

# CITY OF TEXARKANA, TEXAS

*Notes to the financial statements continued.*

\$39,609 (ceiling aggregate), then the overage is credited to the Utility and applied to the following payment year. If during any year, the aggregate amount paid by the Utility is less than the ceiling aggregate, no further monies are due from the Utility to TAC for that year. In prior years, the capital assets and corresponding liability of \$792,172 were recorded in the financial statements. The Utility recorded capital contributions of \$39,364 and \$39,327 for the amount “forgiven” under the contract terms for fiscal year 2017 and 2016, respectively. The remaining liability under this contract is \$594,499.

## NOTE 16 - LEASE COMMITMENTS - Capital Leases

The government has entered into a lease agreement as lessee for financing the acquisition of computer equipment. The government also has financed undivided interests in the acquisition of the Millwood Water Treatment Facilities and the McKinney Bayou Wastewater Facilities. The following is a schedule by years of future minimum lease payments under capital lease obligations as of September 30, 2017:

| <u>Ending September 30:</u>             | <u>Governmental<br/>Activities</u> | <u>Enterprise<br/>Funds</u> |
|---|------------------------------------|-----------------------------|
| 2018                                    | \$ 205,005                         | 721,905                     |
| 2019                                    | 205,006                            | 721,068                     |
| 2020                                    | 171,021                            | 719,560                     |
| 2021                                    | 171,021                            | 662,683                     |
| 2022                                    | 171,021                            | 604,703                     |
| 2023-2027                               | <u>28,503</u>                      | <u>1,810,228</u>            |
| Total minimum lease payments            | 951,577                            | 5,240,147                   |
| Less:                                   |                                    |                             |
| Unexpended funds                        |                                    | (700,107)                   |
| Amounts representing interest           | (46,341)                           | (808,823)                   |
| Present value of minimum lease payments | <u>\$ 905,236</u>                  | <u>3,731,217</u>            |

The gross amount of assets acquired in prior years under capital leases were as follows:

| <u>Asset Class</u>                | <u>InterSystem<br/>Leases</u> |
|-----------------------------------|-------------------------------|
| Land                              | \$ 399,965                    |
| Buildings                         | 3,400,033                     |
| Improvements other than buildings | 6,926,251                     |
| Machinery and equipment           | <u>2,245,988</u>              |
| Total                             | <u>\$ 12,972,237</u>          |

## NOTE 17 - LONG-TERM OBLIGATIONS

### General Obligation Bonds

General obligation bonds are direct obligations and pledge the full faith and credit of the City. The City has dedicated 28.69% of the ad valorem taxes received for the year for the payment of principal and interest on general obligation bonds. General obligation bonds at September 30, 2017 are as follows:

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Notes to the financial statements continued.

|  | <u>Rate<br/>of interest</u> | <u>Original<br/>Issue</u> | <u>Outstanding<br/>September 30,<br/>2017</u> |
|--|-----------------------------|---------------------------|---|
| <b>General obligation bonds:</b>   |                             |                           |   |
| General Obligation Refunding Bonds, Series 2006 used to refund certain bonds which were issued to finance certain capital improvements of the City - due serially in varying amounts from February 1, 2007 through February 1, 2022.   | 3.85% - 4.00%               | \$ 3,060,000              | \$ 255,000                                    |
| General Obligation Refunding Bonds, Series 2012 used to refund certain bonds which were issued to finance certain capital improvements of the City - due serially in varying amounts from February 15, 2013 through February 15, 2023. | 2.00% - 5.00%               | 10,730,000                | 6,035,000                                     |
| General Obligation Refunding Bonds, Series 2013 used to refund certain bonds which were issued to finance certain capital improvements of the City - due serially in varying amounts from February 15, 2014 through February 15, 2027. | 2.00% - 5.00%               | 14,550,000                | 11,485,000                                    |
| General Obligation Refunding Bonds, Series 2016 used to refund certain bonds which were issued to finance certain capital improvements of the City - due serially in varying amounts from February 1, 2017 through February 1, 2030.   | 2.00% - 3.00%               | 9,090,000                 | 8,970,000                                     |
| Total general obligation bonds   |                             | <u>\$ 28,340,000</u>      | <u>26,745,000</u>                             |

Annual requirements to amortize general obligation bonds outstanding at September 30, 2017 are as follows:

| <u>Requirements Year Ending<br/>September 30</u> | <u>General Obligation Bonds</u> |                  |                   |
|--|---------------------------------|------------------|-------------------|
|  | <u>Principal</u>                | <u>Interest</u>  | <u>Total</u>      |
| 2018   | \$ 2,350,000                    | 923,716          | 3,273,716         |
| 2019   | 2,225,000                       | 755,532          | 2,980,532         |
| 2020   | 2,325,000                       | 781,732          | 3,106,732         |
| 2021   | 2,140,000                       | 689,082          | 2,829,082         |
| 2022   | 2,295,000                       | 583,757          | 2,878,757         |
| 2023-2027  | 11,980,000                      | 1,483,830        | 13,463,830        |
| 2028-2030  | 3,430,000                       | 156,450          | 3,586,450         |
| Total  | <u>\$ 26,745,000</u>            | <u>5,374,099</u> | <u>32,119,099</u> |

The City of Texarkana, Texas issued the General Obligation Refunding Bonds, Series 2016 dated October 15, 2016 in the amount of \$9,090,000 with an average interest rate of to refund all of the General Obligation Refunding Bonds, Series 2006 in the amount of \$1,080,000, as well as a portion of the Combination Tax and Revenue Certificates of Obligation, Series 2009 in the amount of \$8,025,000. Those securities were deposited

# CITY OF TEXARKANA, TEXAS

*Notes to the financial statements continued.*

in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006 and 2009 bonds. As a result the 2006 bonds and the refunded portion of the 2009 bonds are considered defeased and the liability for those bonds has been removed from the City's long term obligations.

The principal and interest due on the Refunded Obligations are to be paid on the scheduled redemption dates of such Refunded Obligations from funds to be deposited pursuant to an escrow agreement. At September 30, 2017, none of the 2006 bonds and \$8,025,000 of the 2009 bonds remained outstanding.

The City advance refunded the 2006 and a portion of the 2009 bonds to reduce its total debt service payments over the next 13 years by almost \$1,219,807 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of \$1,054,493.

## Certificates of Obligation

The City issues certificates of obligation to fund construction projects and acquire capital assets. Certificates of obligation are direct obligations and pledge the full faith and credit of the City. Certificates of obligation at September 30, 2017 are as follows:

|  | <u>Rate<br/>of interest</u> | <u>Original<br/>Issue</u> | <u>Outstanding<br/>September 30,<br/>2017</u> |
|--|-----------------------------|---------------------------|---|
| <b>Certificates of obligation:</b>   |                             |                           |   |
| Certificates of Obligation, Series 2009 used for acquiring, constructing, improving and equipping various streets, park and recreational facilities, Waterworks and Sewer System, facilities, equipment and vehicles for various City departments, including City hall - due serially in varying amounts through February 1, 2030. | 3.00% - 4.50%               | \$ 17,420,000             | \$ 4,835,000                                  |
| Certificates of Obligation, Series 2010 used for constructing, improving and equipping convention center facilities and the acquisition of sites - due serially in varying amounts through February 1, 2030.   | 1.02% - 5.728%              | 7,000,000                 | 5,215,000                                     |
| Combination Tax and Revenue Certificates of Obligation, Series 2012 used for street and drainage improvements, constructing, improving and equipping park and recreational facilities - due serially in varying amounts through February 1, 2035.  | 0.50% - 3.500%              | 4,115,000                 | 3,520,000                                     |
| Combination Tax and Revenue Certificates of Obligation, Series 2017 used for public safety facilities, street and drainage improvements, park and recreational facilities, roof replacements, public works facilities, and municipal airport facilities due serially in varying amounts through February 1, 2037.                  | 2.625 - 4.0%                | <u>14,160,000</u>         | <u>14,160,000</u>                             |
| Total certificates of obligation   |                             | <u>\$ 42,695,000</u>      | <u>27,730,000</u>                             |

# CITY OF TEXARKANA, TEXAS

*Notes to the financial statements continued.*

Annual requirements to amortize certificates of obligations outstanding at September 30, 2017 are as follows:

| <i>Requirements<br/>Year Ending<br/>September 30</i> | <i>Certificates of Obligation</i> |                  |                   |
|--|-----------------------------------|------------------|-------------------|
|  | <i>Principal</i>                  | <i>Interest</i>  | <i>Total</i>      |
| 2018   | \$ 1,215,000                      | 1,157,158        | 2,372,158         |
| 2019   | 1,810,000                         | 956,978          | 2,766,978         |
| 2020   | 1,870,000                         | 889,253          | 2,759,253         |
| 2021   | 1,945,000                         | 817,477          | 2,762,477         |
| 2022   | 2,020,000                         | 742,685          | 2,762,685         |
| 2023-2027  | 6,995,000                         | 2,546,021        | 9,541,021         |
| 2027-2031  | 6,535,000                         | 1,443,481        | 7,978,481         |
| 2032-2037  | 5,340,000                         | 445,780          | 5,785,780         |
| Total  | <u>\$ 27,730,000</u>              | <u>8,998,833</u> | <u>36,728,833</u> |

## Revenue Bonds

The City issues bonds pledged with income derived from the acquired or constructed assets to pay debt service. Revenue bonds outstanding at September 30, 2017 are as follows:

|   | <i>Rate<br/>of interest</i> | <i>Original<br/>Issue</i> | <i>Outstanding<br/>September 30,<br/>2017</i> |
|---|-----------------------------|---------------------------|---|
| <b>Revenue bonds:</b>   |                             |                           |   |
| Waterworks and Sanitary Sewer System Revenue Bonds Series 2004 net of bond premium of \$4,389 used to finance the costs of making improvements and extensions to the water and sewer system due serially in varying amounts from February 1, 2006 through February 1, 2023. | 3.00% - 4.25%               | \$ 2,500,000              | 1,029,389                                     |
| Waterworks and Sanitary Sewer System Revenue Bonds, Series 2013 net of bond discount of \$16,306 used to finance the costs of making improvements and extensions to the water and sewer system. Due serially in varying amounts from August 1, 2014 through August 1, 2033. | 2.00% - 4.875%              | <u>2,200,000</u>          | <u>1,848,694</u>                              |
| Total Texarkana, Texas Water Utilities  |                             | <u>\$ 6,505,000</u>       | <u>2,878,083</u>                              |

Annual requirements to amortize revenue bonds outstanding at September 30, 2017 are as follows:

# CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

| <i>Requirements</i><br><i>Year Ending</i><br><i>September 30</i> | <i>Revenue Bonds</i> |                 |                  |
|--|----------------------|-----------------|------------------|
|  | <i>Principal</i>     | <i>Interest</i> | <i>Total</i>     |
| 2018   | \$ 245,000           | 115,819         | 360,819          |
| 2019   | 249,793              | 107,169         | 356,962          |
| 2020   | 259,793              | 97,663          | 357,456          |
| 2021   | 269,793              | 87,588          | 357,381          |
| 2022   | 279,793              | 76,956          | 356,749          |
| 2023-2027  | 740,125              | 270,834         | 1,010,959        |
| 2028-2032  | 679,852              | 137,224         | 817,076          |
| 2033   | 153,934              | 7,556           | 161,490          |
| Total  | <u>\$ 2,878,083</u>  | <u>900,809</u>  | <u>3,778,892</u> |

The Utility has pledged future water customer revenues, net of specified operating expenses, to repay \$6.505 million in water system revenue bonds issued in 2004 and 2013. Proceeds from the bonds provided financing for the water and wastewater facility improvements and updates. The bonds are payable solely from water customer net revenues and are payable through 2033. Annual principal and interest payments on the bonds are expected to require less than 4% of net revenues. The total principal and interest remaining to be paid on the bonds is \$3,778,892. Principal and interest paid for the current year and total customer net revenues were \$571,219 and \$17,147,595, respectively.

## Changes in long-term liabilities

The following is a summary of changes in long-term liabilities for the year ended September 30, 2017:

|  | <i>Balance</i><br><i>October 1,</i><br><i>2016</i> | <i>Additions</i>  | <i>Retirements/<br/>Deductions</i> | <i>Balance</i><br><i>September 30,</i><br><i>2017</i> | <i>Long-term</i><br><i>Balance</i> | <i>Due</i><br><i>Within</i><br><i>One Year</i> |
|--|--|-------------------|------------------------------------|---|------------------------------------|--|
| <b>Governmental activities:</b>                |  |                   |                                    |   |                                    |  |
| General obligation bonds                       | \$ 21,105,000                                      | 9,090,000         | (3,450,000)                        | 26,745,000  | 24,395,000                         | 2,350,000                                      |
| Issuance premiums                              | 1,636,681  | 795,605           | (255,279)                          | 2,177,007   | 2,177,007                          |  |
| Total general obligation bonds                 | <u>22,741,681</u>                                  | <u>9,885,605</u>  | <u>(3,705,279)</u>                 | <u>28,922,007</u>                                     | <u>26,572,007</u>                  | <u>2,350,000</u>                               |
| Certificates of obligation                     | 22,760,000   | 14,160,000        | (9,190,000)                        | 27,730,000  | 26,965,000                         | 765,000  |
| Issuance premiums                              | 227,859  | 315,198           | (33,484)                           | 509,573   | 509,573                            |  |
| Total certificates of obligation               | <u>22,987,859</u>                                  | <u>14,475,198</u> | <u>(9,223,484)</u>                 | <u>28,239,573</u>                                     | <u>27,474,573</u>                  | <u>765,000</u>                                 |
| Capital leases                                 | 1,100,560  | (195,324)         |                                    | 905,236   | 717,322                            | 187,914  |
| Net pension liabilities                        | 21,447,463   | 12,160,310        | (11,786,130)                       | 21,821,643  | 21,821,643                         |  |
| Net other postemployment liabilities           | 2,548,669  | 973,589           | (571,140)                          | 2,951,118   | 2,951,118                          |  |
| Accrued compensated absences                   | 4,161,834  | 1,229,138         | (1,249,488)                        | 4,141,484   | 3,863,121                          | 278,363  |
| Governmental activity<br>Long-term liabilities | <u>\$ 74,988,066</u>                               | <u>38,528,516</u> | <u>(26,535,521)</u>                | <u>86,981,061</u>                                     | <u>83,399,784</u>                  | <u>3,581,277</u>                               |

# CITY OF TEXARKANA, TEXAS

Notes to the financial statements continued.

|                                  | <i>Balance</i><br><i>October 1,</i><br><i>2016</i> | <i>Additions</i> | <i>Retirements/<br/>Deductions</i> | <i>Balance</i><br><i>September 30,</i><br><i>2017</i> | <i>Long-term</i><br><i>Balance</i> | <i>Due</i><br><i>Within</i><br><i>One Year</i> |
|----------------------------------|--|------------------|------------------------------------|---|------------------------------------|--|
| <b>Business-type activities:</b> |  |                  |                                    |   |                                    |  |
| Revenue bonds                    | \$ 3,325,000                                       | (435,000)        |                                    | 2,890,000   | 2,645,000                          | 245,000  |
| Issuance premiums                | (12,124)   |                  | 207                                | (11,917)  | (11,917)                           |  |
| Total revenue bonds              | 3,312,876  | (435,000)        | 207                                | 2,878,083   | 2,633,083                          | 245,000  |
| Capital leases                   | 4,132,943  |                  | (401,726)                          | 3,731,217   | 3,320,472                          | 410,745  |
| Net pension liabilities          | 4,820,365  | 2,329,951        | (2,318,562)                        | 4,831,754   | 4,831,754                          |  |
| Other postemployment liabilities | 823,162  | 235,810          | (72,476)                           | 986,496   | 986,496                            |  |
| Accrued compensated absences     | 365,808  | 368,852          | (324,333)                          | 410,327   | 351,727                            | 58,600   |
| Business-type activity           |  |                  |                                    |   |                                    |  |
| Long-term liabilities            | <u>\$ 13,455,154</u>                               | <u>2,499,613</u> | <u>(3,116,890)</u>                 | <u>12,837,877</u>                                     | <u>12,123,532</u>                  | <u>714,345</u>                                 |

Internal service funds predominately serve the governmental funds. Accordingly, long-term liabilities for internal service funds are included as part of the above totals for governmental activities. At year end, \$69,131 of internal service funds compensated absences is included in the above amounts.

The General Fund is the governmental fund which primarily is responsible for the accrued compensated absences liability and net pension and other postemployment liabilities for the governmental activities.

## NOTE 18 - CONDUIT DEBT

The City issued \$2,430,000 in Combination Tax and Revenue Certificates of Obligation, Series 2008 dated February 1, 2008. The stated maturity date of the debt is February 1, 2023, with an interest rate of 3.660% per annum. The certificates were issued by the City on behalf of the Bi-State Justice Center. The purpose of the debt is to pay contractual obligations for improvements to the Bi-State Criminal Justice Center and professional services rendered in connection therewith. The payments are made by the Bi-State Justice Center directly to the paying agent. The City has no responsibility for the repayment of the debt beyond its participation in the BSJC joint venture. The balance outstanding at September 30, 2017 is \$1,129,926.

## NOTE 19 - RISK MANAGEMENT

The City's workers' compensation insurance coverage is obtained through the Texas Municipal League Intergovernmental Risk Pool (TML Pool). The TML Pool was established by the various political subdivisions in Texas to provide self-insurance for its members and to obtain lower costs for insurance. Losses under a stated amount for workers' compensation that are incurred by TML members are paid with TML Pool funds. Claims in excess of this limit are paid under terms of insurance policies obtained by the TML Pool. TML Pool members pay annual contributions to obtain the insurance. Annual contribution rates are determined by the TML Pool Board or by the State Board of Insurance of Texas. Such rates are estimated to include all claims expected to occur during the policy period, including claims incurred but not reported. The TML has established claims reserves for each of the types of insurance offered. Thus, although the TML Pool is a self-insured risk pool, members are not contingently liable for claims filed above the amount of the fixed annual contributions. If losses incurred are significantly higher than actuarially estimated, the TML Pool adjusts the contributed rate for subsequent years. Members are also entitled to returns of contributions if actual results are