

**PRELIMINARY OFFICIAL STATEMENT
DATED JANUARY 31, 2020**

Ratings:
Moody's: Applied for
S&P: "AA+"
See "OTHER INFORMATION
- RATINGS

NEW ISSUE – Book Entry-Only

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

THE CERTIFICATES **WILL NOT** BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

**CITY OF WACO, TEXAS
(McLennan County)**
\$58,590,000*
**COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION
SERIES 2020**

Dated Date: March 1, 2020

Interest Accrual Date: Date of Delivery

Due: February 1, as shown on inside cover

The \$58,590,000* City of Waco, Texas Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates"), are being issued by the City of Waco, Texas (the "City"), pursuant to the terms of the ordinance adopted by the City Council of the City (the "City Council").

Interest on the Certificates will accrue from the date of delivery, and will be payable February 1 and August 1 of each year commencing February 1, 2021, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM"). The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A. (see "THE CERTIFICATES – PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Certificates are being issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1371, Texas Government Code, as amended, an ordinance (the "Certificate Parameters Ordinance") adopted by the City Council and a "Pricing Certificate" executed by an Authorized Officer of the City (the Certificate Parameters Ordinance and the Pricing Certificate together are referred to herein as the "Ordinance"). The Certificates are direct obligations of the City payable from the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City as provided in the Ordinance, and from a limited pledge, not to exceed \$1,000, of the surplus revenues of the City's water and sewer system. See "THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT."

PURPOSE OF THE CERTIFICATES . . . Proceeds from the sale of the Certificates will be used to pay for the cost of various City projects, as more specifically described herein, and to pay the costs incurred in connection with the issuance of the Certificates (see "PLAN OF FINANCING – PURPOSE OF THE CERTIFICATES" and "USE OF PROCEEDS").

MATURITY SCHEDULE ON INSIDE COVER OF THIS OFFICIAL STATEMENT

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

MANDATORY SINKING FUND REDEMPTION . . . In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedules on the inside front cover are combined to create Term Certificates (as defined herein), each such Term Certificate shall be subject to mandatory sinking fund redemption as described herein (see "THE CERTIFICATES – MANDATORY SINKING FUND REDEMPTION").

LEGALITY . . . The Certificates are offered for delivery when, as and if issued by the City and accepted by the Initial Purchasers thereof (the "Initial Purchasers") subject to the approving opinion of the Attorney General of Texas and the opinion of Bracewell LLP, Austin, Texas (see "APPENDIX C – FORM OF BOND COUNSEL'S OPINION"). Certain matters will be passed upon for the City by Bracewell LLP, Austin, Texas as Disclosure Counsel.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on March 12, 2020.

BIDS FOR THE CERTIFICATES DUE THURSDAY, FEBRUARY 13, 2020, AT 10:00 A.M., CDST

*Preliminary, subject to change. See "THE SALE - ADVANCE MODIFICATION OF PRINCIPAL AMOUNTS" and " - POST BID MODIFICATION OF PRINCIPAL AMOUNTS" in the Notice of Sale and Bidding Instructions dated January 31, 2020 relating to the Certificates.

MATURITY SCHEDULE

Due February 1 ⁽¹⁾	Principal*	Interest Rate	Initial Reoffering Yield ⁽²⁾	CUSIP Number ⁽³⁾
2021	\$ 1,320,000	%	%	
2022	2,130,000			
2023	2,205,000			
2024	2,295,000			
2025	2,395,000			
2026	2,490,000			
2027	2,590,000			
2028	2,695,000			
2029	2,805,000			
2030	2,925,000			
2031	3,025,000			
2032	3,115,000			
2033	3,210,000			
2034	3,310,000			
2035	3,410,000			
2036	3,515,000			
2037	3,615,000			
2038	3,735,000			
2039	3,845,000			
2040	3,960,000			

(Interest accrues from Date of Delivery)

*Preliminary, subject to change. See "THE SALE - ADVANCE MODIFICATION OF PRINCIPAL AMOUNTS" and " - POST BID MODIFICATION OF PRINCIPAL AMOUNTS" in the Notice of Sale and Bidding Instructions dated January 31, 2020 relating to the Certificates.

- (1) The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after February 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").
- (2) The initial reoffering prices or yields on the Certificates are furnished by the Initial Purchaser and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser at any time.
- (3) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by Standard & Poor's Financial Services LLC on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor, or the Initial Purchasers shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

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

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

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

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

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

NONE OF THE CITY, THE FINANCIAL ADVISOR OR THE INITIAL PURCHASERS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

No registration statement relating to the Certificates has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon an exemption provided thereunder. The Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Certificates been registered or qualified under the securities laws of any other jurisdiction. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT.

The statements contained in this Official Statement that are not purely historical are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions or strategies regarding the future. 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. See “OTHER INFORMATION – FORWARD-LOOKING STATEMENTS.”

In connection with this offering, the Initial Purchasers may over-allot or effect transactions which stabilize the market price of the issue at a level above that which might otherwise prevail in the open markets. Such stabilizing, if commenced, may be discontinued at any time.

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OFFICIAL STATEMENT SUMMARY

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

THE CITY	The City of Waco, Texas (the "City") is a political subdivision and municipal corporation of the State of Texas (the "State"), located in McLennan County, Texas. The City covers approximately 101 square miles (see "INTRODUCTION - DESCRIPTION OF THE CITY").
THE CERTIFICATES	The Certificates are issued as \$58,590,000* Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates"). The Certificates are dated March 1, 2020, and are issued as serial certificates maturing February 1, 2021 through February 1, 2040, unless the Initial Purchasers designates one or more maturities as Term Certificates (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES" AND "- MANDATORY SINKING FUND REDEMPTION").
PAYMENT OF INTEREST	Interest on the Certificates accrues from the date of delivery, and is payable commencing on February 1, 2021 on each August 1 and February 1 thereafter, until maturity or prior redemption (see "THE CERTIFICATES – DESCRIPTION OF THE CERTIFICATES").
AUTHORITY FOR ISSUANCE	The Certificates are issued pursuant to the Constitution and the general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1371, Texas Government Code, as amended, and an ordinance (the "Certificate Parameters Ordinance") passed by the City Council of the City. In the Certificate Parameters Ordinance, the City Council delegated to an Authorized Officer the authority to complete the sale of the Certificates. The terms of the sale are included in a "Pricing Certificate," which completes the sale of the Certificates (the Certificate Parameters Ordinance and the Pricing Certificate together are referred to herein as the "Ordinance") (see "THE CERTIFICATES - AUTHORITY FOR ISSUANCE").
SECURITY FOR THE CERTIFICATES	The Certificates constitute direct obligations of the City, payable from a combination of (i) the collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus revenues of the City's water and sewer system, as provided in the Ordinance (see "THE CERTIFICATES - SECURITY AND SOURCE OF PAYMENT" and "- TAX RATE LIMITATION").
REDEMPTION	The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after February 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION"). Additionally, the Certificates may be subject to mandatory sinking fund redemption in the event the Initial Purchasers elect to aggregate one or more maturities as Term Certificates (see "THE CERTIFICATES - MANDATORY SINKING FUND REDEMPTION").
TAX EXEMPTION	In the opinion of Bond Counsel, under existing law, interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and is not a specific preference item for purposes of the alternative minimum tax. See "TAX MATTERS - TAX EXEMPTION" for a discussion of the opinion of Bond Counsel.

*Preliminary, subject to change. See "THE SALE - ADVANCE MODIFICATION OF PRINCIPAL AMOUNTS" and " – POST BID MODIFICATION OF PRINCIPAL AMOUNTS" in the Notice of Sale and Bidding Instructions dated January 31, 2020 relating to the Certificates.

PURPOSE OF THE CERTIFICATES.....Proceeds from the sale of the Certificates will be used to pay the cost of (1) expansion, renovation, restoration and repair of and improvements to existing City administration and services buildings, recreation centers, central library, fire stations, police stations and zoo facilities, including in each case the acquisition of land and rights-of-way in connection therewith; (2) construction and acquisition of, and improvements to, City streets, traffic control systems, sidewalks, landscaping, street lighting and drainage, including in each case the acquisition of land and rights-of-way in connection therewith; (3) construction, acquisition, restoration, and improvement of parks and recreational facilities, including in each case the acquisition of land and rights-of-way in connection therewith; (4) the acquisition of vehicles, fire-fighting equipment and other equipment for authorized City purposes; (5) improvements to City sanitary sewer facilities, including in each case the acquisition of land and rights-of-way in connection therewith; (6) improvements to the City's waterworks system, including in each case the acquisition of land and rights-of-way in connection therewith and to pay the costs incurred in connection with the issuance of the Certificates (see "PLAN OF FINANCING – USE OF PROCEEDS").

RATINGSThe Certificates and presently outstanding tax supported debt of the City is rated "AA+" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P"). An application for a rating has been applied for to Moody's Investors Service, Inc. ("Moody's").

BOOK-ENTRY-ONLY

SYSTEM.....The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM").

PAYMENT RECORD.....The City has never defaulted in payment of its tax supported debt.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	General Obligation (G.O.) Tax Debt ⁽³⁾	Per Capita G.O. Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	Percent Total Collections
2014	129,241	\$ 6,808,589,094	\$ 52,681	\$ 86,570,000	\$ 670	1.27%	100.63%
2015	130,533	7,270,123,492	55,696	79,385,000	608	1.09%	100.00%
2016	132,889	7,762,106,337	58,410	77,365,000	582	1.00%	100.74%
2017	135,557	8,473,368,364	62,508	82,805,000	611	0.98%	100.18%
2018	137,048	9,204,761,450	67,165	87,165,000	636	0.95%	100.90%
2019	139,454	10,065,575,906	72,178	98,705,000	708	0.98%	100.08%
2020	141,127	10,694,881,022	75,782	117,810,000 ⁽⁴⁾	833 ⁽⁴⁾	1.10% ⁽⁴⁾	⁽⁵⁾

(1) Source: The City.

(2) As reported by the McLennan County Appraisal District on the City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Payable from ad valorem taxes. This number excludes general obligation debt that is self-supporting by virtue of payment from water, sewer and solid waste revenues, as well as revenues from any tax increment fund. See "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "DEBT INFORMATION - TABLE 10 - PRO FORMA SELF-SUPPORTING DEBT."

(4) Includes the Certificates. Preliminary, subject to change.

(5) In process of collection.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Beginning Fund Balance	\$ 70,092,416	\$ 60,822,672	\$ 56,071,930	\$ 54,313,084	\$ 51,797,659
Total Revenue	149,020,973	137,260,923	129,827,793	124,441,698	118,239,006
Total Expenditures	131,789,571	127,991,179	125,077,051	122,682,852	115,723,581
Ending General Fund Balance	<u>\$ 87,323,818</u>	<u>\$ 70,092,416</u>	<u>\$ 60,822,672</u>	<u>\$ 56,071,930</u>	<u>\$ 54,313,084</u>

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Title</u>	<u>On Council Since</u>	<u>Occupation</u>
Kyle Deaver	Mayor	June 2012	Attorney
Andrea J. Barefield	Mayor Pro Term	May 2018	Executive Director
John Kinnaird	Council Member	May 2012	Investment Portfolio Manager
Dillon Meek	Council Member	May 2015	Attorney
Jim Holmes	Council Member	June 2016	Business Executive
Hector Sabido	Council Member	May 2019	Sales Manager

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Year Employed</u>	<u>Municipal Experience</u>
Wiley Stem III	City Manager	1976	43 Years
Bradley Ford	Assistant City Manager	2017	16 Years
Deidra Emerson	Assistant City Manager	2015	24 Years
Paul Cain	Assistant City Manager	2019	28 Years
Janice J. Andrews, C.P.A	Chief Financial Officer	1988	31 Years
Jennifer Richie	City Attorney	2012	20 Years
Esmeralda Hudson	City Secretary	2006	16 Years

CONSULTANTS AND ADVISORS

Auditors	Jaynes, Reitmeier, Boyd & Therrell, P.C. Waco, Texas
Bond Counsel	Bracewell LLP Austin, Texas
Financial Advisor	Masterson Advisors LLC Houston, Texas

For additional information regarding the City, please contact:

Janice J. Andrews
Chief Financial Officer
City of Waco
300 Austin Avenue
Waco, Texas 76701
(254) 750-5769

or

Drew K. Masterson
Masterson Advisors LLC
3 Greenway Plaza
Suite 1100
Houston, Texas 77046
(713) 814-0555

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

CITY OF WACO, TEXAS (McLennan County)

\$58,590,000* COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION SERIES 2020

INTRODUCTION

This Official Statement, which includes the cover page and schedule and Appendices hereto, provides certain information regarding the issuance of \$58,590,000* City of Waco, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2020 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (as hereinafter defined).

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

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State of Texas (the "State"), located in McLennan County, duly organized and existing under the laws of the State, and the City's Home Rule Charter. The City was incorporated in 1856, and first adopted its Home Rule Charter in 1913. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and five Council members who serve staggered two-year terms. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, water, solid waste, health and social services, culture-recreation, public transportation, planning and zoning, and general administrative services. The 2010 Census population for the City was 124,805, while the estimated 2020 population is 141,127. The City covers approximately 101 square miles. See "APPENDIX A - GENERAL INFORMATION REGARDING THE CITY".

PLAN OF FINANCING

PURPOSE OF THE CERTIFICATES

Proceeds from the sale of the Certificates will be used to pay for the cost of (1) expansion, renovation, restoration and repair of and improvements to existing City administration and services buildings, recreation centers, central library, fire stations, police stations and zoo facilities, including in each case the acquisition of land and rights-of-way in connection therewith; (2) construction and acquisition of, and improvements to, City streets, traffic control systems, sidewalks, landscaping, street lighting and drainage, including in each case the acquisition of land and rights-of-way in connection therewith; (3) construction, acquisition, restoration, and improvement of parks and recreational facilities, including in each case the acquisition of land and rights-of-way in connection therewith; (4) the acquisition of vehicles, fire-fighting equipment and other equipment for authorized City purposes; (5) improvements to City sanitary sewer facilities, including in each case the acquisition of land and rights-of-way in connection therewith; (6) improvements to the City's waterworks system, including in each case the acquisition of land and rights-of-way in connection therewith and to pay the costs incurred in connection with the issuance of the Certificates.

USE OF PROCEEDS

Proceeds of the sale of the Certificates will be applied approximately as follows:

Deposit to Project Fund	
Initial Purchaser's Spread	
Costs of Issuance	
Deposit to Debt Service Fund	
Total Uses of Funds	<u><u>\$ -</u></u>

*Preliminary, subject to change. See "THE SALE - ADVANCE MODIFICATION OF PRINCIPAL AMOUNTS" and " - POST BID MODIFICATION OF PRINCIPAL AMOUNTS" in the Notice of Sale and Bidding Instructions dated January 31, 2020 relating to the Certificates.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated March 1, 2020, and mature on February 1 in each of the years and in the amounts shown on the inside front cover page hereof. Interest will accrue from the date of delivery, will be computed on the basis of a 360-day year consisting of twelve 30-day months, and will be payable on February 1 and August 1, commencing February 1, 2021 until maturity or prior redemption. The definitive Certificates will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and series and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM."

AUTHORITY FOR ISSUANCE

The Certificates are issued pursuant to the Constitution and general laws of the State, including particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1371 Texas Government Code, and the ordinance passed by the City Council of the City (the "Certificate Parameters Ordinance"). In the Certificate Parameters Ordinance, the City Council delegated to an Authorized Officer the authority to complete the sale of the Certificates. The terms of the sale are included in a "Pricing Certificate," which completes the sale of the Certificates. The Certificate Parameters Ordinance and the Pricing Certificate are referred to collectively herein as the "Ordinance."

SECURITY AND SOURCE OF PAYMENT

The Certificates constitute direct obligations of the City, payable from a combination of (i) the collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of surplus revenues of the City's water and sewer system, as provided in the Ordinance.

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes. The Home Rule Charter of the City limits its tax rate to \$1.85 per \$100 Taxable Assessed Valuation for all City purposes. Administratively, the Attorney General of Texas will permit allocation of \$1.23 of the \$1.85 maximum tax rate for all tax-supported debt service, as calculated at the time of issuance.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem the Certificates having stated maturities on and after February 1, 2031, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2030, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Certificates are to be redeemed, the City may select the series and maturities of Certificates to be redeemed. If less than all the Certificates of any series and maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot or other customary random selection method the Certificates, or portions thereof, within such series and maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION

In addition to the foregoing optional redemption provision, if principal amounts for the Certificates designated in the serial maturity schedules on the inside front cover page are combined to create "Term Certificates" with such Term Certificates being referred to collectively as "Term Certificates," each such Term Certificate shall be subject to mandatory sinking fund redemption commencing on February 1 of the first year which has been combined to form such Term Certificate and continuing on February 1 in each year thereafter until the stated maturity date of that Term Certificate, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the applicable serial maturity schedule on the inside front cover page. Term Certificates to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot or other customary random selection method from and among the Term Certificates then subject to redemption.

The principal amount of any such Term Certificates required to be redeemed pursuant to the operation of such mandatory sinking fund redemption provisions may be reduced, at the option of the City, by the principal amount of Term Certificates of the same series and maturity which, at least forty-five (45) days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Certificates plus accrued interest to the date of purchase thereof and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions and not previously credited against a mandatory sinking fund redemption requirement.

NOTICE OF REDEMPTION

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

In the Ordinance, the City reserves the right in the case of an optional redemption to give notice of its election or direction to redeem Certificates 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 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 registered owners. Any Certificates subject to conditional redemption where redemption has been rescinded shall remain Outstanding, and the rescission shall not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

DEFEASANCE

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

Under current State law, upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the right to call the Certificates 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 Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates 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.

BOOK-ENTRY-ONLY SYSTEM

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

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

The Depository Trust Company (“DTC”), New York, New York, will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each series and maturity of the Certificates, each in the aggregate principal amount of such series and 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 obligations. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

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

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System of the Certificates is discontinued, printed Certificates will be issued to the DTC Participants or the holder, as the case may be, and such Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under “THE CERTIFICATES - TRANSFER, EXCHANGE AND REGISTRATION.”

PAYING AGENT/REGISTRAR

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

TRANSFER, EXCHANGE AND REGISTRATION

In the event the Book-Entry-Only System shall be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. New Certificates registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one series and maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See “THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM” above for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Certificate called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of an Certificate.

RECORD DATE FOR INTEREST PAYMENT

The record date (“Record Date”) for the interest payable on the Certificates on any interest payment date means the close of business on the 15th day of the preceding month.

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

CERTIFICATE-HOLDERS’ REMEDIES

The Ordinance provides that each of the following occurrences or events will be an Event of Default under the Ordinance: (i) the failure to make payment of the principal of or interest on any of the Notes when the same becomes due and payable; or (ii) default in the performance or observance of any other covenant, agreement, or obligation of the City, which default materially and adversely affects the rights of the Owners, including but not limited to their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of sixty (60) days after notice of such default is given by any Owner to the City.

Upon the happening of any Event of Default, any Owner or an authorized representative thereof, including but not limited to a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under the Ordinance by mandamus or other suit, action or special proceeding in equity or at law in any court of competent jurisdiction for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies. All such proceedings shall be instituted and maintained for the equal benefit of all Owners of Notes then outstanding.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Chapter 1371, Texas Government Code, which is being relied upon by the City in connection with the issuance of the Certificates, permits the waiver of sovereign immunity in the proceedings authorizing the issuance of the Certificates. Notwithstanding its reliance on Chapter 1371 in connection with the issuance of the Certificates, the City has not waived the defense of sovereign immunity from suit in connection with the Certificates. Because it is unclear whether the Texas legislature has effectively waived the City’s governmental immunity from a suit for money damages outside of Chapter 1371, registered owners may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

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 the holders of obligations issued by an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of bond counsel will note that all opinions with respect to the rights of the registered owners of the Certificates are subject to the applicable provisions of federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

AMENDMENTS TO THE ORDINANCE

In the Ordinance, the City has reserved the right, without the consent of or notice to the owners, from time to time and at any time to amend the Ordinance in any manner not detrimental to the interests of the owners, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of the owners of a majority in aggregate principal amount of the related Certificates then outstanding, amend, add to or rescind any of the provisions of the Ordinance; provided, that, without the consent of the owners of all related Certificates then outstanding, no such amendment, addition, or rescission shall:

- (a) affect the rights of the owners of less than all of the related Certificates then outstanding;
- (b) make any change in the maturities of the related Certificates;
- (c) reduce the rate of interest borne by any of the related Certificates;
- (d) reduce the amount of the principal payable on the related Certificates;
- (e) modify the terms of payment of principal of or interest on the related Certificates or impose any conditions with respect to such payment; or
- (f) change the minimum percentage of the principal amount of related Certificates necessary for consent to such amendment.

Certificates owned or held by or for the account of or for the benefit of the City shall not be deemed to be outstanding for the purpose of amending the Ordinance.

TAX INFORMATION

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

VALUATION OF TAXABLE PROPERTY

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the McLennan County Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may challenge the granting of exemptions, exclusion of the property from the tax roll, determination that property qualifies for agriculture, open space or timber valuation and the failure to identify the taxing unit as one in which a property is taxable.

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 "TAX INFORMATION – City and Taxpayer Remedies").

STATE MANDATED HOMESTEAD EXEMPTIONS

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

LOCAL OPTION HOMESTEAD EXEMPTIONS

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons 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 be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED

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

PERSONAL PROPERTY

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

FREEPORT AND GOODS-IN-TRANSIT EXEMPTIONS

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

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

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

OTHER EXEMPT PROPERTY

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

TAX INCREMENT REINVESTMENT ZONES

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

TAX ABATEMENT AGREEMENTS

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

For a discussion of how the various exemptions described above are applied by the City, see “TAX INFORMATION – CITY APPLICATION OF TAX CODE” herein.

CITY AND TAXPAYER REMEDIES

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

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

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (see “TAX INFORMATION – 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.

PUBLIC HEARING AND MAINTENANCE AND OPERATIONS TAX RATE LIMITATIONS

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

PENALTIES AND INTEREST

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

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

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer who is 65 years of age or older or is disabled incur a penalty of 5% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law allows for the collection of interest and reasonable (non-punitive) fees, costs or charges on the unpaid balance of delinquent taxes on estates in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy to the extent such fees, or charges, are provided for under the State statute under which such claim arose. The automatic stay prevents governmental units from foreclosing on property unless 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.

THE 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.

CITY APPLICATION OF TAX CODE

The City grants an exemption of \$5,000 to the market value of the residence homestead of persons 65 years of age or older. See "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT." The City does not grant an exemption to the market value of the residence homestead of the disabled. The City grants an additional exemption of 10% of the market value of residence homesteads. The City does not grant a local option freeze on taxes for persons 65 years of age or older or disabled persons. The City does not tax non-business personal property or "freight property." The City does, however, tax "goods-in-transit." The City does not permit split payments, and discounts are not allowed. The City does collect the additional one-half cent sales tax for reduction of ad valorem taxes. The City has adopted a tax abatement policy as described below.

CITY TAX ABATEMENT POLICY

The City has established industrial and residential tax abatement programs to encourage economic development and single-family housing investment. To be considered for industrial tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. Single-family housing projects resulting in property value enhancement via new construction or improvements to existing properties in designated areas may qualify for residential tax abatement. The value of property subject to abatement is shown in "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT."

CITY TAX INCREMENT REINVESTMENT ZONES

In 1982, 1983, and 1986, the City Council adopted separate ordinances which created tax increment reinvestment zones number 1 (“Zone No.1”), 2 (“Zone No.2”) and 3 (“Zone No.3”), and, together with Zone No. 1 and Zone No. 2, collectively referred to as the “Zones”) pursuant to the Act, by designation of contiguous geographic areas in the jurisdiction of the boundaries of the Zones, created a board of directors for each of the Zones, established tax increment funds for each of the Zones, adopted bylaws for each of the Zones and found that public works and improvements to be undertaken in the Zones would significantly enhance the value of all taxable real property in the Zones and would generally benefit the City. Ad valorem tax collections attributable to increases in the value of taxable property in the Zones are restricted to financing improvements in the Zones. The original projected lives of the Zones were 40 years from creation. During Fiscal Year 2013 the City adopted ordinances extending the termination dates for Zone No. 1 from December 31, 2022 to December 31, 2032 and for Zone No. 2 from December 31, 2023 to December 31, 2033.

The City established tax increment funds (the “Funds” or, for Zone No. 1, the “Zone No. 1 Fund”) in the separate ordinances creating the Zones. Each participating taxing unit that levies real property taxes in the Zones provides for the collection of ad valorem taxes on real property in the Zones, as for any other property taxed by the participating taxing unit and pays into the Funds an amount equal to the tax increment produced (the “Tax Increment”), less the sum of ad valorem taxes produced from the Tax Increments that are, by contract executed before the designation of the area as a reinvestment zone, required to be paid by the taxing unit to another political subdivision. The amount of a tax unit’s Tax Increment for a year is the amount of property taxes levied by the taxing unit for that year on the Captured Appraised Value of real property taxable by the taxing unit and located in the Zones.

The Captured Appraised Value of real property taxable by a taxing unit for a year is the total appraised value of the property for that year less the tax increment base of the taxing unit, such tax increment base being the total appraised value of all real property taxable by the taxing unit and located in the Zone for the year in which the Zone was established.

The Zones have no authority to levy taxes and must look to each taxing unit to levy taxes as indicated above. The taxing units that levy ad valorem taxes in the Zones and participate in the Zones are: the City, McLennan County, Waco Independent School District and McLennan County Junior College District. The Waco Independent School District’s participation terminates on December 31, 2022 for Zone No. 1 and on December 31, 2023 for Zone No.2.

The City has previously issued \$13,275,000 of general obligation debt to pay for projects in Zone No. 1, of which \$7,560,000 remains outstanding. The debt service on this portion of the outstanding debt has been internally allocated by the City as being paid from tax increment revenues in the Zone No. 1 Fund. Revenues in the Zone No. 1 Fund are not pledged to such debt and there is no guarantee that payments from the Zone No. 1 Fund will be made. If payments are not made from the Zone No. 1 Fund, the City would be required to levy ad valorem taxes in amounts sufficient to make such payments. No debt has been issued for projects in Zone No. 2 or Zone No. 3.

The Zones were created to encourage physical and economic development along the Brazos River (“Brazos River Corridor”). Two of the three Zones have experienced development activity. Zone No. 1 extends along MLK Jr. Boulevard from Chapel Hill/Gurley Lane to Waco Drive, from MLK Jr. Boulevard along Elm Avenue to Garrison Street and Forrest Street. and from Herring Avenue up to Lake Shore Drive. It comprises most of the urban section of the Brazos River Corridor, venturing down into the Central Business District between IH35 and Waco Drive, then returning toward the river just north of Waco Drive to include 4th Street, Cameron Park and portions of McLennan Community College.

Established in 1982 in anticipation of mixed use development, the Zone No. 1 Fund is expected generate about \$15 million during Fiscal Year 2020 according to the City. Economic development in Zone No. 1 has accelerated due to the consolidation of State offices in the area, rejuvenation efforts in the downtown area, construction of the new McLane Stadium at Baylor University, introduction of new restaurants, construction and redevelopment of hotels in the convention center and greater downtown area, construction of bicycle and pedestrian trail improvements, and expansion and improvement of City conference and convention facilities. Income from Zone No. 1 is currently being used to continue downtown rejuvenation projects, and to facilitate several commercial and residential development projects in the downtown area, the Elm Avenue corridor, and the 4th & 5 Streets corridor. In its most extensive project to date, the TIF Zone No. 1 Fund has expended \$26 million out of a total of approximately \$35 million to be invested over a 10-year period to assist with public infrastructure improvements related to the new football stadium at Baylor University. As a result of a Request for Proposals issued by the City requesting development proposals for 18 plus acres of downtown riverfront property, a substantial three-phase mixed use private development project received a TIF funding commitment of \$8 million for site remediation and \$12.2 million in public improvements to leverage approximately \$100 million in private investment. During 2018 and 2019 combined, approximately \$41 million of TIF funding was committed to about twenty-five other projects over the next twelve years to potentially leverage additional private investment totaling an estimated \$125 million. Additional improvements are expected to continue, and additional private investment is needed to continue and accelerate growth in the Zone.

Zone No. 2, established in 1983, includes an area along MLK Jr. Boulevard that is adjacent to the northern boundaries of Zone No. 1 along the Brazos River. Some commercial and residential development has occurred in Zone No. 2, which Zone extends along MLK Jr. Boulevard from Waco Drive to Herring Avenue. The moderate income generated by Zone No. 2 has been used to reconstruct a section of MLK Jr. Boulevard, to partially fund the construction of a bicycle and pedestrian trail along the Brazos River and to assist with public infrastructure to facilitate construction of the River Park Apartment Homes on MLK Jr. Boulevard.

Zone No. 3 was established in 1986 in anticipation of commercial, office, residential and recreational development. Zone No. 3 encompasses the northeast intersection of Lake Shore Drive and North 19th Street. No development activity has occurred in Zone No. 3.

When a tax increment reinvestment zone is established, a Board of Directors is appointed by the participating taxing entities to oversee the development of project and financing plans for the zone and to act in an advisory capacity concerning development activity and expenditure of tax increment funds in the zone. The Board for each Zone consists of five members appointed by the City Council and one member appointed by each participating taxing entity (McLennan County, Waco Independent School District and McLennan County Junior College District), for a total of eight members. Recommendations for projects originate with the Board of Directors and go to the City Council for final approval.

CITY CHAPTER 380 ECONOMIC DEVELOPMENT AGREEMENTS

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public fund for economic development purposes, however, no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

The City has entered into multiple Chapter 380 "Business Grant" Agreements relating to industrial and commercial development projects to promote economic development within the City (the "Chapter 380 Business Grants"). Under a Chapter 380 Business Grant, the City agrees to pay a grant to a business based on specified percentages of City of Waco ad valorem taxes paid on qualifying real and personal property improvements. The terms of these grants are generally 2 to 7 years and are established based on criteria that may include new square footage developed, numbers of qualifying new jobs created and total taxable value of new real or personal property improvements. The maximum period for a Chapter 380 Business Grant is 20 years from the time the terms of the agreement are satisfied. There are currently 14 approved Chapter 380 Business Grants. Estimated grant payments under these ongoing agreements may total up to \$3.8 million over the next 10 years.

The City also budgets to set aside funds annually to carry out economic development projects cooperatively with McLennan County to promote the development and diversification of the local economy. Businesses receive incentive payments pursuant to Chapter 380 Program Project Agreements based on compliance with agreed upon full time job creation and retention criteria. The City currently has \$16.2 million set aside to fund its share of these incentives. Of this amount, \$3.8 million is committed under 11 ongoing agreements.

The City has entered in to 3 Chapter 380 "Hotel Occupancy" Agreements to rebate specified percentages of municipal hotel occupancy tax generated. Rebates under these agreements are based on achieving contracted levels of capital investment, hotel room occupancy rates, job creation, and other factors. The terms of these agreements range from 7 to 10 years. The City estimates that incentive payments will total approximately \$12.2 million over the terms of these agreements.

The City has entered into 2 Chapter 380 Agreements to rebate specified percentages of sales tax and property taxes generated by commercial developments. Payments under these agreements are based on achieving specified levels of capital investment, and other factors. Rebates are expected to total approximately \$10.3 million over 10 years.

In connection with the development of 18-plus acres of downtown riverfront property discussed under "CITY TAX INCREMENT REINVESTMENT ZONES" above, the City has entered into a Chapter 380 "Commercial" Agreement to pay incentives totaling up to \$5.5 million in exchange for specified capital investment. Payments will be made over 3 years subsequent to the completion of certain improvements. Construction on Phase I of the project is expected to commence in early 2020 with the completion of Phase I expected no later than early 2023. The first payment will be paid upon completion of Phase I construction.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2019/2020 Market Valuation Established by McLennan County Appraisal District (excluding totally exempt property)			\$ 11,949,576,601
Less Exemptions/Reductions at 100% Market Value:			
Homestead	\$ 338,422,039		
Over 65 Homesteads	37,890,117		
Disabled Veterans	128,377,802		
Agricultural Land Use/Timber Productivity Loss	97,797,477		
Fiscal Abatements	80,262,703		
Freeport Loss	400,954,179		
Pollution Control	26,619,275		
Limited Value	143,004,288		
Miscellaneous	<u>1,367,699</u>	\$ 1,254,695,579	
2019/2020 Taxable Assessed Valuation			\$ 10,694,881,022
General Obligation Debt (as of 2/1/2020) ⁽¹⁾⁽²⁾			
Combination Tax and Revenue Certificates of Obligation ⁽¹⁾	\$ 268,145,000		
General Obligation Bonds	164,765,000		
The Certificates	<u>58,590,000</u>	* \$	<u>491,500,000</u>
City's Self-Supporting General Obligation Debt (as of 2/1/2020) ⁽²⁾			
Water System General Obligation Debt	\$ 202,990,000	*	
Sewer System General Obligation Debt	159,760,000	*	
Solid Waste System General Obligation Debt	3,380,000		
Tax Increment Zone 1 General Obligation Debt	<u>7,560,000</u>	\$	<u>373,690,000</u>
Net General Obligation Debt Payable from Ad Valorem Taxes		\$	117,810,000 *
Ratio Net General Obligation Debt to Taxable Assessed Valuation			1.10%
2020 Estimated Population - 141,127 ⁽³⁾			
Per Capita Taxable Assessed Valuation - \$75,782			
Per Capita Net Funded Debt - \$835			

*Preliminary, subject to change.

- (1) In the past several years, the City has sold combination tax and revenue certificates of obligation to finance projects for the City's water system, sewer system, tax increment zones and solid waste system and has internally allocated portions of this debt as payable from the respective enterprise funds or tax increment zone fund. The self-supporting amounts listed above are projections of debt that is expected to be retired by the City based on actual historical payments from these funds to pay for debt service on the outstanding certificates of obligation. **There is no guarantee that payments from these funds will continue in the future.** If payments are not made from such sources in the future, the City will be required to levy ad valorem taxes in amounts sufficient to make such payments. Also, the above schedule of indebtedness does not include \$430,000 of special assessment revenue bonds, as such bonds are payable solely from property owner assessments and do not represent a general obligation of the City. See "TABLE 10 – PRO FORMA SELF-SUPPORTING DEBT."
- (2) Includes the Certificates. Preliminary, subject to change.
- (3) Source: The City.

TABLE 2 – TAXABLE ASSESSED VALUATION BY CATEGORY

Category	Taxable Appraised Value, Fiscal Year Ending September 30,					
	2020		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 5,045,208,989	42.22%	\$ 4,689,727,622	41.43%	\$ 4,103,208,707	39.92%
Real, Residential, Multi-Family	1,204,270,853	10.08%	1,156,809,421	10.22%	1,036,321,000	10.08%
Real, Vacant Lots/Tracts/Res Inventory	254,696,041	2.13%	241,199,487	2.13%	225,165,345	2.19%
Real, Acreage (Land Only)	101,075,715	0.85%	95,061,274	0.84%	75,960,194	0.74%
Real, Farm and Ranch Improvements	49,625,414	0.42%	47,626,117	0.42%	41,117,522	0.40%
Real, Commercial and Industrial	2,931,146,517	24.53%	2,831,537,753	25.02%	2,652,184,099	25.80%
Real and Tangible Personal, Utilities	229,487,770	1.92%	217,987,430	1.93%	202,093,432	1.97%
Tangible Personal, Business	2,131,366,180	17.84%	2,037,021,720	18.00%	1,940,142,010	18.88%
Tangible Personal, Other	2,699,122	0.02%	2,370,660	0.02%	2,334,390	0.02%
Total Appraised Value Before Exemptions	\$ 11,949,576,601	100.00%	\$ 11,319,341,484	100.00%	\$ 10,278,526,699	100.00%
Less: Total Exemptions/Reductions	1,254,695,579		1,253,765,578		1,073,765,249	
Taxable Assessed Value	<u>\$ 10,694,881,022</u>		<u>\$ 10,065,575,906</u>		<u>\$ 9,204,761,450</u>	

Category	Taxable Appraised Value, Fiscal Year Ending September 30,			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 3,666,787,394	38.94%	\$ 3,442,331,305	39.56%
Real, Residential, Multi-Family	854,447,458	9.07%	710,274,847	8.16%
Real, Vacant Lots/Tracts/ Res Inventory	216,913,884	2.30%	179,995,100	2.07%
Real, Acreage (Land Only)	77,014,810	0.82%	69,022,094	0.79%
Real, Farm and Ranch Improvements	34,974,967	0.37%	29,242,020	0.34%
Real, Commercial and Industrial	2,444,560,582	25.96%	2,221,110,921	25.52%
Real and Tangible Personal, Utilities	192,815,272	2.05%	202,959,032	2.33%
Tangible Personal, Business	1,926,700,880	20.46%	1,844,415,017	21.20%
Tangible Personal, Other	2,325,700	0.02%	2,406,350	0.03%
Total Appraised Value Before Exemptions	\$ 9,416,540,947	100.00%	\$ 8,701,756,686	100.00%
Less: Total Exemptions/Reductions	943,172,583		939,650,349	
Taxable Assessed Value	<u>\$ 8,473,368,364</u>		<u>\$ 7,762,106,337</u>	

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

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2015	130,533	\$ 7,270,123,492	\$ 55,696	\$ 79,385,000	1.09%	\$ 608
2016	132,889	7,762,106,337	58,410	77,365,000	1.00%	582
2017	135,557	8,473,368,364	62,508	82,805,000	0.98%	611
2018	137,048	9,204,761,450	67,165	87,165,000	0.95%	636
2019	139,454	10,065,575,906	72,178	98,705,000	0.98%	708
2020	141,127	10,694,881,022	75,782	117,810,000 ⁽⁴⁾	1.10% ⁽⁴⁾	835 ⁽⁴⁾

(1) Source: The City.

(2) As reported by the McLennan County Appraisal District on City's annual State Property Tax Board Reports; subject to change during the ensuing year.

(3) Payable from ad valorem taxes. This number excludes general obligation debt that is self-supporting by virtue of payment from water, sewer and solid waste revenues, as well as revenues from any tax increment fund. See "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "TABLE 10 - PRO FORMA SELF-SUPPORTING DEBT."

(4) As of February 1, 2020, includes the Certificates. Preliminary, subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Gross Tax Levy	% Current Collections	% Total Collections
2015	\$0.77623	\$0.64674	\$0.12949	\$ 54,676,069	98.60%	100.00%
2016	0.77623	0.65386	0.12237	58,055,153	98.89%	100.74%
2017	0.77623	0.66209	0.11414	62,891,323	98.89%	100.18%
2018	0.77623	0.66073	0.11550	67,536,896	99.33%	100.90%
2019	0.77623	0.67358	0.10265	73,976,108	98.60%	100.08%
2020	0.77623	0.66566	0.11058	79,178,817	⁽¹⁾	⁽¹⁾

(1) In process of collection.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2019/2020 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Mars Snackfood US LLC	Candy Manufacturer	\$ 131,502,484	1.23%
Allergan, Inc.	Eye Care Manufacturer	98,374,926	0.92%
Coca Cola Company	Soft Drink Bottler	95,751,647	0.90%
Sanderson Farms Inc.	Poultry Processor	70,572,293	0.66%
L-3 Communications Integrated Systems LP	Aircraft Components Manufacturer	67,869,000	0.63%
Sherwin Williams Co. Inc.	Paint and Coatings Manufacturer	65,286,365	0.61%
Oncor Electric Delivery Co. LLC	Electric Utility	63,624,000	0.59%
3503 Rp Waco Central LP Retail	Retail Shopping Center	62,219,025	0.58%
Owens-Brockway Glass Container Inc.	Glass Container Manufactuer	55,063,707	0.51%
Atmos Energy/Mid-Tex	Natural Gas Utility	49,261,540	0.46%
		<u>\$ 759,524,987</u>	<u>7.09%</u>

GENERAL OBLIGATION DEBT LIMITATION. . . No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE CERTIFICATES - TAX RATE LIMITATION").

TABLE 6 - TAX ADEQUACY

2020 General Obligation Debt Service Requirements.....	\$ 11,275,588 ⁽¹⁾
\$0.1076 Tax Rate at 98% Collection Produces	11,277,538
Net Average Annual Debt Service Requirement (2020 - 2027).....	\$ 12,167,919 ⁽¹⁾
\$0.1161 Tax Rate at 98% Collection Produces	12,168,422
Net Average Annual Debt Service Requirement (2028 - 2040).....	\$ 5,084,087 ⁽¹⁾
\$0.0486 Tax Rate at 98% Collection Produces	5,093,758
Net Maximum Annual Debt Service Requirement (2021).....	\$ 13,151,449 ⁽¹⁾
\$0.1255 Tax Rate at 98% Collection Produces	13,153,634

- (1) Projected, includes the Certificates. Interest on the Certificates has been calculated at market rates as of the date hereof for the purpose of illustration. See "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "TABLE 10 - PRO FORMA SELF-SUPPORTING DEBT." Preliminary; subject to change.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

	2019 Taxable Assessed Value	2019 Tax Rate	Total G.O. Debt ⁽¹⁾	Estimated % Applicable	City's Overlapping Net G.O. Debt
City of Waco	\$ 10,694,881,022	\$ 0.7762	\$ 124,860,000 ⁽²⁾	100.00%	\$ 124,860,000
Bosqueville ISD	183,976,756	1.3224	7,880,000	79.22%	6,242,536
China Spring ISD	891,630,737	1.2941	34,705,000	39.91%	13,850,766
Connally ISD	715,496,533	1.2665	13,800,000	18.16%	2,506,080
La Vega ISD	947,574,150	1.2903	38,702,079	43.54%	16,850,885
Lorena ISD	501,805,139	1.4353	27,754,470	2.03%	563,416
McLennan County	17,632,269,756	0.4853	41,890,000	56.85%	23,814,465
McLennan Co. Jr. College Dist.	19,392,705,435	0.1477	55,350,000	56.85%	31,466,475
Midway ISD	5,060,672,514	1.2500	86,944,005	53.04%	46,115,100
Waco ISD	6,137,113,260	1.3030	148,430,000	95.65%	141,973,295
Total Direct and Overlapping Tax Funded Debt					\$ 408,243,018
Ratio of Direct and Overlapping Tax Funded Debt to Taxable Assessed Valuation					3.82%
Per Capita Overlapping Tax Funded Debt					\$ 2,893

- (1) Total General Obligation Debt as of December 30, 2019.

- (2) Includes the Certificates. Preliminary, subject to change. See "TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" and the accompanying footnotes and "TABLE 10 - PRO FORMA SELF-SUPPORTING DEBT."

DEBT INFORMATION

TABLE 8 – PRO FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Year End	Outstanding General Obligation	Plus: The Certificates*			Total General Obligation	Less: Existing Self- Supporting	Net General Obligation	% of Total Principal
9/30	Debt Service ⁽¹⁾	Principal	Interest ⁽²⁾	Total	Debt Service*	Debt Service* ⁽³⁾	Debt Service* ⁽¹⁾⁽²⁾	Retired
2020	\$ 46,532,921				\$ 46,532,921	35,257,333	\$ 11,275,588	
2021	45,806,687	\$ 1,320,000	\$ 2,699,334	\$ 4,019,334	49,826,021	36,674,572	13,151,449	
2022	43,839,119	2,130,000	1,890,150	4,020,150	47,859,269	35,155,556	12,703,712	
2023	42,622,708	2,205,000	1,814,100	4,019,100	46,641,808	34,197,139	12,444,669	
2024	41,742,298	2,295,000	1,724,100	4,019,100	45,761,398	33,516,485	12,244,912	37.83%
2025	39,110,241	2,395,000	1,630,300	4,025,300	43,135,541	31,073,191	12,062,350	
2026	36,522,513	2,490,000	1,532,600	4,022,600	40,545,113	28,717,432	11,827,681	
2027	36,119,377	2,590,000	1,431,000	4,021,000	40,140,377	28,507,389	11,632,987	
2028	31,573,493	2,695,000	1,325,300	4,020,300	35,593,793	28,841,856	6,751,937	
2029	30,628,338	2,805,000	1,215,300	4,020,300	34,648,638	28,151,953	6,496,684	67.67%
2030	30,620,009	2,925,000	1,100,700	4,025,700	34,645,709	28,151,928	6,493,781	
2031	29,257,015	3,025,000	996,825	4,021,825	33,278,840	27,124,675	6,154,166	
2032	28,722,169	3,115,000	904,725	4,019,725	32,741,894	27,093,219	5,648,675	
2033	25,550,309	3,210,000	809,850	4,019,850	29,570,159	24,142,159	5,428,000	
2034	24,427,458	3,310,000	712,050	4,022,050	28,449,508	23,187,274	5,262,234	85.40%
2035	23,584,787	3,410,000	611,250	4,021,250	27,606,037	22,450,928	5,155,109	
2036	21,792,487	3,515,000	507,375	4,022,375	25,814,862	20,772,697	5,042,166	
2037	13,335,316	3,615,000	400,425	4,015,425	17,350,741	12,581,466	4,769,275	
2038	8,600,156	3,735,000	290,175	4,025,175	12,625,331	8,666,872	3,958,459	
2039	4,443,744	3,845,000	176,475	4,021,475	8,465,219	5,329,119	3,136,100	98.90%
2040	-	3,960,000	59,400	4,019,400	4,019,400	2,222,850	1,796,550	100.00%
	<u>\$ 604,831,144</u>	<u>\$ 58,590,000</u>	<u>\$ 21,831,434</u>	<u>\$ 80,421,434</u>	<u>\$ 685,252,578</u>	<u>\$ 521,816,092</u>	<u>\$ 163,436,486</u>	

* Preliminary, subject to change.

(1) Does not include lease/purchase obligations. See “OTHER OBLIGATIONS.”

(2) Interest on the Certificates has been calculated at current market rates for the purpose of illustration. Preliminary, subject to change.

(3) See “TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT” and the accompanying footnotes and “TABLE 10 – PRO FORMA SELF-SUPPORTING DEBT.”

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Net General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2020 ⁽¹⁾		\$ 11,275,588
Interest and Sinking Fund Balance as of 9/30/2019	\$ 738,425	
Budgeted Interest and Sinking Fund Tax Levy	11,215,356	
Estimated Investment Income	<u>35,955</u>	<u>11,989,736</u>
Estimated Balance, 9/30/2020		\$ 714,148

(1) Projected, includes the Certificates and excludes self-supporting debt. Interest on the Certificates has been calculated at current market rates for the purpose of illustration. Preliminary subject to change.

TABLE 10 – PRO FORMA SELF-SUPPORTING DEBT⁽¹⁾

Fiscal Year 9/30	Water System ⁽²⁾	Sewer System ⁽²⁾	Solid Waste System	Tax Increment Reinvestment Zone	Total Self- Supporting Debt Service ⁽²⁾	Total Tax- Supported Debt Service
2020	\$ 18,856,867	\$ 14,277,102	\$ 1,258,164	\$ 865,200	\$ 35,257,333	\$ 11,275,588
2021	19,773,386	14,706,961	1,329,325	864,900	36,674,572	13,151,449
2022	19,154,712	14,213,869	1,006,250	780,725	35,155,556	12,703,713
2023	18,594,346	13,823,194	999,250	780,350	34,197,139	12,444,669
2024	18,600,616	13,819,644	312,625	783,600	33,516,485	12,244,913
2025	17,238,373	13,054,344	-	780,475	31,073,191	12,062,350
2026	15,209,488	12,726,969	-	780,975	28,717,432	11,827,681
2027	15,114,821	12,607,719	-	784,850	28,507,389	11,632,988
2028	15,310,162	12,749,594	-	782,100	28,841,856	6,751,938
2029	14,714,747	12,655,856	-	781,350	28,151,953	6,496,684
2030	14,713,697	12,656,756	-	781,475	28,151,928	6,493,781
2031	13,893,231	12,447,094	-	784,350	27,124,675	6,154,166
2032	13,928,400	12,383,269	-	781,550	27,093,219	5,648,675
2033	13,951,640	10,190,519	-	-	24,142,159	5,428,000
2034	13,338,446	9,848,828	-	-	23,187,274	5,262,234
2035	13,011,437	9,439,491	-	-	22,450,928	5,155,109
2036	11,727,615	9,045,081	-	-	20,772,697	5,042,166
2037	7,183,473	5,397,994	-	-	12,581,466	4,769,275
2038	4,054,319	4,612,553	-	-	8,666,872	3,958,459
2039	2,710,025	2,619,094	-	-	5,329,119	3,136,100
2040	1,283,975	938,875	-	-	2,222,850	1,796,550
	<u>\$ 282,363,774</u>	<u>\$ 224,214,804</u>	<u>\$ 4,905,614</u>	<u>\$ 10,331,900</u>	<u>\$ 521,816,092</u>	<u>\$ 163,436,488</u>

(1) In the past several years, the City has sold combination tax and revenue certificates of obligation to finance projects for the City's water system, sewer system, tax increment zones and solid waste system and has internally allocated portions of this debt as payable from the respective enterprise funds or tax increment zone fund. The self-supporting amounts listed above are projections of debt that is expected to be retired by the City based on actual historical payments from these funds to pay for debt service on the outstanding certificates of obligation. **There is no guarantee that payments from these funds will continue in the future.** If payments are not made from such sources in the future, the City will be required to levy ad valorem taxes in amounts sufficient to make such payments. Also, the above schedule of indebtedness does not include \$430,000 of special assessment revenue bonds, as such bonds are payable solely from property owner assessments and do not represent a general obligation of the City.

(2) Includes a portion of the Certificates. Preliminary, subject to change.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS... The City has no voter authorized but unissued general obligation bonds.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT. . . The City does not anticipate the issuance of additional general obligation debt within the next 12 months. See “FINANCIAL INFORMATION – CAPITAL IMPROVEMENT PROGRAM” for information regarding the City’s financing program for capital improvements.

OTHER OBLIGATIONS... The City has entered into an agreement with the City of West, Texas, to supply water to the City of West for 40 years pursuant to an agreed-upon rate structure. As part of the agreement, the City purchased a pump station and water transmission line from the City of West for \$12,814 monthly for 18 years and \$6,632 monthly for 22 years. Interest is imputed at 4.35% over the term of the agreement.

<u>Fiscal Year Ending 9/30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Payment</u>
2020	\$ 90,162	\$ 63,600	\$ 153,762
2021	94,166	59,596	153,762
2022	98,348	55,414	153,762
2023	96,535	51,046	147,581
2024	31,325	48,257	79,582
2025-2029	178,771	219,139	397,910
2030-2034	222,155	175,755	397,910
2035-2039	276,067	121,843	397,910
2040-2044	343,063	54,847	397,910
2045-2049	71,386	1,564	72,950

PENSION FUND. . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (“TMRS”), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see “APPENDIX B- EXCERPTS FROM THE CITY OF WACO, TEXAS ANNUAL FINANCIAL REPORT” - Note IV, L.).

GASB No. 68 was implemented by the City effective on October 1, 2014. This statement established standards for pension accounting and financial reporting for the City. Under GASB No. 68, the City must report the net pension liability, pension expense, and related deferred inflows and outflows of resources associated with providing retirement benefits. The City’s net pension liability reported at September 30, 2019 is \$86,703,324. While the City’s calculated full contribution rate for calendar year 2019 was 14.02%, the City budgeted to contribute at the rate of 15% to assist with controlling its net pension liability. The plan’s fiduciary net position is 82.95% of the total pension liability.

OTHER POST-EMPLOYMENT BENEFITS. In addition to pension benefits, the City provides certain other post-employment benefits for retired employees (“OPEB”). GASB No. 75 was implemented by the City effective on October 1, 2017. This standard established accounting and financial reporting requirements for OPEB benefits. Under GASB No. 75, the City must report the total OPEB liability and OPEB expense along with the related deferred inflows and outflows of resources. The City’s total OPEB liability reported at September 30, 2019 is \$1,527,274. (For more detailed information concerning OPEB, see “Appendix B- EXCERPTS FROM THE CITY OF WACO, TEXAS ANNUAL FINANCIAL REPORT” – Note IV, K).

Life Insurance Benefits: The City provides postretirement life insurance benefits for certain eligible retirees. According to City’s personnel policy, retirees who have retired under the Texas Municipal Retirement System with a minimum of 20 years of service are eligible for postretirement life insurance benefits. The City pays 100 percent of the premiums of life insurance coverage for the eligible retirees. An optional \$5,000 of life insurance coverage is available at the retirees’ expense. At September 30, 2019, there were 607 employees who had retired and were receiving benefits. The City finances the plan on a pay-as-you-go basis. Life insurance benefits amounted to \$38,282 for 2019.

Health Insurance Benefits: Eligible City retirees may elect upon retirement to participate, at the retirees’ sole expense, in the City’s self-insured health insurance plan. If retirees do not elect to participate in the City-sponsored health insurance plan at the time they retire or if they terminate their participation in the plans after retirement they may not later rejoin any of the plans. The City pays no portion of the retiree health insurance premiums. Current retiree health insurance premiums have been determined and set independently of premiums for active employees at levels intended to cover the full cost of retiree health insurance benefits. As of September 2019, there were 26 retirees participating in the City’s self-insured health insurance plan.

FINANCIAL INFORMATION

TABLE 11 – GOVERNMENTAL ACTIVITIES: CHANGE IN NET POSITION

	Fiscal Year Ended September 30,					
	2019		2018		2017	
	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities	Governmental Activities	Business-type Activities
Revenues:						
Program Revenues:						
Charges for Services	\$ 8,288,182	\$ 115,996,463	\$ 8,523,598	\$ 109,118,693	\$ 8,317,906	\$ 101,185,264
Operating Grants and Contributions	11,527,188	4,028,788	10,748,885	3,738,719	9,365,279	4,031,927
Capital Grants and Contributions	8,561,177	3,182,243	11,861,689	1,048,602	9,608,784	3,654,269
General Revenues:						
Ad Valorem Taxes	88,727,973	-	80,867,011	-	73,329,810	-
Sales Taxes	40,610,169	-	39,017,059	-	38,135,659	-
Franchise Taxes	14,590,418	-	14,916,497	-	14,238,292	-
Hotel/Motel Taxes	-	4,617,066	-	4,270,253	-	3,724,543
Other Taxes	1,273,129	-	1,148,309	-	1,063,684	-
Investment Earnings	7,976,252	2,278,688	4,092,426	1,198,208	1,644,507	462,647
Miscellaneous	1,635,710	-	1,162,457	-	1,702,214	-
Special Item - Gain on Exchange Transaction	-	-	-	-	3,420,000	-
Total Revenues	\$ 183,190,198	\$ 130,103,248	\$ 172,337,931	\$ 119,374,475	\$ 160,826,135	\$ 113,058,650
Expenses:						
General Government	\$ 21,290,272	\$ -	\$ 23,161,022	\$ -	\$ 21,961,388	\$ -
Public Works	14,063,962	-	13,738,063	-	13,531,718	-
Public Safety	81,605,115	-	76,378,833	-	77,631,982	-
Culture and Recreation	19,651,578	-	18,085,607	-	18,409,985	-
Public Health	9,205,925	-	7,991,534	-	7,974,445	-
Housing & Community Development	2,904,350	-	2,220,964	-	2,499,865	-
Interest on Long-Term Debt	3,149,200	-	2,942,299	-	2,724,381	-
Water	-	39,841,010	-	37,944,429	-	36,237,977
Wastewater	-	27,232,626	-	23,339,837	-	22,369,323
Solid Waste	-	20,867,979	-	17,150,662	-	16,437,794
Airport	-	4,333,238	-	3,833,773	-	3,948,697
Convention Services	-	5,684,576	-	4,855,004	-	4,524,677
Ranger Hall of Fame	-	1,404,669	-	1,390,759	-	1,333,563
Cameron Park Zoo	-	5,357,572	-	5,342,574	-	5,232,360
Transit Services	-	8,234,983	-	7,902,796	-	8,360,490
Cottonwood Creek Golf Course	-	2,094,332	-	2,044,411	-	1,852,186
Total Expenditures	\$ 151,870,402	\$ 115,050,985	\$ 144,518,322	\$ 103,804,245	\$ 144,733,764	\$ 100,297,067
Increases in net position before transfers	\$ 31,319,796	\$ 15,052,263	\$ 27,819,609	\$ 15,570,230	\$ 16,092,371	\$ 12,761,583
Transfers	\$ (233,023)	\$ 233,023	\$ 462,783	\$ (462,783)	\$ 1,721,233	\$ (1,721,233)
Prior Period Adjustments			-	-	-	(766,298)
Net Position - October 1	293,310,192	313,375,735	265,027,800 ⁽¹⁾	298,268,288	248,329,121 ⁽¹⁾	287,994,236
Net Position - September 30	\$ 324,396,965	\$ 328,661,021	\$ 293,310,192	\$ 313,375,735	\$ 266,142,725	\$ 298,268,288

(1) Restated.

TABLE 11A – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Revenues:					
Taxes	\$ 104,837,511	\$ 97,013,440	\$ 91,855,453	\$ 86,615,298	\$ 81,708,003
Business and Occupation Fees	14,590,418	14,916,497	14,238,292	13,734,655	13,762,575
Permits, Licenses and Fees	1,875,782	1,495,196	1,574,504	1,742,898	1,504,766
Fines	1,607,374	1,544,352	1,786,602	2,257,245	2,135,342
Charges for Services	2,101,940	2,104,779	1,939,164	1,834,544	1,749,690
Investment Earnings	2,470,954	1,249,631	521,037	213,552	238,410
Contributions	677,457	680,287	683,968	784,013	716,371
Intergovernmental	2,121,293	1,977,140	1,921,435	2,049,784	1,694,924
Other	13,626,575	11,517,188	10,545,927	10,621,613	10,324,737
Total Revenues	\$ 143,909,304	\$ 132,498,510	\$ 125,066,382	\$ 119,853,602	\$ 113,834,818
Expenditures:					
Current:					
General Government	\$ 22,159,881	\$ 23,488,526	\$ 22,496,688	\$ 19,656,551	\$ 18,144,029
Public Works	5,413,207	5,119,496	1,643,939	1,879,964	1,405,812
Public Safety	74,909,796	73,006,499	69,194,896	65,696,613	61,362,994
Culture and Recreation	14,786,909	13,809,591	13,264,569	13,226,337	12,280,138
Housing and Community Development	315,545	248,667	308,018	484,625	288,718
Total Expenditures	\$ 117,585,338	\$ 115,672,779	\$ 106,908,110	\$ 100,944,090	\$ 93,481,691
Excess of Revenues Over Expenditures	\$ 26,323,966	\$ 16,825,731	\$ 18,158,272	\$ 18,909,512	\$ 20,353,127
Other Financing Sources (Uses):					
Transfers In	5,111,669	\$ 4,762,413	\$ 4,761,411	\$ 4,588,096	\$ 4,404,188
Transfers Out	(14,204,233)	(12,318,400)	(18,168,941)	(21,738,762)	(22,241,890)
Total Other Financing Sources (Uses)	\$ (9,092,564)	\$ (7,555,987)	\$ (13,407,530)	\$ (17,150,666)	\$ (17,837,702)
Net Change in Fund Balance	\$ 17,231,402	\$ 9,269,744	\$ 4,750,742	\$ 1,758,846	\$ 2,515,425
Fund Balance, Beginning of Year	\$ 70,092,416	\$ 60,822,672	\$ 56,071,930	\$ 54,313,084	\$ 51,797,659
Fund Balance, End of Year	\$ 87,323,818	\$ 70,092,416	\$ 60,822,672	\$ 56,071,930	\$ 54,313,084

TABLE 12 – ENTERPRISE FUNDS: NET REVENUES AVAILABLE FOR DEBT SERVICE

	Water and Wastewater System	Solid Waste System	Tax Increment Financing Zone
Revenues as of 9/30/2019	\$ 86,515,694	\$ 20,842,701	\$ 15,610,931
Expenditures as of 9/30/2019 (Excluding Depreciation)	45,386,875	17,945,030	8,116,664
Net Revenues Available for Debt Service, 9/30/2019	\$ 41,128,819	\$ 2,897,671	\$ 7,494,267
Estimated 2020 Debt Service Allocable to System or Tax Increment Zone Fund	\$ 33,133,970	\$ 1,258,164	\$ 865,200

TABLE 13 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Tax Code, V.T.C.A which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are affected through the offices of the Comptroller of Public Accounts of the State of Texas (the “Comptroller”), who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On August 8, 1987, the voters of the City approved the imposition of an additional sales and use tax of one-half of one percent (½ of 1%), which tax is in effect until the voters repeal it.

Fiscal Year Ended	Total	% of Ad Valorem	Equivalent of Ad Valorem	Per Capita ⁽¹⁾
9/30	Collected	Tax Levy	Tax Rate	
2014	\$ 33,487,659	66.73%	0.52	259
2015	35,813,531	65.50%	0.51	274
2016	37,371,461	64.37%	0.50	281
2017	38,135,659	60.64%	0.47	281
2018	39,017,059	57.77%	0.45	285
2019	40,610,169	54.90%	0.43	291

(1) Based on estimated population as shown in “TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY.”

CAPITAL IMPROVEMENT PROGRAM

The City’s Capital Improvement Program calls for the following bond issuance schedule.

Fiscal Year Ending 9/30	General Obligation ⁽¹⁾	Solid Waste System	Water System	Wastewater System	Total
2020	\$ 28,630,000	\$ -	\$ 20,500,000	\$ 15,000,000	\$ 64,130,000
2021	26,789,765	2,500,000	19,500,000	18,500,000	67,289,765
2022	28,700,000	-	22,500,000	32,100,000	83,300,000
2023	31,750,000	-	18,000,000	14,500,000	64,250,000
2024	36,300,000	-	7,000,000	49,000,000	92,300,000
	<u>\$ 152,169,765</u>	<u>\$ 2,500,000</u>	<u>\$ 87,500,000</u>	<u>\$ 129,100,000</u>	<u>\$ 371,269,765</u>

(1) Includes the Certificates.

WATERWORKS AND SEWER SYSTEM

THE FOLLOWING INFORMATION IS PROVIDED BECAUSE IN RECENT HISTORY, THE CITY HAS BEEN PAYING DEBT SERVICE ON A PORTION OF ITS OUTSTANDING GENERAL OBLIGATION TAX DEBT WITH REVENUES FROM ITS WATER AND SEWER SYSTEM AND BECAUSE THE CERTIFICATES ARE SECURED BY A LIMITED PLEDGE, NOT TO EXCEED \$1,000, OF THE SURPLUS REVENUES OF THE CITY'S WATER AND SEWER SYSTEM. ALTHOUGH THE CITY CURRENTLY MAKES USE OF WATER AND SEWER SYSTEM REVENUE TO PAY CERTAIN OF ITS GENERAL OBLIGATION TAX DEBT, THERE IS NO PLEDGE OF SUCH REVENUES TO SECURE THE CERTIFICATES EXCEPT FOR THE LIMITED \$1,000 PLEDGE SECURING THE CERTIFICATES. SEE "THE CERTIFICATES – SECURITY AND SOURCE OF PAYMENT OF THE CERTIFICATES" AND "TABLE 10 – PRO FORMA SELF-SUPPORTING DEBT."

WATER SYSTEM

The City obtains a large preponderance of its domestic and industrial surface water supply from the Lake Waco reservoir. Lake Waco was constructed by the United States Army Corps of Engineers to provide flood control and water conservation storage. Construction started in June 1958, and deliberate impoundment began in February 1965. The lake inundated the old Lake Waco which was built in 1929 about 3,000 feet upstream from the new dam. The City received 13,026 acre-feet of priority storage rights in the new lake in exchange for the like amount of storage capacity of the old lake. In 1958, with initiation of construction of the new lake, the City contracted with the Brazos River Authority (the "BRA"), the official agent for the State in the project, for purchase of the remaining 104,100 acre-feet of water supply storage in Lake Waco.

In order to expand its water supply, in 1998, the City authorized the United States Army Corps of Engineers, through BRA, to raise the conservation level of Lake Waco by seven (7) feet. The project was completed in 2005. Deliberate impoundment for the pool raise began September 1, 2003. This pool raise action has increased the City's diversion right from 59,100 acre-feet to 79,100 acre-feet annually.

In addition to Lake Waco water rights, the City has a permit, dated June 29, 1914, to withdraw up to 5,600 acre-feet annually from the Brazos River for municipal purposes.

The City's water treatment facilities currently consist of two plants with an aggregate design per day of 84 million gallons per day ("mgd"). Treated water storage capacity totals 44.025 million gallons. Average daily water sold during 2019 was 26.5 mgd, while average daily water treated was 26.5 mgd.

WASTEWATER TREATMENT

In 1968, the City entered into a contract with the BRA, which provided for BRA to establish a regional wastewater treatment system, the Waco Metropolitan Area Regional Sewer System ("WMARSS"), and to adequately receive, transport, treat and dispose of the City's wastewater.

During 2004, the City of Waco entered into an interlocal cooperation agreement (the "Agreement") with the surrounding cities of Bellmead, Woodway, Robinson, and Lacy Lakeview to acquire the WMARSS from the BRA. The participating cities each purchased undivided ownership interests in the WMARSS. Subsequent to the original purchase, the City of Hewitt exercised an option to purchase a portion of Waco's undivided interest. Additionally, the City of Lorena purchased a portion of the undivided interest of each of the other participating cities. Under the Agreement, an advisory board comprised of representatives of the participating cities oversaw the operation and administration of the WMARSS. Pursuant to a separate interlocal agreement, the City was designated as the entity to manage and operate the WMARSS. Each participating city paid a proportionate share of the operation and maintenance costs of the WMARSS based on the ratio of each city's wastewater flows into the WMARSS to the sum of the wastewater flows of all participating cities into the WMARSS. The City was allocated 80.288% of the WMARSS operation and maintenance costs for 2018 and 80.455% for 2019.

As of September 30, 2019, the City owned a 75.27% undivided interest in the WMARSS. Effective October 1, 2019, the cities of Bellmead, Woodway, Robinson, Lacy Lakeview, Hewitt and Lorena each transferred their respective undivided ownership interests in WMARSS to the City and the City became the sole (100%) owner and operator of the WMARSS. Upon such transfer, the Agreement (as described above) was terminated.

Concurrently with the transfer of their undivided ownership interests in the WMARSS to the City, the cities of Bellmead, Woodway, Robinson, Lacy Lakeview, Hewitt and Lorena, each entered into a separate Wholesale Wastewater Contract with the City pursuant to which the City provides wholesale wastewater services to each entity and collects fees and charges from each entity to recover operation and maintenance, capital recovery and other costs. The Wholesale Wastewater Contracts are in effect until the later of (i) forty (40) years following the effective date of the contract (October 1, 2019) or (ii) the date on which all City debt obligations issued for capital repair or expansion with respect to each respective Wholesale Wastewater Contract are paid in full or discharged.

MONTHLY WATER RATE (EFFECTIVE: JANUARY 1, 2020)

	Inside City Limits	Outside City Limits
<u>Residential Demand Rates</u>		
5/8" meter	\$22.17	\$25.50
1" meter	\$35.82	\$41.19
1.5" meter	\$51.58	\$59.32
<u>Residential</u>		
Residential Water Base Rate	\$22.17 minimum	\$25.50 minimum
0 to 15,000 gallons	\$3.32 per 1,000 gallons	\$3.82 per 1,000 gallons
15,001 to 25,000 gallons	\$4.16 per 1,000 gallons	\$4.78 per 1,000 gallons
Over 25,000 gallons	\$5.77 per 1,000 gallons	\$6.64 per 1,000 gallons
<u>Irrigation Meters</u>		
5/8" meter	\$22.17 minimum	\$25.50 minimum
1" meter	\$61.44 minimum	\$70.66 minimum
1.5" meter	\$110.27 minimum	\$126.81 minimum
2" meter	\$168.83 minimum	\$194.15 minimum
3" meter	\$292.37 minimum	\$336.23 minimum
4" meter	\$427.31 minimum	\$491.41 minimum
6" meter	\$642.81 minimum	\$739.23 minimum
8" meter	\$907.24 minimum	\$1,043.33 minimum
10" meter	\$1,388.32 minimum	\$1,596.57 minimum
Volumetric Rate (Commercial Industrial)	\$3.52 per 1,000 gallons	\$4.05 per 1,000 gallons
Irrigation from 0 to 25,000 gallons	\$4.16 per 1,000 gallons	\$4.78 per 1,000 gallons
Irrigation over 25,000 gallons	\$5.77 per 1,000 gallons	\$6.64 per 1,000 gallons
Pretreated irrigation – all classes	\$1.41 per 1,000 gallons	\$1.67 per 1,000 gallons

MONTHLY WASTEWATER RATE (EFFECTIVE: JANUARY 1, 2020)

Rates for residences are computed taking the average of the actual water consumption for the months of November, December, January and February, up to 20,000 gallons. New residences that did not have adequate consumption statistics during such months and new turn-ons are given an average consumption of 6,000 gallons. The monthly service charge is then based on the lesser of the foregoing consumption determination or actual water meter consumption.

	Inside City Limits	Outside City Limits
<u>Residential</u>		
Base Rate	\$21.02 minimum	\$24.17 minimum
Volumetric Rate	\$5.42 per 1,000 gallons	\$6.23 per 1,000 gallons
<u>Non-Residential</u>		
5/8" meter	\$21.02 minimum	\$24.17 minimum
1" meter	\$30.48 minimum	\$35.05 minimum
1.5" meter	\$46.30 minimum	\$53.25 minimum
2" meter	\$65.27 minimum	\$75.06 minimum
3" meter	\$90.55 minimum	\$104.13 minimum
4" meter	\$115.85 minimum	\$133.23 minimum
6" meter	\$172.72 minimum	\$198.63 minimum
8" meter	\$267.57 minimum	\$307.71 minimum
10" meter	\$335.04 minimum	\$385.30 minimum
Volumetric Rate	\$5.42 per 1,000 gallons	\$6.23 per 1,000 gallons

TABLE 14 – CONDENSED SUMMARY OF OPERATIONS

	For Fiscal Year Ended September 30,				
	2019	2018	2017	2016	2015
Revenues:					
Sale of Water - Metered	\$ 42,451,940	\$ 40,473,419	\$ 36,950,128	\$ 33,266,586	\$ 31,082,946
Sale of Water - Other	4,466,208	5,042,353	3,697,609	3,401,056	3,990,652
Sewer Service Charges	33,779,817	29,504,926	27,294,933	22,920,087	20,373,844
Interest Income	1,688,453	832,055	312,771	320,430	221,233
Other	4,129,276	4,839,065	4,111,842	5,000,603	3,846,220
Total Revenues	\$ 86,515,694	\$ 80,691,818	\$ 72,367,283	\$ 64,908,762	\$ 59,514,895
Expenditures:					
Water Purchased	\$ 953,171	\$ 735,857	\$ 521,526	\$ 448,001	\$ 496,513
Sewage Disposal Contract	7,132,188	7,012,404	7,968,528	6,444,852	5,477,472
Water Treatment	7,977,184	8,512,853	8,367,384	7,872,660	7,472,428
Water Distribution	7,022,644	5,645,800	5,641,331	5,177,689	5,078,606
Water Other	11,271,123	10,826,973	10,384,823	9,854,222	9,861,605
Sewer Other	11,030,565	7,959,954	6,907,975	8,197,529	8,090,581
Total Expenditures	\$ 45,386,875	\$ 40,693,841	\$ 39,791,567	\$ 37,994,953	\$ 36,477,205
Net Revenue Available for					
Debt Service	\$ 41,128,819	\$ 39,997,977	\$ 32,575,716	\$ 26,913,809	\$ 23,037,690
Average Water Meters Served	47,964	46,691	46,543	45,914	45,452

FINANCIAL POLICIES

Basis of Accounting. The accounts of the City are organized on the basis of funds, each of which constitutes a separate entity for accounting purposes. The most significant of these funds is the General Fund, which accounts for all revenues and expenditures of the City not accounted for in the various enterprise funds or the other funds maintained by the City. Other than ad valorem taxes, the primary sources of General Fund revenue include sales and use taxes, business and occupation fees, and miscellaneous sources, such as fines, penalties, licenses, fees, interest income from investments and other taxes. The enterprise funds consist of the Water Fund, the Wastewater Fund, the Solid Waste Fund, the Airport Fund, the Convention Services Fund, the Ranger Hall of Fame Fund, the Cameron Park Zoo Fund, the Transit Services Fund and the Cottonwood Creek Golf Course Fund (collectively, the “Enterprise Funds”). The methods of accruing revenues and expenditures differ between the General Fund and Enterprise Funds. For a description of the accrual methods and the reporting entity definition, see “APPENDIX B - EXCERPTS FROM THE CITY OF WACO, TEXAS ANNUAL FINANCIAL REPORT” - Note I.

The City also provides government-wide financial statements prepared using the full accrual method of accounting pursuant to its adoption in 2002 of Governmental Accounting Standards Board Statement 34. The City utilizes the depreciation method of accounting for depreciable assets, including infrastructure.

General Fund Balance. The General Fund is the government’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in other funds. Effective with the Fiscal Year 2019 year-end, the City Council approved amending the City’s Financial Management Policy Statement for the General Fund’s goal for unassigned General Fund balance to be 20% of current year budgeted expenditures. Previously this policy goal had been 18% of current year budgeted revenues. The City’s adopted budget for Fiscal Year 2020 lists General Fund expenditures of \$152,696,668 and revenues of \$148,995,772 and includes a utilization of surplus fund balance to provide cash funding for capital projects. This surplus fund balance amount is assigned in the fund balance of the General Fund at September 30, 2019. Actual operations for Fiscal Year 2019 resulted in a total fund balance of \$87,323,818 at September 30, 2019. Of this amount, \$30,539,334 (20% of FY2020 budgeted expenditures) is reported as unassigned.

Debt Service Fund Balance. The Debt Service Fund accounts for the servicing of general long-term debt not being financed by proprietary or nonexpendable trust funds. The City’s adopted budget for Fiscal Year 2020 lists Debt Service Fund expenditures of \$11,279,220 compared with budgeted revenues and reserves of \$12,016,120, resulting in the anticipated Debt Service Fund balance of approximately \$736,900. Actual operations for Fiscal Year 2019 resulted in a fund balance of \$738,425 at September 30, 2019.

Water Fund. The City’s Financial Management Policy Statement for water has a goal to strive to maintain a positive retained earnings position to provide sufficient reserves for emergencies and revenue shortfalls. In addition, the minimum working capital shall be 30 percent of annual revenue. The working capital balance at September 30, 2019 was \$29,760,886. Of this amount \$5,048,092 was set aside for capital improvements, leaving an available working capital balance of \$24,712,794 which was 47.98% of annual revenue.

Wastewater Fund. The City's Financial Management Policy Statement for wastewater has a goal to strive to maintain a positive retained earnings position to provide sufficient reserves for emergencies and revenue shortfalls. In addition, the minimum working capital shall be 30 percent of annual revenue. The working capital balance at September 30, 2019 was \$22,616,477. Of this amount \$9,780,495 was set aside for capital improvements, leaving an available working capital balance of \$12,835,982 which was 36.66% of annual revenue.

Solid Waste Fund. The City's Financial Management Policy Statement for solid waste has a goal to strive to maintain a positive retained earnings position to provide sufficient reserves for emergencies and revenue shortfalls. In addition, the minimum working capital shall be 30 percent of annual revenue. The working capital balance at September 30, 2019 was \$15,118,591. Of this amount \$506,808 was set aside for capital improvements, leaving an available working capital balance of \$14,611,783 which was 70.11% of annual revenue.

Budgetary Procedures. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the general fund, health fund and debt service funds (except for the street and drainage refundable contracts fund). All annual appropriations lapse at fiscal year-end. Also, project-length financial plans are adopted for all capital projects funds and the grant fund.

Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of an ordinance.

Expenditures may not legally exceed appropriations at the fund level for each legally adopted annual operating budget. The City Manager may, without Council approval, transfer appropriation balances from one expenditure account to another within a department or agency of the City. The City Council, however, must approve any transfer of unencumbered appropriation balances or portions thereof from one department or agency to another. The reported budgetary data has been revised for amendments legally authorized during the year.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

INVESTMENTS

The City may invest its investable funds (including certificate proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the City or obligations under a lease, installment sale, or other agreement of the City) in investments authorized by State law in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change.

AUTHORIZED INVESTMENTS

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 City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City 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 City'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 City appoints as the City's custodian of the banking deposits issued for the City'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 SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) 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 (B) a depository institution that has its main office or 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, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC 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 as defined in the Public Funds Investment Act, that have a defined

termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be 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 stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "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 not less than "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 United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, certificate 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, other than the prohibited obligations described below, in an amount at least equal to the amount of certificate proceeds invested under such contract.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (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) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service, if the City Council authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The City may also contract with an investment management firm registered (x) under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.), or (y) 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 ordinance, order or resolution.

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

INVESTMENT POLICIES

Under State 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 includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. 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 State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, 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 strategy statements and (b) State law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (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) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding certificate proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of certificate proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding certificate proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

THE CITY'S INVESTMENT POLICY

The Director of Finance will promptly invest all City funds with the Bank Depository in accordance with the provisions of the current Bank Depository Agreement or in any negotiable instrument that the Council has authorized under the provisions of Chapter 2256, Texas Government Code, as amended, and in accordance with the City Council approved Investment Policies.

TABLE 15 - CURRENT INVESTMENTS

The City has contracted with First Southwest Asset Management to provide for investment and management of its public funds or other funds under its control. As of December 31, 2019, the City's investable funds were invested in the following categories:

Description	Percent of Total	Market Value	Book Value
U.S. Agencies	30.63%	\$ 135,520,928	\$ 135,504,032
Investment Pools ⁽¹⁾	64.38%	284,885,332	284,885,332
Money Market Mutual Funds ⁽²⁾	4.07%	17,997,393	17,997,393
Collateralized Savings Accounts ⁽³⁾	0.93%	4,107,316	4,107,316
Total	100.00%	\$ 442,510,969	\$ 442,494,073

(1) Includes TexPool and TexSTAR

(2) Wells Fargo Government Money Market Fund sweep account

(3) Backed by collateral that is held by third parties

TAX MATTERS

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

TAX EXEMPTION

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and is not a specific preference item for purposes of the alternative minimum tax.

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

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

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

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

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

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

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

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

Tax Accounting Treatment of Original Issue Discount Certificates. The issue price of all or a portion of the Certificates may be less than the stated redemption price payable at maturity of such Certificates (the "Original Issue Discount Certificates"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate constitutes original issue discount with respect to such Original Issue Discount Certificate in the hands of any owner who has purchased such Original Issue Discount Certificate in the initial public offering of the Certificates. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Certificates equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Certificate continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussion regarding interest on the Certificates under the captions "TAX MATTERS – TAX EXEMPTION" and "ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS – COLLATERAL TAX CONSEQUENCES" and "- TAX LEGISLATIVE CHANGES" generally applies, and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

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

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

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

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

CONTINUING DISCLOSURE OF INFORMATION

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

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

ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 15 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site (www.emma.msrb.org) or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available.

Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

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

EVENT NOTICES

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

For these purposes, (A) any event described in clause (12) of the preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City and (B) the City has expressed its intent in the Certificate Parameters Ordinance that the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018.

AVAILABILITY OF INFORMATION

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

LIMITATIONS AND AMENDMENTS

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The 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 Certificates in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Certificates 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 Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. 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.

The Certificate Parameters Ordinance provides that in the event an Authorized Officer, in consultation with Bond Counsel and the City's financial advisor, determines that it is necessary or desirable to amend the provisions of the Certificate Parameters Ordinance in order to facilitate compliance with amendments to Rule 15c2-12 and related guidance from the Securities and Exchange Commission, the Authorized Officer may make such changes in the Pricing Certificate.

COMPLIANCE WITH PRIOR UNDERTAKINGS

With the exception of the following, during the last five years, the City has not failed to comply in any material respect with any material provisions of the continuing disclosure agreements made by the City in accordance with Rule 15c2-12. The City filed annual financial information for the fiscal year ending September 30, 2014 before the deadline of March 31, 2015, but the unrefunded maturity 2037 CUSIP-929831JF3 for its Combination Tax and Revenue Certificates of Obligation, Series 2007 was not linked to such information until February 28, 2019. The City also timely filed notice of an S&P rating upgrade on January 20, 2016, but the unrefunded maturity 2037 CUSIP-929831JF3 for its Combination Tax and Revenue Certificates of Obligation, Series 2007 was not linked to such information until January 17, 2020."

OTHER INFORMATION

RATINGS

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

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City, that, if decided against the City, would have a material adverse effect upon the operations of the City or that would exceed the contingency amounts set aside for such purpose.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act, Chapter 1201, Texas Government Code, the Certificates (1) are negotiable instruments, (2) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (3) are legal and authorized investments for (a) an insurance company, (b) a fiduciary or trustee, or (c) a sinking fund of a municipality or other political subdivision or public agency of the State. The Certificates are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, Texas Government Code, the Certificates may have to be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency before such Certificates are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations. No review has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

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

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the approving legal opinions of the Attorney General of the State of Texas to the effect that the Certificates are valid and binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bracewell LLP, as Bond Counsel, to a like effect and to the effect that the interest on the Certificates is excludable from gross income for federal income tax purposes under section

103 of the Code, and is not a specific preference item for purposes of the alternative minimum tax. See "TAX MATTERS" for a discussion of the opinion of Bond Counsel. The form of such opinion is attached hereto as Appendix C. Bracewell LLP has not undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates and the Ordinance in this Official Statement under the captions "PLAN OF FINANCING – PURPOSE OF THE CERTIFICATES," "THE CERTIFICATES" (except for the subcaptions "TAX RATE LIMITATIONS," "BOOK-ENTRY-ONLY SYSTEM" and "CERTIFICATEHOLDERS' REMEDIES"), "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "COMPLIANCE WITH PRIOR UNDERTAKINGS") and the subcaptions "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATIONS OF CERTIFICATES FOR SALE" and "LEGAL MATTERS" under the caption "OTHER INFORMATION" and is of the opinion that the information relating to the Certificates and the Ordinance contained therein fairly and accurately describes the provisions thereof. In addition, certain legal matters will be passed upon for the City by Bracewell LLP in its capacity as Disclosure Counsel. The legal fees to be paid Bond Counsel and Disclosure Counsel for services rendered in connection with the issuance of the Certificates are contingent on the sale and delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book- Entry-Only System.

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

FINANCIAL ADVISOR

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

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

CERTIFICATION OF THE OFFICIAL STATEMENT AND NO-LITIGATION CERTIFICATE

At the time of payment for and delivery of the Certificates, the Initial Purchasers will be furnished a certificate, executed by the proper City officials, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement and any addenda, supplement or amendment thereto, for its Certificates on the date of such Official Statement, on the date of purchase of said Certificates, and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of, or pertaining to, entities other than the City and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and that the City has no reason to believe that they are untrue in any material respect; (d) there has been no material adverse change in the financial condition of the City since September 30, 2018, the date of the last audited financial statements of the City and except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, of which the City has notice to restrain or enjoin the issuance, execution or delivery of the Certificates, in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or which would affect the provisions made for their payment or security, or in any manner question the validity of the Certificates.

INITIAL PURCHASER

After requesting competitive bids for the Certificates, the City accepted the bid of _____ (the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the (inside) cover page of the Official Statement at a price of ____ (%) of par plus a cash premium of \$ _____. The Initial Purchaser can give no assurance that any trading market will be developed for the Certificates after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Initial Purchaser.

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.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

The Ordinance authorizing the issuance of the Certificates will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Initial Purchasers.

Mayor
City of Waco, Texas

ATTEST:

City Secretary
City of Waco, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

GENERAL INFORMATION REGARDING THE CITY

Information for this section has been obtained from various sources which are believed to be reliable, including the Greater Waco Chamber of Commerce, Baylor University, McLennan Community College, and Texas State Technical College.

INTRODUCTION

The City of Waco (the “City”), founded in 1849, is the 25th largest city in the State and covers approximately 101 square miles. The City is the county seat of McLennan County, which encompasses over 1,000 square miles. The City is the approximate geographic center of Texas’ population and is often referred to as the “Heart of Texas.” At the confluence of the Bosque River and the 890-mile Brazos River, the City lies between the three largest cities in the state: 90 miles south of Dallas, 200 miles northwest of Houston and 180 miles northeast of San Antonio. It is less than 100 miles from the state capitol in Austin. 80% of the State’s population is within 300 miles of Waco.

Historically, the City has been a trade and agriculture center. The central location in the State makes the City commercially attractive as a distribution center for trade goods of all kinds. Efforts by the community’s leadership over the past several years have led to diversification in the regional economy.

Attractive business opportunities exist in the Downtown Waco Public Improvement District, State and Federal Enterprise Zones, Foreign Trade Zone, Tax Increment Financing Zones and in the industrial parks operated by the Waco Industrial Foundation. Waco businesses are at the center of Texas and the hub of transportation and shipping facilities for distribution around the country and the world.

Waco has many technical and professional employees who are graduates of the City’s three institutions of higher learning - Baylor University, McLennan Community College and Texas State Technical College. These institutions also provide employers with customized training for workers, providing everything from literacy training to executive M.B.A. programs.

TOURISM RESEARCH AND STATISTICS

Annual Visitors

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2015	25,303	38,798	84,695	67,360	73,642	63,354	73,595	54,324	45,345	54,787	102,741	105,196	789,140
2016	122,722	134,957	195,259	179,550	196,573	207,543	240,235	167,442	153,053	177,691	152,684	165,918	2,093,627
2017	126,477	171,464	312,419	241,112	246,603	266,252	277,354	188,348	167,283	201,088	182,318	166,346	2,547,064
2018	140,347	151,031	347,054	250,497	264,474	274,358	283,523	191,341	167,635	206,688	191,086	172,174	2,640,208
2019	149,522	155,455	328,066	257,862	228,242	249,233	268,948	178,954	136,865	186,482	173,589	160,320	2,473,538

Source: The Waco Convention & Visitors Bureau, a department of the City of Waco

McLennan County Travel Statistics - 2018

- Total direct travel spending in the McLennan County/Waco area has increased to \$631 million, a 7.9% increase over 2017.
- Total direct earnings by those employed in the travel industry locally increased to \$162 million, a 2% increase over 2017.
- Total direct employment is at 5,960 jobs, a .015 increase over 2017.
- Local tax receipts from travelers totaled \$11 million in 2018, an increase of .09% over last year.

Source: The Office of the Governor, Texas Economic Development & Tourism

TOP EMPLOYERS

Over 1,000 Employees

Company

Baylor University
Providence Healthcare Network
Waco ISD
Baylor Scott & White Medical Center - Hillcrest
H-E-B
Texas State Technical College Waco
City of Waco
Sanderson Farms Inc.
Midway ISD

Industry

Education
Healthcare
Education
Healthcare
Retail
Education
Local Government
Manufacturing
Education

Over 500 Employees

Company

McLennan County
Wal-Mart
Veterans Administration Medical Center
Texas Farm Bureau and Affiliated Companies
Examination Management Services, Inc. (EMSI)
Veterans Affairs Regional Office
Mars Wrigley Confectionery
L3 Technologies
Allergan, Inc.
McLennan Community College
Aramark
American Income Life
Magnolia
Texas Materials
Cargill Value Added Meats
Big Creek Construction
Texas Department of Human Services
Versalift
Family Health Center

Industry

Local Government
Retail
Healthcare
Insurance
Professional Services
Federal Government
Manufacturing
Aerospace
Manufacturing
Education
Professional Services
Insurance
Retail
Manufacturing
Manufacturing
Construction
Management
Manufacturing
Healthcare

Over 300 Employees

<u>Company</u>	<u>Industry</u>
Arconic Fastening Systems	Manufacturing
Pilgrims	Manufacturing
Heart of Texas Region MHMR Center	Healthcare
La Vega ISD	Education
SpaceX Technologies	Aerospace
Wal-Mart Return Center	Logistics
Connally ISD	Education
Tractor Supply Co.	Retail
Owens Illinois	Manufacturing
Coca-Cola North America	Manufacturing
Martin Marietta Materials	Manufacturing
China Spring ISD	Education
Texas Youth Commission - McLennan County SJCF	State Government
Brazos Masonry	Construction
Sherwin Williams	Logistics
Army and Air Force Exchange Service	Logistics
Extraco Banks	Financial
Texas Department of Transportation	State Government
Methodist Children's Home	Healthcare
Robinson ISD	Education
Packaging Corporation of America	Manufacturing
Total Placement Staffing Solutions	Education
Johnson Roofing	Construction

Source: The City

ECONOMY

The City is at the heart of a major growth area in the State economy. Texas is divided into 12 distinct economic regions, as described by the State Comptroller of Public Accounts. Situated in the northern portion of the Central Region, south of the Dallas-Fort Worth Metroplex Region, and north of the Capital and Alamo, Waco is in close proximity to four of Texas' major cities.

According to the Waco Chamber of Commerce, the City benefits from a diverse area economy, with no industry representing more than 20% of the employment market. Healthcare, Government, and Manufacturing industry sectors continue to post strong growth in the area. As of December 2019, Waco MSA's top employment industries trade, transportation and utilities (21.9%), education and health services (21.6%), government (19.7%), manufacturing (16.9%), retail trade (13.5%) and leisure and hospitality (12.7%).

LABOR FORCE

City of Waco⁽¹⁾

Year	Labor Force	Total Employment	Unemployment	Rate
2011	57,048	52,633	4,415	7.74%
2012	56,794	52,752	4,042	7.12%
2013	56,757	53,020	3,737	6.58%
2014	57,163	54,112	3,051	5.34%
2015	57,343	54,893	2,450	4.27%
2016	59,534	57,026	2,508	4.21%
2017	60,692	58,155	2,537	4.18%
2018	60,961	58,634	2,327	3.82%
2019 ⁽²⁾	61,833	59,772	2,061	3.33%

McLennan County⁽¹⁾

Year	Labor Force	Total Employment	Unemployment	Rate
2011	113,365	104,945	8,420	7.43%
2012	112,372	104,910	7,462	6.64%
2013	112,195	105,259	6,936	6.18%
2014	113,042	107,330	5,712	5.05%
2015	112,660	108,082	4,578	4.06%
2016	116,155	111,567	4,588	3.95%
2017	118,196	113,608	4,588	3.88%
2018	118,786	114,544	4,242	3.57%
2019 ⁽²⁾	120,516	116,767	3,749	3.11%

(1) Source: Texas Workforce Commission.

(2) As of December 31, 2019.

EDUCATION

The City's three institutions of higher learning, Baylor University, McLennan Community College and Texas State Technical College, provide a diversified and stable talent pool for local employers. Together, these institutions train approximately 30,000 students in credit courses each year. Together they offer the area a selection of over 300 different degree programs, ranging from one-year certificates of employment to a doctor of philosophy.

TRANSPORTATION

With its central location and easy proximity to other major Texas cities, the City continues to be a crossroads of major transportation systems. The City is at the center of a bustling region served by an impressive system of highways, railroads and air transportation.

Highways

Six highways intersect the City, creating easy access to Texas, the Southwest and the nation.

Interstate 35 connects the City to Austin and San Antonio to the south and to Dallas-Fort Worth Metroplex to the north. *US Highway 77* connects Waco to north and south Texas. *US Highway 84* is a major thoroughfare connecting east and west Texas. *US Highway 84* goes west through Abilene and Lubbock to the Panhandle; it also connects to *Interstate 45*, which runs from Dallas to Houston. *State Highway 6* leads southeast from the City to the Houston area. *State Highway 31* connects with *Interstate 45* at Corsicana and continues on to Tyler and Shreveport, Louisiana. *State Highway 164* also connects with *Interstate 35* as well as *State Highway 75*.

Rail

The *Union Pacific Railroad* has two major lines providing service for local industry, running through the City and south of the City. The Union Pacific line connects to the *Burlington Northern Santa Fe Railway*.

Motor Freight Transportation

Motor freight needs of the City industry are actively served by 31 motor freight and overnight carriers. Of these carriers, all provide interstate service and six also provide Texas intrastate service.

Air

Three local airports, including one of the nation's largest industrial air facilities, offer beneficial services for businesses, industries and individuals.

Waco Regional Airport, located on the northern boundaries of the City, is only 12 minutes from downtown Waco. American Eagle provides daily flights to Dallas/Fort Worth International Airport. *Texas State Technical College Airport*, located adjacent to the Texas State Technical College campus, is one of the nation's largest industrial airports and the City's largest airport, with a 8,600 by 200 foot all-weather runway, and an alternate 6,400 by 150-foot runway. To the west is the *McGregor Airport*, an executive airport facility.

APPENDIX B

EXCERPTS FROM THE CITY OF WACO, TEXAS ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2019

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

City of Waco, Texas
Financial Statements and
Required Supplemental Information
September 30, 2019
(With Independent Auditors' Report Thereon)

City of Waco, Texas

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September 30, 2019

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Waco, Texas

Report on Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Baylor Waco Stadium Authority, a discretely presented component unit of the City, were not audited in accordance with *Government Auditing Standards*. 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 significant accounting policies used and the reasonableness of significant 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Waco, Texas, as of September 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof and the respective 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 on pages 5 through 17 and the other required supplementary information on pages 86 through 88 (collectively, the "required supplementary information") 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 14, 2020, on our consideration of the City of Waco, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Waco, Texas' internal control over financial reporting and compliance.

Jaynes, Reitmeier, Boyd + Therrell, P.C.

January 14, 2020

Management's Discussion and Analysis

As management of the City of Waco (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2019.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources as of September 30, 2019 by \$653,057,986 (net position). Of this amount, \$135,010,240 (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors in accordance with the City's fund designation and fiscal policies.
- The City's total net position increased by \$46,372,059.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$181,237,655. The fund balance components are nonspendable - \$1,348,080, restricted - \$79,874,523, committed - \$28,668,350, assigned - \$40,807,368 and unassigned - \$30,539,334. The City Council approves the amounts reported as committed and assigned.
- As of September 30, 2019, unassigned fund balance for the General Fund was \$30,539,334 or 20% of the 2020 budgeted general fund expenditures.

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 three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements – The government-wide financial statements, which begin on page 18 of this report, are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of the City's assets and liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position 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 the future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

Both of the government-wide financial statements distinguish 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, public works, public safety, culture and recreation, public health, and housing and community development. The business-type activities of the City include water, wastewater, solid waste, airport, convention services, Ranger Hall of Fame, Cameron Park Zoo, transit services, and Cottonwood Creek Golf Course.

The government-wide financial statements can be found on pages 18 – 20 of this report.

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

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental 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.

Beginning on page 21 of this report, information is presented separately in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances for the general fund, which is considered a major fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance. Data from all other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining and individual fund statements and schedules elsewhere in this report.

Proprietary funds – The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for water, wastewater, solid waste, airport, convention services, Ranger Hall of Fame, Cameron Park Zoo, transit services, and Cottonwood Creek Golf Course 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 risk management, health insurance, engineering, and fleet services. These internal service functions have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The basic proprietary fund financial statements which begin on page 34 of this report provide separate information for the water, wastewater, and solid waste enterprise funds since these are considered to be major funds of the City. Data from the other enterprise funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor enterprise funds is provided in the form of combining and individual fund statements and schedules elsewhere in this report. All internal service funds are combined into a single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining and individual fund statements and schedules elsewhere in this report.

Fiduciary funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of these funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. The Statement of Fiduciary Net Position can be found on page 39 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 45 through 85 of this report.

Other information – In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the City's changes in its net pension liability, related pension contributions, and OPEB liability. Required supplementary information can be found on pages 86 through 88 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the City of Waco, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$653,057,986 as of September 30, 2019.

The largest portion of the City's net position (\$473,054,480) reflects its net investment in capital assets (e.g., land, building, equipment, improvements, museum collections, construction in progress, infrastructure and water rights), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide service to citizens; consequently, these assets are not available for future spending. 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.

City of Waco Net Position

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 218,223,373	180,114,401	249,921,870	244,040,197	468,145,243	424,154,598
Capital assets	<u>305,585,840</u>	<u>287,597,770</u>	<u>488,334,495</u>	<u>447,642,474</u>	<u>793,920,335</u>	<u>735,240,244</u>
Total assets	<u>523,809,213</u>	<u>467,712,171</u>	<u>738,256,365</u>	<u>691,682,671</u>	<u>1,262,065,578</u>	<u>1,159,394,842</u>
Total deferred outflows of resources	<u>32,099,859</u>	<u>12,223,903</u>	<u>7,932,443</u>	<u>5,003,503</u>	<u>40,032,302</u>	<u>17,227,406</u>
Long-term liabilities	189,004,221	141,848,375	371,144,955	339,969,309	560,149,176	481,817,684
Other liabilities	<u>41,983,052</u>	<u>34,317,714</u>	<u>46,302,405</u>	<u>41,638,374</u>	<u>88,285,457</u>	<u>75,956,088</u>
Total liabilities	<u>230,987,273</u>	<u>176,166,089</u>	<u>417,447,360</u>	<u>381,607,683</u>	<u>648,434,633</u>	<u>557,773,772</u>
Total deferred inflows of resources	<u>524,834</u>	<u>10,459,793</u>	<u>80,427</u>	<u>1,702,756</u>	<u>605,261</u>	<u>12,162,549</u>
Net position:						
Net investment in capital assets	227,983,027	216,259,979	245,071,453	231,095,661	473,054,480	447,355,640
Restricted	43,936,163	36,749,778	1,057,103	943,463	44,993,266	37,693,241
Unrestricted	<u>52,477,775</u>	<u>40,300,435</u>	<u>82,532,465</u>	<u>81,336,611</u>	<u>135,010,240</u>	<u>121,637,046</u>
Total net position	<u>\$ 324,396,965</u>	<u>293,310,192</u>	<u>328,661,021</u>	<u>313,375,735</u>	<u>653,057,986</u>	<u>606,685,927</u>

A portion of the City's net position (\$44,993,266) represents resources that are subject to external restriction on how they may be used. The remaining balance (\$135,010,240) of unrestricted net position may be used to meet the City's ongoing obligation to citizens and creditors in accordance with the City's fund designation and fiscal policies.

As of September 30, 2019, the City has positive balances in all three categories of net position, both for the City as a whole, as well as for its governmental and business-type activities separately. The same situation held true for the prior fiscal year.

The government's net position increased \$46,372,059 during the current fiscal year.

Analysis of the City's operations – The following table provides a summary of the City's operations for the year ended September 30, 2019. Governmental activities increased the City's net position by \$31,086,773 and represented 67% of the total. Business-type activities increased the City's net position by \$15,285,286 and represented 33% of the total increase.

City of Waco Changes in Net Position

Year Ended September 30,						
	2019			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 8,288,182	115,996,463	124,284,645	8,523,598	109,118,693	117,642,291
Operating grants and contributions	11,527,188	4,028,788	15,555,976	10,748,885	3,738,719	14,487,604
Capital grants and contributions	8,561,177	3,182,243	11,743,420	11,861,689	1,048,602	12,910,291
General revenues:						
Ad valorem taxes	88,727,973	-	88,727,973	80,867,011	-	80,867,011
Sales taxes	40,610,169	-	40,610,169	39,017,059	-	39,017,059
Franchise taxes	14,590,418	-	14,590,418	14,916,497	-	14,916,497
Hotel/motel taxes	-	4,617,066	4,617,066	-	4,270,253	4,270,253
Other taxes	1,273,129	-	1,273,129	1,148,309	-	1,148,309
Investment earnings	7,976,252	2,278,688	10,254,940	4,092,426	1,198,208	5,290,634
Miscellaneous	1,635,710	-	1,635,710	1,162,457	-	1,162,457
Special item-gain on exchange transaction	-	-	-	-	-	-
Total revenues	<u>183,190,198</u>	<u>130,103,248</u>	<u>313,293,446</u>	<u>172,337,931</u>	<u>119,374,475</u>	<u>291,712,406</u>
Expenses:						
General government	21,290,272	-	21,290,272	23,161,022	-	23,161,022
Public works	14,063,962	-	14,063,962	13,738,063	-	13,738,063
Public safety	81,605,115	-	81,605,115	76,378,833	-	76,378,833
Culture and recreation	19,651,578	-	19,651,578	18,085,607	-	18,085,607
Public health	9,205,925	-	9,205,925	7,991,534	-	7,991,534
Housing and community development	2,904,350	-	2,904,350	2,220,964	-	2,220,964
Interest on long-term debt	3,149,200	-	3,149,200	2,942,299	-	2,942,299
Water	-	39,841,010	39,841,010	-	37,944,429	37,944,429
Wastewater	-	27,232,626	27,232,626	-	23,339,837	23,339,837
Solid waste	-	20,867,979	20,867,979	-	17,150,662	17,150,662
Airport	-	4,333,238	4,333,238	-	3,833,773	3,833,773
Convention services	-	5,684,576	5,684,576	-	4,855,004	4,855,004
Ranger Hall of Fame	-	1,404,669	1,404,669	-	1,390,759	1,390,759
Cameron Park Zoo	-	5,357,572	5,357,572	-	5,342,574	5,342,574
Transit services	-	8,234,983	8,234,983	-	7,902,796	7,902,796
Cottonwood Creek Golf Course	-	2,094,332	2,094,332	-	2,044,411	2,044,411
Total expenses	<u>151,870,402</u>	<u>115,050,985</u>	<u>266,921,387</u>	<u>144,518,322</u>	<u>103,804,245</u>	<u>248,322,567</u>
Increase in net position before transfers	31,319,796	15,052,263	46,372,059	27,819,609	15,570,230	43,389,839
Transfers	(233,023)	233,023	-	462,783	(462,783)	-
Increase in net position	<u>31,086,773</u>	<u>15,285,286</u>	<u>46,372,059</u>	<u>28,282,392</u>	<u>15,107,447</u>	<u>43,389,839</u>
Net position, beginning of year	<u>293,310,192</u>	<u>313,375,735</u>	<u>606,685,927</u>	<u>265,027,800</u>	<u>298,268,288</u>	<u>563,296,088</u>
Net position, end of year	<u>\$ 324,396,965</u>	<u>328,661,021</u>	<u>653,057,986</u>	<u>293,310,192</u>	<u>313,375,735</u>	<u>606,685,927</u>

City of Waco
Changes in Net Position
(Continued)

Governmental activities – Key elements of the change in governmental net position include:

- Overall, governmental revenues increased \$10.9 million (6.3%). Ad valorem taxes reflected an increase of \$7.9 million (9.7%), primarily as a result of growth in the property tax base including an increase of \$188 million in new construction assessments. Sales taxes reflected an increase of approximately \$1.6 million (4.1%).
- Overall, governmental expenses increased \$7.4 million (5.1%). A 3.0% salary increase for all eligible employees and job class step increases for eligible civil service employees were approved in the budget. These budgeted salary increases of approximately \$2.9 million were offset with position vacancies and a decrease of approximately 8 full-time equivalents for departments such as facilities. The City Council approved additional City funding for health insurance with annual contributions for an eligible employee increasing from \$7,131 to \$7,697 which increased benefits for governmental activities by approximately \$0.6 million. As expected, significant fluctuations in pension expense may occur in response to changes in fair value of plan assets and the total pension liability. Pension expense increased \$5.7 million as compared to prior year due to market changes. These increases for salaries and benefits of \$9.2 million were partially offset by reductions in economic development incentives and economic development grants expenses. The expense recognized related to economic development incentives is dependent on the timing of project requests and completion dates.

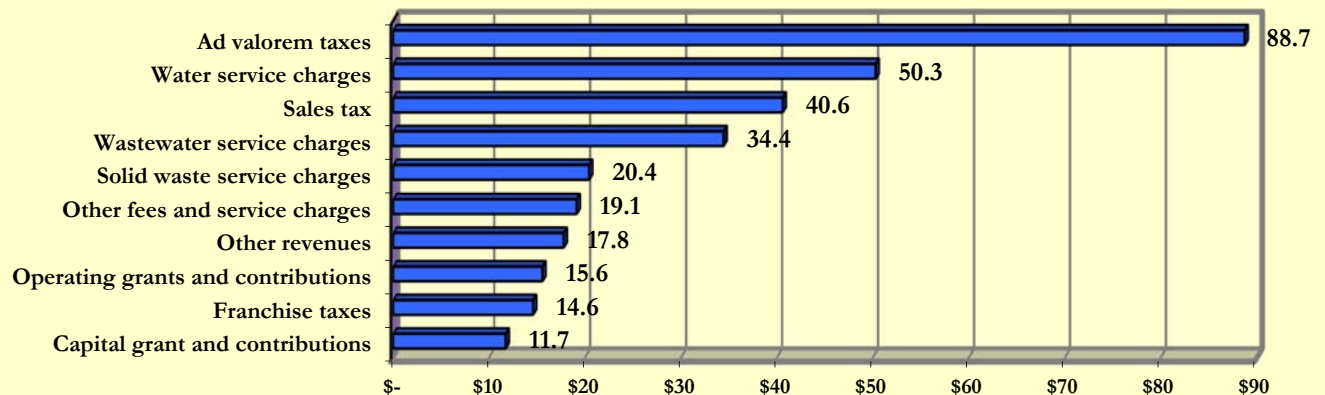
Business-type activities – Key elements of the increase in business-type net position include:

- Charges for services increased by over \$6.9 million (6.3%) as compared to prior year primarily due to rate increases and growth in service activity as follows; water (\$1.3 million), wastewater (\$4.4 million), and solid waste (\$0.7 million). Effective January 1, 2019, water and wastewater base monthly service rates increased along with volumetric rate increases. Infrastructure needs, identified in master plans for water and wastewater completed in 2015, continue to be a significant factor contributing to changes in rates. Although solid waste residential, commercial, and roll-off rates remained the same for fiscal year 2019, fee changes were included for landfill gate fees. The other nonmajor enterprise funds reported an increase of \$0.5 million for charges for services as compared to prior year. Capital grants and contributions increased approximately \$2.1 million primarily due to transit capital grants for vans; airport capital grants for runway protection zone land purchases; and purchase of an ARFF (Aircraft Rescue and Fire Fighting) vehicle.

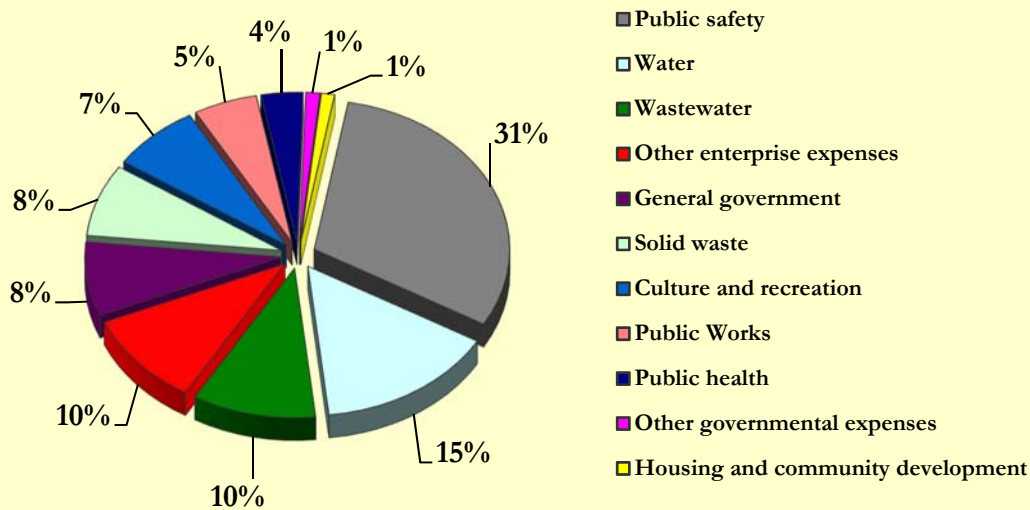
City of Waco
Changes in Net Position
(Continued)

- Total expenses increased \$11.3 million (10.8%) with the major funds of water, wastewater, and solid waste accounting for \$9.5 million of this increase. Salaries and benefits increased \$2 million. The budgeted 3.0% increase was approximately \$0.6 million for salaries. The increase for health insurance benefits approved by Council accounted for approximately \$0.2 million of additional costs. Pension expense increased \$0.9 million for the three major funds due to the reduction in fair values of plan assets and an increase in the total pension liability. Maintenance expenses increased \$2 million with wastewater accounting for \$1.4 million of the increase primarily due to emergency repairs for interceptor and sanitary sewer lines. Other purchased services increased \$2.6 million primarily due to \$1.4 million of expense for the purchase of mitigation credits for new landfill and another \$0.6 million for additional event incentives and promotions for the convention center. Expenses classified as other increased \$0.8 million primarily due to the increase of indirect costs. Depreciation increased \$1.4 million with landfill accounting for \$0.9 million of the increase primarily as a result of landfill liner depreciation. Interest expense also accounted for an increase of \$0.6 million primarily due to debt financing that has been issued to meet water and wastewater infrastructure needs.

Revenues by Source (in \$ millions)



Expenses by Activity (Percent of Total)



FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

At the end of the current fiscal year, the City of Waco's governmental funds reported combined ending fund balances of \$181,237,655. Approximately 0.7% (\$1,348,080) of this total amount constitutes nonspendable fund balance. Nonspendable fund balance represents net resources that cannot be spent because of their form or because they must remain intact. Included in this component are inventories and permanent funds. Approximately 44.1% (\$79,874,523) of the total fund balance is classified as restricted. Restricted fund balance reflects resources that are subject to externally enforceable legal restrictions. This classification includes debt service, capital

capital projects, and special revenue funds such as tax increment zones. Approximately 15.8% (\$28,668,350) of the fund balance is reported as committed. Committed fund balances represent resources whose use has a self-imposed limitation imposed by the City Council and would require formal action to remove or modify the commitment. This classification includes resources that have been committed for economic development initiatives, capital projects and public health. Approximately 22.5% (\$40,807,368) of the fund balance is reported as assigned which reflects the City's intended use of resources. These intended uses are approved by the City Council. The remainder of the fund balance of \$30,539,334 (16.9%) is reported as unassigned. Refer to pages 48 and 49 of this report for a more detailed presentation of governmental fund balances.

The City Council approved an amendment to the City's financial management policy statement to now provide for general fund unassigned fund balance to be maintained at 20% of current year expenditures. Unassigned general fund balance at the end of the current fiscal year is 20% of 2020 budgeted expenditures. The fund balance of the general fund at the end of the current year reported an increase of \$17,231,402. Total revenues in the general fund increased \$11,410,794 as compared to the prior year and were \$9,577,121 more than the final budget. Key factors in general fund revenue are as follows:

- Increases of approximately \$6.2 million in property tax revenues resulted primarily from growth in net taxable assessed property valuation of over 9%. Property taxes represented approximately 44% of total general fund revenues.
- Sales tax revenue reported an increase of approximately \$1.6 million as compared to prior year, with actual amounts exceeding the amount originally budgeted for the fiscal year by over \$4.0 million. Increased economic activity, lower unemployment rates, and lower fuel prices all contributed to this revenue growth. This revenue source represents 28% of total general fund revenues.
- Gross receipts fees, which had been budgeted very conservatively, decreased \$0.3 million as compared to prior year. Approximately 10% of total general fund revenues came from gross receipts fees.

Proprietary funds - The City's proprietary fund statements beginning on page 34 of this report provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the respective major proprietary funds are Water - \$38,924,628, Wastewater - \$28,655,882, and Solid Waste - \$7,779,028. These funds experienced increases (decreases) in total net position during 2019 as follows: Water - \$8,210,424, Wastewater - \$6,819,030, and Solid Waste - (\$413,635).

General Fund budgetary highlights – Differences between the original budget and the final amended budget for appropriations were \$3,996,809. The primary differences can be briefly summarized as follows:

- \$1,222,901 increase for purchase orders that rolled from FY 2018
- \$415,000 increase for transfer to Fleet Services Fund
- \$342,904 increase for impact fee study
- \$281,913 increase for North 9th Street emergency repair
- \$275,000 increase for City's Municipal information cable channel equipment
- \$238,896 increase for 2018 Street Preservation project
- \$236,152 increase for Landon Branch Bridge project
- \$150,508 increase for various equipment purchases
- \$147,308 increase for Section 4B IH-35 TxDOT project
- \$146,608 increase for Elm Avenue project
- \$139,608 increase for various supplies
- \$116,000 increase for City Hall 2nd floor renovations
- \$80,000 increase for contracts with others
- \$70,985 increase for South 26th Street improvements
- \$59,970 increase for State Highway 6 improvements
- \$35,000 increase for Texas Anti-Gang Center lease
- \$8,056 for various maintenance expenditures

Of this increase, \$781,373 was from fund balance assigned for capital improvements, \$342,904 from fund balance assigned for economic development, \$757,418 from fund balance assigned for public works, \$311,125 from fund balance assigned for other, \$44,920 from fund balance assigned for culture and recreation, \$581,297 from fund balance assigned for public safety, \$495,000 from increases in sales tax, \$182,664 from increases in intergovernmental revenues, \$275,000 from increases in franchise fees, \$44,600 from fund balance assigned for housing and \$150,508 from increases in transfers from other funds.

Refer to the General Fund Statement of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual on pages 25 to 33 of this report for a detailed presentation of the actual General Fund operations compared to both the original and final budget for fiscal year 2019.

CAPITAL ASSETS

The City of Waco's investment in capital assets for its governmental and business-type activities as of September 30, 2019, amounts to \$793,920,335 (net of accumulated depreciation). This investment in capital assets includes land, building, machinery and equipment, improvements other than buildings, museum collections, water rights, infrastructure and construction work in progress. Major capital asset events occurring during the current fiscal year included the following:

- Capitalized approximately \$51.2 million on various water and wastewater systems projects.
- Capitalized \$27.9 million in street and drainage infrastructure and contributions.
- Capitalized approximately \$10.1 million for solid waste equipment, land, and disposal facilities.
- Capitalized \$3.2 million on fire facility improvements and equipment.

		Governmental Activities		Business-type Activities		Totals	
		2019	2018	2019	2018	2019	2018
Land	\$	61,183,206	58,702,421	15,202,447	8,464,223	76,385,653	67,166,644
Buildings		83,011,175	82,367,465	84,508,590	83,049,381	167,519,765	165,416,846
Improvements other than buildings		69,529,596	68,808,482	584,909,947	543,161,866	654,439,543	611,970,348
Machinery and equipment		65,342,853	61,883,779	62,207,295	57,386,997	127,550,148	119,270,776
Museum collections		-	-	2,264,424	2,224,424	2,264,424	2,224,424
Infrastructure		318,076,080	307,293,616	-	-	318,076,080	307,293,616
Construction work in progress		23,797,173	7,031,649	62,058,402	54,561,938	85,855,575	61,593,587
Water rights		-	-	32,482,879	32,482,879	32,482,879	32,482,879
Less: accumulated depreciation		<u>(315,354,243)</u>	<u>(298,489,642)</u>	<u>(355,299,489)</u>	<u>(333,689,234)</u>	<u>(670,653,732)</u>	<u>(632,178,876)</u>
Total capital assets	\$	<u>305,585,840</u>	<u>287,597,770</u>	<u>488,334,495</u>	<u>447,642,474</u>	<u>793,920,335</u>	<u>735,240,244</u>

Additional information on the City's capital assets can be found in Note IV on pages 59 – 61 of this report.

DEBT ADMINISTRATION

At the end of the current fiscal year, the City of Waco had total bonded debt and notes payable of \$486,051,748. Of this amount, \$484,226,926 represents bonded debt backed by the full faith and credit of the government. The \$1,824,822 notes payable are for highway improvement right of way contributions and for purchase of pump station and water transmission lines.

City of Waco
Bonds and Notes Payable

	Governmental Activities		Business-type Activities		Totals	
	2019	2018	2019	2018	2019	2018
General obligation certificates	\$ 113,735,153	101,447,378	370,491,773	343,297,379	484,226,926	444,744,757
Notes payable	<u>322,844</u>	<u>484,266</u>	<u>1,501,978</u>	<u>1,588,306</u>	<u>1,824,822</u>	<u>2,072,572</u>
	<u>\$ 114,057,997</u>	<u>101,931,644</u>	<u>371,993,751</u>	<u>344,885,685</u>	<u>486,051,748</u>	<u>446,817,329</u>

During the 2019 fiscal year, the City issued \$63,910,000 in general obligation certificates of obligation. The proceeds will be used for various general City improvements including improvements to City administration and service buildings, zoo facilities, construction and improvements to fire stations, parks and recreation facilities, traffic control systems, streets, street lighting and drainage, sidewalks, vehicles, fire-fighting equipment, equipment, water, wastewater improvements, and solid waste disposal facilities. The City also issued \$22,785,000 of general obligation refunding bonds which were used to refund existing general obligation debt. This current refunding was undertaken to reduce total debt service payments by \$2,293,493 over the next twelve years, resulting in an economic gain of \$2,051,342. The City's combination tax and revenue certificates of obligation bond ratings are listed below:

	<u>Moody's Investors Service</u>	<u>Standard and Poor's</u>
General obligation bonds	Aa1	AA+

Additional information on the City of Waco's long-term debt can be found in Note IV on pages 64 to 69 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The general fund budget (including transfers in) for fiscal year 2020 is based on an increase in revenues of 7.7% over last year's adopted budget, due mainly to the increase from ad valorem taxes and sales taxes. No ad valorem tax rate adjustment is included for 2020. The fiscal year 2020 budget includes a \$4.4 million utilization of surplus to provide cash funding for capital projects. This amount is assigned in fund balance in the general fund at September 30, 2019.

Approximately 26% of general fund revenues come from sales taxes. The City ended 2019 with sales tax revenue considerably over the original adopted budget. Sales taxes for 2020 were budgeted with a 6.7% increase over the fiscal year 2019 adopted budget, but still less than actual receipts for 2019. The City's preference is to be conservative in this area of the budget because this revenue is so volatile and is affected by so many factors over which the City has no control.

The 2020 budget includes a 3.00% salary increase for employees and increases for certain civil service employees who are eligible for step pay increases. The Texas Municipal Retirement System (TMRS) benefit provisions of the City's plan were reviewed during the fiscal year 2012

budget process and as a result, the City Council approved a plan change to turn off annually repeating annuity increases. The City's contribution rate for 2020 (14.33%) increased slightly from the 2019 rate (14.02%). The City plans to contribute more than the full rate to assist in reducing the unfunded liability more quickly. The City's budget for fiscal year 2020 included approximately \$14.1 million for TMRS contributions.

Fiscal year 2020 includes rate increases to residential, commercial and industrial water and wastewater customers. The results of master plans for water and wastewater were a significant factor contributing to changes in water and wastewater service rates. Infrastructure needs and a timeline to complete the essential improvements were identified in the master plans. Base rates for water and wastewater monthly services will increase, along with volumetric rate increases. Solid waste residential, commercial, roll-off rates, and landfill gate fees will also increase for fiscal year 2020.

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 Janice Andrews, Chief Financial Officer, P. O. Box 2570, Waco, Texas 76702-2570, or call (254) 750-5758.

City of Waco, Texas
Statement of Net Position
September 30, 2019

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Baylor Waco Stadium Authority	Waco Health Facilities Development Corporation
Assets					
Cash and investments	\$ 198,360,099	99,658,795	298,018,894	45,340	31,588
Receivables (net of allowances for uncollectibles):					
Accounts	3,768,823	14,598,462	18,367,285	47,768	-
Special assessments	5,460	-	5,460	-	-
Taxes	9,914,418	-	9,914,418	-	-
Intergovernmental receivable	1,938,049	3,456,535	5,394,584	-	-
Prepaid items	-	274,315	274,315	28,035	-
Internal balances	2,654,415	(2,654,415)	-	-	-
Inventories	1,177,708	1,233,117	2,410,825	-	-
Restricted cash and investments	-	133,355,061	133,355,061	-	-
Notes receivable	338,144	-	338,144	-	-
Real estate held for resale	66,257	-	66,257	-	-
Capital assets not being depreciated:					
Land	61,183,206	15,202,447	76,385,653	-	-
Museum collections	-	2,264,424	2,264,424	-	-
Construction in progress	23,797,173	62,058,402	85,855,575	-	-
Capital assets, net of accumulated depreciation:					
Buildings	51,549,810	38,723,071	90,272,881	-	-
Machinery and equipment	18,340,723	18,702,407	37,043,130	2,333	-
Improvements other than buildings	29,369,587	332,365,514	361,735,101	-	-
Infrastructure	121,345,341	-	121,345,341	-	-
Water rights	-	19,018,230	19,018,230	-	-
Total assets	<u>523,809,213</u>	<u>738,256,365</u>	<u>1,262,065,578</u>	<u>123,476</u>	<u>31,588</u>
Deferred outflows of resources					
Deferred outflows of resources:					
Deferred losses on refundings of debt	1,571,341	2,984,673	4,556,014	-	-
Deferred outflows on pension liability	30,393,480	4,947,770	35,341,250	-	-
Deferred outflows on OPEB liability	135,038	-	135,038	-	-
Total deferred outflows of resources	<u>32,099,859</u>	<u>7,932,443</u>	<u>40,032,302</u>	<u>-</u>	<u>-</u>
Liabilities					
Accounts payable	8,689,732	8,359,794	17,049,526	38,004	-
Accrued liabilities	7,690,124	5,370,016	13,060,140	200	-
Accrued interest payable	976,572	2,835,197	3,811,769	-	-
Unearned revenue	20,869	284,372	305,241	19,550	-
Escrow funds	1,529,468	-	1,529,468	-	-
Customer deposits	646,445	-	646,445	-	-
Advanced deposits from Baylor University	-	-	-	65,722	-
Liabilities payable from restricted assets	-	6,136,239	6,136,239	-	-
Noncurrent liabilities:					
Due within one year	22,429,842	23,316,787	45,746,629	-	-
Due in more than one year	189,004,221	371,144,955	560,149,176	-	-
Total liabilities	<u>230,987,273</u>	<u>417,447,360</u>	<u>648,434,633</u>	<u>123,476</u>	<u>-</u>
Deferred inflows of resources:					
Deferred gains on refundings of debt	-	10,446	10,446	-	-
Deferred inflows on pension liability	429,910	69,981	499,891	-	-
Deferred inflows on OPEB liability	94,924	-	94,924	-	-
Total deferred inflows of resources	<u>524,834</u>	<u>80,427</u>	<u>605,261</u>	<u>-</u>	<u>-</u>
Net position					
Net investment in capital assets	227,983,027	245,071,453	473,054,480	-	-
Restricted for:					
Tax increment financing/public improvement district	38,989,174	-	38,989,174	-	-
Housing and community development	265,326	-	265,326	-	-
Culture and recreation	153,891	-	153,891	-	-
Public safety	1,568,647	-	1,568,647	-	-
Public works	1,142,535	-	1,142,535	-	-
Municipal information	1,318,309	-	1,318,309	-	-
Debt service	120,072	-	120,072	-	-
Parks and cemetery care - nonexpendable	378,209	-	378,209	-	-
Capital projects	-	1,057,103	1,057,103	-	-
Unrestricted	<u>52,477,775</u>	<u>82,532,465</u>	<u>135,010,240</u>	<u>-</u>	<u>31,588</u>
Total net position	<u>\$ 324,396,965</u>	<u>\$ 328,661,021</u>	<u>\$ 653,057,986</u>	<u>\$ -</u>	<u>\$ 31,588</u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Activities
Year Ended September 30, 2019

		Program Revenues		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental activities:				
General government	\$ (21,290,272)	435,415	1,901,422	-
Public safety	(81,605,115)	4,915,802	2,472,609	91,659
Public works	(14,063,962)	790	-	7,874,102
Culture and recreation	(19,651,578)	1,688,278	1,039,393	595,416
Public health	(9,205,925)	1,247,897	4,156,342	-
Housing and community development	(2,904,350)	-	1,957,422	-
Interest on long-term debt	(3,149,200)	-	-	-
Total governmental activities	<u>(151,870,402)</u>	<u>8,288,182</u>	<u>11,527,188</u>	<u>8,561,177</u>
Business-type activities:				
Water	(39,841,010)	50,287,352	4,771	100,043
Wastewater	(27,232,626)	34,435,075	-	-
Solid waste	(20,867,979)	20,435,913	-	-
Airport	(4,333,238)	1,317,810	97,138	2,530,094
Convention services	(5,684,576)	1,795,841	-	-
Ranger Hall of Fame	(1,404,669)	752,273	21,175	40,000
Cameron Park Zoo	(5,357,572)	2,085,321	-	-
Transit services	(8,234,983)	3,123,994	3,905,704	512,106
Cottonwood Creek Golf Course	(2,094,332)	1,762,884	-	-
Total business-type activities	<u>(115,050,985)</u>	<u>115,996,463</u>	<u>4,028,788</u>	<u>3,182,243</u>
Total primary government	<u>\$ (266,921,387)</u>	<u>124,284,645</u>	<u>15,555,976</u>	<u>11,743,420</u>
Component Units:				
Baylor Waco Stadium Authority	\$ (2,640,690)	619,973	2,020,717	-
Waco Health Facilities Development Corporation	-	-	-	-
Total component units	<u>\$ (2,640,690)</u>	<u>619,973</u>	<u>2,020,717</u>	<u>-</u>

General revenues:

Taxes:

Property

Property tax increment financing

Sales

Franchise

Hotel/motel

Other

Unrestricted investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position, beginning of year

Net position, end of year

See accompanying notes to financial statements.

Net Revenues (Expenses) and Changes in Net Position				
Primary Government			Component Units	
Governmental Activities	Business-type Activities	Total	Baylor Waco Stadium Authority	Waco Health Facilities Development Corporation
(18,953,435)	-	(18,953,435)		
(74,125,045)	-	(74,125,045)		
(6,189,070)	-	(6,189,070)		
(16,328,491)	-	(16,328,491)		
(3,801,686)	-	(3,801,686)		
(946,928)	-	(946,928)		
(3,149,200)	-	(3,149,200)		
<u>(123,493,855)</u>	<u>-</u>	<u>(123,493,855)</u>		
-	10,551,156	10,551,156		
-	7,202,449	7,202,449		
-	(432,066)	(432,066)		
-	(388,196)	(388,196)		
-	(3,888,735)	(3,888,735)		
-	(591,221)	(591,221)		
-	(3,272,251)	(3,272,251)		
-	(693,179)	(693,179)		
-	(331,448)	(331,448)		
<u>-</u>	<u>8,156,509</u>	<u>8,156,509</u>		
<u>(123,493,855)</u>	<u>8,156,509</u>	<u>(115,337,346)</u>		
			-	-
			<u>-</u>	<u>-</u>
			-	-
			<u>-</u>	<u>-</u>
\$ 74,555,736	-	74,555,736	-	-
14,172,237	-	14,172,237	-	-
40,610,169	-	40,610,169	-	-
14,590,418	-	14,590,418	-	-
-	4,617,066	4,617,066	-	-
1,273,129	-	1,273,129	-	-
7,976,252	2,278,688	10,254,940	-	755
1,635,710	-	1,635,710	-	-
(233,023)	233,023	-	-	-
<u>154,580,628</u>	<u>7,128,777</u>	<u>161,709,405</u>	<u>-</u>	<u>755</u>
31,086,773	15,285,286	46,372,059	-	755
<u>293,310,192</u>	<u>313,375,735</u>	<u>606,685,927</u>	<u>-</u>	<u>30,833</u>
<u>\$ 324,396,965</u>	<u>328,661,021</u>	<u>653,057,986</u>	<u>-</u>	<u>31,588</u>

City of Waco, Texas
Balance Sheet
Governmental Funds
September 30, 2019

	General Fund	Total Nonmajor Funds	Total Governmental Funds
Assets			
Cash and investments	\$ 83,105,533	\$ 99,768,349	\$ 182,873,882
Receivables, net of allowances:			
Accounts	3,630,048	138,775	3,768,823
Special assessments	-	5,460	5,460
Taxes	9,538,625	375,793	9,914,418
Notes	-	338,144	338,144
Advances to other funds	-	168,368	168,368
Intergovernmental receivable	74,843	1,863,206	1,938,049
Inventory	963,711	-	963,711
Real estate held for resale	6,160	60,097	66,257
Due from other funds	2,623,568	1,044,045	3,667,613
Total assets	<u>\$ 99,942,488</u>	<u>\$ 103,762,237</u>	<u>\$ 203,704,725</u>
Liabilities			
Accounts payable	\$ 2,647,599	\$ 5,786,965	\$ 8,434,564
Accrued liabilities	5,640,687	1,451,551	7,092,238
Unearned revenue	20,869	-	20,869
Due to other funds	623,514	1,181,566	1,805,080
Deposits	646,445	-	646,445
Escrow funds	460,087	1,068,843	1,528,930
Total liabilities	<u>10,039,201</u>	<u>9,488,925</u>	<u>19,528,126</u>
Deferred inflows of resources			
Unavailable revenue:			
Property taxes	2,126,578	354,015	2,480,593
Court fines	452,891	-	452,891
Special assessments	-	5,460	5,460
Total deferred inflows of resources	<u>2,579,469</u>	<u>359,475</u>	<u>2,938,944</u>
Total liabilities and deferred inflows of resources	<u>12,618,670</u>	<u>9,848,400</u>	<u>22,467,070</u>
Fund balances			
Nonspendable:			
Inventory	963,711	-	963,711
Parks and cemetery care	-	378,209	378,209
Real estate held for resale	6,160	-	6,160
Restricted for:			
Capital projects	-	35,639,375	35,639,375
Culture and recreation	-	153,891	153,891
Debt service	-	742,629	742,629
Housing and community development	-	325,423	325,423
Municipal information	1,318,309	-	1,318,309
Public works	-	1,142,535	1,142,535
Public safety	-	1,568,647	1,568,647
Tax increment zone activities	-	37,977,473	37,977,473
Waco Public Improvement District	-	1,006,241	1,006,241
Committed to:			
Capital projects	-	12,465,309	12,465,309
Economic development	13,688,936	-	13,688,936
Public health	-	2,514,105	2,514,105
Assigned to:			
Capital improvements	25,476,197	-	25,476,197
Culture and recreation	340,878	-	340,878
Economic development	8,274,949	-	8,274,949
Other	1,045,887	-	1,045,887
Public safety	699,653	-	699,653
Public works	566,574	-	566,574
Subsequent year's budget appropriation	4,403,230	-	4,403,230
Unassigned	30,539,334	-	30,539,334
Total fund balances	<u>\$ 87,323,818</u>	<u>\$ 93,913,837</u>	<u>\$ 181,237,655</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 99,942,488</u>	<u>\$ 103,762,237</u>	<u>\$ 203,704,725</u>

See accompanying notes to financial statements.

City of Waco, Texas
Reconciliation of the Balance Sheet to the Statement of Net Position
September 30, 2019

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

Total fund balances - governmental funds (page 26)	\$ 181,237,655
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	304,758,062
Other long-term assets are not available to pay for current-period expenditures and, therefore, deferred in the funds.	2,938,944
Internal service funds are used by management to charge the costs of certain services to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	12,969,865
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(177,507,561)</u>
Net position of governmental activities (page 25)	\$ <u><u>324,396,965</u></u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Revenues, Expenditures and
Changes in Fund Balances -
Governmental Funds
Year Ended September 30, 2019

	General Fund	Total Nonmajor Funds	Total Governmental Funds
Revenues:			
Taxes	\$ 104,837,511	\$ 24,569,181	\$ 129,406,692
Business and occupation fees	14,590,418	-	14,590,418
Permits, licenses and fees	1,875,782	1,081,246	2,957,028
Fines	1,607,374	448,254	2,055,628
Charges for services	2,101,940	-	2,101,940
Investment earnings	2,470,954	5,169,628	7,640,582
Contributions	677,457	394,921	1,072,378
Intergovernmental	2,121,293	7,313,711	9,435,004
Program income	-	194,820	194,820
Other	13,626,575	877,438	14,504,013
Total revenues	<u>143,909,304</u>	<u>40,049,199</u>	<u>183,958,503</u>
Expenditures:			
Current:			
General government	22,159,881	8,563,343	30,723,224
Public safety	74,909,796	844,769	75,754,565
Public works	5,413,207	438,678	5,851,885
Culture and recreation	14,786,909	29,518	14,816,427
Housing and community development	315,545	2,934,790	3,250,335
Public health	-	8,944,992	8,944,992
Debt service:			
Principal	-	6,555,000	6,555,000
Interest and fiscal charges	-	4,016,921	4,016,921
Bond issuance costs	-	203,758	203,758
Capital outlay	-	25,302,918	25,302,918
Total expenditures	<u>117,585,338</u>	<u>57,834,687</u>	<u>175,420,025</u>
Excess (deficiency) of revenues over expenditures	<u>26,323,966</u>	<u>(17,785,488)</u>	<u>8,538,478</u>
Other financing sources (uses):			
Refunding bonds issued	-	9,365,000	9,365,000
Payment to refunded bond escrow agent	-	(10,434,176)	(10,434,176)
Premium on refunding bonds	-	1,065,159	1,065,159
General obligation bonds issued	-	18,560,000	18,560,000
Premium on general obligation bonds	-	1,583,439	1,583,439
Transfers in	5,111,669	13,759,451	18,871,120
Transfers out	(14,204,233)	(4,412,342)	(18,616,575)
Total other financing sources (uses)	<u>(9,092,564)</u>	<u>29,486,531</u>	<u>20,393,967</u>
Net change in fund balances	17,231,402	11,701,043	28,932,445
Fund balances, beginning of year	70,092,416	82,212,794	152,305,210
Fund balances, end of year	<u>\$ 87,323,818</u>	<u>\$ 93,913,837</u>	<u>\$ 181,237,655</u>

See accompanying notes to financial statements.

City of Waco, Texas
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year Ended September 30, 2019

Amounts reported for governmental activities in the Statement of Activities (pages 24 - 25) are different because:

Net change in fund balances - total governmental funds (page 28)	\$ 28,932,445
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.	10,083,707
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, transfers, trade-ins, and donations) is to increase net position.	7,847,693
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	499,091
The issuance of long-term debt (e.g., bonds, notes payable) 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 and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(13,423,000)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(4,973,836)
Internal service funds are used by management to charge the costs of certain services to individual funds. The change in net position of internal service funds is reported with governmental activities.	<u>2,120,673</u>
Change in net position of governmental activities (pages 24 - 25)	\$ <u><u>31,086,773</u></u>

See accompanying notes to financial statements.

City of Waco, Texas
General Fund
Statement of Revenue, Expenditures, and
Changes in Fund Balance –
Budget and Actual
Year Ended September 30, 2019
(With Comparative Actual Amounts for the Year Ended September 30, 2018)

	Budgeted Amounts		2019	Variance with	2018
	Original	Final	Actual	Final Budget	Actual
Revenue					
Taxes:					
Sales tax income	\$ 36,552,310	37,047,310	40,610,169	3,562,859	39,017,059
Property taxes	63,259,430	63,259,430	63,737,123	477,693	57,497,970
Interest and penalty on taxes	435,000	435,000	490,219	55,219	498,411
Totals	100,246,740	100,741,740	104,837,511	4,095,771	97,013,440
Business and occupation fees:					
Occupation taxes	35,000	35,000	69,898	34,898	94,979
Gross receipts taxes	13,350,589	13,625,589	14,520,520	894,931	14,821,518
Totals	13,385,589	13,660,589	14,590,418	929,829	14,916,497
Permits, licenses and fees:					
Building permits	795,409	795,409	958,069	162,660	670,896
Plumbing permits	225,000	225,000	283,236	58,236	241,886
Electrical permits	321,680	321,680	392,890	71,210	351,513
Heating and air conditioning licenses	120,000	120,000	115,063	(4,937)	112,093
Fire inspection fees	34,500	34,500	43,251	8,751	38,851
Cab permits	-	-	550	550	650
House moving permits	-	-	55	55	165
Open air/street vending	5,550	5,550	6,875	1,325	6,720
Sign permits	32,668	32,668	40,475	7,807	30,299
Subdivision fees	35,805	35,805	35,318	(487)	42,123
Totals	1,570,612	1,570,612	1,875,782	305,170	1,495,196
Fines:					
Court fines	980,000	980,000	1,526,176	546,176	1,413,186
Auto impound fees	120,000	120,000	81,198	(38,802)	131,166
Totals	1,100,000	1,100,000	1,607,374	507,374	1,544,352
Charges for services:					
Recreation	771,838	771,838	938,954	167,116	986,123
Weed mowing	50,000	50,000	46,541	(3,459)	74,009
Library fees	117,100	117,100	127,849	10,749	126,420
Animal pick up	10,325	10,325	20,525	10,200	13,710
Animal shelter fees	338,819	338,819	424,564	85,745	371,725
Grounds maintenance	58,453	58,453	58,453	-	56,750
Graphics	60,000	60,000	88,867	28,867	76,034
Police Security	22,770	22,770	50,598	27,828	63,119
Airport Security Services	340,000	340,000	345,589	5,589	336,889
Totals	1,769,305	1,769,305	2,101,940	332,635	2,104,779
Interest on investments	800,000	800,000	2,470,954	1,670,954	1,249,631
Contributions	610,501	610,501	677,457	66,956	680,287
Intergovernmental	1,706,401	1,889,065	2,121,293	232,228	1,977,140

(Continued)

City of Waco, Texas
General Fund
Statement of Revenue, Expenditures, and
Changes in Fund Balance –
Budget and Actual
Year Ended September 30, 2019
(With Comparative Actual Amounts for the Year Ended September 30, 2018)

	Budgeted Amounts		2019 Actual Amounts	Variance with Final Budget	2018 Actual Amounts
	Original	Final			
Revenues (continued)					
Other:					
Indirect expense reimbursements	9,541,988	9,541,988	9,444,613	(97,375)	8,062,618
False alarm fines	11,026	11,026	14,750	3,724	15,250
BSC civil penalties	-	-	-	-	7,770
Rents from real estate	280,979	280,979	427,659	146,680	436,711
Miscellaneous revenue	1,407,912	1,407,912	2,109,497	701,585	1,562,780
Sale of real estate	100,000	100,000	519,130	419,130	425,519
Sale of other scrap	10,000	10,000	8,686	(1,314)	9,592
Zoning applications	20,000	20,000	53,775	33,775	39,675
Commission from sale of mixed drinks	560,000	560,000	707,292	147,292	614,759
Commission on municipal court fines	35,000	35,000	53,957	18,957	55,078
Commission on concessions	205,716	205,716	269,796	64,080	267,971
Garage sale permits	17,750	17,750	16,630	(1,120)	18,150
Special assessments	-	-	790	790	1,315
Totals	12,190,371	12,190,371	13,626,575	1,436,204	11,517,188
Total revenue	133,379,519	134,332,183	143,909,304	9,577,121	132,498,510
Expenditures					
General Government					
Administrative Services:					
Salaries and wages	1,015,317	1,015,317	912,981	102,336	1,178,588
Employee benefits	289,228	289,228	249,664	39,564	384,556
Purchased professional/technical services	142,758	292,883	154,257	138,626	266,245
Purchased property services	39,000	39,000	23,112	15,888	29,660
Other purchased services	720,750	720,750	696,197	24,553	628,515
Supplies	115,290	115,290	105,985	9,305	158,396
Other expenses	280,000	377,716	27,055	350,661	77,533
Total Administrative Services	2,602,343	2,850,184	2,169,251	680,933	2,723,493
City Secretary:					
Salaries and wages	361,186	361,186	329,939	31,247	326,918
Employee benefits	137,127	137,127	128,289	8,838	124,200
Purchased professional/technical services	118,650	100,255	47,777	52,478	103,365
Purchased property services	-	-	230	(230)	-
Maintenance	30,682	34,635	33,813	822	22,686
Other purchased services	25,443	28,043	27,783	260	38,244
Supplies	17,618	39,206	30,408	8,798	26,285
Capital expenditures	-	-	-	-	6,495
Total City Secretary	690,706	700,452	598,239	102,213	648,193
Finance Services:					
Salaries and wages	1,598,440	1,598,440	1,515,370	83,070	1,202,091
Employee benefits	515,729	515,729	506,450	9,279	404,026
Purchased professional/technical services	128,186	128,186	140,338	(12,152)	113,004
Purchased property services	1,000	1,000	500	500	-
Maintenance	4,496	4,496	159	4,337	-
Other purchased services	55,844	55,844	43,005	12,839	23,082
Supplies	29,350	29,350	39,361	(10,011)	38,421
Capital expenditures	-	-	9,304	(9,304)	-
Other expenses	78,410	78,410	59,779	18,631	49,763
Total Finance Services	2,411,455	2,411,455	2,314,266	97,189	1,830,387

(Continued)

City of Waco, Texas
General Fund
Statement of Revenue, Expenditures, and
Changes in Fund Balance –
Budget and Actual
Year Ended September 30, 2019
(With Comparative Actual Amounts for the Year Ended September 30, 2018)

	Budgeted Amounts		2019	Variance with	2018
	Original	Final	Actual	Final Budget	Actual
Expenditures (continued)					
General Government (continued)					
Legal Services:					
Salaries and wages	938,021	938,021	895,484	42,537	931,847
Employee benefits	292,163	292,163	273,800	18,363	288,230
Purchased professional/technical services	5,850	5,850	67	5,783	109
Maintenance	300	300	-	300	-
Other purchased services	34,154	34,154	30,251	3,903	27,943
Supplies	33,230	33,230	36,991	(3,761)	37,976
Total Legal Services	1,303,718	1,303,718	1,236,593	67,125	1,286,105
Planning Services:					
Salaries and wages	517,204	514,704	530,550	(15,846)	513,956
Employee benefits	183,043	183,043	175,826	7,217	166,674
Purchased professional/technical services	49,800	266,930	48,205	218,725	31,320
Purchased property services	65,784	65,784	67,284	(1,500)	66,200
Maintenance	4,550	4,550	455	4,095	2,498
Other purchased services	35,297	39,497	23,359	16,138	15,566
Supplies	30,948	30,948	45,141	(14,193)	36,882
Total Planning Services	886,626	1,105,456	890,820	214,636	833,096
Human Resources:					
Salaries and wages	807,977	861,335	795,761	65,574	733,480
Employee benefits	285,709	288,799	271,457	17,342	258,949
Purchased professional/technical services	117,105	64,434	54,059	10,375	90,162
Purchased property services	1,500	1,500	-	1,500	-
Maintenance	2,365	4,293	4,266	27	2,184
Other purchased services	127,975	120,929	112,854	8,075	68,409
Supplies	15,650	19,199	18,310	889	22,519
Total Human Resources	1,358,281	1,360,489	1,256,707	103,782	1,175,703
Municipal Information:					
Salaries and wages	536,903	536,903	550,096	(13,193)	508,695
Employee benefits	193,474	193,474	194,751	(1,277)	179,917
Purchased professional/technical services	25,802	75,802	36,188	39,614	32,187
Maintenance	17,258	52,258	21,361	30,897	20,778
Other purchased services	22,804	22,804	19,276	3,528	19,975
Supplies	19,126	90,000	42,038	47,962	16,643
Other expenses	25,000	25,000	22,876	2,124	23,590
Capital expenditures	-	120,001	172,470	(52,469)	66,556
Total Public Information Services	840,367	1,116,242	1,059,056	57,186	868,341
Information Technology Services:					
Salaries and wages	1,842,041	1,842,041	1,721,159	120,882	1,566,942
Employee benefits	647,605	647,605	610,148	37,457	542,263
Purchased professional/technical services	245,833	308,317	174,039	134,278	105,806
Maintenance	1,389,441	1,390,133	1,336,366	53,767	979,406
Other purchased services	434,721	454,095	395,251	58,844	399,277
Supplies	117,992	130,369	102,672	27,697	103,323
Capital expenditures	440,720	440,720	246,627	194,093	221,210
Other expenses	(128,434)	(128,434)	(128,434)	-	(124,692)
Total Information Technology Services	4,989,919	5,084,846	4,457,828	627,018	3,793,535

(Continued)

City of Waco, Texas
General Fund
Statement of Revenue, Expenditures, and
Changes in Fund Balance –
Budget and Actual
Year Ended September 30, 2019
(With Comparative Actual Amounts for the Year Ended September 30, 2018)

	Budgeted Amounts		2019	Variance with	2018
	Original	Final	Actual	Final Budget	Actual
Expenditures (continued)					
General Government (continued)					
Purchasing Services:					
Salaries and wages	498,390	498,390	507,251	(8,861)	443,567
Employee benefits	177,641	177,641	176,559	1,082	158,048
Purchased professional/technical services	400	400	-	400	835
Maintenance	375	375	284	91	49
Other purchased services	26,599	26,670	21,369	5,301	17,739
Supplies	13,568	13,717	10,058	3,659	11,297
Total Purchasing Services	716,973	717,193	715,521	1,672	631,535
Facilities:					
Salaries and wages	954,962	954,962	856,929	98,033	930,096
Employee benefits	453,112	453,112	424,243	28,869	454,235
Purchased professional/technical services	957,751	985,981	902,806	83,175	744,798
Purchased property services	6,420	6,420	10,309	(3,889)	7,577
Maintenance	1,377,309	1,405,861	1,117,597	288,264	1,323,996
Other purchased services	76,696	76,696	64,194	12,502	57,028
Supplies	260,187	260,662	228,414	32,248	247,283
Capital expenditures	9,500	9,500	13,290	(3,790)	-
Total Facilities	4,095,937	4,153,194	3,617,782	535,412	3,765,013
Economic Development					
Salaries and wages	183,879	183,879	296,531	(112,652)	121,170
Employee benefits	59,628	59,628	89,176	(29,548)	44,421
Purchased professional/technical services	5,000	5,000	7,790	(2,790)	6,283
Purchased property services	2,500	2,500	-	2,500	-
Other purchased services	16,586	16,586	18,399	(1,813)	4,006
Supplies	7,750	7,750	6,760	990	8,518
Total Economic Development	275,343	275,343	418,656	(143,313)	184,398
Economic Development Incentive					
Purchased professional/technical services	-	2,250,000	175,000	2,075,000	1,875,000
Total Economic Development Incentive	-	2,250,000	175,000	2,075,000	1,875,000
Contributions:					
McLennan County	166,250	166,250	158,746	7,504	155,364
Rosemound Cemetery	166,500	-	-	-	125,000
HOTRMHMR	39,322	119,322	39,322	80,000	39,322
H. O. T. Council of Governments	12,000	12,000	11,652	348	11,652
The Advocacy Center	84,419	84,419	84,419	-	119,446
Greater Waco Chamber	165,000	165,000	165,000	-	165,000
Central Texas African American Chamber	68,000	93,000	93,000	-	68,000
Waco Foundation	-	-	-	-	30,000
Cen-Tex Hispanic Chamber	118,000	118,000	118,000	-	118,000
City Center Waco	246,401	246,401	239,000	7,401	268,604
Central Texas Senior Ministry	28,000	28,000	28,000	-	28,000
Economic Development Grants	635,000	635,000	(26,228)	661,228	609,000
McLennan County Appraisal District	852,100	798,100	729,845	68,255	729,872
Greater Waco Collective Impact Initiative	100,000	100,000	75,000	25,000	160,240
Greater Waco Sports Commission	-	-	-	-	75,000

(Continued)

City of Waco, Texas
General Fund
Statement of Revenue, Expenditures, and
Changes in Fund Balance –
Budget and Actual
Year Ended September 30, 2019
(With Comparative Actual Amounts for the Year Ended September 30, 2018)

	Budgeted Amounts		2019	Variance with	2018
	Original	Final	Actual	Final Budget	Actual
Expenditures (continued)					
General Government (continued)					
Contributions: (continued)					
Historic Waco Foundation/Arts-Historic Agencies	29,250	29,250	29,250	-	29,250
Creative Waco	515,000	438,240	406,915	31,325	362,085
HOT Goodwill Industries, Inc.	71,412	71,412	65,461	5,951	71,412
The Cove	52,291	52,291	52,291	-	52,291
Caritas of Waco	52,305	52,305	45,163	7,142	48,863
CampusTown	-	29,000	21,750	7,250	-
Total Contributions	3,401,250	3,237,990	2,336,586	901,404	3,266,401
Miscellaneous:					
Salaries and wages	(500,000)	(500,000)	-	(500,000)	-
Employee benefits	80,000	80,000	37,258	42,742	38,367
Purchased professional/technical services	683,500	690,084	443,468	246,616	276,878
Purchased property services	-	-	259	(259)	7,250
Maintenance	8,765	8,765	4,507	4,258	7,940
Other purchased services	1,412	1,412	287	1,125	370
Supplies	3,933	3,933	5,297	(1,364)	4,026
Capital expenditures	-	-	75,185	(75,185)	1,000
Other expenses	652,046	652,046	347,315	304,731	271,495
Total Miscellaneous	929,656	936,240	913,576	22,664	607,326
Total General Government	24,502,574	27,502,802	22,159,881	5,342,921	23,488,526
Public Works					
Streets and Drainage Services:					
Salaries and wages	678,969	648,969	299,822	349,147	718,273
Employee benefits	519,746	519,746	393,146	126,600	537,167
Purchased professional/technical services	2,850,709	3,247,278	2,871,095	376,183	1,987,203
Purchased property services	23,544	23,544	19,236	4,308	24,181
Maintenance	1,501,825	1,501,825	1,131,977	369,848	1,251,137
Other purchased services	146,269	146,269	106,247	40,022	102,083
Supplies	382,994	382,994	250,299	132,695	238,487
Other expenses	161,422	221,392	221,392	-	161,422
Capital expenditures	36,810	150,810	119,993	30,817	99,543
Total Streets and Drainage Services	6,302,288	6,842,827	5,413,207	1,429,620	5,119,496
Total Public Works	6,302,288	6,842,827	5,413,207	1,429,620	5,119,496
Public Safety					
Municipal Court:					
Salaries and wages	844,085	844,085	790,970	53,115	757,256
Employee benefits	312,151	312,151	296,163	15,988	279,442
Purchased professional/technical services	57,617	57,617	46,187	11,430	108,144
Maintenance	13,890	13,890	12,682	1,208	5,669
Other purchased services	28,170	28,170	19,601	8,569	21,332
Supplies	93,997	93,997	73,238	20,759	71,766
Capital expenditures	-	-	-	-	12,064
Other expenses	13,928	13,928	10,064	3,864	10,636
Total Municipal Court	1,363,838	1,363,838	1,248,905	114,933	1,266,309

(Continued)

City of Waco, Texas
General Fund
Statement of Revenue, Expenditures, and
Changes in Fund Balance –
Budget and Actual
Year Ended September 30, 2019
(With Comparative Actual Amounts for the Year Ended September 30, 2018)

	Budgeted Amounts		2019	Variance with	2018
	Original	Final	Actual Amounts	Final Budget	Actual Amounts
Expenditures (continued)					
Public Safety (continued)					
Inspection Services:					
Salaries and wages	1,277,366	1,277,366	1,274,768	2,598	1,125,946
Employee benefits	483,999	483,999	482,019	1,980	427,033
Purchased professional/technical services	196,740	196,740	124,096	72,644	118,271
Purchased property services	72,144	72,144	69,381	2,763	66,492
Maintenance	51,240	51,240	57,293	(6,053)	52,449
Other purchased services	65,755	75,885	63,939	11,946	50,146
Supplies	63,705	94,820	76,129	18,691	62,076
Capital expenditures	41,245	-	48,620	(48,620)	-
Other expenses	34,754	34,754	38,469	(3,715)	31,608
Totals Inspection Services	<u>2,286,948</u>	<u>2,286,948</u>	<u>2,234,714</u>	<u>52,234</u>	<u>1,934,021</u>
Emergency Management Services:					
Salaries and wages	360,987	360,987	315,941	45,046	282,869
Employee benefits	118,315	118,315	118,088	227	106,784
Purchased professional/technical services	28,504	28,504	15,058	13,446	15,770
Purchased property services	3,000	1,700	550	1,150	1,550
Maintenance	482,972	484,536	325,849	158,687	388,724
Other purchased services	64,399	59,023	39,264	19,759	16,920
Supplies	42,625	47,737	42,887	4,850	43,591
Capital expenditures	285,000	285,000	284,149	851	365,114
Other expenses	152,395	152,395	114,600	37,795	77,003
Total Emergency Management Services	<u>1,538,197</u>	<u>1,538,197</u>	<u>1,256,386</u>	<u>281,811</u>	<u>1,298,325</u>
Fire Services:					
Salaries and wages	17,671,260	17,671,260	17,562,937	108,323	16,804,330
Employee benefits	6,535,407	6,535,407	6,332,222	203,185	6,001,983
Purchased professional/technical services	130,820	95,498	94,841	657	66,141
Purchased property services	70,020	70,020	63,440	6,580	64,229
Maintenance	724,074	718,571	588,781	129,790	519,705
Other purchased services	453,126	395,885	391,258	4,627	345,268
Supplies	749,467	983,587	776,056	207,531	610,988
Capital expenditures	135,910	297,143	329,517	(32,374)	116,509
Total Fire Services	<u>26,470,084</u>	<u>26,767,371</u>	<u>26,139,052</u>	<u>628,319</u>	<u>24,529,153</u>
Police Services:					
Salaries and wages	25,744,305	25,744,305	25,213,403	530,902	25,108,665
Employee benefits	9,330,793	9,330,793	9,075,327	255,466	8,769,021
Purchased professional/technical services	909,288	945,700	615,254	330,446	634,572
Purchased property services	116,166	151,166	141,481	9,685	42,409
Maintenance	1,239,436	1,278,279	1,008,614	269,665	1,430,423
Other purchased services	1,196,893	1,222,465	1,111,848	110,617	1,089,313
Supplies	2,009,103	2,127,705	1,804,254	323,451	2,178,080
Capital expenditures	77,305	429,202	359,594	69,608	151,961
Other expenses	900	900	1,285	(385)	895
Total Police Services	<u>40,624,189</u>	<u>41,230,515</u>	<u>39,331,060</u>	<u>1,899,455</u>	<u>39,405,339</u>
Traffic Services					
Salaries and wages	954,411	954,411	766,133	188,278	798,321
Employee benefits	421,036	421,036	368,181	52,855	355,699

(Continued)

City of Waco, Texas
General Fund
Statement of Revenue, Expenditures, and
Changes in Fund Balance –
Budget and Actual
Year Ended September 30, 2019
(With Comparative Actual Amounts for the Year Ended September 30, 2018)

	Budgeted Amounts		2019	Variance with	2018
	Original	Final	Actual	Final Budget	Actual
Expenditures (continued)					
Public Safety (continued)					
Traffic Services (continued)					
Purchased professional/technical services	230,685	230,685	124,568	106,117	57,050
Purchased property services	2,664	2,664	2,231	433	2,326
Maintenance	920,045	921,774	675,426	246,348	597,243
Other purchased services	50,174	50,174	33,010	17,164	30,625
Supplies	772,499	772,499	661,161	111,338	672,835
Capital expenditures	529,500	529,500	252,722	276,778	390,391
Totals Traffic Services	<u>3,881,014</u>	<u>3,882,743</u>	<u>2,883,432</u>	<u>999,311</u>	<u>2,904,490</u>
Animal Services					
Salaries and wages	802,091	729,393	711,239	18,154	695,183
Employee benefits	338,687	338,687	318,194	20,493	286,125
Purchased professional/technical services	288,985	317,485	282,052	35,433	212,556
Purchased property services	21,900	21,900	20,224	1,676	16,978
Maintenance	64,107	64,107	52,095	12,012	46,641
Other purchased services	73,444	73,444	78,147	(4,703)	65,358
Supplies	451,013	452,513	345,166	107,347	311,389
Capital expenditures	-	51,828	9,130	42,698	34,345
Other expenses	1,000	1,000	-	1,000	-
Totals Animal Services	<u>2,041,227</u>	<u>2,050,357</u>	<u>1,816,247</u>	<u>234,110</u>	<u>1,668,575</u>
Contributions:					
Animal Shelter	-	-	-	-	287
Total Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>287</u>
Total Public Safety	<u>78,205,497</u>	<u>79,119,969</u>	<u>74,909,796</u>	<u>4,210,173</u>	<u>73,006,499</u>
Culture & Recreation					
Library Services:					
Salaries and wages	2,048,379	1,949,614	1,891,544	58,070	1,819,906
Employee benefits	759,380	759,380	726,927	32,453	684,401
Purchased professional/technical services	254,820	251,975	174,979	76,996	209,793
Purchased property services	27,816	27,816	19,971	7,845	17,601
Maintenance	172,637	172,637	147,605	25,032	128,610
Other purchased services	151,039	149,039	142,633	6,406	140,563
Supplies	722,534	789,172	745,461	43,711	779,241
Capital expenditures	18,500	64,845	21,625	43,220	15,996
Other expenses	174,700	174,700	174,931	(231)	169,457
Total Library Services	<u>4,329,805</u>	<u>4,339,178</u>	<u>4,045,676</u>	<u>293,502</u>	<u>3,965,568</u>
Parks:					
Salaries and wages	3,637,003	3,367,135	2,889,805	477,330	2,906,232
Employee benefits	1,705,995	1,704,495	1,516,330	188,165	1,504,470
Purchased professional/technical services	792,795	1,013,002	957,427	55,575	652,924
Purchased property services	963,276	963,276	801,427	161,849	800,647
Maintenance	635,202	666,454	897,976	(231,522)	724,708
Other purchased services	230,529	230,710	208,878	21,832	262,940
Supplies	783,363	787,476	715,711	71,765	715,356
Capital expenditures	104,000	321,661	188,170	133,491	152,847
Other expenses	116,036	116,036	114,469	1,567	114,957
Total Parks	<u>8,968,199</u>	<u>9,170,245</u>	<u>8,290,193</u>	<u>880,052</u>	<u>7,835,081</u>

(Continued)

City of Waco, Texas
General Fund
Statement of Revenue, Expenditures, and
Changes in Fund Balance –
Budget and Actual
Year Ended September 30, 2019
(With Comparative Actual Amounts for the Year Ended September 30, 2018)

	Budgeted Amounts		2019	Variance with	2018
	Original	Final	Actual	Final Budget	Actual
Expenditures (continued)					
Culture & Recreation (continued)					
Recreation Services:					
Salaries and wages	1,124,657	1,124,657	994,527	130,130	815,799
Employee benefits	381,237	381,237	351,582	29,655	269,277
Purchased professional/technical services	558,397	558,397	503,421	54,976	456,607
Maintenance	23,929	23,929	22,738	1,191	12,689
Other purchased services	251,904	251,904	254,146	(2,242)	165,695
Supplies	280,153	280,153	299,044	(18,891)	251,049
Capital expenditures	-	-	18,445	(18,445)	30,090
Other expenses	16,700	16,700	7,137	9,563	7,736
Total Recreation Services	<u>2,636,977</u>	<u>2,636,977</u>	<u>2,451,040</u>	<u>185,937</u>	<u>2,008,942</u>
Total Culture & Recreation	<u>15,934,981</u>	<u>16,146,400</u>	<u>14,786,909</u>	<u>1,359,491</u>	<u>13,809,591</u>
Housing & Community Development					
Housing Services:					
Salaries and wages	329,119	329,119	175,849	153,270	162,300
Employee benefits	108,462	108,462	72,281	36,181	68,402
Purchased professional/technical services	4,960	49,560	48,643	917	5,153
Purchased property services	3,000	3,000	201	2,799	-
Other purchased services	17,220	17,220	14,333	2,887	9,215
Supplies	3,680	3,680	4,238	(558)	3,597
Other expenses	35,000	35,000	-	35,000	-
Total Housing Services	<u>501,441</u>	<u>546,041</u>	<u>315,545</u>	<u>230,496</u>	<u>248,667</u>
Total Housing & Community Development	<u>501,441</u>	<u>546,041</u>	<u>315,545</u>	<u>230,496</u>	<u>248,667</u>
Total Expenditures	<u>125,446,781</u>	<u>130,158,039</u>	<u>117,585,338</u>	<u>12,572,701</u>	<u>115,672,779</u>
Excess of revenues over expenditures	<u>7,932,738</u>	<u>4,174,144</u>	<u>26,323,966</u>	<u>22,149,822</u>	<u>16,825,731</u>
Other Financing Sources (Uses):					
Transfers in:					
Abandoned Motor Vehicles	50,000	200,508	200,508	-	50,000
Court Security	101,838	101,838	83,781	(18,057)	91,966
TxDOT Brazos Riverwalk	-	-	26,419	26,419	-
Revenue in lieu of property taxes	<u>4,800,961</u>	<u>4,800,961</u>	<u>4,800,961</u>	<u>-</u>	<u>4,620,447</u>
Total transfers in	<u>4,952,799</u>	<u>5,103,307</u>	<u>5,111,669</u>	<u>8,362</u>	<u>4,762,413</u>
Transfers out:					
Street Improvements:					
Street Cash CIP	(3,314,852)	(3,936,508)	(3,936,508)	-	(1,407,590)
Capital Improvements:					
Facilities Cash CIP	-	(116,000)	(116,000)	-	(500,000)
Parks Cash CIP	-	-	-	-	(339,000)
Stormwater CIP	-	(352,898)	(352,898)	-	-
Cameron Park Zoo	(2,758,019)	(2,758,019)	(2,758,019)	-	(2,579,674)
Rolling Stock	-	-	-	-	(1,730,000)
Equipment Replacement Cash CIP	(600,000)	(600,000)	(600,000)	-	(500,000)
Cottonwood Creek Golf Course	(428,304)	(428,304)	(428,304)	-	(697,387)
Transit	(1,901,728)	(1,901,728)	(482,408)	1,419,320	(178,448)

(Continued)

City of Waco, Texas
General Fund
Statement of Revenue, Expenditures, and
Changes in Fund Balance –
Budget and Actual
Year Ended September 30, 2019
(With Comparative Actual Amounts for the Year Ended September 30, 2018)

	Budgeted Amounts		2019	Variance with Final Budget	2018
	Original	Final	Actual Amounts		Actual Amounts
Other Financing Sources (Uses): (continued)					
Transfers out: (continued)					
Airport Services	(453,898)	(453,898)	(453,898)	-	(338,071)
Health Services	(3,837,160)	(3,837,160)	(3,837,160)	-	(3,495,389)
Ranger Hall of Fame	(538,787)	(538,787)	(538,787)	-	(311,895)
Fleet Services		(415,000)	(415,000)	-	-
Economic Development Incentive	(2,250,000)	-	-	-	-
Housing demo-lot clearing	(175,000)	(175,000)	(175,000)	-	(175,000)
Grant (police)	(216,000)	(216,000)	(110,251)	105,749	(65,946)
Total transfers out	<u>(16,473,748)</u>	<u>(15,729,302)</u>	<u>(14,204,233)</u>	<u>1,525,069</u>	<u>(12,318,400)</u>
 Total other financing sources (uses)	 <u>(11,520,949)</u>	 <u>(10,625,995)</u>	 <u>(9,092,564)</u>	 <u>1,533,431</u>	 <u>(7,555,987)</u>
 Net change in fund balances	 (3,588,211)	 (6,451,851)	 17,231,402	 23,683,253	 9,269,744
 Fund balance, beginning of year	 <u>70,092,416</u>	 <u>70,092,416</u>	 <u>70,092,416</u>	 <u>-</u>	 <u>60,822,672</u>
 Fund balance, end of year	 \$ <u><u>66,504,205</u></u>	 <u><u>63,640,565</u></u>	 <u><u>87,323,818</u></u>	 <u><u>23,683,253</u></u>	 <u><u>70,092,416</u></u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Net Position -
Proprietary Funds
September 30, 2019

	Business-type Activities					Governmental Activities
	Water Fund	Wastewater Fund	Solid Waste Fund	Total Nonmajor Funds	Total Enterprise Funds	Internal Service Funds
Assets						
Current assets:						
Cash and investments	\$ 37,603,199	\$ 37,557,166	\$ 15,177,214	\$ 9,321,216	\$ 99,658,795	\$ 15,486,217
Accounts receivable, net of allowances	7,320,151	4,431,078	2,078,371	768,862	14,598,462	-
Prepaid items	274,315	-	-	-	274,315	-
Due from other funds	-	-	-	-	-	623,514
Intergovernmental receivable	233,385	134,085	-	3,089,065	3,456,535	-
Restricted cash and investments	5,055,280	1,003,547	77,415	-	6,136,242	-
Inventories	216,923	14,327	-	1,001,867	1,233,117	213,997
Total current assets	<u>50,703,253</u>	<u>43,140,203</u>	<u>17,333,000</u>	<u>14,181,010</u>	<u>125,357,466</u>	<u>16,323,728</u>
Noncurrent assets:						
Restricted cash and investments	47,705,165	79,245,961	159,842	107,851	127,218,819	-
Advances to other funds	525,336	-	-	-	525,336	-
Capital assets:						
Land	3,180,914	2,691,723	7,127,215	2,202,595	15,202,447	38,800
Buildings	10,024,595	11,089,302	1,370,137	62,024,556	84,508,590	920,153
Improvements other than buildings	333,430,604	152,445,986	30,876,058	68,157,299	584,909,947	118,289
Machinery and equipment	10,133,930	12,166,624	21,389,004	18,517,737	62,207,295	1,588,748
Museum collections	-	-	-	2,264,424	2,264,424	-
Construction work in progress	21,813,439	37,489,356	2,142,315	613,292	62,058,402	-
Intangible water rights	32,482,879	-	-	-	32,482,879	-
Less: accumulated depreciation and amortization	<u>(156,014,655)</u>	<u>(72,556,301)</u>	<u>(41,819,568)</u>	<u>(84,908,965)</u>	<u>(355,299,489)</u>	<u>(1,838,212)</u>
Total noncurrent assets	<u>303,282,207</u>	<u>222,572,651</u>	<u>21,245,003</u>	<u>68,978,789</u>	<u>616,078,650</u>	<u>827,778</u>
Total assets	<u>353,985,460</u>	<u>265,712,854</u>	<u>38,578,003</u>	<u>83,159,799</u>	<u>741,436,116</u>	<u>17,151,506</u>
Deferred outflows of resources						
Deferred losses on refundings of debt	2,226,663	758,010	-	-	2,984,673	-
Deferred outflows on pension liability	2,120,474	1,413,648	1,413,648	-	4,947,770	-
Total deferred outflows of resources	<u>4,347,137</u>	<u>2,171,658</u>	<u>1,413,648</u>	<u>-</u>	<u>7,932,443</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$ 358,332,597</u>	<u>\$ 267,884,512</u>	<u>\$ 39,991,651</u>	<u>\$ 83,159,799</u>	<u>\$ 749,368,559</u>	<u>\$ 17,151,506</u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Net Position -
Proprietary Funds
September 30, 2019

	Business-type Activities					Governmental Activities
	Water Fund	Wastewater Fund	Solid Waste Fund	Total Nonmajor Funds	Total Enterprise Funds	Internal Service Funds
Liabilities						
Current liabilities:						
Accounts payable	598,870	6,946,707	399,996	414,221	8,359,794	255,168
Accrued liabilities	903,669	2,802,699	311,625	1,352,023	5,370,016	597,886
Unearned revenue	-	-	-	284,372	284,372	-
Due to other funds	-	-	-	2,486,047	2,486,047	-
Compensated absences payable	733,533	357,884	318,018	571,287	1,980,722	255,018
Refundable contracts	595,903	-	-	-	595,903	-
Notes payable	90,162	-	-	-	90,162	-
Escrow funds	-	-	-	-	-	538
Bonds payable	11,495,000	8,120,000	1,035,000	-	20,650,000	-
Accrued interest payable	1,469,950	1,292,892	72,355	-	2,835,197	-
Current liabilities payable from restricted assets:						
Accounts payable	1,905,014	1,003,544	77,415	-	2,985,973	-
Customer deposits	3,150,266	-	-	-	3,150,266	-
Estimated claims and judgments	-	-	-	-	-	3,055,714
Total current liabilities	<u>20,942,367</u>	<u>20,523,726</u>	<u>2,214,409</u>	<u>5,107,950</u>	<u>48,788,452</u>	<u>4,164,324</u>
Noncurrent liabilities:						
Refundable contracts	566,044	192,542	-	-	758,586	-
Estimated landfill closure and post-closure care costs	-	-	5,960,892	-	5,960,892	-
Advances from other funds	-	-	-	693,704	693,704	-
Compensated absences payable	430,941	6,114	339,193	257,177	1,033,425	17,317
Bonds payable	192,470,131	153,753,400	3,618,242	-	349,841,773	-
Notes payable	1,411,816	-	-	-	1,411,816	-
Net pension liability	5,202,199	3,468,132	3,468,132	-	12,138,463	-
Total noncurrent liabilities	<u>200,081,131</u>	<u>157,420,188</u>	<u>13,386,459</u>	<u>950,881</u>	<u>371,838,659</u>	<u>17,317</u>
Total liabilities	<u>221,023,498</u>	<u>177,943,914</u>	<u>15,600,868</u>	<u>6,058,831</u>	<u>420,627,111</u>	<u>4,181,641</u>
Deferred inflows of resources						
Deferred gains on refunding of debt	-	-	10,446	-	10,446	-
Deferred inflows on pension liability	29,993	19,994	19,994	-	69,981	-
Total deferred inflows of resources	<u>29,993</u>	<u>19,994</u>	<u>30,440</u>	<u>-</u>	<u>80,427</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>221,053,491</u>	<u>177,963,908</u>	<u>15,631,308</u>	<u>6,058,831</u>	<u>420,707,538</u>	<u>4,181,641</u>
Net position						
Net investment in capital assets	98,354,478	61,264,722	16,581,315	68,870,938	245,071,453	827,778
Restricted for:						
Capital projects	-	-	-	1,057,103	1,057,103	-
Unrestricted	38,924,628	28,655,882	7,779,028	7,172,927	82,532,465	12,142,087
Total net position	<u>\$ 137,279,106</u>	<u>\$ 89,920,604</u>	<u>\$ 24,360,343</u>	<u>\$ 77,100,968</u>	<u>\$ 328,661,021</u>	<u>\$ 12,969,865</u>

City of Waco, Texas
Statement of Revenues, Expenses, and Changes in Net Position -
Proprietary Funds
Year Ended September 30, 2019

	Business-type Activities					Governmental Activities
	Water Fund	Wastewater Fund	Solid Waste Fund	Total Nonmajor Funds	Total Enterprise Funds	Internal Service Funds
Operating revenues:						
Charges for services	\$ 49,692,270	\$ 33,868,919	\$ 20,213,771	\$ 7,010,647	\$ 110,785,607	\$ 24,099,231
Net merchandise sales	-	-	-	1,158,280	1,158,280	-
Contributions	-	-	-	252,587	252,587	-
Other	593,032	566,156	222,142	1,988,577	3,369,907	13,957
Total operating revenues	<u>50,285,302</u>	<u>34,435,075</u>	<u>20,435,913</u>	<u>10,410,091</u>	<u>115,566,381</u>	<u>24,113,188</u>
Operating expenses:						
Salaries and wages	5,030,485	3,051,733	3,407,141	8,087,574	19,576,933	2,891,544
Employee benefits	2,503,579	1,484,321	1,815,115	2,759,898	8,562,913	1,059,234
Purchased professional/technical services	2,233,511	2,057,079	2,889,010	1,992,808	9,172,408	2,113,634
Purchased property services	164,182	87,971	22,143	1,014,963	1,289,259	62,352
Maintenance	3,434,946	3,469,120	2,296,240	1,220,276	10,420,582	156,446
Other purchased services	1,393,478	556,220	1,596,277	2,404,765	5,950,740	1,314,793
Supplies	4,283,515	2,302,692	1,756,662	2,528,321	10,871,190	149,841
Other	4,728,606	4,192,833	3,774,085	1,361,706	14,057,230	14,887,872
Depreciation/amortization	10,373,077	5,536,080	3,006,878	5,739,059	24,655,094	135,667
Total operating expenses	<u>34,145,379</u>	<u>22,738,049</u>	<u>20,563,551</u>	<u>27,109,370</u>	<u>104,556,349</u>	<u>22,771,383</u>
Operating income (loss)	<u>16,139,923</u>	<u>11,697,026</u>	<u>(127,638)</u>	<u>(16,699,279)</u>	<u>11,010,032</u>	<u>1,341,805</u>
Nonoperating revenues (expenses):						
Investment earnings	1,111,088	577,365	406,788	183,447	2,278,688	329,524
Other income	2,050	-	-	428,032	430,082	-
Hotel/motel tax	-	-	-	4,617,066	4,617,066	-
Contributions	-	-	-	21,175	21,175	-
Intergovernmental revenues	4,771	-	-	4,002,842	4,007,613	-
Bond issuance costs	(215,706)	(198,071)	(20,415)	-	(434,192)	-
Interest expense and fiscal charges	(5,479,925)	(4,110,929)	(19,402)	-	(9,610,256)	-
Gain (loss) on disposal of capital assets	-	(185,577)	(264,611)	-	(450,188)	-
Total nonoperating revenues (expenses)	<u>(4,577,722)</u>	<u>(3,917,212)</u>	<u>102,360</u>	<u>9,252,562</u>	<u>859,988</u>	<u>329,524</u>
Income (loss) before contributions and transfers	11,562,201	7,779,814	(25,278)	(7,446,717)	11,870,020	1,671,329
Capital contributions	100,043	-	-	3,984,768	4,084,811	34,344
Transfers in	-	-	-	4,811,416	4,811,416	415,000
Transfers out	<u>(3,451,820)</u>	<u>(960,784)</u>	<u>(388,357)</u>	<u>(680,000)</u>	<u>(5,480,961)</u>	<u>-</u>
Changes in net position	8,210,424	6,819,030	(413,635)	669,467	15,285,286	2,120,673
Total net position, beginning of year	129,068,682	83,101,574	24,773,978	76,431,501	313,375,735	10,849,192
Total net position, end of year	<u>\$ 137,279,106</u>	<u>\$ 89,920,604</u>	<u>\$ 24,360,343</u>	<u>\$ 77,100,968</u>	<u>\$ 328,661,021</u>	<u>\$ 12,969,865</u>

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Cash Flows -
Proprietary Funds
Year Ended September 30, 2019

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Solid Waste Fund	Total Nonmajor Enterprises Funds	Total Enterprise Funds	Internal Service Funds
Cash flows from operating activities:						
Cash received from customers	\$ 48,197,765	\$ 33,515,792	\$ 20,517,068	\$ 10,352,255	\$ 112,582,880	\$ 24,113,660
Cash paid to suppliers for goods and services	(16,376,158)	(7,548,645)	(11,765,997)	(10,205,087)	(45,895,887)	(18,528,228)
Cash paid to employees for services	(7,091,359)	(4,309,377)	(5,180,957)	(10,908,758)	(27,490,451)	(3,993,416)
Net cash provided by (used for) operating activities	24,730,248	21,657,770	3,570,114	(10,761,590)	39,196,542	1,592,016
Cash flows from noncapital financing activities:						
Intergovernmental revenue	4,771	-	-	3,139,770	3,144,541	-
Intergovernmental expenses	(345,841)	-	-	-	(345,841)	-
Contributions	-	-	-	21,175	21,175	-
Hotel/motel tax	-	-	-	4,602,035	4,602,035	-
Passenger facility charges	-	-	-	250,033	250,033	-
Transfers from other funds	-	-	-	4,811,416	4,811,416	415,000
Transfers to other funds	(3,451,820)	(960,784)	(388,357)	(422,105)	(5,223,066)	(68,099)
Net cash provided by (used for) noncapital financing activities	(3,792,890)	(960,784)	(388,357)	12,402,324	7,260,293	346,901
Cash flows from capital and related financing activities:						
Aquisition of capital assets	(25,540,527)	(27,434,848)	(10,097,945)	(3,146,063)	(66,219,383)	(157,993)
Proceeds from sale of debt	21,128,688	24,981,909	2,648,930	-	48,759,527	-
Capital contributions	-	-	-	2,924,909	2,924,909	-
Payments of refundable contracts	(440,883)	-	-	-	(440,883)	-
Principal paid on debt	(10,680,000)	(7,220,000)	(535,000)	-	(18,435,000)	-
Interest paid on debt	(6,960,649)	(5,551,005)	(95,166)	-	(12,606,820)	-
Proceeds from insurance recoveries	-	-	-	16,948	16,948	-
Net cash provided by (used for) capital and related financing activities	(22,493,371)	(15,223,944)	(8,079,181)	(204,206)	(46,000,702)	(157,993)
Cash flows from investing activities:						
Rental revenue	2,050	-	-	-	2,050	-
Investment earnings	1,111,088	579,524	406,788	183,447	2,280,847	329,524
Note payments from other entities	-	354,751	-	-	354,751	-
Net cash provided by (used for) investing activities	1,113,138	934,275	406,788	183,447	2,637,648	329,524
Net increase (decrease) in cash and cash equivalents	(442,875)	6,407,317	(4,490,636)	1,619,975	3,093,781	2,110,448
Cash and cash equivalents, beginning of year	90,806,519	111,399,357	19,905,107	7,809,092	229,920,075	13,375,769
Cash and cash equivalents, end of year	\$ 90,363,644	\$ 117,806,674	\$ 15,414,471	\$ 9,429,067	\$ 233,013,856	\$ 15,486,217

(continued)

City of Waco, Texas
Statement of Cash Flows -
Proprietary Funds
Year Ended September 30, 2019

	Business-type Activities - Enterprise Funds					Governmental Activities
	Water Fund	Wastewater Fund	Solid Waste Fund	Total Nonmajor Enterprises Funds	Total Enterprise Funds	Internal Service Funds
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:						
Operating income (loss)	\$ 16,139,923	\$ 11,697,026	\$ (127,638)	\$ (16,699,279)	\$ 11,010,032	\$ 1,341,805
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:						
Provision for uncollectible accounts receivable	121,201	81,725	128,498	-	331,424	-
Depreciation/amortization	10,373,077	5,536,080	3,006,878	5,739,059	24,655,094	135,667
Changes in assets and liabilities:						
Decrease (increase) in assets:						
Accounts receivable	(1,934,423)	(1,001,008)	(47,343)	(7,906)	(2,990,680)	472
Prepaid items	(274,315)	-	-	-	(274,315)	-
Inventories	19,214	(96)	-	1,697	20,815	1,550
Increase (decrease) in liabilities:						
Accounts payable	52,134	3,039,924	(48,199)	20,976	3,064,835	52,398
Accrued liabilities	(119,452)	2,101,708	2,965	291,255	2,276,476	14,073
Unearned revenue	-	-	-	3,984	3,984	-
Estimated landfill closure and post-closure care costs	-	-	345,568	-	345,568	-
Compensated absences payable	(52,555)	(93,744)	13,230	(111,376)	(244,445)	(42,638)
Net pension liability	444,233	296,155	296,155	-	1,036,543	-
Customer deposits	(38,789)	-	-	-	(38,789)	-
Estimated claims and judgements	-	-	-	-	-	88,689
Net cash provided by (used for) operating activities	<u>\$ 24,730,248</u>	<u>\$ 21,657,770</u>	<u>\$ 3,570,114</u>	<u>\$ (10,761,590)</u>	<u>\$ 39,196,542</u>	<u>\$ 1,592,016</u>
Noncash investing, capital, and financing activities;						
Contributions of capital assets	\$ -	\$ -	\$ -	\$ 942,568	\$ 942,568	\$ 34,344
Assets acquired through refundable contracts	\$ 100,043	\$ -	\$ -	\$ -	\$ 100,043	\$ -
Proceeds of refunding bonds used for bond issuance costs and payment to refunded bond escrow agent	\$ 11,279,487	\$ 3,384,750	\$ 246,341	\$ -	\$ 14,910,578	\$ -

See accompanying notes to financial statements.

City of Waco, Texas
Statement of Fiduciary Net Position -
Agency Funds
September 30, 2019

	<u>Agency Funds</u>
Assets	
Cash and investments	\$ 3,205,470
Intergovernmental receivable	<u>399,830</u>
Total assets	<u>\$ 3,605,300</u>
Liabilities	
Accrued liabilities	<u>3,605,300</u>
Total liabilities	<u>\$ 3,605,300</u>

See accompanying notes to financial statements.

City of Waco, Texas

Notes to Financial Statements

September 30, 2019

I. Summary of Significant Accounting Policies

A. Reporting Entity

The City of Waco, Texas (the City) is a municipal corporation governed by an elected mayor and a five-member Council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements (see note below for description) to emphasize that it is legally separate from the government. All fiduciary activities are reported only in the fund financial statements.

Discretely presented component units – The following discretely presented component units are included in the reporting entity of the City:

The *Baylor Waco Stadium Authority* (the Authority) was created in 2014 as a nonprofit local government corporation for the purpose of managing and operating Baylor University's McLane Stadium (the Stadium) for all events that are not designated Baylor University events. The Authority is governed by five directors who are appointed by the City Council and may be removed by the City Council at any time, with or without cause. In March 2014, the Authority entered into a 30-year tri-party operating agreement with Baylor University (BU) and the City. In the event the operating agreement terminates, operating funds in excess of obligations payable will be used in the following priority: repayment of funds advanced to the Authority by BU that are subject to reimbursement; repairs and maintenance of the Stadium; and distribution to BU and the City in proportion to each entity's contribution to the construction of the Stadium. Separately issued financial reports for the Authority may be obtained from the Authority at 1001 South M.L.K. Jr. Blvd., Waco, Texas.

The *Waco Health Facilities Development Corporation* (the WHFDC) was created in 1983 under the Health Facilities Development Act as a public, nonprofit corporation for the purpose of issuing obligations in order to finance all or part of the cost of one or more health facilities to assist with the maintenance of public health. The WHFDC is governed by five members who are appointed by the City Council and may only be removed with cause. Additionally, the WHFDC is prohibited from issuing bonded debt without the approval of the City Council. The WHFDC does not issue separate financial statements.

Although WHFDC does not issue separate financial statements, the entity's governmental activity is reported in its respective single fund and all information is presented within the government-wide financial statements.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

A. **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenue, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenue. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Certain indirect costs have been included as part of the program expenses reported for the various functional activities. *Program revenue* includes (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenue are reported instead as *general revenue*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as *current financial resources* or *economic resources*.

The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

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

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

The proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting* for reporting its assets and liabilities.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Entitlements are recorded as revenues when all eligibility requirements are met, including any time requirements, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other eligibility requirements have been met, and the amount is received during the period or within the availability period for this revenue source (within 60 days of year-end). All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

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

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

C. **Measurement Focus, Basis of Accounting and Financial Statement Presentation** (continued)

The City reports the following major proprietary funds:

The ***water fund*** accounts for the activities of the City's water services.

The ***wastewater fund*** accounts for the activities of the City's sewer services.

The ***solid waste fund*** accounts for the activities of the City's sanitation services.

Additionally, the City reports the following fund types:

Internal service funds account for insurance/risk management services, health insurance, fleet services, and engineering services provided to other departments or agencies of the government on a cost reimbursement basis.

Agency funds account for receipts and disbursements for the Urban Renewal Agency, the Heart of Texas Housing Finance Corporation, Waco Public Improvement District No. 2, and Rural Transit Services.

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 between the City's water and wastewater functions and various other functions of the government. Elimination of these charges would distort the direct costs and program revenue reported for the various functions concerned.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's enterprise funds and internal service funds are charges to customers for sales and services. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance

Deposits and Investments

The City's cash and cash equivalents for purposes of reporting cash flows of proprietary funds consist of cash on hand, demand deposits, certificates of deposit and deposits in the City's internal cash and investment pool.

State statutes authorize the City to invest in U. S. Treasury and agency securities, commercial paper, money market mutual funds, repurchase agreements, and government investment pools.

Investments for the City, as well as for its component units, are reported at fair value. The City invests in local government investment pools (LGIPs) that were created to function as money market mutual funds within appropriate state laws and regulations. Each of these LGIPs seeks to maintain a constant \$1.00 net asset value per share.

The City utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The City determines fair value based on assumptions that market participants would use in pricing an asset or liability in the principal or most advantageous market.

When considering market participant assumptions in fair value measurements, the following fair value hierarchy distinguishes between observable and unobservable inputs, which are categorized in one of the following levels:

- Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities accessible to the reporting entity at the measurement date.
- Level 2 Inputs: Other than quoted prices included in Level 1 inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the asset or liability.
- Level 3 Inputs: Unobservable inputs for the asset or liability used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

D. **Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance** (continued)

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds”. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles. Trade accounts receivable in excess of 120 days are estimated to be uncollectible and comprise the trade accounts receivable allowance for uncollectibles. The property tax receivable allowance is equal to 6.02% of outstanding property taxes at September 30, 2019.

Property taxes are levied on October 1 and attach as an enforceable lien on property as of January 31. Statements are mailed on October 1, or as soon thereafter as possible, and are due upon receipt. All unpaid taxes become delinquent if not paid before February 1 of the following year.

Inventories and Prepaid Items

All inventories are valued using the average cost method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

Restricted Assets

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

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

D. ***Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance*** (continued)

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure (e.g., roads, bridges, and similar items), and water rights are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

<u>Assets</u>	<u>Years</u>
Landfill improvements	3 – 5
Buildings	20 – 50
Water rights	35
Improvements	5 – 50
Equipment	5 – 20
Infrastructure	35 – 125

Pensions

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

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

D. **Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance** (continued)

Other Post-Employment Benefits (“OPEB”)

The fiduciary net position of the City’s defined benefit life insurance plan (OPEB Plan) has been determined using the flow of economic resources measurement focus and the full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, OPEB expense, and information about assets, liabilities and additions to/deductions from the OPEB Plan’s net position. Benefit payments are recognized when due and payable in accordance with benefit terms. There are no investments as this is a pay-as-you-go plan.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

In addition to liabilities, the statements of financial position 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. For governmental activities and proprietary funds, a liability is reported for a portion of accumulating sick leave when it is probable that the government will make termination payments. A liability for compensated absences is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

D. **Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance** (continued)

Long-term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums are deferred and amortized over the life of the bonds using the interest method. Bonds payable are reported net of the applicable amortized bond premium. Bond issuance costs are expensed when incurred.

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

Fund Balance

In the fund financial statements, governmental 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 a resolution. Assigned fund balances are constrained by an intent to be used for specific purposes but are neither restricted nor committed. Assignments are also approved by the City Council through a resolution.

For the classification of governmental fund balances, the City considers the order of expenditures to be made from the most restrictive first when more than one classification is available. The order of spending available resources is as follows: restricted, committed, assigned, and unassigned.

The City Council has adopted Financial Management Policy Statements that include the policy to strive to maintain the general fund unassigned fund balance at 20% of budgeted expenditures. General fund unassigned fund balance at September 30, 2019 was 20% of fiscal year 2020 budgeted expenditures.

City of Waco, Texas

Notes to Financial Statements (Continued)

I. Summary of Significant Accounting Policies (continued)

D. *Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance* (continued)

The following detail of fund balances by classification is shown for major and nonmajor governmental funds:

	General Fund	Other Funds	Total
Fund balances:			
Nonspendable:			
Inventory	\$ 963,711	-	963,711
Real estate held for resale	6,160	-	6,160
Parks and cemetery care	-	378,209	378,209
Restricted for:			
Municipal information	1,318,309	-	1,318,309
Debt service	-	742,629	742,629
Capital projects	-	35,639,375	35,639,375
Tax increment zone activities	-	37,977,473	37,977,473
Housing and community development	-	325,423	325,423
Public works	-	1,142,535	1,142,535
Public safety	-	1,568,647	1,568,647
Culture and recreation	-	153,891	153,891
Waco Public Improvement District	-	1,006,241	1,006,241
Committed to:			
Economic development	13,688,936	-	13,688,936
Capital projects	-	12,465,309	12,465,309
Public health	-	2,514,105	2,514,105
Assigned to:			
Capital improvements	25,476,197	-	25,476,197
Economic development	8,274,949	-	8,274,949
Housing and community development	-	-	-
Public safety	699,653	-	699,653
Public works	566,574	-	566,574
Culture and recreation	340,878	-	340,878
Subsequent year's budget appropriation	4,403,230	-	4,403,230
Other	1,045,887	-	1,045,887
Unassigned	30,539,334	-	30,539,334
	<u>\$ 87,323,818</u>	<u>93,913,837</u>	<u>181,237,655</u>

City of Waco, Texas

Notes to Financial Statements (Continued)

I. **Summary of Significant Accounting Policies** (continued)

D. **Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance** (continued)

Net Position

In the government-wide and proprietary fund financial statements, net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds.

Net position is reported as restricted when there are limitations imposed on its use either through the enabling legislations adopted by the City or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

II. **Reconciliation of Government-wide and Fund Financial Statements**

A. **Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, “long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$177,507,561 difference are as follows:

Serial bonds and certificates of obligation	\$ 106,805,000
Less: deferred charge on refunding (to be amortized as interest expense)	(1,571,341)
Plus: issuance premium (to be amortized as interest expense)	6,930,153
Accrued interest payable	976,572
Compensated absences	17,045,875
Net pension liability and pension related deferred outflows/ inflows of \$29,963,570 (to be amortized as pension expense)	44,601,291
Refundable contracts	80,007
Contracts payable	830,000
Net other post-employment benefit (OPEB) obligation and related deferred outflows/inflows of \$40,114 (to be amortized as OPEB expense)	1,487,160
Notes payable	<u>322,844</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ 177,507,561</u>

City of Waco, Texas

Notes to Financial Statements (Continued)

II. Reconciliation of Government-wide and Fund Financial Statements (continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this \$10,083,707 difference are as follows:

Capital outlay	\$ 28,126,894
Depreciation expense	<u>(18,043,187)</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>10,083,707</u>

Another element of that reconciliation states, "The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, transfers and donations) is to increase net position." The details of this \$7,847,693 difference are as follows:

Donations and transfers of capital assets increase net position in the statement of activities, but do not appear in the governmental funds because they are not financial resources	\$ <u>7,847,693</u>
Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>7,847,693</u>

City of Waco, Texas

Notes to Financial Statements (Continued)

II. **Reconciliation of Government-wide and Fund Financial Statements** (continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (continued)

Another element of that reconciliation states, “Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.” The details of this \$499,091 difference are as follows:

Court fines	\$ 1,804
Property taxes	491,882
Special assessments	<u>5,405</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	\$ <u>499,091</u>

Another element of that reconciliation states, “The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Also, governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.” The details of this \$13,423,000 difference are as follows:

Debt issued or incurred:	
Issuance of general obligation debt and refunding debt	\$ (27,925,000)
Plus: premium on issuance	(2,648,598)
Principal repayments:	
General obligation debt	6,555,000
Payment to escrow agent for refunding	10,434,176
Note payable	<u>161,422</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	\$ <u>(13,423,000)</u>

City of Waco, Texas

Notes to Financial Statements (Continued)

II. **Reconciliation of Government-wide and Fund Financial Statements** (continued)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (continued)

Another element of that reconciliation states, “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of this \$4,973,836 difference are as follows:

OPEB liability	\$ (17,179)
Compensated absences	339,205
Net pension liability	(6,367,341)
Accrued interest	(78,363)
Amortization of deferred charge on refunding	(366,993)
Amortization of bond premiums	<u>1,516,835</u>
Net adjustment to decrease <i>net changes in fund balances - total governmental funds</i> to arrive at <i>changes in net position of governmental activities</i>	<u>\$ (4,973,836)</u>

III. **Stewardship, Compliance and Accountability**

A. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Annual, appropriated budgets are adopted for the general fund, health fund and general obligation debt fund. All annual appropriations lapse at fiscal year-end. Project-length financial plans are adopted for all capital projects funds and the grant fund.

Prior to August 1, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following October 1. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted to obtain taxpayer comments. Prior to October 1, the budget is legally enacted through passage of a resolution

Expenditures may not legally exceed appropriations at the fund level for each legally adopted annual budget. The City Council made supplemental budgetary appropriation changes during the fiscal year. In addition, transfer of appropriations between funds requires the approval of the City Council. The reported budgetary data has been revised for these amendments legally authorized during the year.

City of Waco, Texas

Notes to Financial Statements (Continued)

III. Stewardship, Compliance and Accountability (continued)

A. Budgetary Information

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will be re-appropriated and honored during the subsequent year.

Outstanding encumbrances for governmental funds as of September 30, 2019 are \$2,652,992 for the general fund and \$17,944,999 for other nonmajor funds.

IV. Detail Notes on All Funds

A. Deposits and Investments

As of September 30, 2019, the City has U.S. Federal agency securities of \$192,611,367, which are valued using quoted market prices (Level 1).

As of September 30, 2019, the City had the following investments:

	Total Investments	Percent of Portfolio	Weighted Average Maturity (in Years)
Investments reported at amortized cost:			
Texas Local Government Investment Pool (Tex Pool)	\$ 48,383,459	10.97	0.10
Texas Local Government Investment Pool (TexPool Prime)	79,177,313	17.96	0.09
Texas Short-Term Asset Reserve (TexSTAR)	<u>98,832,741</u>	<u>22.41</u>	0.05
Total local government investment pools	226,393,513	51.35	
Money market mutual funds	17,834,782	4.04	0.07
Collateralized bank savings accounts	4,103,177	0.93	-
Investments reported at fair value:			
U.S. Federal agency securities	<u>192,611,367</u>	<u>43.68</u>	1.42
Total investments	<u>\$ 440,942,839</u>	<u>100.00</u>	0.66

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. **Detail Notes on All Funds** (continued)

A. **Deposits and Investments** (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. In accordance with its investment policy, the City manages its exposure to declines in fair value by limiting the maturities of its investments as follows: maturities of U.S. Treasury obligations, U.S. Federal agency securities and repurchase agreements cannot exceed three years. Further, the weighted average maturity of the City's pooled operating portfolio shall at no time exceed one year with the calculation to include all portfolio securities, bank and savings account deposits and local government pools and money fund holdings. The weighted average maturity for the City's pooled operating portfolio pursuant to this calculation was 0.77 years as of September 30, 2019.

Credit Risk

For an investment, credit risk is the risk that an investment issuer or other counterparty to an investment will not fulfill obligations. Texas Government Code Chapter 2256, Public Funds Investment Act, restricts the types of investments in which the City may invest.

The City's investment policy addresses credit quality by further restricting authorized investments to the following:

- U.S. Treasury obligations
- Other obligations of the U.S. Government guaranteed by the Federal Deposit Insurance Corporation (FDIC) or by the explicit full faith and credit of the United States
- U.S. Federal agency securities
- Repurchase agreements and flexible repurchase agreements, collateralized by U.S. Treasury obligations or U.S. federal agency securities, or by pass-through mortgage-backed securities issued by the U.S. federal agencies
- Money market mutual funds rated not less than AAAm by Standard & Poor's, Aaa by Moody's or AAA/V1+ by Fitch
- Local Government Investment Pools rated not less than AAAm by Standard & Poor's, Aaa by Moody's or AAA/V1+ by Fitch

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detail Notes on All Funds (continued)

A. Deposits and Investments (continued)

The City's investments in TexPool and Tex STAR are rated AAAm by Standard & Poor's; and U.S. Federal agency securities are rated Aaa by Moody's, and AA+ by Standard and Poor's.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributable to the magnitude of a government's investments in the securities of a single issuer. The City's investment policy includes an investment objective of seeking diversification to avoid unreasonable risk. More than 5% of the City's investments at September 30, 2019 were in securities of the following issuers:

<u>U.S. Agency Issuer</u>	<u>Fair Value</u>	<u>Percent of Portfolio</u>
Federal Farm Credit Bank	\$ 39,019,165	8.85%
Federal Home Loan Bank	109,608,534	24.86%
Federal Home Loan Mortgage Corporation	22,980,141	5.21%

Custodial Credit Risk

The custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. City policy requires all deposits to be fully secured in accordance with the Texas Government Code, Chapter 2257, by either surety bonds, letters of credit of the United States or its agencies and instrumentalities, or by eligible securities held by an independent third-party custodian.

For an investment, custodial credit risk is the risk that in the event of the failure of the counter-party, the City would not be able to recover the value of its investment or collateralized securities that are in the possession of an outside third party. The City's investment policy requires that the purchase of investment securities be settled on a delivery basis and that ownership of all securities be perfected in the name of the City.

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. **Detail Notes on All Funds** (continued)

A. **Deposits and Investments** (continued)

Reconciliation of Cash and Investments

Carrying amount of deposits and cash on hand	\$ (366,618)
Carrying amount of investments	<u>440,942,839</u>
Total	<u>\$ 440,576,221</u>
Cash and investments - governmental activities	\$ 198,360,099
Cash and investments - business-type activities	99,658,795
Restricted cash and investments - business-type activities	133,355,061
Component units, excluding Baylor Waco Stadium Authority	31,588
Agency funds	3,205,470
Other participants' undivided interest in WMARSS cash and investments	<u>5,965,208</u>
Total	<u>\$ 440,576,221</u>

The City issues certificates of obligation to fund capital projects for governmental and business-type activities. Interest earnings on the majority of unspent proceeds of all certificates of obligation are accounted for in the capital projects fund.

Local Government Investment Pools

TexPool. The Comptroller of Public Accounts (the Comptroller) is the sole officer, director and shareholder of the Texas Treasury Safekeeping Trust Company (the Trust Company) which is authorized to operate TexPool. Federated Investors, Inc. provides asset management services to TexPool. Additionally, the Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. There are no maximum transaction amounts and withdrawals from TexPool may be made daily. TexPool uses amortized cost rather than fair value to report net assets to compute share prices.

TexSTAR. TexSTAR is a Texas public funds investment pool that is co-administered by J.P. Morgan Asset Management and Hilltop Securities Inc. TexSTAR is managed by a five-member governing board comprised of three representatives of eligible governmental entities and one member designated by each of the co-administrators.

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detail Notes on All Funds (continued)

A. Deposits and Investments (continued)

Local Government Investment Pools (continued)

There are no maximum transaction amounts and withdrawals from TexSTAR may be made daily. The pool uses amortized cost rather than the fair value to report net assets to compute share prices.

B. Receivables

Receivables as of year-end for the City's individual major funds and nonmajor, internal service, and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General	Water	Wastewater	Solid Waste	Nonmajor and Other Funds	Total
Receivables:						
Taxes	\$ 9,709,676	-	-	-	375,793	10,085,469
Accounts	15,421,480	9,653,438	5,692,414	3,366,506	2,065,262	36,199,100
Special assessments	-	-	-	-	5,460	5,460
Intergovernmental	74,843	233,385	134,085	-	4,952,271	5,394,584
Notes	-	-	-	-	3,886,809	3,886,809
Gross receivables	25,205,999	9,886,823	5,826,499	3,366,506	11,285,595	55,571,422
Less: allowance for uncollectibles	<u>11,962,483</u>	<u>2,333,287</u>	<u>1,261,336</u>	<u>1,288,135</u>	<u>4,706,290</u>	<u>21,551,531</u>
Net total receivables	<u>\$ 13,243,516</u>	<u>7,553,536</u>	<u>4,565,163</u>	<u>2,078,371</u>	<u>6,579,305</u>	<u>34,019,891</u>

Revenues of the water, wastewater, and solid waste funds are reported net of uncollectible amounts. Total uncollectible amounts related to revenues of the current period are as follows:

Uncollectibles related to water sales	\$ 121,201
Uncollectibles related to wastewater charges	81,725
Uncollectibles related to solid waste charges	<u>128,498</u>
Total uncollectibles of the current fiscal year	<u>\$ 331,424</u>

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detail Notes on All Funds (continued)

C. Capital Assets

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

	Primary Government		
	Balance October 1, 2018	Increases	Decreases
			Balance September 30, 2019
<u>Governmental activities:</u>			
Capital assets, not being depreciated:			
Land	\$ 58,702,421	2,480,785	-
Construction in progress	7,031,649	21,391,250	(4,625,726)
Total capital assets not being depreciated	65,734,070	23,872,035	(4,625,726)
Capital assets, being depreciated:			
Buildings	82,367,465	643,710	-
Machinery and equipment	61,883,779	4,781,750	(1,322,676)
Improvements other than buildings	68,808,482	721,114	-
Infrastructure	307,293,616	10,782,464	-
Total capital assets being depreciated	520,353,342	16,929,038	(1,322,676)
Less accumulated depreciation:			
Buildings	28,377,865	3,083,500	-
Machinery and equipment	44,201,321	4,115,061	(1,314,252)
Improvements other than buildings	37,530,374	2,629,635	-
Infrastructure	188,380,082	8,350,657	-
Total accumulated depreciation	298,489,642	18,178,853	(1,314,252)
Total capital assets being depreciated, net	221,863,700	(1,249,815)	(8,424)
Total capital assets, net	\$ 287,597,770	22,622,220	(4,634,150)

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detail Notes on All Funds (continued)

C. Capital Assets (continued)

	Primary Government		
	Balance October 1, 2018	Increases	Decreases
			Balance September 30, 2019
<u>Business-type activities:</u>			
Capital assets, not being depreciated/amortized:			
Land	\$ 8,464,223	6,738,224	-
Construction in progress	54,561,938	42,490,310	(34,993,846)
Museum collections	2,224,424	40,000	-
Total capital assets not being depreciated/amortized	65,250,585	49,268,534	(34,993,846)
Capital assets, being depreciated/ amortized:			
Buildings	83,049,381	1,459,209	-
Machinery and equipment	57,386,997	6,552,217	(1,731,919)
Improvements other than buildings	543,161,866	43,325,614	(1,577,533)
Water rights - impound fee	32,482,879	-	-
Total capital assets being depreciated/amortized	716,081,123	51,337,040	(3,309,452)
Less accumulated depreciation:			
Buildings	43,063,005	2,722,514	-
Machinery and equipment	40,946,675	4,025,519	(1,467,306)
Improvements other than buildings	237,139,732	16,982,234	(1,577,533)
Water rights - impound fee	12,539,822	924,827	-
Total accumulated depreciation/amortization	333,689,234	24,655,094	(3,044,839)
Total capital assets being depreciated/amortized, net	382,391,889	26,681,946	(264,613)
Total capital assets, net	\$ 447,642,474	75,950,480	(35,258,459)

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

C. Capital Assets (continued)

Depreciation expense was charged to functions/programs as follows:

Governmental activities:	
General government	\$ 1,048,676
Public works	8,898,127
Public safety	3,794,296
Culture and recreation	4,382,679
Public health	<u>55,075</u>
Total depreciation expense - governmental activities	<u><u>\$ 18,178,853</u></u>

Depreciation/amortization expense was charged to functions/programs as follows:

Business-type activities	
Water	\$ 10,373,077
Wastewater	5,536,080
Solid waste	3,006,878
Airport	2,739,686
Convention services	907,029
Ranger Hall of Fame	162,103
Cameron Park Zoo	1,028,267
Transit services	739,824
Cottonwood Creek Golf Course	<u>162,150</u>
Total depreciation/amortization expense - business-type activities	<u><u>\$ 24,655,094</u></u>

Construction commitments

The City has active construction projects as of September 30, 2019. At year-end the City's commitments with contractors are as follows:

Project	Spent to Date	Remaining Commitments
Street projects	\$ 20,166,783	15,597,067
Water projects	21,813,439	9,183,990
Wastewater projects	37,489,356	16,967,206
Solid waste	2,142,315	307,523
Other projects	<u>4,243,682</u>	<u>1,004,015</u>
Total	<u><u>\$ 85,855,575</u></u>	<u><u>43,059,801</u></u>

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

D. Interfund Receivables, Payables and Transfers

The composition of interfund balances as of September 30, 2019 is as follows:

Due to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor governmental	\$ 137,521
General	Nonmajor business-type	2,486,047
Internal service	General	623,514
Nonmajor governmental	Nonmajor governmental	<u>1,044,045</u>
		<u>\$ 4,291,127</u>

All balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Advances to/from other funds

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Water	Nonmajor business-type	\$ 525,336
Nonmajor governmental	Nonmajor business-type	<u>168,368</u>
		<u>\$ 693,704</u>

All advances resulted from loans to Cottonwood Creek Golf Course Fund made for operating and capital improvements since the City took over management responsibilities. Amounts are not expected to be paid within the next fiscal year.

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

D. Interfund Receivables, Payables and Transfers (continued)

Interfund transfers

		Transfers in			
	General	Nonmajor Governmental	Nonmajor Enterprise	Internal Service	Total
Transfers out:					
General	\$ -	9,127,817	4,661,416	415,000	14,204,233
Water	3,451,820	-	-	-	3,451,820
Wastewater	960,784	-	-	-	960,784
Solid waste	388,357	-	-	-	388,357
Nonmajor governmental	310,708	4,101,634	-	-	4,412,342
Nonmajor enterprise	-	530,000	150,000	-	680,000
Total transfers	\$ <u>5,111,669</u>	<u>13,759,451</u>	<u>4,811,416</u>	<u>415,000</u>	<u>24,097,536</u>

Transfers are used to (1) move revenues from the fund responsible for collecting them to the fund responsible for expending them as required by statute or budget, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) move unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

In the year ended September 30, 2019, the City made payments from various funds to the general fund in lieu of taxes. The City reported these payments as transfers. Transfers were made from the following funds in the following amounts.

Water	\$ 3,451,820
Wastewater	960,784
Solid waste	388,357

E. Leases

Operating leases

The government leases building and office facilities and other equipment under noncancelable operating leases. Total costs for such leases were \$818,452 for the year ended September 30, 2019. The future minimum lease payments for these leases are as follows:

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

E. Leases (continued)

Operating leases (continued)

<u>Year Ending September 30,</u>	
2020	\$ 749,711
2021	372,149
2022	129,515
2023	68,184
2024	68,184
2025-2028	<u>238,644</u>
Total	\$ <u><u>1,626,387</u></u>

F. Long-term Debt

General obligation bonds

The City issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. These bonds are reported in the proprietary funds if they are expected to be repaid from proprietary fund revenue.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds generally are issued as twenty-year serial bonds with equal amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

<u>Purpose</u>	<u>Interest Rates</u>	<u>Amount</u>
Governmental activities	2.00% - 5.00%	\$ 59,000,000
Governmental activities - refunding	2.00% - 5.00%	47,805,000
Business-type activities	2.00% - 5.00%	219,935,000
Business-type activities - refunding	2.00% - 5.00%	<u>134,410,000</u>
		\$ <u><u>461,150,000</u></u>

City of Waco, Texas

Notes to Financial Statements
(Continued)

F. Long-term Debt (continued)

General obligation bonds (continued)

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

Year Ending September 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2020	\$ 7,590,000	4,550,788	20,650,000	13,742,133
2021	8,255,000	3,966,313	21,320,000	12,265,375
2022	8,085,000	3,605,638	20,775,000	11,373,481
2023	8,205,000	3,225,169	20,750,000	10,442,540
2024	8,405,000	2,828,863	21,015,000	9,493,435
2025-2029	35,220,000	8,481,541	95,225,000	35,027,423
2030-2034	18,830,000	3,530,081	99,085,000	17,131,880
2035-2039	12,215,000	874,683	55,525,000	3,141,805
Total	<u>\$ 106,805,000</u>	<u>31,063,076</u>	<u>354,345,000</u>	<u>112,618,072</u>

Current refunding of debt

On April 11, 2019, the City issued \$22,785,000 General Obligation Refunding Bonds Series 2019 to refund \$25,110,000 of existing general obligation debt on the call date of May 14, 2019. The true interest cost of the refunding bonds is 2.19% with a final maturity of February 1, 2031. The reacquisition price exceeded the net carrying amount of the refunded debt by \$452,925. This amount is being amortized over the life of the refunding bonds. The refunding transaction was undertaken to reduce total debt service payments by \$2,293,493 over the next twelve years, resulting in an economic gain of \$2,051,342.

Notes payable

The City has entered into an agreement with the City of West, Texas to supply water for 40 years pursuant to an agreed-upon rate structure. As part of the agreement, the City purchased a pump station and water transmission line for \$12,814 monthly for 18 years and \$6,632 monthly for 22 years. Interest is imputed at 4.35% over the term of the agreement.

City of Waco, Texas

Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

F. Long-term Debt (continued)

Year Ending September 30,	Note Payable	
	Principal	Interest
2020	\$ 90,162	63,600
2021	94,166	59,596
2022	98,348	55,414
2023	96,535	51,046
2024	31,325	48,257
2025-2029	178,771	219,139
2030-2034	222,155	175,755
2035-2039	276,067	121,843
2040-2044	343,063	54,847
2045-2049	71,386	1,564
Total	<u>\$ 1,501,978</u>	<u>851,061</u>

The City has entered into an agreement with the State of Texas acting through the Texas Department of Transportation to contribute right of way funds for highway improvements on certain sections of FM 1637 and U.S. Highway 84. The total of the payments is \$994,740, with \$671,896 paid through 2019. Two annual payments of \$161,422 will be required for fiscal years 2020 to 2021.

Other long-term debt information

Proceeds from general obligation bonds are subject to arbitrage rebate regulations. Estimated rebatable arbitrage has been recorded as a reduction to interest on investments.

During 1985, the City entered into a development agreement which provided that the City repay \$830,000 for public improvements at an interest rate not to exceed 8%. Repayment of principal and accrual of interest will not begin until revenue is received from the area designated in the development agreement. Annual requirements will be based on the revenue generated from future developments, which cannot be reasonably estimated at September 30, 2019.

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

F. Long-term Debt (continued)

Other long-term debt information (continued)

There is no specific maximum debt limit established by law for the City; therefore, the limit is governed by the City's ability to levy and collect taxes. The City's maximum legal rate is \$1.85 per \$100 valuation; the current tax rate is \$0.776232 per \$100 valuation.

The various bond obligations contain certain financial limitations and restrictions. The ordinances authorizing the issuance of general obligation bonds created an interest and sinking fund (general debt service fund). The ordinances require the City to ascertain a rate and amount of tax which will be sufficient to pay interest as it comes due and provide a reserve fund which is adequate to meet principal as it matures. The City is in compliance with all such significant financial restrictions.

Refundable contracts

The City maintains a policy of refunding to subdivision developers certain costs for the construction of water and wastewater improvements and streets and drainage facilities, applicable to single family housing developments. The policy was created to encourage the construction of single family residences within the corporate limits of the City. Amounts under contract which have not yet been refunded of \$1,434,496 have been recorded as a liability in the accompanying statement of net position.

Changes in long-term liabilities

Long-term liability activity (shown in thousands of dollars) for the year ended September 30, 2019 was as follows:

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

F. Long-term Debt (continued)

Changes in long-term liabilities (continued)

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Governmental activities</u>					
Bonds payable:					
General obligation bonds	\$ 95,670	27,925	16,790	106,805	7,590
Plus: premium on bonds	<u>5,777</u>	<u>2,670</u>	<u>1,517</u>	<u>6,930</u>	<u>-</u>
Total bonds payable	<u>101,447</u>	<u>30,595</u>	<u>18,307</u>	<u>113,735</u>	<u>7,590</u>
Contracts payable	830	-	-	830	-
Refundable contracts	80	-	-	80	-
Estimated claims and judgments	2,967	14,830	14,741	3,056	3,056
Note payable	485	-	162	323	161
Compensated absences	17,700	11,345	11,727	17,318	11,623
Net pension liability	38,124	38,566	2,125	74,565	-
OPEB obligation liability	<u>1,626</u>	<u>-</u>	<u>99</u>	<u>1,527</u>	<u>-</u>
Total other long-term liabilities	<u>61,812</u>	<u>64,741</u>	<u>28,854</u>	<u>97,699</u>	<u>14,840</u>
Governmental activity long-term liabilities	<u>\$ 163,259</u>	<u>95,336</u>	<u>47,161</u>	<u>211,434</u>	<u>22,430</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Business-type activities:</u>					
Bonds payable:					
General obligation bonds	\$ 328,885	58,770	33,310	354,345	20,650
Plus: premium on bonds	<u>14,412</u>	<u>5,387</u>	<u>3,652</u>	<u>16,147</u>	<u>-</u>
Total bonds payable	<u>343,297</u>	<u>64,157</u>	<u>36,962</u>	<u>370,492</u>	<u>20,650</u>
Refundable contracts	1,391	559	596	1,354	596
Estimated landfill closure	5,615	346	-	5,961	-
Contracts payable	346	-	346	-	-
Note payable	1,588	-	86	1,502	90
Compensated absences	3,259	1,717	1,962	3,014	1,981
Net pension liability	<u>6,206</u>	<u>6,278</u>	<u>346</u>	<u>12,138</u>	<u>-</u>
Total other long-term liabilities	<u>18,405</u>	<u>8,900</u>	<u>3,336</u>	<u>23,969</u>	<u>2,667</u>
Business-type activity long-term liabilities	<u>\$ 361,702</u>	<u>73,057</u>	<u>40,298</u>	<u>394,461</u>	<u>23,317</u>

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

F. Long-term Debt (continued)

Changes in long-term liabilities (continued)

Internal service funds predominantly serve the governmental funds. Accordingly, long-term liabilities for them are included as part of the above totals for governmental activities. At year-end, \$272,335 and \$3,055,714 of internal service funds' compensated absences and estimated claims and judgments, respectively, are included in the above governmental amounts. Also, for the governmental activities, compensated absences, net pension liability, other post-employment benefits, and capital leases are generally liquidated by the general fund. Refundable contracts are liquidated by the street and drainage refundable contracts debt service fund.

G. Restricted Assets

The balances of the restricted asset accounts in the enterprise funds are as follows:

Customer deposits	\$ 3,150,266
Bond construction account	130,096,944
Capital grants and contributions	<u>107,851</u>
Total restricted assets	<u><u>\$ 133,355,061</u></u>

H. Risk Management

The City is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the government carries commercial insurance and participates in a joint self-insured program. The City has established the insurance fund and health insurance fund (internal services funds) to account for and finance its risk management activities. All funds participate in these programs and make payments to these funds based on actuarial estimates of the amounts needed to pay prior and current-year claims and to establish reserves for catastrophic losses. The reserves for catastrophic losses were approximately \$10,000,000 at September 30, 2019.

Liabilities of the funds are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, federal and state mandated programs, changes in legal

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

H. Risk Management (continued)

doctrines, damage awards (including frequency and amount of payouts), and economic and social trends. Accordingly, claims are reevaluated periodically to consider the effects of such factors.

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate.

The insurance fund provides coverage for up to a maximum of \$500,000 for each non-civil service workers' compensation claim and \$600,000 for each civil service workers' compensation claim. The City purchases commercial insurance for workers' compensation claims in excess of coverage provided by the fund. For general liability claims prior to fiscal year 2002, the insurance fund provided coverage for up to \$250,000 for each individual and \$500,000 aggregate for general liability claims and up to \$100,000 for each property damage claim. Beginning with fiscal year 2002, the insurance fund participants in a joint self-insured program for each general liability or property damage claim. The City purchases coverage for claims in excess of \$50,000. The commercial liability coverage limits are \$1,000,000 per occurrence for general liability with a \$2,000,000 annual aggregate, except for law enforcement liability for which the limits are \$5,000,000 per occurrence and \$10,000,000 annual aggregate. The coverage limits for the City's property are: \$10,000,000 aggregate for automobile catastrophe, \$436,729,128 aggregate for real and personal property, \$11,104,229 aggregate for mobile equipment and \$5,000,000 per accident for boiler and machinery.

Effective January 1, 2006, the City began to self-insure for health insurance claims. The City purchases unlimited stop-loss protection for individual claims exceeding \$250,000, as well as unlimited aggregate protection for claims exceeding 125% of expected annual claims.

There have been no claim settlements in excess of the insurance and stop loss coverages that have been procured in 2019, 2018, or 2017. Changes in the amounts of estimated unpaid liability, workers' compensation and health insurance claims during the past two years are as follows (shown in thousands of dollars):

	<u>2019</u>	<u>2018</u>
Unpaid claims, beginning of fiscal year	\$ 2,967	2,322
Inurred claims (including IBNRs)	14,830	15,964
Claim payments	<u>(14,741)</u>	<u>(15,319)</u>
Unpaid claims, end of fiscal year	<u>\$ 3,056</u>	<u>2,967</u>

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

I. Contingent Liabilities

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

There are currently several claims and lawsuits pending against the City. It is the opinion of the City Attorney and management that there is no pending litigation against the City that, if decided against the City, would have a material adverse effect upon the operations of the City or that would exceed the contingency amounts set aside for such purpose.

J. Commitments

The City Council has approved \$1,508,181 to be refunded to subdivision developers for certain costs for the construction of water improvements once applicable contract requirements are met. During 2015, the City Council determined that the City shall not enter into any new water refund contracts for any subdivisions or developments for which construction plans had not been submitted to the City by May 12, 2015.

In August 2012, the City Council approved an amendment to the project/financing plan for reinvestment zone number one to provide partial funding via a grant of up to \$35,060,340 to assist with infrastructure improvements for the new McLane Stadium at Baylor University. A total of \$26,042,238 had been funded through 2019. This annual grant funding is limited to tax increment revenue collected each year from the reinvestment zone number one as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 3,006,034
2021	3,006,034
2022	3,006,034

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

K. Postemployment Benefits Other Than Pensions (OPEB)

Benefits provided. The City administers a single-employer defined benefit life insurance plan. The plan provides \$2,500 of life insurance to each qualified retiree. An optional \$5,000 in life insurance is available at the retiree's expense. According to the City's personnel policy, retirees who have retired under the Texas Municipal Retirement System (TMRS) with a minimum of twenty years of service are eligible for postretirement life insurance benefits. There are no plan assets, as this is a pay-as-you go plan.

Employees covered by benefit terms. At December 31, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	607
Active plan members	<u>1,406</u>
	<u><u>2,013</u></u>

Total OPEB Liability

The actuarial valuation was performed as of December 31, 2017. Update procedures were used to roll forward the total OPEB liability to December 31, 2018.

Actuarial assumptions and other inputs. The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date:	December 31, 2017 rolled forward to December 31, 2018
Methods and Assumptions:	
Actuarial Cost Method	Individual Entry Age Normal
Discount Rate	3.71% as of December 31, 2018
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2014 as conducted for TMRS
Mortality	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detail Notes on All Funds (continued)

K. Other Post-employment Benefits (continued)

Participation Rates 100% of eligible retirees will choose to receive the employer paid life benefit; 50% of those with coverage are assumed to elect optional coverage of \$5,000.

Other Information

Notes The discount rate changed from 3.31% as of December 31, 2017 to 3.71% as of December 31, 2018.

The discount rate was based on the tax-exempt municipal bond rate based on an index of 20-year general obligation bonds with an average AA credit rating as of the measurement date.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at 12/31/17	\$ <u>1,625,961</u>
Changes for the year:	
Service cost	14,881
Interest	53,178
Changes in assumptions or other inputs	(113,138)
Benefit payments	<u>(53,608)</u>
Net changes	<u>(98,687)</u>
Balance at 12/31/18	<u><u>1,527,274</u></u>

Sensitivity for the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.71%) or 1-percentage-point higher (4.71%) than the current discount rate:

	1% Decrease (2.71%)	Discount Rate (3.71%)	1% Increase (4.71%)
Total OPEB liability	\$ <u>1,832,591</u>	<u>1,527,274</u>	<u>1,292,788</u>

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

K. Other Post-employment Benefits (continued)

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

For the year ended September 30, 2019, the City recognized OPEB expense of \$72,058. At September 30, 2019, the City reported deferred outflows and inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Difference between expected and actual experience	\$ -	472
Changes in assumptions or other inputs	93,554	94,452
Contributions subsequent to the measurement date	<u>41,484</u>	<u>-</u>
Total	<u>\$ 135,038</u>	<u>94,924</u>

Deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date of \$41,484 will be recognized as a reduction of the OPEB liability for the year ended September 30, 2020.

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

<u>Measurement Year Ended December 31,</u>	
2019	\$ 3,999
2020	3,999
2021	3,999
2022	3,999
2023	(13,512)
Thereafter	<u>(3,854)</u>
	<u>\$ (1,370)</u>

L. Defined Benefit Pension Plan

Plan Description

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act,

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

L. Defined Benefit Pension Plan (continued)

Plan Description (continued)

Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

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

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

Inactive employees or beneficiaries current receiving benefits	1,051
Inactive employees entitled to but not yet receiving benefits	612
Active employees	<u>1,422</u>
	<u><u>3,085</u></u>

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

Contributions (continued)

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

Employees for the City of Waco were required to contribute 7.0% of their annual gross earnings during the fiscal year. The contribution rates for the City of Waco were 14.25% and 14.02% in calendar years 2018 and 2019, respectively. The City's contributions to TMRS for the year ended September 30, 2019 were \$12,836,559 and were in excess of the required contributions.

Net Pension Liability

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

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

Inflation	2.50% per year
Overall payroll growth	3.00% 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, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a three-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale BB to account for future mortality improvements subject to the 3% floor.

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

L. Defined Benefit Pension Plan (continued)

Net Pension Liability (continued)

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2019 are summarized in the following table:

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

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

L. Defined Benefit Pension Plan (continued)

Net Pension Liability (continued)

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

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at December 31, 2017	\$ 488,663,824	444,333,673	44,330,151
Changes for the year:			
Service cost	12,098,625	-	12,098,625
Interest	32,475,392	-	32,475,392
Difference between expected and actual experience	2,542,969	-	2,542,969
Contributions - employer	-	12,489,042	(12,489,042)
Contributions - employee	-	5,828,911	(5,828,911)
Net investment income	-	(13,303,463)	13,303,463
Benefit payments, including refunds of employee contributions	(27,192,449)	(27,192,449)	-
Administrative expense	-	(257,236)	257,236
Other changes	-	(13,441)	13,441
Net changes	19,924,537	(22,448,636)	42,373,173
Balance at December 31, 2018	\$ 508,588,361	421,885,037	86,703,324

Sensitivity of the net pension liability to changes in the discount rate: The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

L. Defined Benefit Pension Plan (continued)

using a discount rate that is one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Current Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability (asset) \$	<u>149,415,021</u>	<u>86,703,324</u>	<u>34,255,544</u>

Pension Plan Fiduciary Net Position: Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmrs.com.

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

For the year ended September 30, 2019, the City recognized pension expense of \$20,240,443.

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 2,040,788	499,891
Changes in actuarial assumptions	911,942	-
Net difference between projected and actual earnings on pension plan investments	23,001,765	-
Contributions subsequent to the measurement date	<u>9,386,755</u>	<u>-</u>
Total	<u>\$ 35,341,250</u>	<u>499,891</u>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$9,386,755 will be recognized as a reduction of the net pension liability for the year ending September 30, 2020. Other amounts

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

L. Defined Benefit Pension Plan (continued)

*Pension Expense and Deferred Outflows of Resources
and Deferred Inflows of Resources Related to Pensions* (continued)

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

Measurement Year Ended December 31:	
2019	\$ 9,497,017
2020	3,557,542
2021	3,585,642
2022	<u>8,814,403</u>
	<u>\$ 25,454,604</u>

M. Fire and Police One-half Pay Pension

The City funded on a pay-as-you-go basis and administered a one-half single-employer defined benefit pension plan for employees who were not eligible to participate when TMRS was adopted. Any policeman, fireman or fire alarm operator employed by the City prior to September 12, 1950, and their named dependents are entitled to benefits under this plan. Employees were able to retire after 25 years of service. The City Council passed an ordinance for pension pay equal to one-half of the salary for each employee at the time of retirement.

There are two retired firemen's dependents remaining under this plan.

An actuarial valuation has not been performed on this plan due to its small relative size. The estimated unfunded liability based on the present value of future benefits with a 7.5 percent interest rate assumption is \$78,257 at September 30, 2019.

These benefits are budgeted and recorded in the general fund as expenditures in the year paid. Total costs of these paid benefits for the three years ended September 30, are as follows:

2019	\$ 18,444
2018	23,394
2017	25,044

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

N. Solid Waste Landfill Closure and Post-closure Care Cost

State and federal laws and regulations require that the City place a final cover on its landfill when closed and perform certain maintenance and monitoring functions at the landfill site for thirty years after closure. In addition to operating expenses related to current activities of the landfill, an expense provision and related liability are being recognized based on the future closure and post-closure care costs that will be incurred near or after the date the landfill no longer accepts waste. The recognition of these landfill closure and post-closure care costs is based on the amount of usage of the landfill to date. The estimated liability for landfill closure and post-closure care costs included in accrued liabilities is \$5,960,892 as of September 30, 2019, which is based on 84.9% usage (filled) of the landfill. It is estimated that an additional \$1,059,823 will be recognized as closure and post-closure care expenses between the date of the statement of net position and the date the landfill is expected to be filled to capacity (2023). The estimated total current cost of the landfill closure and post-closure care (\$7,020,715) is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor and maintain the landfill were acquired as of September 30, 2019. However, the actual cost of closure and postclosure care may change due to inflation, changes in technology, or changes in landfill laws and regulations.

O. Waco Public Improvement District #2

Waco Public Improvement District No. 2 transactions are recorded in an agency fund as the City acts as an agent for the property owner in collecting assessments and forwarding the collections to the bondholders. However, the City is not obligated in any manner for repayment of these special assessments. As of September 30, 2019, such special assessment debt outstanding totaled \$583,000.

P. Undivided Interest in Waco Metropolitan Area Regional Sewer System

During 2004, the City entered into an agreement with four other participating cities to acquire the facilities and operations of the Waco Metropolitan Area Regional Sewer System (the System or WMARSS) from Brazos River Authority (the Authority). Prior to the acquisition, the cities were “tenants in common” of the System owned by the Authority, and funded the System through payments to the Authority based on the amount of wastewater treated.

The City’s initial purchase included an 84.47% undivided interest in the System; however, the City subsequently sold portions of its undivided interest to other cities leaving it with a 79.234% undivided interest in the System. The City’s undivided interest in the System as of September 30, 2019 was 75.272% as a result of certain capacity expansion improvements completed during 2012.

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detail Notes on All Funds (continued)

P. Undivided Interest in Waco Metropolitan Area Regional Sewer System (continued)

The City assisted four of the participating cities in financing their initial investments. During 2004, the City's wastewater fund advanced \$1,849,058 to the four participating cities at an interest rate of 3.65% to be repaid in annual installments. During 2019, the remaining principal balance of \$354,751 was repaid.

Under the interlocal agreement for the System, a board was created consisting of the city managers from each of the seven participating cities. The operation and administration of the System is subject to joint control by the cities through the board; however, a separate legal entity was not created. The agreement allows the cities to pool resources and share the costs, risks, and rewards of providing services. Further, each city retains an ongoing financial interest and ongoing financial responsibility in the operations of the System. The City has reported its share of assets, liabilities, equity, revenues and expenses that are associated with this joint activity in its wastewater fund as follows:

Current assets	\$ 23,119,983
Capital assets	61,119,930
Current liabilities	(9,731,225)
Noncurrent liabilities	<u>(57,939)</u>
Net position	<u>\$ 74,450,749</u>
Operating revenue	\$ 785,729
Operating expenses	(8,465,790)
Non-operating revenue	<u>18,350</u>
Change in net position	<u>\$ (7,661,711)</u>

Q. Related Organization

Waco Education Finance Corporation is a related organization to which the City appoints board members but for which the City has no significant financial accountability.

City of Waco, Texas

Notes to Financial Statements (Continued)

IV. Detail Notes on All Funds (continued)

R. Tax Abatements

The City of Waco negotiates property tax abatements on an individual basis. All abatements are governed by Section 312 of the Texas Tax Code and the City of Waco Guidelines and Policy Statement which are revised and adopted every two years in accordance with state law. These guidelines permit the City to abate property taxes for a variety of economic development purposes such as business relocation, retention, and expansion and include abatements for real and personal property improvements.

City guidelines generally limit abatements to periods of five to seven years. Abatements may be granted for 5% to 90% of taxable values through a direct reduction of the applicant's property tax bill based upon the location of the property, square footage of the property, and/or the type of economic development commitments made to the City. Each abatement is supported by an agreement that enumerates the criteria under which compliance will be assessed annually and the manner in which tax revenue may be recaptured if the stated criteria are not met. Examples of compliance requirements and related commitments by recipients include addition of total minimum number of full-time jobs and minimum number of jobs for residents of the City as well as property improvement values.

The City has not made any commitments as part of the agreements other than to reduce taxes, and they are not subject to any tax abatement agreements entered into by other governmental entities or by component units. Gross dollar amounts by which the City's tax revenues were reduced during the fiscal year as a result of tax abatement agreements were as follows:

<u>Abatement Program</u>	<u>Abatements Granted</u>
Commercial - Real Property	\$ 69,862,560
Commercial - Personal Property	13,405,789
Residential	2,369,585
	<u>\$ 85,637,934</u>

S. Subsequent Event

Effective October 1, 2019, the City executed a termination agreement with the four participating cities in WMARSS. The agreement terminates the operation and management agreements, discontinues all WMARSS operations, accepts the

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

S. Subsequent Event (continued)

conveyance of WMARSS assets to the City, and allows the conveyance of certain WMARSS easements to the City and the City of Lorena. Simultaneously the City executed wholesale wastewater contracts with each of the cities of Bellmead, Hewitt, Lacy Lakeview, Lorena, Robinson and Woodway for each of the cities to become a customer of the City's solely-owned wastewater system. The City did not pay cash consideration or assume bonded indebtedness of the participating cities in return for the transfer of ownership interests. Under the existing arrangement WMARSS member cities have shared in percentages of the operations and maintenance and capital project expenditures. Under the new arrangement, costs will be recovered through rates set for operations and maintenance, capital improvements, and capacity expansion. A calculation will be performed to determine whether there are amounts of certain surplus working capital reserves available to be returned to the other cities and to the City's Wastewater Fund.

T. Authoritative Pronouncements Not Yet Effective

A summary of pronouncements issued by the Governmental Accounting Standards Board (GASB) which may impact the City but are not yet effective follows. The City has not yet determined the effects of the adoption of these pronouncements on the financial statements.

GASB Statement No. 84, *Fiduciary Activities* (issued January 2017) – the objective of this statement is to enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2018.

GASB Statement No. 87, *Leases* (issued June 2017) – the objective of this statement is to increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. The statement will also require notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2019.

City of Waco, Texas
Notes to Financial Statements
(Continued)

IV. Detail Notes on All Funds (continued)

T. Authoritative Pronouncements Not Yet Effective (continued)

GASB Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61* (issued August 2018) – the objective of this statement is to clarify accounting and financial reporting requirements for a state or local government’s majority equity interest in an organization that remains legally separate after acquisition. The requirements of this statement are effective for reporting periods beginning after December 15, 2018.

Required Supplemental Information

City of Waco, Texas
Schedule of Changes in Net Pension Liability and Related Ratios
Last Five Measurement Dates

	December 31,				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	\$ 12,098,625	11,780,852	11,202,475	10,455,324	9,662,721
Interest (on the Total Pension Liability)	32,475,392	31,314,896	30,078,486	29,600,291	28,296,862
Difference between expected and actual experience	2,542,969	(378,999)	280,568	(2,438,332)	1,770,413
Change in assumptions	-	-	-	7,544,258	-
Benefit payments, including refunds of employee contributions	(27,192,449)	(24,173,783)	(22,893,267)	(22,685,162)	(20,326,595)
Net change in Total Pension Liability	19,924,537	18,542,966	18,668,262	22,476,379	19,403,401
Total Pension Liability - beginning	488,663,824	470,120,858	451,452,596	428,976,217	409,572,816
Total Pension Liability - ending (a)	<u>\$ 508,588,361</u>	<u>488,663,824</u>	<u>470,120,858</u>	<u>451,452,596</u>	<u>428,976,217</u>
Plan Fiduciary Net Position					
Contributions - employer	\$ 12,489,042	11,357,317	9,999,248	9,928,219	10,444,097
Contributions - employee	5,828,911	5,705,023	5,401,710	5,284,986	5,371,982
Net investment income	(13,303,463)	54,977,759	25,606,114	569,868	21,154,751
Benefit payments, including refunds of employee contributions	(27,192,449)	(24,173,783)	(22,893,267)	(22,685,162)	(20,326,595)
Administrative expense	(257,236)	(284,984)	(289,241)	(347,125)	(220,877)
Other	(13,441)	(14,442)	(15,583)	(17,145)	(18,160)
Net change in Plan Fiduciary Net Position	(22,448,636)	47,566,890	17,808,981	(7,266,359)	16,405,198
Plan Fiduciary Net Position - Beginning	444,333,673	396,766,783	378,957,802	386,224,161	369,818,963
Plan Fiduciary Net Position - ending (b)	<u>\$ 421,885,037</u>	<u>444,333,673</u>	<u>396,766,783</u>	<u>378,957,802</u>	<u>386,224,161</u>
Net Pension Liability - ending (a) - (b)	\$ 86,703,324	44,330,151	73,354,075	72,494,794	42,752,056
Plan Fiduciary Net Position as a percentage of Total Pension Liability	82.95%	90.93%	84.40%	83.94%	90.03%
Covered payroll	\$ 83,209,253	81,079,501	77,045,909	75,489,706	76,730,734
Net Pension Liability as a percentage of covered payroll	104.20%	54.67%	95.21%	96.03%	55.72%

Note: Effective October 1, 2014, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 68. This schedule is intended to show information for ten years. Information for years prior to 2014 is not available; however, additional years will be included as they become available.

See accompanying independent auditor's report.

City of Waco, Texas
Schedule of Pension Contributions
Fiscal Years Ended

	September 30,				
	2015	2016	2017	2018	2019
Actuarially determined contribution	\$ 9,999,116	9,918,113	10,942,485	11,797,668	12,034,470
Contributions in relation to the actuarially determined contribution	9,999,116	9,918,113	10,942,485	12,249,630	12,836,559
Contribution deficiency (excess)	\$ -	-	-	(451,962)	(802,089)
Covered payroll	\$ 75,315,307	76,215,914	79,821,678	82,982,040	85,461,415
Contributions as a percentage of covered payroll	13.28%	13.01%	13.71%	14.77%	15.02%

Notes to Schedule of Pension Contributions

Valuation Date:

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

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Percentage of Payroll, Closed
Remaining Amortization Period	27 years
Asset Valuation Method	10 Year smoothed market; 15% soft corridor
Inflation	2.5%
Salary Increases	3.5% to 10.5%, 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 2015 valuation pursuant to an experience study of the period 2010 – 2014
Mortality	RP2000 Combined Mortality Table with Blue Collar adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB There were no benefit changes during the year.

Other Information

Note The City implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, An Amendment of GASB Statement No. 27*, effective October 1, 2014. Information for years prior to 2015 is not available.

See accompanying independent auditor's report.

City of Waco, Texas
Schedule of Changes in Total
OPEB Liability and Related Ratios
Last Two Measurement Date

	December 31, 2018	December 31, 2017
Total OPEB liability		
Service cost	\$ 14,881	11,106
Interest	53,178	55,396
Difference between expected and actual experience	(563)	-
Changes in assumptions or other inputs	(112,575)	137,980
Benefit payments	(53,608)	(53,860)
Net change in Total OPEB Liability	(98,687)	150,622
Total OPEB Liability - beginning	1,625,961	1,475,339
Total OPEB Liability - ending	\$ 1,527,274	1,625,961
Covered-employee payroll	\$ 83,209,248	76,362,199
Total OPEB liability as a percentage of covered-employee payroll	1.84%	2.13%

Notes to Schedule of Changes in Total OPEB Liability and Related Ratios

Valuation Date:	December 31, 2017 rolled forward to December 31, 2018
Methods and Assumptions:	
Actuarial Cost Method	Individual Entry Age Normal
Discount Rate	3.71% as of December 31, 2018
Inflation	2.50%
Salary Increases	3.50% to 10.50%, including inflation
Demographic Assumptions	Based on the experience study covering the four-year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Participation Rates	100% of eligible retirees will choose to receive the employer paid life benefit; 50% of those with coverage are assumed to elect optional coverage of \$5,000.

Other Information:

Notes Changes of assumptions reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2018	3.71%
2017	3.31%
2016	3.81%

There are no assets accumulated in a trust to pay related benefits.

The City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, effective October 1, 2017. Information for years prior to 2017 is not available.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

BRACEWELL

[Closing Date]

\$ _____
CITY OF WACO, TEXAS
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2020

We have represented the City of Waco, Texas (the “Issuer”), as its bond counsel in connection with an issue of certificates of obligation (the “Certificates”) described as follows:

CITY OF WACO, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2020, dated March 1, 2020.

The Certificates mature, bear interest, are subject to redemption and may be transferred and exchanged as set out in the Certificates and in the Ordinance adopted by the City Council of the Issuer authorizing their issuance (the “Certificate Ordinance”), and the Pricing Certificate executed by an authorized officer of the Issuer (the “Pricing Certificate,” and, together with the Certificate Ordinance, the “Ordinance”).

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

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Certificates, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; customary certificates of officers, agents and representatives of the Issuer and other public officials and other certified showings relating to the authorization and issuance of the Certificates. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. Moreover, we have examined executed No. T-1 of this issue.

In providing the opinions set forth herein, we have relied on representations and certifications of the Issuer and other parties involved with the issuance of the Certificates with respect to matters solely within

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[Closing Date]

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the knowledge of the Issuer and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Certificates.

Based on such examination, it is our opinion that:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently effective and that therefore the Certificates constitute valid and legally binding obligations of the Issuer; and
- (B) A continuing ad valorem tax upon all taxable property within the City of Waco, Texas, necessary to pay the interest on and principal of the Certificates, has been levied and pledged irrevocably for such purposes, within the limits prescribed by law. In addition, the Certificates are further secured by a limited pledge of the surplus revenues of the Issuer's waterworks and sewer system as provided in the Ordinance.
- (C) Interest on the Certificates is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Certificates is not a specific preference item for purposes of the alternative minimum tax.

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

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

Our opinions are based on existing law and our knowledge of facts as to the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, actions, taken or omitted, after the date hereof.