items that qualify for reporting in this category.

- Difference in projected and actual earnings on pension assets – This difference is deferred and amortized over a closed five-year period.
- Difference in expected and actual pension or OPEB experience is deferred and recognized over the estimated average remaining lives of all members determined as of the measurement date.
- Changes in actuarial assumptions used to determine pension or OPEB liability – This difference is deferred amortized over the estimated average remaining lives of all member determined as of the measurement date.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

- Unavailable revenue (governmental fund level only) - deferred inflow of resources that represents amounts earned, but which are not available.

U. Accounts payable at September 30, 2021 for the government's individual major funds, which have payables, and non-major in the aggregate are as follows:

	<u>General</u>	<u>Debt Service</u>	<u>Streets and Drainage</u>	<u>General and Public Facilities</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Accounts Payable						
Retainage Payable	\$ -	\$ -	\$ 1,151,407	\$ 98,322	\$ 49,676	\$ 1,299,405
Accrued Payroll Liabilities	2,858,612	-	5,605	1,382	9,146	2,874,745
Accounts Payable	<u>2,897,925</u>	<u>155,211</u>	<u>1,716,471</u>	<u>1,026,879</u>	<u>606,661</u>	<u>6,403,147</u>
Total Accounts Payable	\$ 5,756,537	\$ 155,211	\$ 2,873,483	\$ 1,126,583	\$ 665,483	\$ 10,577,297

	<u>Business-Type Activities - Enterprise Funds</u>				<u>Governmental Activities</u>
	<u>Water and Sewer</u>	<u>Golf Course</u>	<u>Sanitation</u>	<u>Total</u>	<u>Internal Service Funds</u>
Accounts Payable					
Retainage Payable	\$ 532,161	\$ -	\$ -	\$ 532,161	\$ -
Accrued Payroll Liabilities	118,109	-	-	118,109	1,789,002
Accounts Payable	<u>2,149,645</u>	<u>11,318</u>	<u>1,846,343</u>	<u>4,007,306</u>	<u>383,706</u>
Total Accounts Payable	\$ 2,799,915	\$ 11,318	\$ 1,846,343	\$ 4,657,576	\$ 2,172,708

V. In 2021, the City adopted GASB Statement No. 84, *Fiduciary Activities* and GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 4517 Deferred Compensation Plans - an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. These statements improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The adoption of GASB 84 and GASB 97 had no impact on the City's financial statements.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

(2) BUDGET BASIS OF ACCOUNTING:

The City prepares its annual budget on a basis (budget basis) which differs from a GAAP basis. The budget and all transactions are presented in accordance with the City’s method (budget basis) in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund to provide a meaningful comparison of actual results with the budget. The differences between budget and GAAP basis in the General Fund are that encumbrances are recorded as the equivalent of expenditures (budget) as opposed to an assignment of fund balance (GAAP). Unrealized investment gain (loss) is recognized for GAAP basis only and interfund loan transactions treated as transfers for budget basis.

Adjustments necessary to convert the General Fund’s net change in fund balances on the budget basis to a GAAP basis are as follows:

Net change in fund balance - budget basis	\$ 14,605,340
Beginning of year adjustment for encumbrances recognized as expenditures	(34,286)
End of year adjustment for encumbrances not recognized as expenditures	82,449
Unrealized investment gain/(loss) recognized for GAAP basis only	51,589
Net change in fund balance - GAAP basis	<u>\$ 14,705,092</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2021

(3) DEPOSITS AND INVESTMENTS:

Deposits – State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations, or its agencies and instrumentalities, or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. All deposits of the City that exceeded the federal depository insurance coverage level of \$250,000 per account were covered by collateral held by BNY Mellon, N.A. Bank in the City’s name under a joint safekeeping agreement with Frost Bank. The market value of the collateral held at BNY Mellon, N.A. in the City’s name at fiscal year-end was \$45,678,995.

At September 30, 2021, the carrying amount of the City's deposits was \$43,234,846 and the respective bank balances totaled \$44,515,410, and the City’s cash on hand totaled \$7,520 for petty cash and change funds.

Investments – State statutes, City investment policy, City bond ordinances, and City resolutions authorize the City’s investments. The City is authorized to invest in the following: U.S. Government obligations and its agencies or instrumentalities; direct obligation of this state or its agencies and instrumentalities, including the Federal Home Loan Bank; collateralize mortgage obligations directly issued by a federal agency or instrumentality of the United States with ten years or less stated final maturity (cannot be an inverse floater, a principal only, or an interest only); 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 no less than A or its equivalent rating; bonds issued, assumed or guaranteed by the State of Israel; no-load SEC registered mutual funds with a weighted average stated maturity of less than two years that are invested in allowable securities, obligations of Texas and its agencies; fully collateralized repurchase agreements and reverse repurchase agreements; prime domestic commercial paper; prime domestic bankers’ acceptances; guaranteed investment contracts; securities lending program consisting of authorized investments by the City’s investment policy; insured or collateralized certificated of deposit; government pools; and no-load SEC registered money-market funds consisting of any of these securities listed with a dollar-weighted average stated maturity of 90 days or less and with an investment objective of a stable net asset value of \$1 for each share. For additional information, see the City of Carrollton Investment Policy at www.cityofcarrollton.com.

The City’s investments balances as of September 30, 2021, were:

Investments:	Fair Market Value	Weighted Average Maturity (Years)	Credit Risk
Coupon Agencies	\$ 145,281,292	1.08	AA+ - AAA
Discount Agencies	3,999,656	-	AA+ - AAA
Municipal Bonds	84,798,036	0.46	A+ -AAA
Treasuries	44,527,305	0.29	AA+
Government Pools	1,331,414	-	AAAm
Total Fair Market Value	\$ 279,937,703		
Portfolio Weighted Average Maturity		1.83	

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

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

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

As of September 30, 2021, the City has the recurring fair value measurements for coupon, discount agencies, treasury notes and municipal bonds of \$278,606,289 valued using quoted prices for similar assets in active markets. (Level 2 inputs.) Investments in local government investment pools valued at NAV as of September 30, 2021 total \$1,331,414

Interest Rate Risk – In compliance with the City’s Investment Policy, as of September 30, 2021, the City minimized the interest rate risk in the portfolio, related to current market events, by: limiting the weighted average maturity to a maximum of four years; structuring the investment portfolio so that securities matured to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the secondary market prior to maturity; monitoring credit ratings of portfolio positions to assure compliance with rating requirements imposed by the Public Funds Investment Act; and investing operating funds primarily in short-term securities, money market mutual funds, or similar government investment pools.

Concentration of Credit Risk – In compliance with the City’s Investment Policy, as of September 30, 2021, the City minimized concentration of credit risk, by: limiting investments in specific local governmental pools to no more than 40 percent of the investment portfolio; staggering maturities and potential call dates; and limiting investments to no more than 5% of the investment portfolio in commercial paper and bankers’ acceptances of a single issuer. As of September 30, 2021, 5% or more of the City’s total investment are in: Federal Farm Credit Bank (19.62%), Federal National Mortgage Association (9.27%), Federal Home Loan Mortgage Corporation (6.55%), Federal Home Loan Bank (14.62%), and Treasury Bonds (15.20%).

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

(4) CAPITAL ASSETS

Capital asset activity for the year-ended September 30, 2021, was as follows:

	<u>Balance October 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance September 30</u>
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 102,489,408	\$ -	\$ (2,364,634)	\$ 100,124,774
Construction in Progress	3,583,988	5,685,704	(7,741,987)	1,527,705
<i>Total Capital Assets not being depreciated</i>	<u>106,073,396</u>	<u>5,685,704</u>	<u>(10,106,621)</u>	<u>101,652,479</u>
Capital Assets being depreciated:				
Buildings	89,294,779	526,740	-	89,821,519
Equipment	53,644,641	1,953,786	(1,617,401)	53,981,026
Intangibles	9,298,424	1,417,700	-	10,716,124
Improvements	56,349,785	1,760,683	-	58,110,468
Infrastructure	368,974,025	23,593,709	(953,597)	391,614,137
<i>Total Capital Assets being depreciated</i>	<u>577,561,654</u>	<u>29,252,618</u>	<u>(2,570,998)</u>	<u>604,243,274</u>
Less accumulated depreciation for:				
Buildings	(50,747,270)	(2,985,653)	-	(53,732,923)
Equipment	(30,738,012)	(4,994,207)	1,614,337	(34,117,882)
Intangibles	(6,556,222)	(559,856)	-	(7,116,078)
Improvements	(23,518,458)	(2,098,188)	-	(25,616,646)
Infrastructure	(113,647,456)	(11,740,641)	953,609	(124,434,488)
<i>Total accumulated depreciation</i>	<u>(225,207,418)</u>	<u>(22,378,545)</u>	<u>2,567,946</u>	<u>(245,018,017)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>352,354,236</u>	<u>6,874,073</u>	<u>(3,052)</u>	<u>359,225,257</u>
<i>Governmental Activities Capital Assets, net</i>	<u>\$ 458,427,632</u>	<u>\$ 12,559,777</u>	<u>\$ (10,109,673)</u>	<u>\$ 460,877,736</u>
	<u>Balance October 1</u>	<u>Additions/ Completions</u>	<u>Retirements/ Adjustments</u>	<u>Balance September 30</u>
Business-Type Activities				
Capital Assets not being depreciated:				
Land	\$ 2,377,918	\$ -	\$ -	\$ 2,377,918
Construction in Progress	205,707	3,952,292	-	4,157,999
<i>Total Capital Assets not being depreciated</i>	<u>2,583,625</u>	<u>3,952,292</u>	<u>-</u>	<u>6,535,917</u>
Capital Assets being depreciated:				
Buildings	19,998,757	-	-	19,998,757
Equipment	9,620,097	182,594	(439,978)	9,362,713
Intangibles	868,612	-	(40,220)	828,392
Improvements	16,151,254	18,422	-	16,169,676
Infrastructure	253,232,215	5,511,458	-	258,743,673
<i>Total Capital Assets being depreciated</i>	<u>299,870,935</u>	<u>5,712,474</u>	<u>(480,198)</u>	<u>305,103,211</u>
Less accumulated depreciation for:				
Buildings	(17,532,917)	(299,443)	-	(17,832,360)
Equipment	(5,936,381)	(764,525)	439,978	(6,260,928)
Intangibles	(809,539)	(9,850)	40,220	(779,169)
Improvements	(11,846,975)	(508,732)	-	(12,355,707)
Infrastructure	(146,144,841)	(5,038,533)	-	(151,183,374)
<i>Total accumulated depreciation</i>	<u>(182,270,653)</u>	<u>(6,621,083)</u>	<u>480,198</u>	<u>(188,411,538)</u>
<i>Total Capital Assets being depreciated, net</i>	<u>117,600,282</u>	<u>(908,609)</u>	<u>-</u>	<u>116,691,673</u>
<i>Business-Type Activities Capital Assets, net</i>	<u>\$ 120,183,907</u>	<u>\$ 3,043,683</u>	<u>\$ -</u>	<u>\$ 123,227,590</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

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

Depreciation Expense	
Governmental Activities:	
General Government and Administration	\$ 1,284,877
Public Safety	4,696,757
Development Services	12,911,620
Cultural and Recreational	3,485,275
Total Depreciation Expense	\$ 22,378,529
Business-Type Activities:	
Water and Sewer	5,968,356
Golf Course	652,727
Sanitation	-
Total Depreciation Expense	\$ 6,621,083

(5) LONG-TERM DEBT AND LIABILITIES:

General Obligation Bonds

General obligation bonds provide funds for the acquisition and construction of major capital equipment and facilities. General obligation bonds are direct obligations issued on a pledge of the general taxing power for the payment of the debt obligations of the City. General obligation bonds require the City to compute, at the time property taxes are levied, the rate of tax required to provide (in each year bonds are outstanding) a fund to pay interest and principal at maturity. The City is in compliance with this requirement.

Due to favorable interest rates, during the year, General Obligation (GO) Improvement and Refunding Bonds Series 2021 of \$29,712,762, including premium and issuance costs, were issued to refund \$8,195,000 par value of the City's previously issued and outstanding 2011 GO Improvement Bonds with unamortized premiums of \$212,191 for a total carrying value of \$8,407,191. As the transaction was completed within 90 days of the call date of the refunded bonds, it is considered a "current refunding" under federal tax law. However, because proceeds were placed in escrow and invested until the call date of the refunded debt, GASB defines the transaction as an advance refunding. As a result, advance refunding accounting was used to calculate the related gain on refunded. In addition, bonds totaling \$25,015,000 in new money were issued.

The proceeds were used to deposit cash in a bond escrow fund with the U.S Bank National Association designated as the escrow agent. The net carrying amount of the old debt exceeded the reacquisition price of the old debt by \$45,060, which is being amortized over the remaining life of the refunded debt. Under the escrow reserve agreement, the escrow fund is irrevocable pledged

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

to the payment of principal and interest on the refunded bonds. As a result, the refunded obligations are considered to be defeased and the liability for those bonds has been removed from the City's financial statements.

As a result of the refunding, the City reduced its aggregate debt service payments to maturity by \$2,330,495 and obtained an economic gain (difference between present value of the debt service payments on the old and new debt) of \$1,332,131. On September 30, 2021, \$8,195,000 of General Obligation Improvement, Series 2011 outstanding bonds are considered defeased.

At September 30, 2021, general obligation bonds currently outstanding are as follows:

	Interest Rate	Issue Date	Maturity Date	Outstanding at Par
	%			
Refunding, Series 2012	2 - 4	5/1/2012	8/15/2025	3,520,000
Improvement, Series 2013	2 - 4.5	7/15/2013	8/15/2033	6,410,000
Improvement, Series 2014	3 - 4	4/15/2014	8/15/2034	14,775,000
Improvement and Refunding, Series 2015	2 - 5	5/1/2015	8/15/2035	23,655,000
Improvement and Refunding, Series 2016	3 - 5	5/15/2016	8/15/2031	20,375,000
Improvement, Series 2017	2 - 5	4/1/2017	8/15/2032	15,045,000
Improvement, Series 2018	3 - 5	5/1/2018	8/15/2033	16,425,000
Improvement and Refunding, Series 2019	3 - 5	5/1/2019	8/15/2034	35,535,000
Improvement, Series 2020	3 - 5	6/4/2020	8/15/2035	18,620,000
Improvement and Refunding, Series 2021	2 - 5	6/1/2021	8/15/2036	25,015,000
				\$ 179,375,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

General Obligation Bonds			
Year Ending September 30	Governmental Activities		
	Principal	Interest	Total
2022	\$ 15,505,000	\$ 7,832,774	\$ 23,337,774
2023	15,475,000	6,929,505	22,404,505
2024	15,600,000	6,214,455	21,814,455
2025	16,330,000	5,481,868	21,811,868
2026	15,505,000	4,803,438	20,308,438
2027-2031	66,945,000	14,167,275	81,112,275
2032-2036	34,015,000	2,691,875	36,706,875
Total	\$ 179,375,000	\$ 48,121,190	\$ 227,496,190

Revenue Bonds –

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

Revenue bonds are used to finance the acquisition and construction of major capital improvements for the water and sewer system and related facilities. These revenue bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system.

The revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used, first, to pay operating and maintenance expenses of the system, and second, to establish and maintain the revenue bond funds. Remaining revenues may then be used for any lawful purpose. For fiscal year 2021, net revenue available for debt service was 8.4 times the average annual debt service requirement. The ordinances also contain provisions, which, among other items, restrict amounts and certain financial ratios are met. Management of the City believes that it is in compliance with all significant financial requirements as of September 30, 2021.

At September 20, 2021, revenue bonds currently outstanding are as follows:

	Interest Rate %	Issue Date	Maturity Date	Outstanding at Par
Waterworks and Sewer System Revenue Refunding, Series 2012	2 - 4	5/1/2012	5/1/2023	2,105,000
Waterworks and Sewer System Revenue Improvement, Series 2019	2 - 4	5/1/2019	5/1/2034	8,090,000
				<u>\$ 10,195,000</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2020

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending September 30	Business-Type Activities		
	Principal	Interest	Total
2022	\$ 1,750,000	\$ 394,500	\$ 2,144,500
2023	1,340,000	342,000	1,682,000
2024	515,000	301,800	816,800
2025	540,000	281,200	821,200
2026	560,000	259,600	819,600
2027-2031	3,220,000	870,150	4,090,150
2032-2034	2,270,000	183,800	2,453,800
Total	\$ 10,195,000	\$ 2,633,050	\$ 12,828,050

Bonds Authorized and Unissued – At September 30, 2021, the City has \$15,885,000 in general obligation bonds which were authorized and unissued.

Net Pension Liability/Asset – The net pension liability represents the actuarially-determined liability for employees’ projected pension benefit payments to be provided to current active and inactive employees; that is attributed to those employees’ past periods of service, less the pension plan’s fiduciary net position. The City allocates pension items between governmental activities and business type activities on the basis of employee payroll funding. The city's Net Pension Liability became a Net Pension Asset in 2021 and was removed from the Liability Rollforward below.

Compensated Absences – Compensated absences represent the estimated liability for employees’ accrued vacation and sick leave for which employees are entitled to be paid upon termination. The retirement of this liability is paid from the General fund, Enterprise Funds, and Internal Service Funds based on the assignment of an employee at termination.

Health Claims Liability – Health claims liability represents an estimate of self-insured claims liability outstanding of the Employee and Disability Internal Service Fund. All health claims are expected to be paid within one year.

Long-term Risk Liability – The long-term risk liability is related to the City’s self-insured retention program accounted for in the Risk Management Internal Service Fund.

The Total OPEB Liability/(TOL) – The TOL represents an actuarially determined present value liability for retiree health benefits earned to date for active and retiree members of the closed defined benefit retiree health plan. The City includes OPEB items within the governmental activities as the governmental funds are expected to liquidate the OPEB liability.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2020

Note Payable in Governmental Funds – Represents the amount owed for the Castle Hills Public Improvement District (PID) to the developer that will be paid by PID collections from property owners within the PIDS. Amount owed is contingent upon collection from property owners. Each PID has a maturity of 20 years, but individual parcel owners may pay off their PID assessment without a prepayment penalty.

Changes in long-term liabilities – On the next schedule, the additions to the General Obligation Bonds in the Governmental Type Activities represent the issuance of \$20,025,000 of General Obligation Improvement Bonds, Series 2020.

Transactions for the year ended September 30, 2021 are summarized as follows:

	Balance October 1	Additions	Reductions	Balance September 30	Due within one year
Governmental Activities					
Bonds Payable:					
General Obligation Bonds	\$ 177,945,000	\$ 16,820,000	\$ (15,390,000)	\$ 179,375,000	\$ 15,505,000
Premiums	22,559,632	4,485,571	(1,902,210)	25,142,993	2,092,676
Total Bonds Payable	<u>200,504,632</u>	<u>21,305,571</u>	<u>(17,292,210)</u>	<u>204,517,993</u>	<u>17,597,676</u>
Compensated Absences	16,071,276	1,527,471	(1,193,138)	16,405,609	1,091,457
Health Claims Liability	1,027,400	9,130,931	(9,306,750)	851,581	851,581
Other Postemployment Benefits Liability	-	1,211,226	-	18,319,744	-
PID Notes Payable	13,895,850	-	(2,711,303)	11,184,547	-
Long-Term Risk Liability	747,908	1,335,799	(1,218,624)	865,083	-
Total Governmental Activities	<u>249,355,584</u>	<u>34,510,998</u>	<u>(31,722,025)</u>	<u>252,144,557</u>	<u>19,540,714</u>
Business-Type Activities					
Bonds Payable:					
Revenue Bonds	\$ 11,890,000	\$ -	\$ (1,695,000)	\$ 10,195,000	\$ 1,750,000
Premiums	1,240,153	-	(171,423)	1,068,730	194,790
Total Bonds Payable	<u>13,130,153</u>	<u>-</u>	<u>(1,866,423)</u>	<u>11,263,730</u>	<u>1,944,790</u>
Compensated Absences	483,656	43,446	(62,446)	464,656	104,661
Total Business-Type Activities	<u>13,613,809</u>	<u>43,446</u>	<u>(1,928,869)</u>	<u>11,728,386</u>	<u>2,049,451</u>
Total Government	<u>\$ 262,969,393</u>	<u>\$ 34,554,444</u>	<u>\$ (33,650,894)</u>	<u>\$ 263,872,943</u>	<u>\$ 21,590,165</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

(6) PROPERTY AND SALES TAXES:

Property tax is levied each October 1 on the assessed (appraised) value listed as of the prior January 1 for all real and business personal property located in the City. Taxable assessed value represents the appraisal value, less applicable exemptions, authorized by the City Council or required by State Law. Appraised values are established by the Appraisal Board of Review at 100% for estimated fair market value.

Taxes are due on October 1, the levy date, and are delinquent after the following January 31. Tax liens are automatic on January 1 each year. The tax lien is part of a lawsuit for property that can be filed any time after taxes become delinquent (February 1). The city usually waits until after May 1 and July 1 to file suits on business personal property and real property, respectively. As of July 1, 20% collection costs may be added to all delinquent accounts. Current tax collections for the year ended September 30, 2021 were 98.89% of the tax levy.

Property taxes at the fund level are recorded as receivables at the time the taxes are levied. Revenues are recognized as the related ad valorem taxes are collected, including those collected 60 days after year-end.

The City Charter does not provide for a debt limit; therefore, no computation can be made. However, at September 30, 2021, the City had a tax margin of approximately \$1.91 for every \$100 valuation based upon a maximum ad valorem tax of \$2.50 for every \$100 valuation imposed by Texas Constitutional law.

In Texas, central appraisal districts are required under the Property Tax Code to assess all property within its respective county on the basis of 100% of its market value and are prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed at least 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 City tax rates on property within its boundaries. However, if the effective tax rate, adjusted for new improvements, exceeds the rate for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the maintenance and operating tax rate to no more than 8% above the effective tax rate of the previous year. In the 2019 fiscal year, the state legislature passed a tax reform measure that among other things made a rollback election mandatory if property tax revenue will be more than 3.5% more than the “no new revenue rate” formerly know as the effective rate.

Sales and use tax is authorized under state law with the City’s levy equal to one percent of taxable sales and uses. The Texas Comptroller of Public Accounts collects all sales and use taxes on behalf of the City; remitting to the City, on a monthly basis, all taxes collected less a 2% service fee.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

The State of Texas utilizes origin-based sourcing for municipal sales and use tax. Under this approach, sales and use tax is sourced to the taxing jurisdiction in which the selling business is located regardless of where in the state the purchaser resides, or the product is shipped. Origin sourcing can produce large individual sales and use taxpayers to specific jurisdictions. As a result, sales and use tax can fluctuate, not only due to general economic factors, but also due to relocations of businesses between taxing jurisdictions. The Comptroller revised Administrative Code 3.334 which sets forth how sales tax are handled: origin based or destination-based. This changes was to be effective October 1, 2021 but has been challenged by several cities, including Carrollton. During the pendency of this lawsuit, the effective date has be enjoined until the case can be heard. The identity of and the amount paid by individual sales and use tax payers is strictly confidential under state law.

(7) EMPLOYEE BENEFIT PLANS:

A. Texas Municipal Retirement System (TMRS)

Plan Description:

The City participates as one of 886 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available annual comprehensive financial report (ACFR) that can be obtained at www.tmr.com.

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

Benefits Provided:

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Member may also choose to receive a portion of their benefit as a Partial Lump

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits, also known as the matching ratio, are 200% of the employee’s accumulated contributions and are only payable in the form of an annuity.

Beginning in 1993, the City granted an annually repeating (automatic) basis monetary credit referred to as an updated service credit (USC) which is a theoretical amount that takes into account salary increases or plan improvements. If at any time during their career an employee earns a USC, this amount remains in their account earning interest at 5% until retirement. At retirement, the benefit is calculated as if the sum of the employee’s accumulated contributions with interest and the employer match plus employer-financed monetary credits, such as USC, with interest were used to purchase an annuity. Additionally, initiated in 1993, the City provided on an annually repeating (automatic) basis cost of living adjustments (COLA) for retirees equal to a percentage of the change in the consumer price index (CPI).

A summary of plan provisions for the City are as follows:

Employee deposit rate	7%
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	75% Repeating
Annuity Increase to retirees	50% of CPI Repeating

The City does not participate in Social Security.

At the December 31, 2020 valuation and measurement date, the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	737
Inactive employees entitled to but not yet receiving benefits	677
Active employees	840
	<hr/>
	2,254

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

Contributions:

Under the state law governing TMRS, the contribution rate for each city is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Carrollton were required to contribute 7% of their annual gross earnings during the fiscal year. For fiscal year 2021, the city made contributions of 12.67% for the months in calendar year 2020 and for the months in calendar year 2021, which provided for an additional voluntary contribution of 0.55 percentage points over the required contribution of 12.12% for the months in 2020 and 0.83 percentage points over the actuarially required contribution of 11.84% for the months in 2021. During the 2021 fiscal year, employees contributed \$4,726,176 and the City contributed \$8,554,378, which was \$508,692 more than the actuarially required contribution.

Net Pension Liability/(Asset):

The City's Net Pension Liability (NPL) was measured as of December 31, 2020, and the total pension liability (TPL) used to calculate the net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions –

The Total Pension Liability/(Asset) in the December 31, 2020 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	2.65% per year
Investment Rate of Return	6.75% net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members are based on the PUB (10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries 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% and 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

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

The long-term expected rate of return 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 for 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	30.0%	5.30%
Core Fixed Income	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%
Real Return	10.0%	3.85%
Real Estate	10.0%	4.00%
Absolute Return	10.0%	3.48%
Private Equity	10.0%	7.75%
<i>Total</i>	100.0%	

Discount Rate – The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% 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.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2021

Changes in the Net Pension Liability/(Asset) –

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
	(a)	(b)	(a)-(b)
Balance at 12/31/2019	\$ 449,427,990	\$ 441,933,518	\$ 7,494,472
Charges for the year:			
Service Cost	9,731,090	-	9,731,090
Interest	29,983,251	-	29,983,251
Difference between expected and actual experience	(1,948,426)	-	(1,948,426)
Change in assumptions	-	-	-
Contributions - Employer	-	7,990,471	(7,990,471)
Contributions - Employee	-	4,414,623	(4,414,623)
Net Investment Income	-	33,524,687	(33,524,687)
Benefit Payments, including refunds of employee contributions	(20,194,442)	(20,194,442)	-
Administrative Expense	-	(217,064)	217,064
Other Changes	-	(8,470)	8,470
Net Changes	<u>17,571,473</u>	<u>25,509,805</u>	<u>(7,938,332)</u>
Balance at 12/31/2020	<u>\$ 466,999,463</u>	<u>\$ 467,443,323</u>	<u>\$ (443,860)</u>

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

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

	<u>1% Decrease in Discount Rate</u>	<u>Current Discount Rate</u>	<u>1% Increase in Discount Rate</u>
City's net pension liability / (asset) \$	63,102,855	\$ (443,860)	\$ (52,789,763)

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

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, 2021, the City recognized pension expense of \$153,617. This amount is included as part of Personal Services expenses within the functional program activities.

At September 30, 2021, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions after measurement date	\$ 6,220,212	\$ -
Net difference in projected and actual earnings on pension assets	-	12,515,831
Changes in actuarial assumptions used to determine pension liability	-	43,047
Difference in expected and actual pension experience	-	1,686,518
Total	<u>\$ 6,220,212</u>	<u>\$ 14,245,396</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$6,220,212 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2021 (i.e. recognized in the city’s financial statements September 30, 2022). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Year ended December 31,	
2020	
2021	(5,523,702)
2022	(170,409)
2023	(7,812,451)
2024	(738,834)
Total	<u>\$ (14,245,396)</u>

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2021

B. Deferred Compensation Plan

The City offers all employees a deferred compensation plan through Mission Squared (Trustee) in accordance with Internal Revenue Code Section 457. The ICMA-RC 457 plan provides employees the option to supplement their TMRS retirement benefits by making pre-tax contributions to their plan. If employees contribute at least 4.65% of their gross pay per pay period the City will match 2.35%. The 457 Plan contribution maximums for 2021 are: \$20,500; \$26,000 for age 50 catch-up and \$39,000 for the regular catch-up provision. Employees may enroll in the plan and /or change their contribution amounts at any time. The total amount contributed by the City for Fiscal Year 2021 was \$997,265

(8) INTERFUND ACTIVITY:

Interfund transfers during the year ended September 30, 2021, were as follows:

	<u>Transfers In/Internal Contribution</u>					<u>Total</u>
	<u>General Fund</u>	<u>Streets and Drainage</u>	<u>General and Public Facilities</u>	<u>Golf Course</u>	<u>Non-Major Governmental</u>	
<u>Transfers Out</u>						
General Fund	\$ -	\$ 688,000	\$ 18,119,058	\$ 200,000	\$ 920,000	\$ 19,927,058
Internal Service	815,507	-	-	-	-	815,507
Water and Sewer	4,919,957	-	-	-	-	4,919,957
Sanitation	520,074	1,337,607	-	-	-	1,857,681
Total	<u>\$ 6,255,538</u>	<u>\$ 2,025,607</u>	<u>\$ 18,119,058</u>	<u>\$ 200,000</u>	<u>\$ 920,000</u>	<u>\$ 27,520,203</u>

Transfers are primarily used to move funds from:

- The Proprietary Funds to the General Fund for a budgeted allocation amount.
- The Water and Sewer fund to the General Fund for a payment in lieu of taxes.
- Sanitation Fund to the Streets and Drainage capital project fund for alley improvements.
- The General Fund to finance various programs and between capital projects funds accounted for in other funds in accordance with budgetary authorizations.
- One capital projects fund to another for projects accounted for in the other fund.

(9) WATER PURCHASE AND WASTEWATER TREATMENT CONTRACTS:

The City has a contract with Dallas Water Utilities (DWU) to purchase substantially all of the City’s potable water. Under the contract, the City pays DWU a rate based on a fixed demand charge, plus water usage. The rates charged are subject to minimum annual contract payments. Water expense for the year ended September 30, 2021 was \$13,820,844.

The City has a contract with Trinity River Authority (TRA) whereby the TRA has agreed to provide a wastewater treatment and disposal system for the benefit of the City and any “additional member City” as

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements

For Year Ended September 30, 2021

defined. Each member city pays an “annual payment”, as defined, as its pro rata share of operating expenses and debt service of TRA’s Central Regional Wastewater System (CRWS). The City’s annual expense for the year ended September 30, 2021 was \$13,486,608. To provide the above mentioned services, TRA CRWS issues revenue bonds repayable solely from revenues generated from the member city contracts with TRA CRWS. As such, the City is an obligated party on all outstanding TRA CRWS debt.

(10) SELF-INSURANCE

The City administers a self-insured retention program (SIR) within the Risk management Internal Service Fund in order to deal with potential liabilities. Claims in excess of the self-insured retention amounts are covered through third-party limited-coverage insurance policies. The City is self-insured with excess coverage in these areas:

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

<u>Policy</u>	<u>Retention</u>	<u>Limits on Liability</u>
General Liability	\$25,000 per occurrence	\$2,000,000 per occurrence and \$4,000,000 policy aggregate
Law Enforcement Liability, Errors and Omissions	\$50,000 per occurrence	\$2,000,000 per occurrence and \$4,000,000 policy aggregate
Workers' Compensation	\$100,000 per occurrence	Statutory
Property Loss	\$25,000 per occurrence	\$ 206,097,514
Automobile Liability	\$50,000 per occurrence	\$1,000,000 per occurrence
Automobile Physical Damage	\$10,000 per occurrence	Actual cash value or agreed value as scheduled
Cyber Insurance - 5 Towers	\$20,000 to \$50,000 per occurrence depending on type	\$200,000 to \$3,000,000 per tower, multiple aggregate sublimits

All funds of the City participate in the program and make payments to the Risk Management Fund. As of the end of fiscal year 2021, the loss reserve was estimated at \$865,083.

Changes in this reserve amount in fiscal years 2020 and 2021 were as follows:

	<u>Balance at Beginning of Fiscal Year</u>	<u>Current-year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Fiscal Year</u>
2019-2020	\$ 1,056,795	\$ 542,419	\$ 851,306	\$ 747,908
2020-2021	\$ 747,908	\$ 1,335,799	\$ 1,218,624	\$ 865,083

The City maintains the Employee Health and Disability Fund to account for the City's employee health care coverage and long-term disability programs which are self-insured by the City with long-term disability claims in excess of one year covered through third-party insurance policies. In addition, excess insurance has been obtained for an individual employee's health care claims exceeding \$225,000.

Revenues are recognized from payroll deductions and City contributions. At September 30, 2021, a liability of \$851,581 has been recorded, which represents estimated claims incurred by not yet reported.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

Changes in this claim liability during fiscal years 2020 and 2021 were as follows:

	Balance at Beginning of Fiscal Year	Current-year Claims and Changes in Estimates	Claim Payments	Balance at End of Fiscal Year
2019-2020	\$ 1,139,643	\$ 7,376,500	\$ 7,488,743	\$ 1,027,400
2020-2021	\$ 1,027,400	\$ 9,130,931	\$ 9,306,750	\$ 851,581

There have been no significant increases in insurance coverage during the fiscal year 2021.

(11) TAX ABATEMENTS:

The City enters into economic development agreements designed to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales tax and enhance the property tax base and economic vitality of the City. This program rebates property and hotel occupancy taxes and is authorized under Chapter 380 of the Texas Local Government Code.

The City has entered into various agreements that rebate a percentage of property and/or hotel occupancy taxes. Agreements for rebate of property taxes call for rebates of 30% to 90% of taxes on incremental values for up to 17 years. The agreement for hotel occupancy taxes provides for a step down in rebates starting at 100% for 15 years, 75% for the next three years, and 50% for the remaining two years. For fiscal year 2021, the City rebated property taxes of \$2,931,338 or 3.01% of the \$97,255,897 total levy and hotel occupancy taxes of \$227,015 or 65% of the \$349,527 total occupancy tax revenues.

(12) COMMITMENTS AND CONTINGENT LIABILITIES:

Encumbrances – As discussed in note 1 E, Budgetary Control, for budgetary purposes, includes the impact of encumbrances. Encumbrances are commitments related to unperformed contracts for goods or services (i.e. purchase orders). At year end, the amount of encumbrances expected to be honored upon performance by the vendor in the next year in the General Fund were \$82,449.

Grants – The City participates in certain federal and state assisted grant programs. These programs are subject to program compliance audits by the grantors or their representatives. Any liability for reimbursement which may arise as the result of these audits is not believed to be material.

Litigation – Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City’s financial position, results of operations, or cash flows.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

Construction Commitments – The City has active construction projects as of September 30, 2021. Total accumulated commitments for ongoing capital projects are composed of the following:

Streets and Drainage	\$	85,365,547
Traffic		1,257,810
Parks and Recreation		19,964,338
General Facilities		29,308,658
Community Development		15,841,477
Water and Sewer		18,707,719
Golf Course		84,431
Total	\$	170,529,980

These commitments will be funded through unspent bond proceeds, unrestricted cash, and intergovernmental participation.

Leases – The City does not currently have any leasing transactions.

(13) OTHER POSTEMPLOYMENT BENEFITS:

a) Closed Retiree Health Care Plan:

Program Description:

In addition to the pension benefits described in Note 7, as required by state law and defined by City Policy, the City makes available health care benefits to all employees who retire from the City and who are receiving benefits from a City sponsored retirement program (Texas Municipal Retirement System, and/or a Section 457 Deferred Compensation Plan) through a single-employer defined benefit healthcare plan. This healthcare program provides lifetime insurance (or until age 65 if eligible for Medicare) to eligible retirees, their spouses, and dependents through the City’s group health insurance plan, which covers both active and retired members. Benefit provisions are established by management. No assets are accumulated in a trust that meet the criteria in paragraph 4 of statement 75.

All employees who, as of January 1, 2009, had 20 years or more of service, or were 60 years or more of age with five years or more of service, are eligible upon retirement to remain in the health plan at the total blended contribution rate for active and retiree participants (Retiree Health Existing (Closed) Program). For financial reporting purposes, the Retiree Health Existing (Closed) Program is accounted for in the Employee Health and Disability Fund. No other financial statements are issued related to the Retiree Health Existing (Closed) Program. In the actuarial

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

evaluation performed as of December 31, 2019, there were 18 Active and 23 Retirees and Dependents for a total of 41 participants in the Closed Program. No assets are accumulated in the fund.

A new Retiree Defined Contribution Program effective January 1, 2009 for active employees with less than 20 years of service or at 60 years or more of age with less than five years of service requires participants to pay an aged-based full-cost premium if they choose to remain on the City's healthcare plan upon retirement. In return, the City has begun making scheduled contributions into a Retiree Health Savings plan in the name of each employee who has ten years of service or more. Employees are 50% vested at 15 years of service with the City and 100% vested at 20 years of service. Under the provisions of GASB Codification Section Po 50, employees who will be required to contribute the full aged-based cost for coverage for the City's health Plan do not receive an Other Post employment Benefit. Accordingly, only those employees who are eligible to participate in the Retiree Health Existing (Closed) Program are included in the valuation results described below.

Funding Policy:

Current retirees contribute to the Retiree Health Existing (Closed) Program the total blended premium for active and retired participants. The city contribution to the Retiree Health Existing (Closed) Program consists of Pay-as-you-go claims in excess of the retiree contributions for the year. Retiree contribution rates for fiscal year 2021 were \$8,745 to \$27,736 per year depending on coverage levels selected. In fiscal year 2021, total member contributions were \$113,432. The City contributions to the plan for fiscal year 2021, which are also equal to claims paid in excess of premiums collected, were \$247,966.

Funded Status and Funding Progress:

As of December 31, 2020, the most recent actuarial valuation date, the total OPEB liability (TOL) for benefits was \$18,319,744, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) for fiscal year 2020 was \$2,268,981. The ratio of the total OPEB Liability to the covered payroll was 807%.

Actuarial valuation of the program involve estimates of the value of reported amounts and assumptions of the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare costs trend. Amounts determined regarding the funded status of the program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. OPEB liabilities are liquidated with funds from the General Fund and Employee Health Fund.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

Actuarial Methods and Assumptions:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point.

For the December 31, 2020 actuarial valuation, the Individual Entry Age cost method was used. The actuarial assumptions include a 2.00% discount rate, based on the Fidelity 20-year Municipal GO AA Index, an annual healthcare cost trend rate of 7.00% initially, reduced by decrements to an ultimate rate of 4.15% after 15 years, and salary increases from 3.5% to 11.5%, including inflation. The rate of inflation is assumed to be 2.5%. The valuation included the gender-distinct RP 2000 Combined Healthy Mortality Tables with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103%. Demographic assumptions are based on the experience study covering the four year period ending December 31, 2018 as conducted for TMRS.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s total OPEB liability.

Service Cost	\$	17,884
Interest on Total OPEB Liability		455,920
Changes of Assumptions		1,603,380
Benefit Payments		(1,077,134)
Difference between expected and actual experience of the total OPEB liability		211,176
Net Change in Total OPEB Liability		1,211,226
Total OPEB Liability - beginning		17,108,518
Total OPEB Liability - ending	\$	18,319,744

Sensitivity of the net OPEB liability to changes in the discount rate –

The following presents the total OPEB liability of the City, calculated using the discount rate of 2.00%, as well as what the City’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.00%) or 1-percentage-point higher (3.00%) than the current rate:

	1% Decrease in Discount Rate	Current Discount Rate	1% Increase in Discount Rate
City's Total OPEB Liability	\$ 20,853,147	\$ 18,319,744	\$ 16,230,171

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
 For Year Ended September 30, 2021

Sensitivity of the net OPEB liability to changes in the healthcare trend rate –

The following presents the sensitivity of the total OPEB liability of the City to changes in the healthcare cost trend rates, the following presents the plan’s total OPEB liability, calculated using the assumed trend rates as well as what the plan’s total OPEB liability would be if it were calculated using a trend rate that is 1-percent lower or 1-percent higher:

	1% Decrease in Trend Rate	Current Health Care Trend Rate	1% Increase in Trend Rate
City's Total OPEB Liability	\$ 16,636,252	\$ 18,319,744	\$ 20,199,260

For the year ended September 30, 2021, the City recognized OPEB expense of \$1,057,414.

As the City has a closed plan with limited members, at September 30, 2021, the City reported deferred outflows and inflows of resources related to OPEB which are detailed in the following table. Contributions after the measurement date totaled \$198,150. Difference between expected and actual experience and changes in actuarial assumptions used to determine total OPEB liability are amortized over a one-year period:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB Contributions after measurement date	\$ 198,150	\$ -
Changes in actuarial assumptions used to determine total OPEB liability	801,690	-
Total	\$ 999,840	\$ -

b) Retiree Health Savings Plan (RHS)

Non-grandfathered employees will be required to participated in the City's Retiree Health Savings (hereafter referred to as RHS) plan as described below.

Eligible employees will receive contributions to their RHS accounts on the second pay period in January of each year with the first year starting after the completion of ten full years of continuous service with the City of Carrollton. Years of service will be determined as of January 1 of each year. Contributions will vary based on years of service.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements For Year Ended September 30, 2021

Employees will be 50% vested at 15 years and 100% vested at 20 years. Vesting includes all RHS account balances including investment earnings. RHS accounts will be administered through ICMA-RC and investment options will be similar or identical to those offered by ICMA-RC in their 457 plan with the City. The benefits and terms are established and amended by the City.

Employees are eligible for disbursement from their vested RHS account balances upon termination of city employment according to the vesting schedule above and IRS regulations. Upon termination, RHS balances may be disbursed for any eligible health-related expenses as defined by IRS Regulations. Upon separating from service, prior to benefit eligibility, a participant's non-vested funds shall remain in the plan and be reallocated among fully vested plan participants.

Benefit provisions are contained in the plan document and were established and can be amended by action of the City's governing body. Contributions actually made by the City aggregated \$556,000 during 2021.

Nonvested forfeitures are used to cover a portion of the OPEB Plan's administrative expenses. For the year ended September 30, 2021, forfeitures reduced the City's OPEB expense by \$0.

(14) FUTURE FINANCIAL REPORTING REQUIREMENT:

The City has reviewed GASB pronouncements which become effective in future years, and notes the following statements are applicable to the City.

Statement No. 87, *Leases* – This statement changes the recognition requirements for certain lease assets and liabilities for leases that are currently classified as operating leases. This statement will become effective for the City in fiscal year 2022.

Statement No. 92, *Omnibus 2020*. This statement will become effective for the City in fiscal year 2022.

Statement No. 93, *Replacement of Interbank Offered Rates*. This statement will become effective for the City in fiscal year 2022.

Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*. This statement will become effective for the City in fiscal year 2023.

CITY OF CARROLLTON, TEXAS

Notes to Basic Financial Statements
For Year Ended September 30, 2021

Statement No. 96, *Subscription-Based Information Technology Arrangements*. This statement will become effective for the City in fiscal year 2023.

(15) SUBSEQUENT EVENTS

The City received notification that effective January 1, 2021, the largest claimant impacting the Retiree Health Existing (Closed) Program had obtained alternate coverage and would no longer be participating in the plan. Given a December 31, 2020 measurement date, this event is not currently reflected in the City's financial statements. This is expected to have a significant impact on the closed program in future measurement years. Given these changes the City is evaluating the plan structure for its OPEB plans for future years.

CITY OF CARROLLTON, TEXAS
Required Supplementary Information
Texas Municipal Retirement System
Schedule of Changes in Net Pension Liability and Related Ratios
Last Five Fiscal Years
(Unaudited)

	Measurement Year 2014	Measurement Year 2015	Measurement Year 2016	Measurement Year 2017	Measurement Year 2018	Measurement Year 2019	Measurement Year 2020
Total pension liability:							
Service cost	\$ 6,592,786	\$ 7,652,932	\$ 8,018,638	\$ 8,406,143	\$ 8,686,029	\$ 9,041,317	\$ 9,731,090
Interest	23,690,265	24,739,518	25,320,101	26,477,155	27,654,253	28,782,762	29,983,251
Difference between expected and actual experience	(2,087,560)	(964,785)	(726,584)	192,522	(491,951)	(472,361)	(1,948,426)
Change in assumptions	-	4,666,507	-	-	-	(98,593)	-
Benefit payments, including refunds of employee contributions	(13,257,578)	(14,214,900)	(14,957,304)	(16,371,432)	(19,183,121)	(19,431,525)	(20,194,442)
Net change in total pension liability	14,937,913	21,879,272	17,654,851	18,704,388	16,665,210	17,821,600	17,571,473
Total pension liability - beginning	341,764,756	356,702,669	378,581,941	396,236,792	414,941,180	431,606,390	449,427,990
Total pension liability - ending (a)	356,702,669	378,581,941	396,236,792	414,941,180	431,606,390	449,427,990	466,999,463
Plan fiduciary net position:							
Contributions - employer	6,822,121	7,332,309	7,258,922	7,063,344	7,332,214	7,472,522	7,990,471
Contributions - employee	3,423,287	3,679,294	3,642,470	3,820,974	3,966,963	4,132,806	4,414,623
Net investment income	19,077,452	515,477	23,404,549	50,642,626	(12,286,647)	60,244,834	33,524,687
Benefit payments, including refunds of employee contributions	(13,257,578)	(14,214,900)	(14,957,304)	(16,371,432)	(19,183,121)	(19,431,525)	(20,194,442)
Administrative expense	(199,188)	(313,987)	(264,342)	(262,459)	(237,525)	(340,567)	(217,064)
Other	(16,377)	(15,507)	(14,242)	(13,301)	(12,410)	(10,230)	(8,470)
Net change in plan fiduciary net position	15,849,717	(3,017,314)	19,070,053	44,879,752	(20,420,526)	52,067,840	25,509,805
Plan fiduciary net position - beginning	333,503,997	349,353,714	346,336,400	365,406,453	410,286,205	389,865,679	441,933,518
Plan fiduciary net position - ending (b)	349,353,714	346,336,400	365,406,453	410,286,205	389,865,679	441,933,519	467,443,323
Net pension liability (asset) - ending (a) - (b)	\$ 7,348,955	\$ 32,245,541	\$ 30,830,339	\$ 4,654,975	\$ 41,740,711	\$ 7,494,471	\$ (443,860)
Plan fiduciary net position as a percentage of total pension liability	97.94%	91.48%	92.22%	98.88%	90.33%	98.33%	100.10%
Covered payroll	\$ 48,904,096	\$ 52,561,347	\$ 52,035,292	\$ 54,585,343	\$ 56,586,510	\$ 58,977,932	\$ 63,066,038
Net pension liability as a percentage of covered payroll	15.03%	61.35%	59.25%	8.53%	73.76%	12.71%	-0.70%

Note: This schedule is intended to present information for ten years. However, previous years' information is not available.

CITY OF CARROLLTON, TEXAS

Required Supplementary Information

Texas Municipal Retirement System

Schedule of Contributions

Last Ten Fiscal Years

(Unaudited)

Fiscal Year	(1) Actuarially determined contribution	(2) Contribution in relation to the actuarially determined contribution	(3) Contribution excess (deficiency) (2) - (1)	(4) Covered payroll	(5) Actuarially determined contributions as a percentage of covered payroll (1)/(4)	(6) Contributions as a percentage of covered employee payroll (2)/(4)
2012	6,544,714	6,530,161	(14,553)	44,732,281	14.63%	14.60%
2013	6,444,731	6,547,839	103,108	46,392,021	13.89%	14.11%
2014	6,480,879	6,755,754	274,875	48,428,341	13.38%	13.95%
2015	6,329,810	6,982,334	652,524	50,052,500	12.65%	13.95%
2016	6,108,431	7,256,852	1,148,421	52,020,446	11.74%	13.95%
2017	6,527,064	7,072,321	545,257	53,555,327	12.19%	13.21%
2018	6,563,597	7,233,075	669,478	55,897,022	11.74%	12.94%
2019	5,979,973	6,310,121	330,148	58,214,153	10.27%	10.84%
2020	7,397,973	7,763,315	365,342	61,273,205	12.07%	12.67%
2021	8,045,686	8,554,378	508,692	67,516,799	11.92%	12.67%

Notes to Schedule:

Valuation Date:

Actuarially determined contribution rates are calculated as of December 31st each year and become effective in January, 12 months and a day later.

Methods and Assumptions Used to Determine Contribution Rate for 2020:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	25 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 period 2014-2018.
Mortality	Post-retirement: 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement: PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.

Significant assumption differences for fiscal years prior to 2021

Actuarial Cost Method	Projected Unit Credit for fiscal years prior to 2014.
Inflation	3% for fiscal years prior to 2016.
Investment Rate of Return	7% for fiscal years prior to 2016.
Mortality	Prior to fiscal year 2014, Gender Distinct RP2000 Combined Healthy Mortality Table projected to the year 2003 by scale AA

CITY OF CARROLLTON, TEXAS

Required Supplementary Information

Schedule of Changes in the City's Total OPEB Liability and Related Ratios

(Unaudited)

	Measurement Year 2017	Measurement Year 2018	Measurement Year 2019	Measurement Year 2020
Total OPEB liability				
Service cost	\$ 23,938	\$ 26,985	\$ 18,757	\$ 17,884
Interest	681,288	622,194	651,460	455,920
Changes of benefit terms	-	-	-	-
Difference between expected and actual experience	-	(170,261)	(1,713,950)	211,176
Changes of Assumptions	1,118,690	(864,664)	1,066,615	1,603,380
Benefit Payments	(1,052,441)	(766,795)	(929,130)	(1,077,134)
Net change in total OPEB liability	771,475	(1,152,541)	(906,248)	1,211,226
Total OPEB liability - beginning	18,395,832	19,167,307	18,014,766	17,108,518
Total OPEB liability - ending (a)	19,167,307	18,014,766	17,108,518	18,319,744
Covered employee payroll	\$ 2,658,886	\$ 2,617,211	\$ 2,009,270	\$ 2,268,981
Total OPEB liability as a percentage of covered employee payroll	720.88%	688.32%	851.48%	807.40%

Note to Schedule

Changes of Assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period.

2016	3.81%
2017	3.31%
2018	3.71%
2019	2.75%
2020	2.00%

Until a full 10-year trend is completed, we will present information for those years for which information is available.

The City has no assets accumulated in a trust that meets the criteria of GASB codification P22.101 or P52.101 to pay related benefits for the pension/OPEB plan.

APPENDIX C
FORM OF BOND COUNSEL'S OPINION

[closing date]

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United States

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IN REGARD to the authorization and issuance of the “City of Carrollton, Texas, General Obligation Improvement and Refunding Bonds, Series 2022,” dated June 1, 2022, in the principal amount of \$22,595,000 (the “Bonds”), we have examined into their issuance by the City of Carrollton, Texas (the “City”), solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the City’s outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on August 15 in each of the years specified in a pricing certificate (the “Pricing Certificate”) executed pursuant to an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the “Bond Ordinance” and, jointly with the Pricing Certificate, the “Ordinance”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Ordinance, an Escrow Agreement (the “Escrow Agreement”) between the City and U.S. Bank Trust Company, National Association (the “Escrow Agent”), a special report (the “Verification Report”) of Robert Thomas CPA, LLC (the “Accountants”) and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the City, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with the general principles of equity.

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Re: "City of Carrollton, Texas, General Obligation Improvement and Refunding Bonds, Series 2022"

2. The Escrow Agreement has been duly authorized, executed and delivered and, assuming the due authorization, execution or acceptance, and delivery thereof by the Escrow Agent, is a binding and enforceable agreement in accordance with its terms and the outstanding obligations refunded, discharged, paid and retired with the proceeds of the Bonds have been defeased and are regarded as being outstanding only for the purpose of receiving payment from the funds held in a fund with the Escrow Agent, pursuant to the Escrow Agreement and in accordance with the provisions of Texas Government Code, Chapter 1207, as amended. In rendering this opinion, we have relied upon the Verification Report of the Accountants as to the sufficiency of cash deposited with the Escrow Agent pursuant to the Escrow Agreement for the purposes of paying the outstanding obligations refunded and to be retired with the proceeds of the Bonds and the interest thereon.

3. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes (a) will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, and (b) will not be included in computing the alternative minimum taxable income of the owners thereof.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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