

OFFICIAL STATEMENT

Dated: May 17, 2022

Underlying Rating: Fitch "AA+" (Stable Outlook)
BAM Insured Rating: S&P: "AA" (Stable outlook)
(See "BOND INSURANCE" and "Other
Information – Municipal Bond Rating and
Insurance" herein)

NEW ISSUE - Book-Entry-Only

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

\$23,750,000
CITY OF EL PASO, TEXAS
(El Paso County)

MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022A

Dated Date: May 15, 2022

Due: March 1, as shown on Page 2

Interest to Accrue From Date of Delivery

PAYMENT TERMS . . . Interest on the \$23,750,000 City of El Paso, Texas, Municipal Drainage Utility System Revenue Refunding Bonds, Series 2022A (the "Bonds") will accrue from the Date of Delivery (defined below) of the Bonds, will be payable March 1 and September 1 of each year, commencing September 1, 2022, until maturity or prior redemption, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof within a maturity. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is Computershare Trust Company, N.A., Minneapolis, Minnesota (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Texas Government Code, Chapter 1207, as amended ("Chapter 1207"), Texas Government Code, Chapter 1371, as amended ("Chapter 1371"), Texas Government Code, Chapter 1502, as amended ("Chapter 1502"), the City's Home Rule Charter, and an ordinance authorizing the issuance of the Bonds (the "Bond Ordinance") adopted on April 26, 2022. In the Bond Ordinance, the City Council delegated to certain officers of the El Paso Water Utilities (the "El Paso Water Utilities"), pursuant to Chapter 1207 and Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate" which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance"). The Bonds are special obligations of the City payable, both as to principal and interest, solely from and, together with the outstanding Previously Issued Bonds (as defined herein) and any Additional Bonds (as defined herein), secured by a first lien on and pledge of the Net Revenues (hereinafter defined) of the City's Municipal Drainage Utility System (the "System"). **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "THE BONDS – Authority for Issuance" and – "Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund all of the City's presently outstanding municipal drainage utility system revolving notes (the "Refunded Obligations") and (ii) pay costs of issuance of the Bonds. The Refunded Obligations were issued to provide interim financing for the construction of System projects. Such projects are completed or in the design or construction phases. The Refunded Obligations are being refunded and replaced with long-term fixed rate bonds in order to restore capacity to the revolving notes program for the issuance of additional revolving notes in the future (see "PLAN OF FINANCING – Purpose").

CUSIP PREFIX: 283791- MATURITY SCHEDULE & 9 Digit CUSIP - SEE SCHEDULE ON PAGE 2



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY. See "BOND INSURANCE" and "BOND INSURANCE RISKS."

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the underwriters listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas. The opinion of Bond Counsel will be printed on or attached to the Bonds (see Appendix C, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Counsel for the Underwriters.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on or about June 7, 2022 (the "Date of Delivery").

RAYMOND JAMES

STEPHENS INC.

MATURITY SCHEDULE

CUSIP Prefix: 283791 ⁽¹⁾

<u>Principal Amount</u>	<u>March 1 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>	<u>Principal Amount</u>	<u>March 1 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix⁽¹⁾</u>
\$ 250,000	2024	5.000%	2.520%	GE5	\$ 1,380,000	2033	5.000%	3.510% ⁽²⁾	GP0
500,000	2025	5.000%	2.720%	GF2	1,450,000	2034	5.000%	3.550% ⁽²⁾	GQ8
500,000	2026	5.000%	2.830%	GG0	1,520,000	2035	5.000%	3.590% ⁽²⁾	GR6
500,000	2027	5.000%	2.920%	GH8	1,595,000	2036	5.000%	3.630% ⁽²⁾	GS4
500,000	2028	5.000%	3.080%	GJ4	1,675,000	2037	5.000%	3.670% ⁽²⁾	GT2
500,000	2029	5.000%	3.230%	GK1	1,760,000	2038	4.500%	4.090% ⁽²⁾	GU9
1,190,000	2030	5.000%	3.310%	GL9	1,840,000	2039	4.500%	4.130% ⁽²⁾	GV7
1,250,000	2031	5.000%	3.380%	GM 7	1,920,000	2040	4.500%	4.150% ⁽²⁾	GW5
1,315,000	2032	5.000%	3.450% ⁽²⁾	GN5					

\$4,105,000 4.250% Term Bond due March 1, 2042, Priced to Yield 4.300% - CUSIP GY1

(Interest accrues from Date of Delivery)

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services which is managed by FactSet Research System Inc. 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. The City, the Financial Advisor (as defined herein) and the Underwriters take no responsibility for the accuracy of such numbers.

(2) Yield shown is yield to first call date, March 1, 2031.

OPTIONAL AND MANDATORY SINKING FUND REDEMPTION. . . The City reserves the right, at its option, to redeem Bonds having stated maturities on or after March 1, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS - Optional Redemption”). The Bonds maturing on March 1, 2042 (the “Term Bonds”) are subject to mandatory sinking fund redemption as described herein (see “THE BONDS – Mandatory Sinking Fund Redemption”).

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 as having been authorized by the City or the Underwriters.

The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide, or cause to be provided, certain information on a continuing basis.

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

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

None of the City, the Financial Advisor, or the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company ("DTC") or its Book-Entry-Only System as such information has been provided by DTC.

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

The information contained in this Official Statement has been furnished by the City, DTC and other sources that are believed to be reliable. No dealer, broker, salesperson, or other person has been authorized by the City or the Underwriters to give any information or to make any representations other than those made herein. Any such other information or representations must not be relied upon as having been authorized. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this document nor the sale of any of the Bonds shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof.

The Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law and will not be listed on any stock or other securities exchange. Neither the United States Securities and Exchange Commission nor any state securities commission has passed upon the accuracy or adequacy of this document. Any representation to the contrary is unlawful.

All inquiries relating to this Official Statement and the offering contemplated herein should be directed to the Underwriters. Prospective investors may obtain additional information from the Underwriters or the City which they may reasonably require in connection with the decision to purchase any of the Bonds from the Underwriters.

The yields at which the Bonds are offered to the public may vary from the initial reoffering yields on the inside cover page of this Official Statement. In addition, the Underwriters may allow concessions of discounts from the initial offering prices of the Bonds to dealers and others.

This Official Statement contains "forward-looking" statements within the meaning of section 21E of the Securities Exchange Act of 1934, as amended. Such statements may involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from future results, performance and achievements expressed or implied by such forward-looking statements. Investors are cautioned that the actual results could differ materially from those set forth in the forward-looking statements (see "OTHER INFORMATION – Forward-Looking Statements Disclaimer" herein).

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "Bond Insurance" and "Appendix D - Specimen Municipal Bond Insurance Policy".

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

OFFICIAL STATEMENT SUMMARY

This summary is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of the 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 ISSUER.....The City of El Paso, Texas (the “City”), is a political subdivision and municipal corporation of the State of Texas (the “State”), located in El Paso County, Texas. The City covers approximately 256 square miles.

THE PUBLIC SERVICE BOARD The City’s Municipal Drainage Utility System (the “System”) is managed by a seven-member Board of Trustees (the “Public Service Board”) appointed by the City Council. The Public Service Board has complete authority for the management and operation of the System but has no authority to issue obligations such as the Bonds (see “THE PUBLIC SERVICE BOARD”). The Bonds are issued by the City upon the request of the Public Service Board.

THE BONDS.....The \$23,750,000 Municipal Drainage Utility System Revenue Refunding Bonds, Series 2022A (the “Bonds”) are issued as serial Bonds maturing March 1 in each of the years 2024 through 2040 and as Term Bonds (defined below) maturing March 1, 2042 as shown herein (see “MATURITY SCHEDULE” on page 2 hereof).

PAYMENT OF INTERESTInterest on the Bonds will accrue from the date of the initial delivery of the Bonds, and is payable September 1, 2022, and each March 1 and September 1 thereafter until maturity or prior redemption (see “THE BONDS - Description of the Bonds”, “THE BONDS - Optional Redemption” and “THE BONDS – Mandatory Sinking Fund Redemption”).

AUTHORITY FOR ISSUANCEThe Bonds are issued pursuant to the Constitution and general laws of the State, particularly Texas Government Code, Chapter 1207, as amended (“Chapter 1207”), Texas Government Code, Chapter 1371, as amended (“Chapter 1371”), Texas Government Code, Chapter 1502, as amended (“Chapter 1502”), the City’s Home Rule Charter, and an ordinance (the “Bond Ordinance”) adopted by the City Council of the City on April 26, 2022. In the Bond Ordinance, the City Council delegated to certain officers of El Paso Water Utilities, pursuant to Chapter 1207 and Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale are included in a “Pricing Certificate,” which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the “Ordinance”) (see “THE BONDS - Authority for Issuance”).

SECURITY FOR THE BONDSThe Bonds constitute special obligations of the City, payable, both as to principal and interest, solely from and, together with the outstanding Previously Issued Bonds and any Additional Bonds (each hereinafter defined), secured by a first lien on and pledge of the Net Revenues (hereinafter defined) of the System. **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see “THE BONDS - Security and Source of Payment”).

OPTIONAL AND MANDATORY

SINKING FUND REDEMPTION.....The City reserves the right, at its option, to redeem Bonds having stated maturities on or after March 1, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE BONDS - Optional Redemption”). The Bonds maturing on March 1, 2042 (the “Term Bonds”) are subject to mandatory sinking fund redemption as described herein (see “THE BONDS – Mandatory Sinking Fund Redemption”).

TAX EXEMPTION.....In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein.

USE OF PROCEEDS.....Proceeds from the sale of the Bonds will be used to (i) refund all of the City’s presently outstanding municipal drainage utility system revolving notes (the “Refunded Obligations”) and (ii) pay costs of issuance of the Bonds. The Refunded Obligations were issued to provide interim financing for the construction of System projects. Such projects are completed or in the design or construction phases. The Refunded Obligations are being refunded and replaced with long-term fixed rate bonds in order to restore capacity to the revolving notes program for the issuance of additional revolving notes in the future (see “PLAN OF FINANCING – Purpose”).

MUNICIPAL BOND RATING

AND INSURANCE.....The Bonds and certain of the presently outstanding Previously Issued Bonds are rated “AA+” by Fitch Ratings Inc. (“Fitch”), without regard to credit enhancement. It is expected that S&P Global Ratings, a division of S&P Global Inc. (“S&P”) will assign a rating of “AA” (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM”). Certain of the presently outstanding Previously Issued Bonds are rated “AA+” by S&P, without regard to credit enhancement. The City is not seeking a rating on the Bonds from S&P. (see “OTHER INFORMATION – Municipal Bond Rating and Insurance”).

BOOK-ENTRY-ONLY

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

PAYMENT RECORD.....The City has never defaulted in payment of its System revenue bonds.

SELECTED FINANCIAL INFORMATION

Fiscal Year	Estimated City	Net Revenue Available For Debt Service	Annual Debt Service Requirements	Coverage of Debt Service
Ending 2/28	Population			
2018	672,876	\$ 17,577,692	\$ 8,793,138	2.00 x
2019	675,846	18,124,554	6,288,387	2.88 x
2020	⁽¹⁾ 678,815	17,239,205	9,221,506	1.87 x
2021	681,858	17,557,961	9,265,931	1.89 x
2022	681,858	18,988,569 ⁽²⁾	9,421,926	2.02 x

⁽¹⁾ Census 2020

⁽²⁾ Preliminary unaudited

For additional information regarding the El Paso Water Utilities, please contact:

Mr. Arturo Duran Chief Financial Officer El Paso Water Utilities 1154 Hawkins Blvd. El Paso, Texas 79925 (915) 594-5549	or	Ms. Maria Fernanda Urbina Managing Director Hilltop Securities Inc. 221 N. Kansas, Suite 600 El Paso, Texas 79901 (915) 351-7228
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CITY ADMINISTRATION

CITY COUNCIL

Oscar Leeser, Mayor
Peter Svarzbein
Alexsandra Anello
Cassandra Hernandez
Joe Molinar
Isabel Salcido
Claudia Rodriguez
Henry Rivera
Cissy Lizarraga

THE PUBLIC SERVICE BOARD

Kristina D. Mena, Chair
Ivonne Santiago, Vice-Chair
Oscar Leeser, Mayor – City of El Paso ⁽¹⁾
Bryan Morris, Secretary/Treasurer
Charlie Intebi, Member
Liza Saenz, Member
Stefanie Block Uribarri, Member

⁽¹⁾ Ex-officio member.

CERTAIN CITY ADMINISTRATIVE STAFF

Tommy Gonzalez.....City Manager
Robert Cortinas..... Chief Financial Officer
Laura D. Prine..... City Clerk
Karla Nieman.....City Attorney
Maria Pasillas..... Tax Assessor/Collector
Margarita Muñoz..... Comptroller

**CERTAIN EL PASO WATER UTILITIES
ADMINISTRATIVE STAFF**

John Balliew, P.E.President & CEO
Marcela Navarrete, CPA..... Vice President
Paul Rivas.....Interim Vice President
Arturo Duran.....Chief Financial Officer
Daniel Ortiz.....General Counsel

CONSULTANTS AND ADVISORS (EL PASO WATER UTILITIES)

Auditors Gibson Ruddock Patterson LLC
El Paso, Texas
Bond Counsel.....Norton Rose Fulbright US LLP
Dallas, Texas
Financial Advisor.....Hilltop Securities Inc.
El Paso, Texas

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OFFICIAL STATEMENT

RELATING TO

\$23,750,000

CITY OF EL PASO, TEXAS

MUNICIPAL DRAINAGE UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022A

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$23,750,000 City of El Paso, Texas, Municipal Drainage Utility System Revenue Refunding Bonds, Series 2022A (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined below), except as otherwise indicated herein (see "SELECTED PROVISIONS OF THE BOND ORDINANCE - Definitions").

The City of El Paso, Texas (the "City") is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized and existing under the laws of the State, including its duly adopted Home Rule Charter (the "Charter") and is authorized by the Charter and by Chapter 1502, Texas Government Code, as amended ("Chapter 1502"), to own, operate and maintain a municipal drainage utility system. The City operates under a City Manager form of government. City Council Members serve staggered four-year terms. The Mayor also serves a four-year term. Each elected official may serve no more than two consecutive terms. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2020 Census population for the City was 678,815, an increase of 4.6% over the 2010 Census population of 649,121. The City covers approximately 256 square miles.

The City Council has previously established a board of trustees, known as the "Public Service Board" (the "Board" or "PSB"). The PSB is a seven-member board consisting of the Mayor of the City, as an ex-officio, voting member, and six residents of El Paso County, Texas. With the exception of the Mayor, all other trustees are appointed by the City Council and serve staggered four-year terms. The Board has no authority to issue obligations such as the Bonds, but, on April 13, 2022, the Board adopted a resolution requesting the City to issue the Bonds. The City Council adopted the Bond Ordinance (defined below) on April 26, 2022.

In June 2007, City Ordinance No. 016668 established a municipal drainage utility system (the "System") for the City. The PSB was given complete management and control of the System, effective March 1, 2008.

There follow in this Official Statement descriptions of the Bonds and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City's Financial Advisor, Hilltop Securities Inc., El Paso, Texas.

This Official Statement speaks only as of its date, and the information contained herein is subject to change. Copies of the final Official Statement will be filed with the Municipal Securities Rulemaking Board at www.emma.msrb.org, 1300 I St NW Ste 1000, Washington, DC 20005. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

TEXAS WINTER STORM 2021

From February 12-19, 2021, the State experienced a severe winter storm (the "Storm") which included prolonged freezing temperatures, heavy snow and freezing rains statewide. The Storm led to resulting power outages and potable and non-potable water shortages in many areas of the State. As the weather worsened, the energy market administered by the Electric Reliability Council of Texas (ERCOT) experienced record-breaking electric demand and higher than normal generation outages due to frozen production facilities and natural gas supplies. As a result, the ERCOT administered grid was not able to meet demand. To avoid large scale blackouts and damage to the grid, ERCOT entered into emergency conditions and ordered transmission companies to initiate rotating outages beginning February 15, 2021.

The City's electric power comes from the Western power grid overseen by the Western Electricity Coordinating Council and not ERCOT; therefore, the City was not affected when ERCOT initiated blackouts across the State. Partly due to its independence from the electric grid managed by ERCOT and improvements made to El Paso electric utilities in recent years following a winter storm in 2011, the City experienced only a brief power outage affecting a very small group of people. In addition, since 2011, the City has spent approximately \$33.7 million in backup power generators at critical water and wastewater facilities and, as part of its capital program, is planning to spend an additional \$100 million for comparable future projects over the next five years. The City's water supply was not disrupted by the Storm and fortunately, the Storm (and the subsequent impacts affecting much of the State) did not materially adversely affect the City or the System.

INFECTIOUS DISEASE OUTBREAK – COVID-19

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings and other activities.

Over the ensuing year, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within the U.S., the State and the City. Following the widespread release and distribution of various COVID-19 vaccines beginning in December 2020 and a decrease in active COVID-19 cases generally in the United States, state governments (including the State) began lifting business and social limitations associated with COVID-19. Under executive orders in effect as of the date of this Official Statement, there are no State-imposed COVID-19 related operating limits for any business or other establishment in the State and no State-imposed requirement to wear a face covering. The Governor retains the right to impose future restrictions on activities if needed in order to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

With the easing or removal of associated governmental restrictions and the widespread availability of vaccines, economic activity has increased. However, there are no assurances that economic activity will continue or increase at the same rate, especially if there are future outbreaks of COVID-19 or variants of COVID-19. The COVID-19 pandemic may result in lasting changes in some businesses and social practices, which could affect business activity and limit the growth of or reduce the City's ad valorem and sales tax collections, as well as reduce the collection of taxes, charges and fees within the City, including System revenues. In addition, further or extended reductions in the value of stocks and other investments could impact employee retirement plans or other funds and could require actions by the State. See "EMPLOYEE BENEFIT OBLIGATIONS – Pension Plans." The City cannot predict the long-term economic effect of COVID-19 or the effect of any future outbreak of COVID-19, or variants of COVID-19, or a similar virus on the City's operations or financial condition.

Some of the financial and operating data contained herein are as of dates and for periods prior to the economic impact of COVID-19 and measures instituted to slow it. Accordingly, such information is not necessarily indicative of the current financial condition or future prospects of the City. The City continues to monitor the spread of COVID-19 and is working with local, State, and national agencies to address the potential impact of the COVID-19 pandemic upon the City. While the extent of the impact of COVID-19 on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition, and the effect could be material.

El Paso Water Utilities (the "Utility") stormwater fees are included in the customer's water and sewer service monthly bill. Water service disconnections were suspended in March 2020 and were resumed in February 2021. The 30 to 90 days past due customer balances from stormwater fees have increased from the end of February 2020 from \$180,000 to \$531,000 as of February 28, 2022. The Utility is actively assisting customers affected by the Pandemic and have unpaid balances by offering extended payment plans and providing them information regarding agencies that help with past due utility bills.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) refund all of the City's presently outstanding municipal drainage utility system revolving notes (the "Refunded Obligations") and (ii) pay costs of issuance of the Bonds. The Refunded Obligations were issued to provide interim financing for the construction of System projects. Such projects are completed or in the design or construction phases. The Refunded Obligations are being refunded and replaced with long-term fixed rate bonds in order to restore capacity to the revolving notes program for the issuance of additional revolving notes in the future.

REFUNDED OBLIGATIONS . . . The principal and interest due on the Refunded Obligations are to be paid on their scheduled maturity date from funds to be deposited with Bank of America, N.A., as paying agent for the Refunded Obligations (the "Refunded Obligations Paying Agent"). The Ordinance provides that the proceeds of the sale of the Bonds received from the Underwriters, together with funds contributed by the City, if necessary, will be deposited by the City with the Refunded Obligations Paying Agent in an amount sufficient to accomplish the discharge and final payment of the Refunded Obligations on their scheduled maturity date. Such funds will be held by the Refunded Obligations Paying Agent and will not be invested by the Refunded Obligations Paying Agent pending payment of the Refunded Obligations on their maturity date. The Refunded Obligations Paying Agent will provide a sufficiency certificate as to the sufficiency of cash deposited with the Refunded Obligations Paying Agent for the purpose of paying the outstanding principal of and interest on the Refunded Obligations.

Upon the refunding of the Refunded Obligations, the City will not have any Municipal Drainage Utility System Revolving Notes (the "Revolving Notes") outstanding, and the City will have \$25,000,000 in available authority to issue Revolving Notes (see "DEBT INFORMATION - Anticipated Issuance of Revolving Notes").

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Bonds will be applied as follows:

Sources of Funds:	
Par Amount of Bonds	\$ 23,750,000.00
Reoffering Premium	<u>1,587,688.25</u>
Total Sources of Funds	<u>\$ 25,337,688.25</u>
Uses of Funds:	
Deposit with Refunded Obligations Paying Agent	\$ 25,000,000.00
Underwriters' Discount	146,447.50
Costs of Issuance/Rounding Amount ⁽¹⁾	<u>191,240.75</u>
Total Uses of Funds	<u>\$ 25,337,688.25</u>

(1) Includes Gross Bond Insurance Premium.

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THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated May 15, 2022 and mature on March 1 in each of the respective years and in the respective amounts shown on page two hereof unless redeemed prior to maturity as described herein (see “THE BONDS – Optional Redemption”). Interest on the Bonds will accrue from the date of their initial delivery to the underwriters listed on the cover page hereof (the “Underwriters”) and will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on March 1 and September 1 of each year, commencing September 1, 2022, until maturity or prior redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by Computershare Trust Company, N.A., Minneapolis, Minnesota, the initial paying agent/registrant (the “Paying Agent/Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS - Book-Entry-Only System” herein.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar (as defined herein) at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States mail, first class, postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner. Principal of the Bonds will be paid to the registered owner at their stated maturity or upon earlier redemption upon presentation to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under “THE BONDS - Book-Entry-Only System” herein. If the date for any payment on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, particularly Texas Government Code, Chapter 1207, as amended (“Chapter 1207”), Texas Government Code, Chapter 1371, as amended (“Chapter 1371”), Texas Government Code, Chapter 1502, as amended (“Chapter 1502”), the Charter, and an ordinance authorizing the issuance of the Bonds (the “Bond Ordinance”). In the Bond Ordinance, the City Council delegated to certain officers of El Paso Water Utilities, pursuant to Chapter 1207 and Chapter 1371, authority to complete the sale of the Bonds. The terms of the sale are included in a “Pricing Certificate,” which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the “Ordinance”).

SECURITY AND SOURCE OF PAYMENT . . . The Bonds are special obligations of the City payable, both as to principal and interest, solely from and, together with certain outstanding System revenue bonds of the City (the “Previously Issued Bonds”) and any Additional Bonds (hereinafter defined) which may be issued in the future, secured by a first lien on and pledge of the Net Revenues of the System. “Net Revenues” includes all revenues of every nature received through the operation of the System, less operation and maintenance expenses. Operation and maintenance expenses means all current expenses of operating and maintaining the System not paid from the proceeds of Debt, including contractual payments which under State laws and their provisions are established as operating expenses. The City has outstanding Previously Issued Bonds secured by and payable from Net Revenues on a parity with the Bonds, as follows:

Dated Date	Outstanding Debt ⁽¹⁾⁽²⁾	Issue Description
11-15-2009	\$ 965,000	Municipal Drainage Utility System Revenue Bonds, Series 2009A
3-1-2015	16,410,000	Municipal Drainage Utility System Revenue Bonds, Series 2015
3-15-2016	16,175,000	Municipal Drainage Utility System Revenue Bonds, Series 2016
10-15-2017	37,905,000	Municipal Drainage Utility System Revenue Improvement & Refunding Bonds, Series 2017
3-15-2021	8,825,000	Municipal Drainage Utility System Revenue Refunding Bonds, Taxable Series 2021
4-1-2021	12,865,000	Municipal Drainage Utility System Revenue Refunding Bonds, Series 2021A
4-1-2022	<u>9,490,000</u>	Municipal Drainage Utility System Revenue Bonds, Series 2022
	<u>\$ 102,635,000</u>	

(1) As of May 1, 2022.

(2) Excludes the up to \$25,000,000, from time to time outstanding Revolving Notes, which are subordinate to the Previously Issued Bonds. The City currently has \$25,000,000 in principal amount of outstanding Revolving Notes, which will be refunded with proceeds of the Bonds.

The Bonds are not a charge upon any other income or revenues of the City and **shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City**. The Ordinance does not create a lien or mortgage on the System, except for the pledge of the Net Revenues, and any judgment against the City may not be enforced by levy and execution against any property owned by the City.

RESERVE FUND . . . As additional security, a Reserve Fund is required to be maintained in an amount equal to the lesser of (i) the Average Annual Debt Service (calculated on a Fiscal Year basis) for all Bonds Similarly Secured then Outstanding, as determined on the date each series of Additional Bonds are delivered or incurred, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of Section 148 of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder (see “SELECTED PROVISIONS OF THE BOND ORDINANCE”).

PLEDGED REVENUES . . . The Net Revenues of the System are irrevocably pledged to the payment of the Bonds, the Previously Issued Bonds and any Additional Bonds. Net Revenues in excess of the amounts described in the immediately preceding sentence shall be transferred in the order of priority, in the manner, and in the amounts set forth in the Ordinance (see “SELECTED PROVISIONS OF THE BOND ORDINANCE”).

FEES . . . The City has covenanted in the Ordinance to establish and maintain fees for services supplied by the System which shall produce or yield Net Revenues equal to 1.25 times the Average Annual Debt Service requirements of all Bonds Similarly Secured (see “SELECTED PROVISIONS OF THE BOND ORDINANCE”).

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on or after March 1, 2032, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on March 1, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION . . . The Bonds maturing on March 1, 2042 (the “Term Bonds”) are subject to mandatory sinking fund redemption prior to maturity. The Term Bonds shall be redeemed by the City in part prior to maturity at the price of par plus accrued interest to the dates of redemption, and without premium, on the dates and in the principal amounts as set forth in the following schedule:

<u>Term Bonds Maturing March 1, 2042</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>
March 1, 2041	\$ 2,010,000
March 1, 2042*	2,095,000

* Stated Maturity.

Approximately forty-five (45) days prior to each mandatory redemption date for the Term Bonds, the Paying Agent/Registrar shall select by lot the number of the Term Bonds to be redeemed on the next following March 1 from moneys set aside for that purpose in the Interest and Sinking Fund. Any Term Bond not selected for prior redemption shall be paid on the date of their Stated Maturity.

The principal amount of the Term Bond required to be redeemed on such mandatory redemption date may be reduced, at the option of the City, by the principal amount of any Term Bonds which, at least forty-five (45) days prior to the mandatory redemption date, (1) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (2) shall have been redeemed pursuant to the optional redemption provisions set forth above and not theretofore credited against a mandatory redemption requirement.

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

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

DEFEASANCE . . . The Ordinance provides that Bonds or any principal amount(s) thereof shall be deemed to have been defeased, refunded and discharged when (i) money sufficient to pay in full such Bonds at maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) "Government Obligations" shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Obligations shall mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys deposited therewith, if any, to pay when due the Bonds on the stated maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. In the event of a defeasance of the Bonds, the City shall deliver a certificate from its financial advisor, the Paying Agent/Registrar, an independent certified public accountant, or another qualified third party concerning the sufficiency of the deposit of cash and/or Government Obligations to pay, when due, the principal of, redemption premium (if any), and interest due on any defeased Bonds. The City covenants that no deposit of moneys or Government Obligations will be made under the terms of the Ordinance and no use made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Internal Revenue Code of 1986, as amended, or regulations adopted pursuant thereto. As used in the Ordinance, the term "Government Obligations" means (i) direct noncallable obligations of the United States of America, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, and (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations unconditionally guaranteed or insured by the agency or instrumentality and, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. 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 Bonds. There is no assurance that the ratings for U.S. Treasury securities used to defease the Bonds will be maintained at any particular rating category. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Ordinance.

Upon such deposit as described above, such Bonds 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 Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds which have been defeased to maturity for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call Bonds defeased to maturity for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

ADDITIONAL BONDS . . . The City may issue additional revenue obligations payable from the Net Revenues which, together with the Previously Issued Bonds and the Bonds, shall be equally and ratably secured by a parity lien on and pledge of the Net Revenues of the System (the "Additional Bonds"), subject, however, to complying with certain conditions in the Ordinance. See "SELECTED PROVISIONS OF THE BOND ORDINANCE – Additional Bonds" for terms and conditions to be satisfied for the issuance of Additional Bonds.

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

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

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

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instrument (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company of DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transactions, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owners entered into the transaction. Transfers of ownership interest in the Bonds are to be accomplished by entries made on the books of Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

Redemption proceeds and principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates 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 in 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, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical Bonds 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 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

BOND INSURANCE

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company (“BAM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM’s financial strength is rated “AA/Stable” by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”). An explanation of the significance of the rating and current reports may be obtained from S&P at <https://www.spglobal.com/en/>. The rating of BAM should be evaluated independently. The rating reflects the S&P’s current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2022 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$466.8 million, \$172.1 million and \$294.7 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE”.

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at www.buildamerica.com/videos. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM’s website at www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

The information above pertaining to BAM has been supplied by BAM for inclusion in this Official Statement, as the City takes no responsibility for the accuracy or completeness thereof.

BOND INSURANCE RISKS

The following are risk factors relating to bond insurance.

In the event of default of the payment of principal or interest with respect to the Bonds when all or some becomes due, any owner of the Bond shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the City which is recovered by the City from the Bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy, however, such payments will be made by BAM at such time and in such amounts as would have been due absent such prepayment by the City unless BAM chooses to pay such amounts at an earlier date.

Under no circumstances does default of payment of principal and interest obligate acceleration of the obligations of BAM without their consent, so long as BAM performs its obligations under the Policy. In the event BAM is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the Net Revenues of the System. In the event BAM becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The long-term rating on the Bonds will be dependent in part on the financial strength of BAM and its claims paying ability. BAM’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of BAM or of the Bonds will not be subject to downgrade and such event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds.

The obligations of BAM are general obligations of BAM and in an event of default by BAM the remedies may be limited by applicable bankruptcy law. Neither the City nor the Financial Advisor have made an independent investigation into the claims paying ability of BAM and no assurance or representation regarding the financial strength or projected financial strength of BAM is given.

Effect of Termination of Book-Entry-Only System. In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the holders and the Bonds will

be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under “THE BONDS - Transfer, Exchange and Registration” below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is Computershare Trust Company, N.A., Minneapolis, Minnesota (the “Paying Agent/Registrar”). 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 Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . In the event use of the Book-Entry-Only System should be discontinued, the Bonds will be printed and delivered to the registered owners thereof, and thereafter the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof 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. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bonds surrendered for exchange or transfer. See “THE BONDS - Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

RECORD DATE FOR INTEREST PAYMENT . . . The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the 15th day of the month preceding such interest payment date.

In the event of a nonpayment 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 (“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 Owner of a Bond 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.

AMENDMENTS . . . The City may amend the Ordinance without notice to or the consent of any owner of the Bonds or any other Previously Issued Bonds solely for any one or more of the following purposes: (1) add to the covenants and agreements of the City contained in the Ordinance, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the City in the Ordinance; (2) cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in the Ordinance, upon receipt by the City of an opinion of nationally recognized bond counsel, that the same is needed for such purpose, and will more clearly express the intent of the Ordinance; (3) supplement the security for the Bonds, replace or provide additional credit facilities, or change the form of the Bonds or make such other changes in the provisions of the Ordinance as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Bonds; (4) make any changes or amendments requested by any bond rating agency then rating or requested to rate Bonds Similarly Secured, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Bonds Similarly Secured; or (5) make such other changes in the provisions of the Ordinance as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of outstanding Previously Issued Bonds.

In addition, the City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance which may be deemed necessary or desirable by the City; except that, without consent of the registered owners of all of the outstanding Bonds, no such amendment, addition or rescission may (1) make any change in the maturity of the outstanding Bonds, (2) reduce the rate of interest borne by outstanding Bonds, (3) reduce the amount of the principal payable on outstanding Bonds, (4) modify the terms of payment of principal or of interest on the outstanding Bonds, or impose any conditions with respect to such payment, (5) affect the rights of the owners of less than all Bonds then outstanding; or (6) change the minimum percentage of the outstanding principal amount of Bonds necessary for consent to such amendment.

BONDHOLDERS' REMEDIES . . . In addition to all the rights and remedies provided by the laws of the State, the City covenants and agrees in the Ordinance that in the event the City (a) defaults in payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the Owner or Owners of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance. The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and financed by, the registered owners.

On April 1, 2016, the Texas Supreme Court ruled in Wasson Interests, Ltd. v. City of Jacksonville, 489 S.W. 3d 427 (Tex. 2016) (“Wasson”) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. 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. The Texas Supreme Court reviewed Wasson again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. If sovereign immunity is determined by a court to exist, then the Texas Supreme Court has ruled in Tooke v. City of Mexia, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or Ordinance covenants. Chapter 1371, which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its obligations. The City has relied upon Chapter 1371 in connection with the issuance of the Bonds, but the City has not waived sovereign immunity. 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.

The enforcement of a claim for payment of principal of or interest on the Bonds and the City’s other obligations with respect to the Bonds are subject to the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors of political subdivisions generally. The City may seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code (“Chapter 9”). Should the City become a debtor in a Chapter 9 bankruptcy proceeding, the owners of the Bonds would continue to have a lien on Net Revenues after the commencement of the bankruptcy case so long as the Net Revenues constitute “special revenues” within the meaning of the Bankruptcy Code. “Special revenues” are defined under the Bankruptcy Code to include, among other things, receipts by local governments from the ownership, operation or disposition of projects or systems that are primarily used to provide utility services. While the Net Revenues appear to be “special revenues,” no assurance can be given that a court would not determine otherwise. Bankruptcy courts are courts of equity and as such have broad discretionary powers. If Net Revenues do not constitute “special revenues,” there could be delays or reductions in payments by the City with respect to the Bonds.

If the City were to become a debtor in a proceeding under Chapter 9, the automatic stay of section 362 of the Bankruptcy Code would be applicable to the City’s proceedings, subject to certain possible exceptions. For example, the proceeding should not operate to stay application of pledged “special revenues” to the payment of indebtedness secured by such revenue. However, although the automatic stay has historically been understood not to stay the collection and application of such “special revenues” to payment of bonds secured by such special revenues, the bankruptcy court could possibly decide that (i) post-bankruptcy Bond payments by the City are merely optional and not mandatory under the special revenues provisions of the Bankruptcy Code and/or (ii) the automatic stay exception for special revenues in those provisions does not apply (including to possible enforcement actions by the owners of the Bonds) or is limited to amounts then in the possession of the owners of the Bonds. If the bankruptcy court were to interpret the Bankruptcy Code in that (or a similar) fashion, the parties to the proceeding may thus be prohibited from taking any action to collect the Net Revenues, or to enforce any related obligation connected with the Bonds, without the bankruptcy court’s permission.

Regardless of any specific determinations by a bankruptcy court in a City bankruptcy proceeding, the mere filing by the City for bankruptcy protection likely would have a material adverse effect on the marketability and market price of the Bonds. In addition, there may be delays or reductions in payments on the Bonds in a Chapter 9 proceeding, especially if the City does not voluntarily pay debt service on the Bonds as and when required by the Resolution.

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THE PUBLIC SERVICE BOARD

In the ordinances authorizing the outstanding Previously Issued Bonds and the Bonds, the City has delegated the complete authority and control of the management and operation of the System, during such time as any of such bonds are outstanding and unpaid, to a Board of Trustees known as the El Paso Water Utilities Public Service Board (the "Board" or "PSB").

MEMBERSHIP . . . The Board consists of seven citizens of the United States of America residing in El Paso County, Texas. The Mayor of the City is an ex-officio, voting member of the Board. The remaining six members of the Board are named by the City Council for four year terms.

TERM OF OFFICE AND FILLING OF VACANCIES . . . Each member of the Board serves for a term of four years, with such terms beginning as specified by the City Council Resolution appointing the member. Board members serve no more than two consecutive terms. A Board member whose term has expired serves until his or her successor qualifies and is appointed or until thirty days have passed, whichever occurs first. All vacancies in membership, whether occasioned by expiration of office or otherwise, are filled by appointment of the majority vote of the City Council from a slate of three persons eligible to serve as Board members and presented to the City Council by the Chair of the PSB Nominating Committee (the "Committee"). The Committee is chaired by the Mayor of the City and is comprised of the Board and such additional members as appointed by the City Council. If the City Council rejects all three names, three others are submitted in like manner, and so on until an appointment is made.

ORGANIZATION OF THE BOARD . . . The Board shall elect one of its own members as Chairman and one as Vice-Chairman and appoint a Secretary and a Treasurer or a Secretary-Treasurer, who may, but need not, be a member or members of the Board. The Board makes such regulations and by-laws for the orderly handling of its affairs as it sees fit.

POWERS AND DUTIES . . . The Board has complete authority and control of the management and operation of the System and the expenditure and application of its revenues and operates and manages the System with the same freedom and in the same manner as a board of directors of a private corporation operating properties of a similar nature. The Board elects or appoints all officers and employees which it may consider desirable. The Board has no authority to issue obligations such as the Bonds, or to convey real property; those rights are reserved to the City and the City Council.

As of February 28, 2021, the PSB owns a total of 170,159.86 acres of land, which includes 24,276.39 acres in El Paso County, 74,678.68 acres in the Texas Counties of Hudspeth, Presidio, Jeff Davis and Culberson, 70,336.34 acres in Dell City and 868.45 acres in New Mexico. Land owned by the PSB is essentially unimproved or farmable land that the PSB has purchased for its surface and ground water rights. On occasion, the PSB conveys tracts of land to private parties or to the City for use by other City departments, but retains the water rights, for various reasons, including to provide land to private developers for the construction of master planned communities throughout the City. All conveyances of land by the PSB are contingent on approval by the City Council.

Effective March 1, 2008, the PSB was given complete management and control of the System. The PSB's drainage functions are funded by a fee that appears on its customers' monthly water and wastewater bills. **Such fees are accounted for separately from revenues generated from the operation of the City's water and wastewater utility system. Revenues from the City's water and wastewater utility system which is also managed by the PSB are not revenues of the System and are not pledged to pay debt service on the Bonds, the Previously Issued Bonds or any Additional Bonds.**

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THE MUNICIPAL DRAINAGE UTILITY SYSTEM

HISTORY OF THE STORMWATER UTILITY . . . The City experienced extreme flooding in 2006, during a violent rainstorm (“Storm 2006”). The City was not prepared and the stormwater system had not been well maintained. Some storm drainage trunk lines, pump stations, channels and culverts were undersized, and some were in need of major maintenance or repair. As a result, stormwater runoff damaged much of the City’s infrastructure. Estimates are that the damage to public and private property totaled more than \$250 million.

The City conducted an assessment of stormwater management and organization following Storm 2006. The assessment found that City stormwater needs had not been adequately funded, and stormwater management, currently shared by several departments, would be better served by a centralized organization. Previously, stormwater services were funded by the City’s general fund. However, the assessment report recommended establishing a separate user fee to fund stormwater management functions and the City Council agreed. As a result, the City decided that it would create the System as a stand-alone and self-sufficient utility.

On June 19, 2007, the City of El Paso adopted Ordinance #016668 establishing a municipal drainage utility system. The ordinance states that the Public Service Board - El Paso Water Utilities shall have complete authority and control of the management and operation of the System on behalf of the City. The System is necessary and essential to ensure that the management and control of the stormwater runoff adequately protects the health, safety, and welfare of the citizens of the City. El Paso Water Utilities (“EPWater”) assumed full responsibility and control of the System, and began billing drainage fees to fund the operating and capital expenses of the System, as of March 1, 2008. City personnel, equipment, and all assets of the System including infrastructure and land were transferred to EPWater.

Ordinance #016668 further stated that the Board prepare a Master Stormwater Management Plan (the “Stormwater Plan”) which was approved by the City Council and took effect in March of 2009. In developing the Stormwater Plan, the Board considered the use of open space as natural drainage and to the extent reasonably possible to preserve the City’s open spaces, greenways, arroyos, and wilderness areas in their natural state. The Board shall also allocate an amount equal to 10% of the System’s annual drainage utility fee revenues for Green Projects which have the potential dual purposes of stormwater management and preservation of the City’s open spaces, greenways, arroyos, and wilderness areas. Since March 1, 2008 through February 28, 2022, \$26,250,134 has been set aside from 10% of revenues for Green Projects and as of February 28, 2022, \$23,860,940 has been spent including the following purchases:

- 1,052 acres for \$13,996,000 on January 3, 2022 through a payment plan, of which the first payment of \$2,000,000 has been made and the remainder to be paid back within six years,
- 1,107 acres for \$11,300,000 on July 23, 2019 through a payment plan, of which three payments have been made totaling \$8,500,000 and the remainder to be paid back within 5 to 10 years,
- 202.658 acres for \$2,465,000 on March 31, 2010,
- 140.799 acres for \$2,949,000 on July 14, 2015
- 69.63 acres for \$1,669,000 on November 6, 2015 and,
- Eight Park-Pond Conversions throughout the city for \$1,800,000.

Ordinance #016668 also requires that a drainage utility fee be imposed on each improved parcel within the City for services and facilities provided by the System, except as to exemptions provided for by law or by the ordinance. At least once a year the Board shall present to the City Council a report on the status of the System.

Ordinance #016668 also requires that the revenues collected from drainage utility fees must be segregated and completely identifiable from other City or Board accounts. The Board has adopted a debt service coverage ratio of 1.25 times the Average Annual Debt Service (as defined in the Bond Ordinance) for all bonds secured by a first lien on and pledge of the Net Revenues of the System which is included in the bond ordinances for such bonds.

FACILITIES . . . Following Storm 2006, an evaluation identified extensive damage to the stormwater system. The City began repairing the most severely damaged items and EPWater is responsible for the remaining projects, as well as the operation and maintenance of the System and the construction projects needed to reach an adequate level of service.

The facilities EPWater is responsible for operating and maintaining include:

- 22 stormwater pump stations
- 457 ponds comprising 1,856 acres
- 41 dams and basins comprising 2,430 acres
- 71 miles of channels
- 9 miles of agricultural drains
- 347 miles of storm drain conduits
- 7,510 storm drain drop inlets

TABLE 1 – CURRENT DRAINAGE FEES (EFFECTIVE MARCH 1, 2022)

RESIDENTIAL PROPERTIES: (INCLUDING DUPLEXES AND TRIPLEXES):

<u>Residential Category</u>	<u>Impervious Area (Square Feet)</u>	<u>Stormwater Monthly Charge</u>
Small	1 - 1,200	\$2.46
Typical	1,201 - 3,000	\$4.92
Large	3,001+	\$9.83

Residential properties may be assigned to the Small, Typical, or Large category using data obtained from the El Paso Central Appraisal District, the Board’s GIS database, or any other source deemed reasonable by the Board.

STORMWATER CHARGE FOR NON-RESIDENTIAL

Non-residential properties shall include apartments, commercial, and industrial customers, and any other customer class not designated as residential but excluding those subject to mandatory exemption. Non-residential properties shall be charged for their estimated impervious square footage on a per Equivalent Residential Unit (“ERU”) basis. The ERUs shall be determined by dividing the property’s estimated impervious square footage by 2,000 square feet. The monthly charge per non-residential ERU is \$5.01.

<u>Non-Residential Properties</u>	<u>Units of Measurement</u>	<u>Monthly Fee</u>
All	Each 2,000 sq. ft. of impervious area	\$ 5.01

An example of the monthly stormwater bill for a non-residential property is shown below:

Non-residential impervious square footage	20,000 sq. ft.
Equivalent residential unit value	<u>2,000</u> sq. ft.
Equals calculated ERUs	10 ERUs
Monthly charge (10 ERUs x \$5.01/ERU/Mo.)	\$50.10

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DEBT INFORMATION

TABLE 2 – MUNICIPAL DRAINAGE REVENUE DEBT SERVICE REQUIREMENTS

Fiscal Year Ending	Outstanding Debt Service ⁽¹⁾			The Bonds			Grand Total Requirements	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
	2/28							
2023	\$ 6,073,000	\$ 4,185,966	\$ 10,258,966	\$ -	\$ 263,460	\$ 263,460	\$ 10,522,426	
2024	6,633,000	3,896,846	10,529,846	-	1,129,113	1,129,113	11,658,959	
2025	6,913,000	3,604,756	10,517,756	250,000	1,122,863	1,372,863	11,890,619	
2026	7,212,000	3,296,381	10,508,381	500,000	1,104,113	1,604,113	12,112,494	
2027	7,827,000	2,968,531	10,795,531	500,000	1,079,113	1,579,113	12,374,644	27.11%
2028	8,242,000	2,619,351	10,861,351	500,000	1,054,113	1,554,113	12,415,464	
2029	8,667,000	2,249,596	10,916,596	500,000	1,029,113	1,529,113	12,445,709	
2030	9,127,000	1,879,926	11,006,926	500,000	1,004,113	1,504,113	12,511,039	
2031	5,297,000	1,599,201	6,896,201	1,190,000	961,863	2,151,863	9,048,064	
2032	5,497,000	1,392,161	6,889,161	1,250,000	900,863	2,150,863	9,040,024	57.89%
2033	5,595,000	1,175,706	6,770,706	1,315,000	836,738	2,151,738	8,922,444	
2034	4,810,000	960,931	5,770,931	1,380,000	769,363	2,149,363	7,920,294	
2035	5,015,000	742,956	5,757,956	1,450,000	698,613	2,148,613	7,906,569	
2036	5,255,000	513,381	5,768,381	1,520,000	624,363	2,144,363	7,912,744	
2037	3,730,000	325,431	4,055,431	1,595,000	546,488	2,141,488	6,196,919	81.79%
2038	2,235,000	213,481	2,448,481	1,675,000	464,738	2,139,738	4,588,219	
2039	2,310,000	138,006	2,448,006	1,760,000	383,263	2,143,263	4,591,269	
2040	2,385,000	69,631	2,454,631	1,840,000	302,263	2,142,263	4,596,894	
2041	1,200,000	28,081	1,228,081	1,920,000	217,663	2,137,663	3,365,744	
2042	1,220,000	9,616	1,229,616	2,010,000	131,750	2,141,750	3,371,366	95.80%
2043	315,000	-	315,000	2,095,000	44,519	2,139,519	2,454,519	
2044	315,000	-	315,000	-	-	-	315,000	
2045	315,000	-	315,000	-	-	-	315,000	
2046	315,000	-	315,000	-	-	-	315,000	
2047	315,000	-	315,000	-	-	-	315,000	98.57%
2048	315,000	-	315,000	-	-	-	315,000	
2049	315,000	-	315,000	-	-	-	315,000	
2050	315,000	-	315,000	-	-	-	315,000	
2051	315,000	-	315,000	-	-	-	315,000	
2052	315,000	-	315,000	-	-	-	315,000	99.76%
2053	<u>315,000</u>	<u>-</u>	<u>315,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>315,000</u>	100.00%
	<u>\$ 108,708,000</u>	<u>\$ 31,869,940</u>	<u>\$ 140,577,940</u>	<u>\$ 23,750,000</u>	<u>\$ 14,668,478</u>	<u>\$ 38,418,478</u>	<u>\$ 178,996,418</u>	

(1) "Outstanding Debt Service" includes all Previously Issued Bonds but does not include the Revolving Notes which are authorized to be outstanding from time to time in a principal amount up to \$25,000,000. The City currently has \$25,000,000 in principal amount of outstanding Revolving Notes, which will be refunded with proceeds of the Bonds.

AUTHORIZED BUT UNISSUED REVENUE BONDS

Pursuant to State law, the City is not required to obtain voter approval of the issuance of its revenue bonds through an election. The City may issue Additional Bonds secured by the Net Revenues of the System in accordance with the terms of the Ordinance, as described herein. See "SELECTED PROVISIONS OF THE BOND ORDINANCE." Additionally, the City may issue Revolving Notes secured by a subordinate lien on the Net Revenues of the System as described below. The City does not anticipate issuing any Additional Bonds during the fiscal year ending on February 28, 2023, to finance improvements to the System. The City may, however, issue Additional Bonds to refund Revolving Notes issued during the fiscal year ending on February 28, 2023, to the extent necessary. The City anticipates issuing additional Revolving Notes during the fiscal year ending on February 28, 2023, as described below.

ANTICIPATED ISSUANCE OF REVOLVING NOTES. . . The City Council of the City authorized the "City of El Paso, Texas Municipal Drainage Utility System Revolving Note Private Placement Program" (the "Program") pursuant to an ordinance adopted on May 15, 2018. The City issues tax-exempt and/or taxable Revolving Notes pursuant to the Program as a means to finance, on an interim basis, capital improvements to the System. The City has authorized the issuance of Revolving Notes in an aggregate principal amount not to exceed \$25,000,000; provided, however, no Revolving Notes shall be issued unless there exists and is then in effect one or more note purchase agreements and then, Revolving Notes shall never be issued in a principal amount that exceeds the commitment amount the "Note Purchaser" is obligated to purchase from time to time under such note purchase agreement.

The City entered into a Note Purchase Agreement, dated June 19, 2018 (the "Note Purchase Agreement"), with Bank of America, N.A. ("Bank of America"). The Note Purchase Agreement provides that Bank of America will purchase Revolving Notes, in an amount not-to-exceed \$25,000,000. Pursuant to the Note Purchase Agreement, each Revolving Note shall mature not later than the earlier of (a) three hundred sixty-four (364) days following the purchase date, and (b) the Commitment Expiration Date (defined herein). Bank of America's commitment to purchase Revolving Notes expires on June 19, 2023 (the "Commitment Expiration Date"), unless extended pursuant to the Note Purchase Agreement.

The ordinance authorizing the issuance of the Revolving Notes provides that the Revolving Notes are secured by a lien on and pledge of Net Revenues, subordinate to the lien on and pledge of Net Revenues securing the Previously Issued Bonds, the Bonds, and any Additional Bonds hereafter issued. The ordinance authorizing the issuance of the Revolving Notes also provides that the Revolving Notes are intended to be bond anticipation notes and that the City in good faith shall endeavor to sell a sufficient principal amount of Additional Bonds in order to have funds available, together with other lawfully available funds, to pay the Revolving Notes and the interest thereon, or any obligations created under the Note Purchase Agreement, as the same shall become due. The City does not reasonably expect to pay principal of the Revolving Notes from Net Revenues; however, the Board covenanted in the ordinance authorizing the issuance of the Revolving Notes that it will establish and maintain rates for the services supplied by the System which shall produce or yield Net Revenues equal to 1.00 times the annual principal and interest requirements of the Outstanding Revolving Notes plus all Note Purchase Agreement Costs (as defined in the ordinance authorizing the issuance of the Revolving Notes). The City's debt management policy provides that any Revolving Notes will be refunded by issuing Additional Bonds when dictated by economic and business conditions. It is the City's practice to refund Revolving Notes by issuing Additional Bonds approximately every 12 to 24 months.

As of the date of this Official Statement, tax-exempt Revolving Notes in the aggregate principal amount of \$25,000,000 are outstanding, all of which is expected to be refunded with the proceeds of the Bonds. As of the date of this Official Statement, the City anticipates issuing Revolving Notes in the aggregate principal amount of \$25,000,000 during the PSB's fiscal year ending on February 28, 2023, to finance various System improvements.

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EMPLOYEE BENEFIT OBLIGATIONS

PENSION PLANS

The employees of the City and El Paso Water Utilities (EPWater) participate in one of two single-employer defined benefit pension plans: the City Employees' Retirement Trust (CERT) and the Firemen and Policemen's Pension Funds (FPPF), which consists of separate divisions for firemen (FPPF-Firemen Division) and policemen (FPPF-Policemen Division). Separate boards of trustees administer these pension plans as described in Note 1 of Appendix B attached hereto (CERT Board and FPPF Board, respectively).

The CERT was established in accordance with authority granted by Chapter 2.64 of the El Paso City Code and is a component unit (fiduciary fund type) of the City. The FPPF was established in accordance with authority granted by Article 6243b of *Vernon's Annotated Texas Statutes* and is a component unit (fiduciary fund type) of the City. Each pension plan issues stand-alone financial statements that may be obtained from the respective funds' administrative offices.

The total for all plans of the reporting entity's (City and the Utility) pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense is as follows:

	CERT	FPPF		Total
		Firemen	Policemen	
Net Pension Liability	\$ 205,486,375	\$ 131,956,078	\$ 188,706,273	\$ 526,148,726
Deferred outflows of resources				
Contributions	25,416,971	9,971,753	13,047,973	48,436,697
Change in Experience	10,161,325	4,986,988	6,633,956	21,782,269
Change in Assumptions	8,173,133	2,538,067	1,674,791	12,385,991
Deferred inflows of resources				
Investment Earnings	11,501,884	43,146,112	66,420,978	121,068,974
Change in Experience	4,944,016	2,689,395	-	7,633,411
Pension Expense	\$ 27,455,579	\$ 3,969,522	\$ 1,220,249	\$ 32,645,350

The CERT amounts include an allocated portion for the City (80.1%) and EPWater (19.9%).

MEMBERSHIP

Membership of each plan as of the measurement date consisted of the following:

	August 31, 2021	December 31, 2020	
	CERT	FPPF-Firemen Division	FPPF-Policemen Division
	Retirees and beneficiaries receiving benefits	3,719	790
Terminated plan members entitled to but not yet receiving benefits	213	4	15
Active plan members	4,154	881	1,185
Total	8,086	1,675	2,303

PLAN DESCRIPTION

Substantially all full-time employees of the City are eligible to participate in the retirement plan, except for uniformed firefighters and police officers who are covered under separate plans. Non-employer contributions are limited to participating employees of the CERT.

The designated purpose of the CERT is to provide retirement, death, and disability benefits to participants or their beneficiaries. The CERT is administered by the CERT Board, which is comprised of two citizens designated by the Mayor who are not officers or employees of the City, four elected City employees, a retiree, and two members of City Council, one of whom may include the Mayor. The CERT Board contracts with an independent pension custodian, investment managers, a pension consultant and an actuary to assist in managing the CERT.

The City is the only contributing employer. The CERT pays direct administrative costs. The City provides indirect administrative support such as office space, utilities, and payroll processing at no charge to the CERT. The CERT reimburses the City for various direct costs of processing pension checks, such as postage and supplies.

The CERT is not required to maintain any legally required reserves.

Participation is mandatory for classified employees (except permanent part-time employees). For non-classified employees, participation is mandatory for employees hired after July 1997. Classified employees include all persons who are permanent, full-time employees and are not otherwise excluded from the CERT.

Members who were first participants prior to September 1, 2011, accrue benefits based on Tier I provisions as follows:

- Participants who leave the Plan before completion of five years of service receive a refund of their contributions. Participants leaving the Plan with more than five years but less than 10 years of service may receive a refund of their contributions plus interest at 5.5% compounded annually. Participants become fully vested after reaching 40 years of age and ten years of service or 45 years of age and seven years of service. Normal retirement is the earlier of: (i) 55 years of age with ten years of service, or (ii) 60 years of age with seven years of service or (iii) 30 years of service, regardless of age. Participants who have met the minimum vesting requirements may retire, but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.5% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, or 2.5% of the average monthly base salary received by the employee during the year immediately prior to retirement, or 2.5% of the monthly base salary pay for the month immediately prior to retirement, whichever is greater, multiplied by the number of completed years of service, plus 0.2083 of 1% of such average for each additional completed or fractional part of a month of service.

Members who were first participants on or after September 1, 2011, accrue benefits based on Tier II provisions as follows:

- Participants who leave the Plan before completion of seven years of service receive a refund of their contributions. Participants leaving the Plan with more than seven years but less than 10 years of service may receive a refund of their contributions plus interest at 3% compounded annually. Participants become fully vested after reaching 45 years of age and seven years of service. Normal retirement is the earlier of: (i) 60 years of age with seven years of service, or (ii) 35 years of service, regardless of age. Participants who have met the minimum vesting requirements may retire, but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.25% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, multiplied by the number of completed years of service, plus .1875 of 1% of such average for each additional completed or fractional part of a month of service, limited to 90% of the three-year average final pay. A pension benefit is available to surviving spouses and dependents. The Plan includes no automatic increase in retirement benefits. However, the Board, at its discretion after consideration of a recent actuarial review of the funding status, may provide ad-hoc cost of living or other increases in retirement benefits.

BASIS OF ACCOUNTING

The accounting policies of the CERT have been established to conform to GAAP for state and local governments as promulgated by authoritative pronouncements issued by the GASB. The CERT is accounted for on an economic resources measurement focus using the accrual basis of accounting.

The preparation of financial statements in conformity with GAAP requires the CERT's management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results may differ from those estimates.

METHOD USED TO VALUE INVESTMENTS

Investments are stated at fair value in the accompanying statement of fiduciary net position. The fair value of marketable investments, including U.S. government securities, corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at statements of fiduciary net position dates. The fair value of investments in bank collective investment funds, commingled funds, real estate investment funds and private equity limited partnerships are determined by the investment managers based on the fair values of the underlying securities in the funds. In general, the fair value of the underlying securities held in the real estate investment funds are based upon property appraisal reports prepared by independent real estate appraisers (members of the Appraisal Institute or an equivalent organization) within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter.

In general, the fair value of the underlying securities held in the private equity limited partnerships are based on GASB 72 - *Fair Value Measurements and Disclosures*, and limited partnership financial statements are audited by independent certified public accountants. Bank collective investment funds are governed by Section 9.18 of Regulation 9 issued by the Office of Comptroller of the Currency and by other applicable regulations as defined by the Mellon Bank, N.A. Employee Benefit Collective Investment Fund Plan.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net appreciation (depreciation) in fair value of investments reflected in the accompanying statements of changes in fiduciary net position represents gains or losses realized during the year plus or minus the change in the net unrealized gains or losses on investments. The change in net unrealized gains or losses on investments represents the change in the difference between the cost and fair value of investments at the beginning versus the end of the fiscal year.

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Contribution rates for the CERT are based upon City ordinance chapter 2.64.190 and are not actuarially determined. However, each time a new actuarial valuation is performed, contribution requirements are compared to the actuarially determined amount necessary to fund service costs and amortize the unfunded actuarial accrued liability (using entry-age-normal cost method) over thirty years. As of the most recent actuarial valuation, the contribution rate was 23.00% of annual covered payroll.

Contributions for the City’s fiscal year ended August 31, 2021, were made as follows:

	<u>Amount</u>	<u>Stated Percentage of Covered Payroll</u>
Employer contribution	\$ 25,416,971	14.05%
Employee contributions	<u>16,114,139</u>	<u>8.95%</u>
Total contributions	<u>\$ 41,531,110</u>	<u>23.00%</u>

ACTUARIAL METHODS AND ASSUMPTIONS:

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the August 31, 2020 rolled forward to August 31, 2021 actuarial valuation, the entry age normal cost method was used. The actuarial value of pension benefit assets was determined using techniques that spread the effects of short-term volatility in the fair value of investments over a fiveyear period. The actuarial assumptions included a 7.25% investment rate of return (net of administrative expenses), projected salary increases of 3.00%, which includes an inflation rate of 3.00% and no costs of living increases. The investment rate of return used by the actuary has decreased from 7.5% used at August 31, 2020 to better align with actual experience. The remaining amortization period at August 31, 2020, was 20 years using a level percent, open basis, amortization period. The mortality assumption was based on the RP-2014 employee tables with Blue Collar adjustment projected to 2030 using Scale BB. Mortality rates for disabled participants are based on the RP-2014 tables for Disabled Lives. Retirement, disability, and termination rates were adjusted to reflect experience.

The long-term expected rate of return on pension fund investments was determined using a buildingblock method in which best-estimate ranges of 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. Best estimates of arithmetic real rates of return for each major asset class included in the CERT’s target asset allocation as of August 31, 2021 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Domestic equity	6.98%
International equity	5.27%
Fixed income	1.07%
Real estate	5.73%
Private Equity	9.65%
Alternatives	4.48%

DISCOUNT RATE: The discount rate used to measure the total pension liability was 7.25 percent. Based on plan funding expectations, no actuarial projection of cash flows was made as the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members.

Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

The City's net pension liability as of August 31, 2021 was measured as of August 31, 2020, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2020 rolled forward to August 31, 2021.

Changes in the total pension liability, plan fiduciary net position and the net pension liability through the respective fiscal years ended, are as follows for the CERT, as determined by the City at August 31, 2021:

<u>Changes in Net Pension Liability - City Employees Retirement Trust</u>			
	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability (a)</u>	<u>Fiduciary Net Position (b)</u>	<u>Net Pension Liability (a) - (b)</u>
Balances as of 9/1/20	\$ 1,054,386,823	\$ 802,755,755	\$ 251,631,068
Changes for the year:			
Service Cost	21,392,493	-	21,392,493
Interest on total pension liability	78,073,447	-	78,073,447
Benefit Payments	(70,376,992)	(70,376,992)	-
Employer contributions	-	25,296,642	(25,296,642)
Plan Member contributions	-	16,114,139	(16,114,139)
Net investment income (loss)	-	102,470,526	(102,470,526)
Administrative expense	-	(2,138,910)	2,138,910
Other	-	3,868,236	(3,868,236)
Net Changes	<u>\$ 29,088,948</u>	<u>\$ 75,233,641</u>	<u>\$ (46,144,693)</u>
Balances as of 8/31/21	<u>\$ 1,083,475,771</u>	<u>\$ 877,989,396</u>	<u>\$ 205,486,375</u>

SENSITIVITY TO INTEREST RATE CHANGES: The following presents the resulting net pension liability as of August 31, 2021 calculated using the discount rate of 7.25%, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percent lower or one-percent higher than the current rate.

	<u>1% Decrease (6.25%)</u>	<u>Current Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
City's net pension liability	\$ 329,212,527	\$ 205,486,375	\$ 101,630,933

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO PENSIONS

For the year ended August 31, 2021, the City recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$21,991,919 for the City and \$5,463,660 for EPWater. The reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the City Employees Retirement Trust in total and as apportioned to the City and EPWater, as determined by the City at August 31, 2021:

City Employees' Retirement Trust	Deferred Outflows of of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 10,161,325	\$ 4,944,016
Difference between expected and actual investment earnings on plan investments	-	11,501,884
Change in Assumptions for Pensions	8,173,133	-
Contributions subsequent to the measurement date	<u>25,416,971</u>	<u>-</u>
Total City Employees' Pension Plan	<u>\$ 43,751,429</u>	<u>\$ 16,445,900</u>

City	Deferred Outflows of of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 8,139,223	\$ 3,960,156
Difference between expected and actual investment earnings on plan investments	-	9,213,009
Change in assumptions for pensions	6,546,681	-
Contributions subsequent to the measurement date	<u>20,358,992</u>	<u>-</u>
Total City	<u>\$ 35,044,896</u>	<u>\$ 13,173,165</u>

EPWater	Deferred Outflows of of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 2,022,102	\$ 983,860
Difference between expected and actual investment earnings on plan investments	-	2,288,875
Change in Assumptions for Pensions	1,626,452	-
Contributions subsequent to the measurement date	<u>5,057,979</u>	<u>-</u>
Total EPWater	<u>\$ 8,706,533</u>	<u>\$ 3,272,735</u>

An amount of \$25.4 million reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date but before the end of the City's reporting period will be recognized as a reduction in the net pension liability in the subsequent fiscal period rather than in the current fiscal period.

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

Ending August 31	Total	City	EPWater
2022	\$ 746,001	\$ 597,547	\$ 148,454
2023	3,625,427	2,903,967	721,460
2024	4,505,884	3,609,213	896,671
2025	(7,319,018)	(5,862,533)	(1,456,485)
2026	244,641	195,957	48,684
Thereafter	<u>85,623</u>	<u>68,584</u>	<u>17,039</u>
Total	<u>\$ 1,888,558</u>	<u>\$ 1,512,735</u>	<u>\$ 375,823</u>

FIRE AND POLICE PENSION FUND

PLAN DESCRIPTION

The designated purpose of the FPPF is to provide retirement, death and disability benefits to participants or their beneficiaries.

The FPPF is a defined benefit pension plan covering uniformed firefighters and police officers employed by the City of El Paso. Non-employer contributions are limited to participating employees. The City of El Paso is the only participating employer. The City's contributions to the FPPF are limited to 18.50% of compensation as provided by the City Charter. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of the legal funding limitations.

The FPPF – Firemen Division is a defined benefit, contributory retirement plan covering uniformed employees of the Fire Department. Participants are required to contribute 16.912% of their compensation to the FPPF.

The FPPF – Policemen Division is a defined benefit, contributory retirement plan covering uniformed employees of the Police Department. Participants are required to contribute 16.356% of their compensation to the FPPF.

Under both divisions, membership is mandatory and effective upon commencement of the probationary period. Participant contributions are not refunded if a participant terminates with less than five years of service and all benefits under the FPPF are terminated. Participant contributions (without interest) are refunded upon request if a participant terminates with five or more years of service but less than twenty years of service. All benefits under the FPPF are terminated if contributions are refunded.

Benefits are calculated as follows for the Base Plan and Second Tier Plan. Any member originally enrolled on July 1, 2007 or thereafter is automatically enrolled in the Second Tier Plan.

a. Base Plan

Retirement benefits for members with at least 20 years of vested service and the attainment of age 45 or more are calculated at 2.75% of the member's final 36-month average wages, excluding overtime, multiplied by years of service, not to exceed 28 years. Retirement benefits for members with at least 20 years of vested service, under the age of 45 are calculated at 2.75% of the member's final wages multiplied by years of service reduced by a factor proportionate to the number of months and years below the age 45. Retirement benefits for members with at least 10 years of vested service and at least 50 years of age are calculated at 2.75% of the member's final wages.

Plan members are eligible for service-connected disability benefits and for ordinary disability benefits. Disability retirement benefits are calculated as the greater of 50% of the member's final wages or 2.75% of the member's final wages multiplied by years of service.

Death benefits are calculated as the greater of 50% of the member's final wages or the calculation of a retiree as mentioned in the preceding paragraph.

A qualified spouse with no qualifying children is entitled to receive 100% of member's death benefit. If there are qualifying children, a qualified spouse receives two-thirds of the death benefit and qualified children equally share the remaining third. If there is no qualifying spouse, then the qualifying children are entitled to equally share two-thirds of the member's death benefit.

Cost-of-living adjustment (COLA) are provided upon the earlier of the retiree having attained age 60 or the fifth anniversary for firemen or second anniversary for policemen of the pension commencement date and on each January 1st thereafter.

b. Second Tier Plan

Retirement benefits for members with at least 20 years of vesting service and the attainment of age 45 or more are calculated at 2.50% of the member's final wages multiplied by years of credited service. Retirement benefits for members with at least 10 years of vesting service, but less than 20 years of vesting service, and attainment of age 50 or more are calculated at 2.50% of the member's final wages multiplied by the member's years of credited service.

Plan members are eligible for service-connected disability benefits and for ordinary disability benefits. Disability retirement benefits are calculated as the greater of 50% of the member's final wages or 2.50% of the member's final wages multiplied by years of credited service. Death benefits are calculated as the greater of 50% of the member's final wages or 75% of the calculation of a retiree as mentioned in the preceding paragraph. A qualified spouse with no qualifying children is entitled to receive 100% of member's death benefit. If there are qualifying children, a qualified spouse receives two-thirds of the death benefit and qualified children equally share the remaining third. If there is no qualifying spouse, then the qualifying children are entitled to equally share two-thirds of the member's death benefit. COLAs are not provided to retirees under the Second Tier Plan.

The FPPF is maintained under the provisions of Article 6243b of Vernon's Annotated Texas Statutes. All current FPPF provisions are set forth in the City of El Paso Firemen and Policemen's Pension Fund Plan Document as Restated Effective July 1, 2007. Benefit provisions, contribution obligations and funding policy of the Fund are established and amended in accordance with authority granted by Article 6243b of Vernon's Annotated Texas Statutes. The costs of administering the Fund are paid out of the Fund's assets. The complete Plan Document containing benefit and vesting provision in their entity is available at the Pension office.

c. Deferred Retirement Option Program (DROP)

Base Plan and Second Tier Plan members who are at least 45 years old with at least 20 years of credited service are eligible to participate in a Forward DROP by an irrevocable written election. At the date participation in the Forward DROP begins, the participant's years of credited service and average final compensation become frozen for purposes of determining pension benefits. The participant is considered retired related to the Fund and does not accrue additional retirement benefits, except for annual benefit cost-of-living adjustments, if applicable. Upon retirement, the participant receives the lump sum of the total of the monthly retirement benefits between the benefit computation date and the retirement date and then begins receiving the monthly benefit.

Each Forward DROP participant's monthly pension is tracked by an individual DROP account between the date participation in the Forward DROP begins and the retirement date and accrued as a liability on the statement of fiduciary net position. Forward DROP balances are not credited with investment gains and losses. As of December 31, 2020, the DROP payable totaled \$54,112,878.

BASIS OF ACCOUNTING

The accounting policies of the Fund have been established to conform to GAAP for state and local governments as promulgated by authoritative pronouncements issued by GASB. The Fund is accounted for on an economic resources measurement focus using the accrual basis of accounting.

METHOD USED TO VALUE INVESTMENTS

Investments are stated at fair value in the accompanying statements of fiduciary net position. The fair value of marketable investments is determined by the latest bid price, closing exchange price at year end, institutional bid evaluation or NAV as considered appropriate for each investment type by the Custodian. The estimated fair value of alternative investments is based on the most recent valuations provided by the external investment managers. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Third-party investment managers administer substantially all marketable securities of the Fund. Gains and losses resulting from securities transactions are recorded in investment income.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net change in fair value of investments reflected in the accompanying statements of changes in fiduciary net position available for benefits represents the net realized and unrealized gains or losses on investments, which equals the difference between the cost and the fair value of investments at the beginning versus the end of the year, plus or minus gains or losses realized during the year.

CONTRIBUTIONS REQUIRED AND CONTRIBUTIONS MADE

Funding policies providing for periodic employer contributions are determined by City Charter, and employee contributions are established by the Board of Trustees and a vote of active participants in accordance with Article 6243b (Act) of Vernon's Annotated Texas Statutes. Actuarial valuations are prepared biennially for the Fund.

In the event, based upon the results of the actuarial valuations, a qualified actuary determines that the total contribution rate is insufficient to amortize an unfunded actuarial accrued liability, the City's governing body may increase its contribution rate.

Based upon the results of the actuarial evaluations, if present contribution requirements are insufficient to accumulate sufficient assets to amortize the unfunded actuarial accrued liability, the FPPF's Board of Trustees, after approval by secret ballot of the rank and file policemen or firemen, could increase participant contributions or decrease participant benefits to maintain the actuarial integrity of the system. The City's contribution is determined by a formula set forth in the City Charter.

Employer contributions for the year ended December 31, 2020 were \$13,517,944 and \$18,207,371 for the Firemen and Policemen Divisions, respectively.

ACTUARIAL METHODS AND ASSUMPTIONS

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the January 1, 2020 actuarial valuations used in the determination of the total pension liability at December 31, 2020, the measurement date, the entry age normal cost method was used. The actuarial value of pension benefit assets was determined using techniques that spread the effects of short-term volatility in the fair value of investments over a five-year period.

The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses), projected salary increases of 3% to 4%, which includes an inflation rate of 3% per year. A 3% COLA is provided at age 60 or on the fifth anniversary of the

pension commencement. Mortality rates were based on the RP-2014 employee tables with Blue Collar adjustment projected to be 2030 using scale BB. Mortality rates for the disabled participants are based on the RP-2014 Tables for Disabled Lives.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

<u>Equities</u>	Long-term	Target
	Expected Real Rate of Return	Allocation
Large cap domestic	5.81%	19.25%
Small cap domestic	6.00%	8.25%
International Equity	6.32%	22.50%
Emerging markets	7.70%	5.00%
Real estate	3.92%	10.00%
Private equity	6.75%	10.00%
Fixed Income		
Domestic core	2.07%	20.00%
Bank loans	2.45%	5.00%

DISCOUNT RATE: The discount rate used to measure the total pension liability was 7.75 percent. Based on plan funding expectations, no actuarial projection of cash flows was made as the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

Changes in the total pension liability, plan fiduciary net position and the net pension liability through the year ended August 31, 2021 were as follows:

<u>Firemen Division</u>			
	Total Pension	Plan Fiduciary	Net Pension
	<u>Liability (a)</u>	<u>Net Position (b)</u>	<u>Liability (a) - (b)</u>
Amounts as of January 1, 2020	\$ 804,949,140	\$ 645,011,835	\$ 159,937,305
Changes for the year:			
Service Cost	11,578,406	-	11,578,406
Interest (on the total pension liability)	61,590,207	-	61,590,207
Difference between expected and actual experience	-	-	-
Contributions by the City	-	13,517,944	(13,517,944)
Contributions by the firefighters	-	11,944,142	(11,944,142)
Net investment income	-	76,619,340	(76,619,340)
Benefit payments	(43,630,409)	(43,630,409)	-
Administrative expenses	-	(931,586)	931,586
Net Changes	<u>29,538,204</u>	<u>57,519,431</u>	<u>(27,981,227)</u>
Amounts as of December 31, 2020	<u>\$ 834,487,344</u>	<u>\$ 702,531,266</u>	<u>\$ 131,956,078</u>

Policemen Division			
	Total Pension	Plan Fiduciary	Net Pension
	<u>Liability (a)</u>	<u>Net Position (b)</u>	<u>Liability (a) - (b)</u>
Amounts as of January 1, 2020	\$ 1,164,435,840	\$ 935,185,893	\$ 229,249,947
Changes for the year:			
Service Cost	15,976,093	-	15,976,093
Interest (on the total pension liability)	89,009,051	-	89,009,051
Difference between expected and actual experience	-	-	-
Contributions by the City	-	18,207,371	(18,207,371)
Contributions by the Policemen	-	15,774,848	(15,774,848)
Net investment income	-	112,500,498	(112,500,498)
Benefit payments	(63,816,110)	(63,816,110)	-
Administrative expenses	-	(953,899)	953,899
Net Changes	<u>41,169,034</u>	<u>81,712,708</u>	<u>(40,543,674)</u>
Amounts as of December 31, 2020	<u>\$ 1,205,604,874</u>	<u>\$ 1,016,898,601</u>	<u>\$ 188,706,273</u>

SENSITIVITY TO INTEREST RATE CHANGES: The following table presents the resulting net pension liability calculated using the discount rate of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is one-percent lower or one-percent point higher than the current rate:

Firemen Division		
1% Decrease (6.75%)	Current Single Rate Assumption (7.75%)	1% Increase (8.75%)
\$246,349,947	\$131,956,078	\$38,735,546

Policemen Division		
1% Decrease (6.75%)	Current Single Rate Assumption (7.75%)	1% Increase (8.75%)
\$353,099,527	\$188,706,273	\$54,537,887

PENSION EXPENSE AND DEFERRED OUTFLOWS OF RESOURCES AND DEFERRED INFLOWS OF RESOURCES RELATED TO THE PLAN: For the year ended August 31, 2021, the City recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$3,969,522 for firemen division and \$1,220,249 for policemen division, and reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

Firemen Division		
	Deferred Outflows of of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 43,146,112
Change in assumptions	2,538,067	-
Difference between expected and actual experience	4,986,988	2,689,395
Contribution subsequent to measurement date	<u>9,971,753</u>	<u>-</u>
	<u>\$ 17,496,808</u>	<u>\$ 45,835,507</u>

Policemen Division		
	Deferred Outflows of of Resources	Deferred Inflows of Resources
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ 66,420,978
Change in assumptions	1,674,791	-
Difference between expected and actual experience	6,633,956	-
Contribution subsequent to measurement date	<u>13,047,973</u>	<u>-</u>
	<u>\$ 21,356,720</u>	<u>\$ 66,420,978</u>

Contributions of \$23,019,726 were reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date but before the end of the City's reporting period will be recognized as a reduction in the net pension liability in the subsequent fiscal period rather than in the current fiscal period.

Other amounts reported as deferred inflows of resources related to the plan will be recognized in pension expense as follows:

Year Ending <u>August 31</u>	Policemen <u>Division</u>	Firemen <u>Division</u>
2022	\$ (14,348,036)	\$ (9,717,097)
2023	(6,750,841)	(2,431,856)
2024	(28,770,030)	(20,535,057)
2025	<u>(8,243,324)</u>	<u>(5,626,441)</u>
-	\$ (58,112,231)	\$ (38,310,451)

OTHER POST EMPLOYMENT BENEFITS

Plan Description: The City sponsors and administers an informal single-employer defined benefit OPEB plan for healthcare. Texas statute provides that retirees from a municipality with a population of 25,000 or more and who receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the retiree and the retiree's dependents unless the retiree is eligible for group health benefits coverage through another employer. The State has the authority to establish and amend the requirements of this statute. The City does not issue standalone financial statements of the healthcare plan but all required information is presented in this report.

Benefits Provided: The contribution requirements of plan members are established by City ordinance and may be amended as needed. Retiree coverage is the same as the coverage provided to active City employees. Retirees pay premiums range from \$402.38 per month to \$2,470.78 per month depending on the coverage elected. The City's adopted budget policy maintains that retirees must pay 45% of the cost of premiums and the City will fund the remaining 55%. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Employees Covered by Benefit Terms: At August 31, 2021, the following employees were covered by the benefit terms of the OPEB plan:

Inactive employees currently receiving benefits	934
Inactive employees entitled to but not yet receiving benefits payment	-
Active employees	<u>4,180</u>
Total	<u><u>5,114</u></u>

Total OPEB Liability: The City's total OPEB liability of \$168,416,162 was measured as of August 31, 2021, and was determined by an actuarial valuation as of August 31, 2020.

Actuarial Assumptions and Other Inputs: Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The City's total OPEB liability in the August 31, 2020 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Inflation:	2.20 percent
Salary Increases:	3.25 percent
Discount Rate:	1.95 percent
Healthcare Cost Trend Rates:	Initial rates are based on actual changes in the fully-insured premiums

The discount rate was based on the August 31, 2021 Fidelity Municipal General Obligation AA 20- Year Yield.

Mortality rates for active employees were based on the Pub G.H-2010 (general employees) and Pub S.H-2010 (public safety) Employee and Retiree Mortality Tables, Generational with Projection Scale MP-2021 for males or females, as appropriate.

The following table shows the changes in the City's total OPEB liability.

	<u>Total OPEB Liability</u>
Balance at 08/31/2020	\$ 156,786,139
Changes for the Year:	
Service Cost	3,314,886
Interest	3,694,725
Differences Between Expected and Actual Experience	(387,816)
Changes in Assumptions/Inputs	8,637,181
Benefit Payments	<u>(3,628,953)</u>
Net Changes	11,630,023
Balance at 08/31/2021	<u>\$ 168,416,162</u>

The following table 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 discount rates that are one-percent lower or one-percent higher than the current discount rate.

	1% Decrease <u>(0.95%)</u>	Discount Rate <u>(1.95%)</u>	1% Increase <u>(2.95%)</u>
Total OPEB liability	\$ 195,946,682	\$ 168,416,162	\$ 141,472,240

The following presents the total OPEB liability of the City, as well as what the City's total liability would be if it were calculated using healthcare cost trend rates that are one-percent lower or one-percent higher than the current healthcare cost trend rate of 2.5%.

	1% Decrease <u>(1.5%)</u>	Current Healthcare Cost Trend Rates <u>(2.5%)</u>	1% Increase <u>(3.5%)</u>
Total OPEB liability	\$ 137,311,204	\$ 168,416,162	\$ 201,292,040

For the fiscal year ended August 31, 2021, the City recognized OPEB expense of \$4,985,034. As of August 31, 2021, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB as presented below:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 119,409	\$ 15,991,571
Changes of assumptions or other inputs	13,162,356	4,004,744
	<u>\$ 13,281,765</u>	<u>19,996,315</u>

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

<u>Year Ended August 31,</u>	<u>Amount</u>
2022	\$ (2,024,579)
2023	(3,184,848)
2024	(3,184,848)
2025	<u>1,679,725</u>
	<u>\$ (6,714,550)</u>

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Changes in the Total OPEB Liability and Related Ratios, presented as required supplementary information following the notes to the financial statements, will present multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

COMPENSATED ABSENCE LIABILITY . . . City employees, excluding uniformed Police Department and Fire Department employees, earn vacation leave, which may either be taken or accumulated (up to a maximum of 400 hours) until paid upon termination or retirement. For uniformed Police Department and Fire Department employees' only, special provisions apply based on the most current Articles of Agreement between the City and the local associations of Fire and Police unions.

Leave benefits are accrued as a liability as the benefits are earned by employees, but only to the extent that it is probable that the City will compensate the employees through paid time off or cash payments, conditioned on the employee's termination or retirement. For governmental funds, a liability for these amounts is reported only if they have matured as a result of termination or retirement. For the governmentwide and proprietary fund financial statements, all of the outstanding compensated absences are recorded as a liability.

**PUBLIC SERVICE BOARD – EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

PENSION AND RETIREMENT PLAN

General - The Public Service Board - El Paso Water Utilities contributes to the City of El Paso Employees Retirement Trust (CERT) which is a single-employer Public Employee Retirement System defined benefit pension plan. However, in accordance with GASB Statement No. 68, as a component unit of the City, EPWater reports its proportionate share of the collective net pension liability as if it was a cost-sharing employer.

Plan Description - The CERT was established in accordance with authority granted by Chapter 2.64 of the El Paso City Code and is a component unit (fiduciary fund type) of the City. It is the responsibility of the CERT to function as an investment and administrative agent for the City of El Paso and EPWater with respect to the pension plan. The CERT is not required to maintain any legally required reserves.

Basis of Accounting - The accounting policies of the CERT have been established to conform to generally accepted accounting principles for state and local governments as promulgated by authoritative pronouncements issued by the Governmental Accounting Standards Board. The CERT is accounted for on an economic resources measurement focus using the accrual basis of accounting.

Pension Plan Fiduciary Net Position - Detailed information about the City of El Paso Employees Retirement Trust fiduciary net position is available in separately issued audited plan financial statements, including required supplementary information (RSI). That report may be obtained from the City of El Paso Employees Retirement Trust Administrative Office at 1039 Chelsea St., El Paso, Texas 79903 or online at <http://eppension.org/fund-overview.php>.

The collective net pension liability was measured as of August 31, 2020 and August 31, 2019. The total pension liability is based on the actuarial valuation as of September 1, 2018 for both years and update procedures were used to roll forward the total pension liability to the measurement dates of August 31, 2020 and August 31, 2019.

	2020	2019
Total Pension Liability	\$ 1,083,475,771	\$ 1,054,386,823
Less: Fiduciary Net Position	(869,131,842)	(802,755,755)
Net Pension Liability	214,343,929	251,631,068
Fiduciary Net Position as percentage of Total Pension Liability	80.22%	76.13%

Benefits Provided: Substantially all full-time employees of the City (including EPWater) are eligible to participate in the Plan. Non-employer contributions are limited to participating employees. Participation is mandatory for classified employees (except permanent part-time employees). For non-classified employees, participation is mandatory for employees hired after July 1997. Classified employees include all persons who are permanent, full-time employees and are not otherwise excluded from the CERT. The designated purpose of the CERT is to provide retirement, death, and disability benefits to participants or their beneficiaries. The CERT is administered by the CERT Board of Trustees, which is comprised of two members of the City Council, two citizens of the City who are not officers or employees of the City, four city employees who are qualified to participate in the trust, and one retired city employee receiving pension benefits from the trust. The CERT Board contracts with an independent pension custodian, investment managers, an investment consultant, an actuary and an attorney to assist in managing the CERT.

Members who were first participants prior to September 1, 2011, accrue benefits based on Tier I provisions as follows:

- Participants who leave the Plan before completion of five years of service receive a refund of their contributions. Participants leaving the Plan with more than five years but less than ten years of service may receive a refund of their contributions plus interest at 5.5%, compounded annually, provided they are not eligible for normal retirement.

Participants become fully vested after reaching forty years of age and ten years of service or forty-five years of age and seven years of service. Normal retirement is the earlier of (i) fifty-five years of age with ten years of service, (ii) sixty years of age with seven years of service or (iii) thirty years of service, regardless of age. Participants who have met the minimum vesting requirements may retire but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.5% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, or 2.5% of the average monthly base salary received by the employee during the year immediately prior to retirement, or 2.5% of the monthly base salary pay for the month immediately prior to retirement, whichever is greater, multiplied by the number of completed years of service, plus .2083 of 1% of such average for each additional completed or fractional part of a month of service.

Members who were first participants on or after September 1, 2011, accrue benefits based on Tier II provisions as follows:

- Participants who leave the plan before completion of seven years of service receive a refund of their contributions. Participants leaving the plan with more than seven years but less than ten years of service may receive a refund of their contributions plus interest at 3%, compounded annually, provided they are not eligible for normal retirement. Participants become fully vested after reaching forty-five years of age and seven years of service. Normal retirement is the earlier of (i) sixty years of age with seven years of service or (ii) thirty-five years of service, regardless of age. Participants who have met the minimum vesting requirements may retire but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.25% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, multiplied by the number of completed years of service, plus .1875 of 1% of such average for each additional completed or fractional part of a month of service, limited to 90% of the three year average final pay.

A pension benefit is available to surviving spouses and dependents. The plan includes no automatic increase in retirement benefits, including automatic COLAs. However, the Board, at its discretion after consideration of a recent actuarial review of the funding status, may provide ad hoc cost of living or other increases in retirement benefits. There were no ad-hoc payments issued for the plan years ended August 31, 2020 and August 31, 2019.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the September 1, 2018 actuarial valuation, rolled forward to the measurement dates of August 31, 2020 and August 31, 2019, the entry-age normal cost method was used. The actuarial value of pension benefit assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The actuarial assumptions included a 7.5% investment rate of return (net of expenses), projected salary increases of 3.0%, which includes an inflation rate of 3.0% and no cost of living increases. The remaining amortization period at September 1, 2020 and September 1, 2019 was 17 years using a level percent, open basis, amortization period. For the September 1, 2018 actuarial valuation, rolled forward to August 31, 2020 and August 31, 2019, the mortality rates were based on the RP-2014 employee tables with Blue Collar adjustment projected to 2030 using Scale BB. Mortality rates for disabled participants are based on the RP-2014 Table for Disabled Lives. The actuarial assumptions used in the September 1, 2018 valuation were based on the results of an actuarial experience study performed in 2016.

Changes since the Prior Actuarial Valuation - There were no changes in the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date.

There were no changes of benefit terms that affected the measurement of the total pension liability since the prior measurement date.

There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the EPWater's proportionate share of the collective net pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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 returns by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic

real rates of return for each major asset class included in the CERT's target asset allocation as of August 31, 2020 and August 31, 2019 are summarized in the following table:

Asset Class	2020 Target Allocation	2019 Target Allocation	2020 Long-term Expected Real Rate of Return	2019 Long-term Expected Real Rate of Return
Domestic equity	31%	24%	6.99%	8.2%
International equity	21%	16%	6.45%	6.9%
Fixed income	24%	19%	0.37%	2.0%
Real estate	10%	10%	4.81%	4.6%
Absolute Return	-	15%	-	3.8%
Master Limited Partnerships	-	5%	-	8.2%
Private Equity	13%	10%	10.62%	11.7%
Alternatives	-	-	3.03%	-
Cash	1%	1%	-	-

Discount Rate: The discount rate used to measure the total pension liability was 7.5 percent for the plan years ended August 31, 2020 and August 31, 2019. The projection of cash flows used to determine the discount rate assumed that contributions will be based on the rates established by Ordinance. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

Contributions Required and Contributions Made - Contribution rates for the CERT are based upon local statutes as enacted by the El Paso City Council and are not actuarially determined. However, each time a new actuarial valuation is performed, contribution requirements are compared to the actuarially determined amount necessary to fund service costs and amortize the unfunded actuarial accrued liability (using entry-age-normal cost method) over thirty years. As of the most recent actuarial valuation, the contribution rate was 23.00 percent of annual covered payroll with employer contributions of 14.05 percent and employee contributions of 8.95 percent.

EPWater Contributions for the years ended February 28, 2021 and February 29, 2020 were as follows:

	2021 - Contributions Required and Made		2020 - Contributions Required and Made	
	Water and Wastewater Utility	Municipal Drainage Utility	Water and Wastewater Utility	Municipal Drainage Utility
Employer contribution	\$ 5,150,746	\$ 271,386	\$ 5,168,935	\$ 273,425
Employee contributions	3,281,084	172,876	3,292,665	174,173
Total contributions	<u>\$ 8,431,830</u>	<u>\$ 444,262</u>	<u>\$ 8,461,600</u>	<u>\$ 447,598</u>

Sensitivity to Changes in the Discount Rate: The following presents the EPWater's proportionate share for the Water and Wastewater Utility and Municipal Drainage Utility of the resulting net pension liability calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

8/31/2020 - Water and Wastewater Utility's proportionate share of the net pension liability	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Decrease (8.5%)
Water and Wastewater Utility	\$63,903,453	\$40,516,207	\$20,885,007
8/31/2020 - Municipal Drainage Utility's proportionate share of the net pension liability	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Decrease (8.5%)
Municipal Drainage Utility	\$3,372,493	\$2,138,235	\$1,102,202
8/31/2019 - Water and Wastewater Utility's proportionate share of the net pension liability	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Decrease (8.5%)
Water and Wastewater Utility	\$70,443,852	\$47,544,990	\$28,336,882
8/31/2019 - Municipal Drainage Utility's proportionate share of the net pension liability	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Decrease (8.5%)
Municipal Drainage Utility	\$3,747,908	\$2,529,593	\$1,507,641

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

At February 28, 2021, EPWater reported a net pension liability for its proportionate share of the CERT's net pension liability of \$40,516,207 for the Water and Wastewater Utility and \$2,138,235 for the Municipal Drainage Utility. At February 29, 2020, EPWater reported a net pension liability for its proportionate share of the CERT's net pension liability of \$47,544,990 for the Water and Wastewater Utility and \$2,529,593 for the Municipal Drainage Utility. EPWater's net pension liability reported at February 28, 2021 was measured at August 31, 2020. EPWater's net pension liability reported at February 29, 2020 was measured at August 31, 2019.

EPWater's proportion of the net pension liability was based on EPWater's contributions to the pension plan relative to the contributions of the City to the plan for the periods from September 1, 2019 through August 31, 2020 and September 1, 2018 to August 31, 2019. At August 31, 2020 and August 31, 2019, EPWater's proportion of the collective net pension liability was 19.90 percent.

For the years ended February 28, 2021 and February 29, 2020, EPWater recognized pension expense as measured in accordance with GASB Statement No. 68, of \$6,091,180 and \$9,215,739, respectively, for the Water and Wastewater Utility, and \$263,068 and \$479,932, respectively, for the Municipal Drainage Utility.

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At February 28, 2021 and February 29, 2020, EPWater reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to the CERT from the following sources:

	2021 - Water and Wastewater Utility		2021 - Municipal Drainage Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual pension experience	\$ 1,659,963	\$ -	\$ 96,834	\$ -
Changes in assumptions	-	-	-	-
Net difference between projected and actual earnings on pension assets	-	1,221,901	-	69,824
Changes in proportionate share	556,535	12,524	14,302	299,216
Employer contributions subsequent to the measurement date	<u>2,675,999</u>	<u>-</u>	<u>137,716</u>	<u>-</u>
Total	<u>\$ 4,892,497</u>	<u>\$ 1,234,425</u>	<u>\$ 248,852</u>	<u>\$ 369,040</u>

	2020 - Water and Wastewater Utility		2020 - Municipal Drainage Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual pension experience	\$ 2,149,628	\$ 733,866	\$ 125,398	\$ 51,832
Changes in assumptions	1,213,181	-	85,687	-
Net difference between projected and actual earnings on pension assets	5,710,341	-	298,537	-
Changes in proportionate share	718,031	106,724	49,702	390,477
Employer contributions subsequent to the measurement date	<u>2,676,698</u>	<u>-</u>	<u>145,837</u>	<u>-</u>
Total	<u>\$ 12,467,879</u>	<u>\$ 840,590</u>	<u>\$ 705,161</u>	<u>\$ 442,309</u>

For the year ended February 28, 2021, EPWater reported \$2,675,999 for the Water and Wastewater Utility and \$137,716 for the Municipal Drainage Utility as deferred outflows of resources related to pensions resulting from EPWater contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction of the net pension liability for the year ending February 28, 2022.

For the year ended February 29, 2020, EPWater reported \$2,676,698 for the Water and Wastewater Utility and \$145,837 for the Municipal Drainage Utility as deferred outflows of resources related to pensions resulting from EPWater contributions subsequent to the measurement date and prior to year-end. This amount was recognized as a reduction of the net pension liability for the year ending February 28, 2021.

For the year ended February 28, 2021, the amount recognized as pension expense for the deferred outflows and inflows related to pensions was \$911,905 for the Water and Wastewater Utility and (\$10,267) for the Municipal Drainage Utility. For the year ended February 29, 2020, the amount recognized as pension expense for the deferred outflows and inflows related to pensions was \$5,078,478 for the Water and Wastewater Utility and \$259,812 for the Municipal Drainage Utility.

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

<u>Year Ending February</u>	<u>Water and Wastewater Utility</u>	<u>Municipal Drainage Utility</u>
2022	\$ 109,521	\$ (100,343)
2023	864,700	(56,341)
2024	1,138,233	3,429
2025	(1,154,475)	(91,292)
2026	24,267	(2,015)
Thereafter	(173)	(11,342)
Total	<u>\$ 982,073</u>	<u>\$ (257,904)</u>

Payable to the Pension Plan: At February 28, 2021 and February 29, 2020, EPWater reported a payable, including accruals where applicable, of \$183,043 for the Water and Wastewater Utility and \$8,789 for the Municipal Drainage Utility and \$164,220 for the Water and Wastewater Utility and \$8,521 for the Municipal Drainage Utility, respectively, for the outstanding amount of contributions to the pension plan required for each fiscal year.

POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description -EPWater through the City of El Paso offers its employees a single employer defined healthcare plan with OPEB benefits for retirees. The City sponsors and administers the informal plan. Texas statute provides that retirees from a municipality with a population of 25,000 or more and who receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the retiree and the retiree's dependents unless the retiree is eligible for group health benefits coverage through another employer. The State has the authority to establish and amend the requirements of this statute. The City does not issue stand-alone financial statements of the healthcare plan but all required information is presented in this report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB No. 75.

Benefits Provided - The contribution requirements of plan members are established by City ordinance and may be amended as needed. Retiree coverage for health care benefits for retirees under age 65 is the same as the coverage provided to active City employees. Retirees over age 65 are covered through a Medicare Advantage Plan. Retirees pay premiums ranging from \$135 per month to \$2,471 per month depending on the coverage elected. The cost of retiree health care benefits in the form of a share of the premiums is recognized on a pay-as-you go financing method and is recorded as an expense as liabilities are incurred. Retirees contributed approximately 50% of the total current year cost.

Employees Covered by Benefit Terms - At February 28, 2021 and at February 29, 2020, the following employees were covered by the benefit terms:

	<u>2021</u>		<u>2020</u>	
	<u>Water and Wastewater Utility</u>	<u>Municipal Drainage Utility</u>	<u>Water and Wastewater Utility</u>	<u>Municipal Drainage Utility</u>
Inactive employees or beneficiaries currently receiving benefits	153	2	144	2
Active employees	<u>816</u>	<u>50</u>	<u>815</u>	<u>52</u>
Total	<u>969</u>	<u>52</u>	<u>959</u>	<u>54</u>

Total OPEB Liability - The EPWater's total OPEB liability of \$17,764,809 and \$25,049,965 reported at February 28, 2021 and February 29, 2020, respectively, is based on actuarial valuation performed as of January 1, 2021 and January 1, 2019, respectively. Update procedures were used to roll forward the total OPEB liability to the measurement dates of February 28, 2021 and February 29, 2020.

Actuarial assumptions and other inputs - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial assumptions for OPEB are based on the experience study performed in 2016 for the pension plan. OPEB specific assumptions, such as healthcare trend rates and plan participation, are reviewed during each full actuarial valuation.

The EPWater's total OPEB liability is based on the actuarial valuation as of January 1, 2021, and was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry-Age Normal
Discount Rate	2.50% as of February 28, 2021 1.81% as of February 29, 2020
Inflation	2.50%
Salary Increases	2.75 to 4.50%
Demographic Assumptions	The demographic assumptions are the same as those used in the City of El Paso Employees Retirement Trust actuarial valuation as of September 1, 2020.
Mortality	For healthy retirees, the gender-distinct RP-2014 Healthy Annuitant Tables with Blue Collar Adjustment (92% of male rates and 100% of female rates) were used, projected using Scale MP- 2019 on a fully generational basis.
Health Care Trend Rates	January 1, 2021: Initial rate of 7.00% declining to an ultimate rate of 4.25% after 13 years. January 1, 2020: As a result of the repeal of the Cadillac Tax on December 20, 2019, the ultimate trend assumption was decreased to 4.25% after 15 years.
Participation Rates	35% for eligible retirees between the ages of 50 and 65; 40% for eligible retirees with age greater than 65; 0% for eligible retirees with age less than 50. 45% of retirees were assumed to have 2-person coverage.

The discount rate at February 28, 2021 and at February 29, 2020 is based on the Fidelity 20-Year Municipal GO AA Index.

Changes in the Total OPEB Liability:

	2021	
	Water and Wastewater Utility	Municipal Drainage Utility
Balances as of March 1, 2020	\$ 23,547,545	\$ 1,502,420
Changes for the year:		
Service Cost	1,734,662	106,290
Interest	438,168	26,849
Difference between expected and actual experience	(5,251,336)	(321,773)
Changes in assumptions	(3,260,418)	(199,780)
Changes in proportionate share	56,117	(56,117)
Benefit payments	<u>(525,611)</u>	<u>(32,207)</u>
Net Changes	<u>(6,808,418)</u>	<u>(476,738)</u>
Balances as of February 28, 2021	<u>\$ 16,739,127</u>	<u>\$ 1,025,682</u>

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	2020	
	Water and Wastewater Utility	Municipal Drainage Utility
Balances as of March 1, 2019	\$ 18,393,671	\$ 1,434,474
Changes for the year:		
Service Cost	1,063,751	67,871
Interest	699,964	44,661
Difference between expected and actual experience	(1,866,069)	(119,062)
Changes in assumptions	5,516,624	351,981
Changes in proportionate share	245,243	(245,243)
Benefit payments	(505,639)	(32,262)
Net Changes	<u>5,153,874</u>	<u>67,946</u>
Balances as of February 29, 2020	<u>\$ 23,547,545</u>	<u>\$ 1,502,420</u>

Changes of assumptions reflect the change in the discount rate from 1.81% as of February 29, 2020 to 2.50% as of February 28, 2021, and the demographic assumptions were updated to reflect the changes made in the 2020 City of El Paso Pension Valuation. Additionally, the underlying costs of the Medicare Advantage Plan are no longer assumed to vary by age.

The difference between expected and actual experience is mostly related to the favorable premium changes for both years presented.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of EPWater by utility, calculated using the discount rate of 2.50% as of February 28, 2021, and 1.81% as of February 29, 2020, as well as what EPWater's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the respective discount rate:

	1% Decrease (1.50%)	Discount Rate (2.50%)	1% Increase (3.50%)
2/28/2021 Water and Wastewater Utility Total OPEB Liability	<u>\$19,225,148</u>	<u>\$16,739,127</u>	<u>\$14,717,203</u>
	1% Decrease (1.50%)	Discount Rate (2.50%)	1% Increase (3.50%)
2/28/2021 Municipal Drainage Utility Total OPEB Liability	<u>\$1,178,012</u>	<u>\$1,025,682</u>	<u>\$901,789</u>
	1% Decrease (.81%)	Discount Rate (1.81%)	1% Increase (2.81%)
2/29/2020 Water and Wastewater Utility Total OPEB Liability	<u>\$27,618,955</u>	<u>\$23,547,545</u>	<u>\$20,305,229</u>
	1% Decrease (.81%)	Discount Rate (1.81%)	1% Increase (2.81%)
2/29/2020 Municipal Drainage Utility Total OPEB Liability	<u>\$1,762,191</u>	<u>\$1,502,420</u>	<u>\$1,295,548</u>

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Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of EPWater by utility, calculated using the assumed trend rates, as well as what EPWater's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
2/28/2021 Water and Wastewater Utility Total OPEB Liability	<u>\$14,312,506</u>	<u>\$16,739,127</u>	<u>\$19,841,081</u>
2/28/2021 Municipal Drainage Utility Total OPEB Liability	<u>\$876,992</u>	<u>\$1,025,682</u>	<u>\$1,215,753</u>
2/29/2020 Water and Wastewater Utility Total OPEB Liability	<u>\$19,561,006</u>	<u>\$23,547,545</u>	<u>\$28,760,030</u>
2/29/2020 Municipal Drainage Utility Total OPEB Liability	<u>\$1,248,064</u>	<u>\$1,502,420</u>	<u>\$1,834,996</u>

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB - For the fiscal years ended February 28, 2021 and February 29, 2020, EPWater recognized OPEB expense of \$1,658,421 and \$2,187,414, respectively, for the Water and Wastewater Utility, and \$68,139 and \$111,622, respectively, for the Municipal Drainage Utility.

At February 28, 2021 and February 29, 2020, EPWater reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021 - Water and Wastewater Utility		2021 - Municipal Drainage Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 6,133,979	\$ -	\$ 379,562
Changes in assumptions	4,365,172	2,898,692	278,989	177,615
Changes in proportionate share	<u>242,458</u>	-----	-----	<u>242,458</u>
Total	<u>\$ 4,607,630</u>	<u>\$ 9,032,671</u>	<u>\$ 278,989</u>	<u>\$ 799,635</u>

	2020 - Water and Wastewater Utility		2020 - Municipal Drainage Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
	Differences between expected and actual experience	\$ -	\$ 1,665,660	\$ -
Changes in assumptions	4,962,942	-	317,204	-
Changes in proportionate share	218,905			218,905
Total	<u>\$ 5,181,847</u>	<u>\$ 1,665,660</u>	<u>\$ 317,204</u>	<u>\$ 325,180</u>

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

Year Ending February	Water and Wastewater Utility	Municipal Drainage Utility
2022	\$ (514,409)	\$ (65,000)
2023	(514,409)	(65,000)
2024	(514,409)	(65,000)
2025	(514,409)	(65,000)
2026	(514,409)	(65,000)
Thereafter	(1,852,996)	(195,646)
Total	<u>\$ (4,425,041)</u>	<u>\$ (520,646)</u>

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FINANCIAL INFORMATION

TABLE 3 - CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended February 28,				
	2021	2020 ⁽¹⁾	2019	2018	2017
Revenues:					
Drainage Fees	\$ 24,065,071	\$ 23,713,494	\$ 23,300,515	\$ 22,419,202	\$ 18,949,273
Interest Income	160,075	841,476	942,499	493,700	262,976
IRS Tax Credit Build America Bonds	-	-	-	516,337	730,547
Gain on Sale of Miscellaneous Assets	-	7,785	-	58,712	-
Billing Fees - City Solid Waste Management	281,193	277,952	274,877	271,905	268,793
Other Operating Revenue	207,393	434,387	383,284	393,198	392,592
Total Revenues	\$ 24,713,732	\$ 25,275,094	\$ 24,901,175	\$ 24,153,054	\$ 20,604,181
Expenses:					
Operations and Maintenance	\$ 5,268,842	\$ 5,800,152	\$ 4,670,438	\$ 4,828,146	\$ 5,000,988
Indirect Cost Allocation	1,498,000	1,534,000	1,440,000	903,000	915,000
Other Operating Expenses	388,929	701,737	666,183	844,216	806,772
Total Expenses	\$ 7,155,771	\$ 8,035,889	\$ 6,776,621	\$ 6,575,362	\$ 6,722,760
REVENUE AVAILABLE FOR					
DEBT SERVICE	\$ 17,557,961	\$ 17,239,205	\$ 18,124,554	\$ 17,577,692	\$ 13,881,421
Drainage Customers	201,860	198,803	196,458	194,228	192,391

(1) Fiscal Year Ended February 29.

TABLE 4 - COVERAGE AND FUND BALANCES⁽¹⁾

Average Annual Principal and Interest Requirements (2023-2053)	\$ 5,774,078
Coverage of Average Requirements by February 28, 2022 Net Revenue Available for Debt Service	3.29 x
Maximum Principal and Interest Requirements (2030)	\$ 12,511,039
Coverage of Maximum Requirements by February 28, 2022 Net Revenue Available for Debt Service	1.52 x
Municipal Drainage Utility System Revenue Bonds Outstanding, May 1, 2022	\$ 126,385,000
Interest and Sinking Fund, April 30, 2022	\$ 1,732,109
Reserve Fund, April 30, 2022	\$ 4,530,823

(1) Includes the Bonds. Excludes the Revolving Notes.

TABLE 5 - VALUE OF THE SYSTEM

	Fiscal Year Ended February 28,				
	2021	2020 ⁽¹⁾	2019	2018	2017
Land and Right-of-Way	\$ 42,954,649	\$ 42,937,354	\$ 28,009,612	\$ 22,427,770	\$ 12,817,414
Drainage implementation costs	544,106	544,106	544,106	544,106	544,106
Buildings and Shops	101,432	101,432	101,432	101,432	96,718
Vehicles	6,513,056	6,382,701	6,422,652	5,723,580	5,398,486
Equipment and Tools	1,198,969	1,122,784	1,052,648	1,052,648	1,052,648
Drainage System	160,251,580	152,414,170	146,841,800	130,461,930	119,315,347
Construction In Progress	<u>33,275,250</u>	<u>28,845,261</u>	<u>26,023,971</u>	<u>24,270,347</u>	<u>13,997,387</u>
Total Value	\$ 244,839,042	\$ 232,347,808	\$ 208,996,221	\$ 184,581,813	\$ 153,222,106
Less: Depreciation	<u>(27,398,094)</u>	<u>(23,906,480)</u>	<u>(20,516,510)</u>	<u>(17,264,955)</u>	<u>(14,476,409)</u>
Net System Value	<u>\$ 217,440,948</u>	<u>\$ 208,441,328</u>	<u>\$ 188,479,711</u>	<u>\$ 167,316,858</u>	<u>\$ 138,745,697</u>

(1) Fiscal Year Ended February 29.

Source: El Paso Water Utilities Comprehensive Annual Financial Report.

TABLE 6 - CITY'S EQUITY IN SYSTEM

Resources	Fiscal Year Ended February 28,				
	2021	2020 ⁽¹⁾	2019	2018	2017
Net System Value	\$ 217,440,948	\$ 208,441,328	\$ 188,479,711	\$ 167,316,858	\$ 138,745,697
Cash and Investments	39,322,925	40,762,987	44,578,172	53,543,822	56,203,091
Other Resources	<u>2,702,993</u>	<u>2,767,324</u>	<u>2,254,841</u>	<u>2,281,814</u>	<u>2,422,813</u>
Total Resources	\$ 259,466,866	\$ 251,971,639	\$ 235,312,724	\$ 223,142,494	\$ 197,371,601
Obligations					
Revenue Bonds Payable	\$ 102,807,591	\$ 108,499,901	\$ 113,947,210	\$ 116,849,520	\$ 103,894,388
Other Obligations	<u>28,439,527</u>	<u>25,664,420</u>	<u>14,538,374</u>	<u>10,331,352</u>	<u>8,916,083</u>
Total Obligations	\$ 131,247,118	\$ 134,164,321	\$ 128,485,584	\$ 127,180,872	\$ 112,810,471
City's Equity in System	\$ 128,219,748	\$ 117,807,318	\$ 106,827,140	\$ 95,961,622	\$ 84,561,130
Percentage City's Equity in System	49.42%	46.75%	45.40%	43.00%	42.84%

(1) Fiscal Year Ended February 29.

Source: El Paso Water Utilities Comprehensive Annual Financial Report.

CAPITAL IMPROVEMENT PLANS . . . The FY 2022-2023 capital budget focuses on the construction of projects identified in the revised Master Plan as the highest priority and funded with the bonds issued in prior years. The following list describes the major projects included in the FY 2022-2023 budget:

- \$28.4 million for improvements to stormwater storage capacity, which includes \$7.8 million for the Will Ruth Pond Project.
- \$22.4 million in conveyance improvements, which includes \$6.4 million for the Corrugated Metal Pipe Replacement Program, and
- \$12.6 million for the city-wide land acquisitions needed for new stormwater infrastructure.
- The capital budget includes 10% of revenue for the acquisition of open space, preservation of arroyos and development of park/ponds.

Additionally, over the next ten years, the Utility plans include \$700 million of improvements to the stormwater infrastructure.

Table 7 - CAPITAL IMPROVEMENT PLAN SUMMARY

	Budget Year <u>2022-23</u>	Budget Year <u>2023-24</u>	Budget Year <u>2024-25</u>	Budget Year <u>2025-26</u>	Budget Year <u>2026-27</u>
<u>MUNICIPAL DRAINAGE</u>					
Conveyance	\$ 23,224,000	\$ 6,622,000	\$ 6,597,000	\$ 22,668,000	\$ 24,639,000
Pumping Systems	1,673,000	2,610,000	1,500,000	780,000	6,050,000
Storage	27,761,000	52,135,000	41,803,000	30,152,000	31,333,000
Other Major Capital Projects	<u>15,969,000</u>	<u>7,260,000</u>	<u>18,727,000</u>	<u>15,027,000</u>	<u>6,605,000</u>
Total Drainage Capital Programs	<u>\$68,627,000</u>	<u>\$68,627,000</u>	<u>\$68,627,000</u>	<u>\$68,627,000</u>	<u>\$68,627,000</u>
Project Overhead (OH)	<u>\$ 1,373,000</u>	<u>\$ 1,373,000</u>	<u>\$ 1,373,000</u>	<u>\$ 1,373,000</u>	<u>\$ 1,373,000</u>
Total Drainage Capital Programs Including OH	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>	<u>\$ 70,000,000</u>

FINANCIAL POLICIES . . . In developing and evaluating the PSB’s accounting system, consideration is given to the adequacy of internal accounting controls. These controls are designed to provide reasonable, but not absolute, assurance regarding safeguarding assets against loss from unauthorized use or disposition and reliable financial records for preparing financial statements and maintaining accountability for assets.

As a recipient of federal and state assistance, the PSB is responsible for ensuring that an adequate internal control structure is in place to guarantee compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management.

The internal audit function was outsourced in October 2018 to Porch & Associates LLC. The internal auditor’s responsibilities include (1) measuring and evaluating the effectiveness of the accounting and administrative controls, (2) assisting management in achieving the most efficient administration of the PSB’s operations, and (3) maintaining budgetary controls to ensure compliance with legal provisions.

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 Board’s enterprise fund are charges to customers for sales and services. The Board also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund includes 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.

When both restricted and unrestricted resources are available for use, it is the PSB's policy to use restricted resources first, then unrestricted resources as they are needed.

INVESTMENTS

The PSB invests its investable funds in investments authorized by State law in accordance with investment policies approved by the Board. Both State law and the PSB’s investment policies are subject to change.

LEGAL INVESTMENTS . . . Under State law, the PSB is authorized to invest in obligations meeting the requirements of the Public Funds Investment Act, Texas Government Code, Chapter 2256, as amended (the “PFIA”), which may include: (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 PSB selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the PSB selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions,

regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the PSB appoints as its custodian of the banking deposits issued for its 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 Securities and Exchange Commission Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFLA 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 PSB deposits, or (ii) certificates of deposits where (a) the funds are invested by the PSB 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 PSB 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 PSB, (b) the broker or the depository institution selected by the PSB 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 PSB, (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 PSB appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the PSB with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), require the securities being purchased by the PSB or cash held by the PSB to be pledged to the PSB, held in the PSB's name, and deposited at the time the investment is made with the PSB or with a third party selected and approved by the PSB, 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) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 365 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the SEC that provide the PSB 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 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.); (14) 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 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; and (15) for bond proceeds, 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 bond proceeds invested under such contract and are pledged to the PSB and deposited with the PSB or a third party selected and approved by the PSB.

Under the PSB's current investment policy dated April 13, 2022, authorized investments for the PSB consist of those instruments numbered (1), (2), (4), (5), (9), (10), (13) and (14) in the preceding paragraph.

The PSB is also authorized to invest its funds through an eligible investment pool if the Board of the PSB by rule, order, ordinance, or resolution, as appropriate, authorizes investment in the particular pool. To be eligible to receive funds from and invest funds on behalf of the PSB, an investment pool must furnish to the investment officer or other authorized representative of the PSB an offering circular or other similar disclosure instrument that contains, at a minimum, the following information: (1) the types of investments in which money is allowed to be invested; (2) the maximum average dollar-weighted maturity allowed, based on the stated maturity date, of the pool; (3) the maximum stated maturity date any investment security within the portfolio has; (4) the objectives of the pool; (5) the size of the pool; (6) the names of the members of the advisory board of the pool and the dates their terms expire; (7) the custodian bank that will safekeep the pool's assets; (8) whether the intent of the pool is to maintain a net asset value of one dollar and the risk of market price fluctuation; (9) whether the only source of payment is the assets of the pool at market value or whether there is a secondary source of payment, such as insurance or guarantees, and a description of the secondary source of payment; (10) the name and address of the independent auditor of the pool; (11) the requirements to be satisfied for an entity to deposit funds in and withdraw funds from the pool and any deadlines or other operating policies required for the entity to invest funds in and withdraw funds from the pool; (12) the performance history of the pool, including yield, average dollar-weighted maturities, and expense ratios; and (13) the pool's policy regarding holding deposits of cash.

Governmental bodies in the State are authorized to implement 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) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (8) and (12) through (14) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the PSB or a third party designated by the PSB; (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 PSB may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAAm” or an equivalent by at least one nationally recognized rating service. The PSB 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 PSB 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 PSB funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All PSB funds must be invested in a manner 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, PSB 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 PSB shall submit an investment report detailing: (1) the investment position of the PSB; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value, the ending market value and the fully accrued interest during the reporting period of each pooled fund group; (4) the book value and market value of each separately listed asset at the end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest PSB funds without express written authority from the PSB.

ADDITIONAL PROVISIONS . . . Under State law, the PSB is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the PSB to disclose the relationship and file a statement with the Texas Ethics Commission and the PSB; (4) require the qualified representative of firms offering to engage in an investment transaction with the PSB to: (a) receive and review the PSB’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the PSB and the business organization that are not authorized by the PSB’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the PSB’s entire portfolio or requires an interpretation of subjective investment standards or relates to investment transactions of the PSB that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the PSB and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the PSB’s investment policy; (6) provide specific investment training for the PSB’s designated Investment Officer; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load money market mutual funds in the aggregate to no more than 15% of the PSB’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the PSB.

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TABLE 8 - CURRENT INVESTMENTS

As of April 30, 2022, the PSB’s investable funds of the System were invested in the following categories:

<u>Investment Type</u>	<u>Market Value</u>	<u>% of Portfolio</u>
TexPool	\$ 343,989	1.0%
TexPool Prime	16,701,971	50.0%
TexSTAR ⁽¹⁾	1,014,036	3.0%
Advantage Fund	10,509	0.0%
Federal Agencies	5,617,721	16.8%
Treasury Coupons	2,730,878	8.2%
Negotiable CD's	<u>7,000,000</u>	<u>20.9%</u>
	<u>\$ 33,419,104</u>	<u>100.0%</u>

(1) TexSTAR is a local government investment pool for whom First Southwest Asset Management, Inc., an affiliate of HilltopSecurities, provides customer service and marketing. TexSTAR currently maintains a “AAAm” rating from S&P and has an investment objective of achieving and maintaining a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas PFIA for local government investment pools. Daily investments or redemptions of funds are allowed by the participants.

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SELECTED PROVISIONS OF THE BOND ORDINANCE

The following is a summary of certain provisions of the Bond Ordinance. Such summary does not purport to be complete and reference should be made to the Bond Ordinance for the complete provisions and the precise wording thereof.

Section 1.01 Definitions. Unless otherwise expressly provided or unless the context clearly requires otherwise, in [the] Ordinance, the following terms shall have the meanings specified below:

“Act” means Chapter 552 of the Texas Local Government Code, as amended.

“Additional Bonds” means the additional revenue bonds permitted to be issued on a parity with the Bonds and the Previously Issued Bonds by Section 10.03(a) of [the] Ordinance.

“Average Annual Debt Service” means an amount which, at the time of computation, is derived by dividing the total amount of Debt Service to be paid over a period of years as the same is scheduled to become due and payable by the number of years taken into account in determining the total Debt Service. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

“Board” or “Board of Trustees” means that certain board of trustees known as the “Public Service Board” heretofore established for the purpose of managing the System and other water utilities of the City, as represented by the various persons appointed from time to time, and any successors thereto.

“Bond” means any of the Bonds.

“Bonds” means the City of El Paso, Texas, Municipal Drainage Utility System Revenue Refunding Bonds, Series 2022A, authorized by Section 3.01 of [the] Ordinance, and any additional or different series or designation specified in an applicable Pricing Certificate.

“Bonds Similarly Secured” means collectively, the Previously Issued Bonds, the Bonds and Additional Bonds.

“Bond Counsel” means a firm of nationally recognized attorneys experienced in the issuance of bonds and acceptable to the City, initially Norton Rose Fulbright US LLP.

“Bullet Obligation” means all Bonds Similarly Secured of a series maturing in any single year in a principal amount that totals at least 15% of the initial aggregate principal amount of the entire series of such Bonds Similarly Secured.

“Business Day” means any day other than a Saturday, Sunday or legal holiday or other day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located in the State of Texas are generally authorized or obligated by law or executive order to close.

“Chapter 1207” means Texas Government Code, Chapter 1207, as amended.

“Chapter 1371” means Texas Government Code, Chapter 1371, as amended.

“Chapter 1502” means Texas Government Code, Chapter 1502, as amended.

“City” means the City of El Paso, Texas, and with respect to those matters requiring action regarding the authority and control of management and operation of the System or the expenditure and application of the System’s revenues, “City” shall mean the Board acting on behalf of the City.

“City Council” means the governing body of the City of El Paso, Texas.

“Closing Date” means the date of the initial delivery of and payment for each series of Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, including the regulations and published rulings thereunder.

“Debt Service” means as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of premium if any, and interest (to the extent not capitalized) on such obligations; provided, however, that in making such calculation the following rules shall apply:

(1) For any series of Bonds Similarly Secured issued at a variable rate, that such obligations bear, or would have borne, interest at the highest rate of (i) the actual rate on the date of calculation, or if the indebtedness is not yet outstanding, the initial rate (if established and binding), (ii) if the indebtedness has been outstanding for at least twelve months, the average rate over the twelve months immediately preceding the date of calculation and (iii) (A) if interest on the indebtedness is excludable from gross income under the applicable provisions of the Internal Revenue Code, the most recently published Bond Buyer "Revenue Bond Index" (or comparable index if no longer published) plus 50 basis points, or (B) if interest is not so excludable, the interest rate on direct United States Treasury Obligations with comparable maturities plus 50 basis points; provided, however, that for purposes of any rate covenant measuring actual debt service during a test period, variable rate indebtedness shall be deemed to bear interest at the actual rate per annum applicable during the test period; and

(2) For any series of Bonds Similarly Secured issued as Short Term Obligations, Demand Obligations, or Bullet Obligations, Debt Service may be computed on the assumption that the principal amount shall be refinanced at maturity (or an earlier date on which principal thereof is payable on demand) by fixed rate Bonds Similarly Secured bearing interest at (a) if the interest on such obligations is excludable from gross income of the owners thereof for federal income tax purposes, a Revenue Bond Index published by the Bond Buyer or any successor publication or (b) if the interest on such obligations is not excludable from gross income of the owners thereof for federal income tax purposes, the yield on the Treasury Constant Maturity Series as reported in Federal Reserve Statistical Release H.15, Selected Interest Rates of the Board of Governors of the Federal Reserve System, or any successor publication as certified by the City's financial advisor, in both cases (a) and (b) within 30 days prior to the date of such calculation (or the gross fixed or capped rate payable by the City under an interest rate swap or cap agreement that substantially hedges the rate of interest on such Bonds Similarly Secured) and maturing in substantially equal annual payments of principal and interest over a term of 25 years (or such longer period as a nationally recognized financial advisor or investment banker certifies is then reasonably attainable) or less; and

(3) For any series of Bonds Similarly Secured for which the City is entitled to receive payments from the federal or state government in such period on account of, and substantially contemporaneously with, interest paid on such Bonds Similarly Secured, the amount to be received in such period shall be deducted from such interest in computing Debt Service.

"Demand Obligations" means any Bonds Similarly Secured the principal of which is payable by the City on demand of the owner or holder thereof.

"Depository Bank" means any financial institution duly designated by the Board to serve as a depository for funds controlled by the Board.

"Designated Payment/Transfer Office" means (i) with respect to the initial Paying Agent/Registrar named herein, its designated office specified in the Pricing Certificate, or at such other location designated by the Paying Agent/Registrar and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the City and such successor.

"EPWU" means the El Paso Water Utilities, a component unit of the City of El Paso and any successors thereto.

"Financial Advisor" means a registered "municipal advisor" under Section 15B of the Securities Exchange Act of 1934, as amended, selected by the City to provide advice to the City in the area of municipal financial products or the issuance of municipal securities, initially Hilltop Securities Inc.

"Fiscal Year" means the twelve month financial accounting period used by the Board in connection with the operation of the System which may be any twelve consecutive month period established by the Board.

"Government Obligations" means, unless otherwise provided in the Pricing Certificate, (i) direct noncallable obligations of the United States of America, including obligations of the principal of and interest on which are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations unconditionally guaranteed or insured by the agency or instrumentality and, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and (iv) any other then authorized securities or obligations that may be used to defease obligations such as the Bonds under the then applicable laws of the State of Texas.

"Improvement Fund" means the fund by such name described in Section 8.01(a)(iv) [of the Ordinance].

“Initial Bond” means the Initial Bond authorized by Section 3.03 of [the] Ordinance.

“Initial Date” means the date designated as the Initial Date in the Pricing Certificate.

“Interest and Sinking Fund” means the fund by that name described in Section 8.01(a) [of the Ordinance].

“Interest Payment Date” means the date or dates on which interest on the principal of the Bonds is scheduled to be paid until their respective dates of maturity or prior redemption, such dates being March 1 and September 1, commencing on the date specified in the Pricing Certificate.

“Issue Price” has the meaning stated in section 1.148-1(b) of the Regulations.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Revenues” shall mean Revenues of the System, with respect to any period, after deducting the System’s Operating and Maintenance Expenses during such period.

“Note Payment Fund” means the fund so designated in Section 8.01(b) [of the Ordinance].

“Operating and Maintenance Expenses” shall mean all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, including all salaries, labor, materials and administrative costs, allocable under generally accepted accounting principles, to the System. Depreciation charges and other costs and disbursements which may be capitalized under generally accepted accounting principles shall not be considered Operating and Maintenance Expenses.

“Outstanding” means when used in [the] Ordinance with respect to Bonds or Bonds Similarly Secured, as the case may be, means, as of the date of determination, all Bonds and Bonds Similarly Secured theretofore sold, issued and delivered by the City, except:

- (1) Bonds or Bonds Similarly Secured canceled or delivered to the transfer agent or registrar for cancellation in connection with the exchange or transfer of such obligations;
- (2) Bonds or Bonds Similarly Secured paid or deemed to be paid in accordance with applicable law; and
- (3) Bonds or Bonds Similarly Secured that have been mutilated, destroyed, lost, or stolen and replacement bonds have been registered and delivered in lieu thereof.

“Owner” means the person who is the registered owner of a Bond or Bonds.

“Paying Agent/Registrar” means Computershare Trust Company, N.A. (or such other entity or banking association determined by the Pricing Officer in the Pricing Certificate) or any successor thereto or replacement therefor as provided in [the] Ordinance.

“Pricing Certificate” means collectively one or more pricing certificates that set forth the terms of one or more series of Bonds in accordance with Section 3.02 of [the] Ordinance and executed by the Pricing Officer, all in accordance with the provisions of Chapter 1207 and Chapter 1371.

“Pricing Officer” means the President/Chief Executive Officer of the EPWU, or in the absence thereof, the Vice President of Strategic, Financial and Management Services of the EPWU or the Chief Financial Officer of the EPWU, each acting in such capacity severally and not jointly.

“Previously Issued Bonds” means the outstanding bonds of the following issues: (1) City of El Paso, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2009A, (2) City of El Paso, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2015, (3) City of El Paso, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2016, (4) City of El Paso, Texas, Municipal Drainage Utility System Revenue Improvement and Refunding Bonds, Series 2017, (5) City of El Paso, Texas, Municipal Drainage Utility System Revenue Refunding Bonds, Taxable Series 2021, (6) City of El Paso, Texas, Municipal Drainage Utility System Revenue Refunding Bonds, Series 2021A, and (7) City of El Paso, Texas, Municipal Drainage Utility System Revenue Bonds, Series 2022.

“Purchaser” means the initial purchaser of each series of Bonds issued [under the Ordinance] as named in the applicable Pricing Certificate.

“Record Date” means with respect to each interest payment date the fifteenth day of the month next preceding such interest payment date.

“Register” means the Register specified in Section 3.07 of [the] Ordinance.

“Reserve Fund” means the fund by that name described in Section 8.01(a)(iii) [of the Ordinance].

“Reserve Fund Requirement” means the amount which is equal to the lesser of (i) the Average Annual Debt Service (calculated on a Fiscal Year basis) for all Bonds Similarly Secured then Outstanding, as determined on the date each series of Additional Bonds are delivered or incurred, as the case may be, or (ii) the maximum amount in a reasonably required reserve fund that can be invested without restriction as to yield pursuant to Subsection (d) of Section 148 of the Internal Revenue Code of 1986, as amended, and regulations promulgated thereunder.

“Revenue Fund” means the Drainage Utility System Revenue Fund established in Section 8.01(a)(i) [of the Ordinance].

“Revenues” shall mean all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding restricted gifts, grants in aid of construction and any amounts received from drainage charges specifically provided by ordinance for contribution to the funding of future drainage system construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds Similarly Secured and other obligations payable solely from and secured only by a lien on and pledge of the Net Revenues of the System, and excluding those amounts subject to payment to the United States of America as rebate pursuant to section 148 of the Code and any federal subsidies received pursuant to section 6431 of the Code.

“Rule” means SEC Rule 15c2-12, as amended from time to time or officially interpreted by the SEC.

“SEC” means the United States Securities and Exchange Commission.

“Short Term Obligations” means each series of bonds, notes and other debt obligations issued pursuant to a commercial paper or other similar financing program, the payment of principal of which is scheduled to be payable within one year from the date of issuance and is contemplated at the time of issuance to be refinanced through the issuance of Additional Bonds.

“Subordinate Lien Obligations” shall mean the obligations of the City under the City’s Tax-Exempt Revolving Notes, Series A and Taxable Revolving Notes, Series B and the documents pertaining thereto.

“System” or “Municipal Drainage Utility System” shall mean all land, easements and interest in land, together with all structures, equipment and facilities used in draining benefitted property (within the meaning of the Act), including, but not limited to, catch basins, channels, conduits, creeks, culverts, detention ponds, ditches, draws, flumes, pipes, pumps, sloughs, treatment works, and appurtenances to those items, whether natural or artificial, or using force or gravity, that are used to draw off surface water from land, carry the water away, collect, store, or treat the water, or divert the water into natural or artificial watercourses (but excluding City parks, roads, streets and bridges in existence on June 19, 2007) and excluding the property or entities exempted from the Act pursuant to Section 552.053 of the Act.

* * *

Section 2.01 Security for the Bonds. The Bonds Similarly Secured, both principal and interest, are and shall be equally and ratably secured by and payable from an irrevocable first lien on and pledge of the Net Revenues. Section 2.02

Section 2.02 Limited Obligations. The Bonds Similarly Secured are special obligations of the City, payable solely from the Net Revenues, and do not constitute a prohibited indebtedness of the City. The Bonds Similarly Secured shall never be payable out of funds raised or to be raised by taxation.

Section 2.03 Security Interest. The City represents that, under Chapter 1208.002, Texas Government Code, a security interest in property, other than real property, that is created by the City is valid and effective according to the terms of the security agreement and is perfected from the time the security agreement is entered into or adopted continuously through the termination of the security interest, without physical delivery or transfer of control of the property, filing of a document, or another act. The City covenants that, if Chapter 1208.002 is amended at any time while the Bonds Similarly Secured are Outstanding, the City shall take all actions required in order to preserve for the Owners of the Previously Issued Bonds, the Bonds or Additional Bonds a perfected security interest in the property in which such security interest is granted pursuant to Section 2.01 [of the Ordinance].

* * *

Section 7.01 Public Service Board.

(a) Pursuant to the authority contained in Texas Government Code, Section 1502.071, as amended, during such time as any of the Bonds herein authorized are outstanding and unpaid, the Board shall have complete authority and control of the management and operation of the System.

* * *

Section 8.01 Special Funds.

(a) The City covenants and agrees that all revenues derived from the operation of the System shall be kept separate from other funds of the City. To that end, the following special funds heretofore established are hereby reaffirmed and shall be maintained at the Depository Bank so long as any of the Bonds Similarly Secured are Outstanding, to-wit:

(i) “City of El Paso, Texas, Municipal Drainage Utility System Revenue Fund” (herein called the “Revenue Fund”);

(ii) “City of El Paso, Texas, Municipal Drainage Utility System Bonds Interest and Sinking Fund” (herein called the “Interest and Sinking Fund”);

(iii) “City of El Paso, Texas, Municipal Drainage Utility System Bonds Reserve Fund” (herein called the “Reserve Fund”); and

(iv) “City of El Paso, Texas, Municipal Drainage Utility System Improvement Fund” (herein called the “Improvement Fund”).

The Interest and Sinking Fund and the Reserve Fund shall be held in trust solely for the benefits of the Owners and the Owners of the Bonds Similarly Secured.

(b) The “City of El Paso, Texas Municipal Drainage Utility System Revolving Note Payment Fund” (the “Note Payment Fund”) heretofore created by the ordinance authorizing the City’s Tax-Exempt Revolving Notes, Series A and Taxable Revolving Notes, Series B, herein referred to as the “Subordinate Lien Obligations,” is hereby reaffirmed.

Section 8.02 Revenue Fund. All Revenues shall be deposited from day to day as collected into the Revenue Fund. Moneys on deposit in the Revenue Fund shall first be used to pay all Operating and Maintenance Expenses. The Revenues of the System not actually required to pay Operating and Maintenance Expenses (the “Net Revenues”) shall be transferred from the Revenue Fund to the other Funds in [the] Ordinance, in the order of priority, in the manner, and in the amounts set forth below:

(a) Interest and Sinking Fund. In addition to the deposits required by ordinances authorizing the Previously Issued Bonds, there shall be deposited into the Interest and Sinking Fund the following:

(i) such amounts, in equal monthly installments, commencing on the first day of the month next following the Closing Date, and on the first day of each month thereafter, as will be sufficient to pay the interest scheduled to come due on the Bonds on the next interest payment date, less any amounts already on deposit therein for such purpose derived from the proceeds of the Bonds or from any other lawfully available source; and

(ii) such amounts, in equal monthly installments, commencing on the first day of the month next following the Closing Date, and on the first day of each month thereafter, as will be sufficient to pay the next maturing principal of the Bonds, including any scheduled mandatory redemption of Bonds.

The Interest and Sinking Fund shall be used to pay the principal of and interest on the Bonds Similarly Secured as such principal matures and such interest becomes due.

(b) Reserve Fund. So long as the funds on deposit in the Reserve Fund created for the benefit of the Bonds Similarly Secured are equal to the Reserve Fund Requirement, no deposits need to be made to the credit of the Reserve Fund; but should the Reserve Fund at any time contain less than the Reserve Fund Requirement, then, subject and subordinate to making the required deposits to the credit of the Interest and Sinking Fund, the City shall transfer from the Net Revenues in the Revenue Fund and deposit to the credit of the Reserve Fund, on the first day of each month, such amounts in equal monthly installments to accumulate within sixty (60) months a sum equal to the Reserve Fund Requirement. The money on deposit in the Reserve Fund may be used to pay the principal of and interest on the Bonds Similarly Secured at any time there are not sufficient funds on deposit in the Interest and Sinking Fund for such purpose.

In accordance with the procedures specified in the preceding paragraph, the City hereby directs that the deposits, if any, being made to the Reserve Fund be increased to accumulate in the Reserve Fund within sixty (60) months from the date of the Bonds an amount equal to the Reserve Fund Requirement.

Notwithstanding anything herein to the contrary, the City retains the right, with respect to the Bonds and subsequent issues of Additional Bonds to fund the Reserve Fund Requirement in whole or in part with a surety bond or insurance policy issued by an insurance company or other entity that is rated either for the long term unsecured debt of the issuer of such surety bond or for obligations insured, secured or guaranteed by such issuer have a rating in the highest letter category by two major municipal securities rating or evaluation services, and money deposited to the credit of the Reserve Fund may be used to make any payments required to satisfy the City's repayment obligation to the issuer of such surety bond or insurance policy in the same manner and with like effect as if such payments were being used to accumulate, maintain or restore the Reserve Fund Requirement in cash or with authorized investments.

(c) Note Payment Fund. In addition to the foregoing deposits, in order to provide for the payment of and security for any Subordinate Lien Obligations there shall be deposited to the Note Payment Fund amounts sufficient to pay when due the principal of and interest on the Subordinate Lien Obligations.

(d) Improvement Fund. All money remaining in the Revenue Fund at the end of each month after all payments required to be made therefrom in such month have been made and all deficiencies accumulated from prior months have been remedied shall continue to be paid to the Improvement Fund established in connection with the System, and shall be held in and paid out from such Fund for the following purposes:

(i) To pay the cost of any special or extraordinary repairs or replacements to or of the properties comprising the System, properly payable with such money under the laws of the State of Texas, necessitated by reason of some emergency; and

(ii) To the extent now or hereafter permitted by law, any lawful purpose.

Section 8.03 Investment of Funds.

(a) Money deposited to the credit of any Fund referenced in [the] Ordinance may, at the option of the City, be invested in obligations identified in, and in accordance with the provisions of the "Public Funds Investment Act" (Texas Government Code, Chapter 2256, as amended) relating to the investment of "bond proceeds"; provided that all such investments shall be made in such a manner that the money required to be expended from such Funds will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of Additional Bonds. All interest and income derived from deposits and investments in the Interest and Sinking Fund immediately shall be credited to, and any losses debited to, the Interest and Sinking Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 8.02(b) [of the Ordinance], be credited to and deposited in the Revenue Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds.

All moneys on deposit in the funds for which [the] Ordinance makes provision (except any portion thereof as may be at any time properly invested) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds.

Section 8.04 Contributions in Aid of Construction. Any moneys that may be received by the Board that shall represent contributions in aid of construction shall be deposited in a separate account at the Depository Bank. Such contributions shall not be considered as part of the Revenues of the System. Payments from such bank account shall be made only for the purposes for which the contributions were made, including any refunds that may become due to any contributor.

* * *

Section 10.01 Insurance. The City hereby agrees that it will carry at all times for the benefit of the Owners of the Bonds, such insurance on the System that is reasonably obtainable of the kinds and in the amounts which are usually carried by private companies operating similar properties. Such insurance may be provided by means of a self-insurance fund in which event deposits to such fund shall be a maintenance and operating expense of the System.

Section 10.02 Books and Records. The City hereby covenants and agrees that complete and proper books of records and account will be kept and that the Owners of any of the Bonds, or any duly authorized agent or agents of such Owners, shall have the right to inspect such records at all reasonable times. The Board will within sixty (60) days following the close of each

fiscal year, cause an audit of the books and accounts to be made by an independent firm of certified public accountants and that such audit will be available for inspection by the Owners of any of the Bonds.

Section 10.03 Additional Covenants.

(a) Additional Bonds. The City may issue "Additional Bonds" if the following conditions are met:

(i) the City is not then in default as to any covenant, condition or obligation prescribed by an ordinance authorizing the issuance of any bonds payable from and secured by a first lien on and pledge of the Net Revenues;

(ii) the Additional Bonds are made to mature on March 1 or September 1 in each of the years in which they are scheduled to mature;

(iii) the City has secured a certificate or opinion of a Certified Public Accountant to the effect that, according to the books and records of the City, the Net Revenues for the last completed Fiscal Year, or for 12 consecutive months out of the 15 months, immediately preceding the date of issuance of the Additional Bonds (the date of issuance being the date of delivery of all or a portion of the Additional Bonds to the initial purchasers) are at least equal to 1.25 times the Average Annual Debt Service for all Outstanding Bonds Similarly Secured after giving effect to the issuance of the Additional Bonds then being issued. In making a determination of the Net Revenues, the Accountant may take into consideration a change in the charges for services afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Revenues are determined and, for purposes of satisfying the above Revenues test, make a pro forma determination of the Net Revenues of the System for the period of time covered by his certification or opinion based on such change in charges being in effect for the entire period covered by the certificate or opinion of the Accountant; and

(iv) the Reserve Fund Requirement shall be increased as necessary and any such additional amount shall be accumulated in equal monthly installments during a period not to exceed sixty (60) months.

(b) Refunding Bonds. The City reserves the right to issue refunding bonds to refund all or any part of the Bonds Similarly Secured (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all such Bonds Similarly Secured then Outstanding are refunded, the conditions precedent prescribed (for the issuance of Additional Bonds) set forth in subparagraph (a)(iii) of this Section shall be satisfied and the certificate of the Accountant required in subparagraph (a)(iii) shall give effect to the Debt Service requirements of the proposed refunding bonds (and shall not give effect to the Debt Service requirements of the Bonds Similarly Secured being refunded following their cancellation or provision being made for their payment).

(c) Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the System, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State of Texas.

(d) Maintain and Operate System Efficiently. The City and the Board hereby covenant, respectively, that they will maintain and operate the System with all possible efficiency, in good working order and at a reasonable cost while any of the Bonds remain Outstanding and faithfully and punctually perform all duties with reference to the System required by the Constitution and laws of the State.

(e) Rate Covenant. The Board hereby covenants that it will establish and maintain rates for services supplied by the System which shall produce or yield Net Revenues equal to 1.25 times the Average Annual Debt Service requirements of all Bonds Similarly Secured.

(f) Debt Service Coverage Ratio. The Board hereby covenants that each Fiscal Year while the Bonds are Outstanding, it will operate the System in a manner that results in the Net Revenues equaling 1.25 times the Average Annual Debt Service requirements of all Bonds Similarly Secured.

(g) Charges for Water and Sewer and Drainage Service. The City and the Board hereby covenant that charges for drainage services will be made jointly with charges made for the sale of water and sewer services. Such charges shall be required to be paid by the customer at the same time.

(h) Enforcement. To exercise and pursue with due diligence available remedies provided by law for the collection of delinquent drainage charges, including the power under Section 552.050 of the Act to discontinue all utility services, particularly water and sewer services provided by the City to a user of benefited property who is delinquent in the payment of drainage charges.

(i) Nonimpairment of Lien. The City and the Board hereby covenant, respectively, to take no action or omit to take any action, or suffer to be done or omitted to be done, any matter or thing whatsoever whereby the lien of the Bonds Similarly Secured on the Net Revenues of the System might or could be lost or impaired, and that the Board will pay or cause to be paid, or will make adequate provision for the satisfaction and discharge of all lawful claims and demands for labor, materials, supplies, or other objects which, if unpaid, might by law be given precedence to, or an equality with the Bonds Similarly Secured as a lien or charge upon the revenues of the System or any part thereof; provided that nothing in this subsection (i) shall be construed to require the Board to pay, discharge or make provision for any such lien, charge, claim or demand so long as the validity thereof shall be by it in good faith contested.

(j) No Sale or Encumbrance of System. The City and the Board hereby covenant, respectively, that they will not in any manner dispose of the System or any substantial part thereof, including any and all extensions and additions that may be made thereto, until the Bonds Similarly Secured shall have been paid in full as to both principal and interest; provided, however, that this covenant shall not be construed to prevent the disposal by the City of property, which in the Board's judgment has become inexpedient to use in connection with the System, when other property of equal value is substituted therefor or when the proceeds of such disposition of such property are placed in the Interest and Sinking Fund, in addition to all other amounts required to be placed in the Interest and Sinking Fund in the current fiscal year, and are used for the retirement of Bonds Similarly Secured in advance of their respective maturities.

(k) No Competing Systems. The City hereby covenants that it will not grant a franchise for the operation of any competing drainage system in the City until all Bonds Similarly Secured have been paid in full with respect to principal and interest.

(l) No Free Service. The Board hereby covenants that it will not permit free drainage to be supplied to the City or to any other user (other than those persons exempt under the Act and/or applicable law) and the City hereby agrees that it will pay from its general fund the reasonable value of all drainage services obtained from the System by the City and all departments and agencies thereof.

* * *

Section 12.01 Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Interest and Sinking Fund or the Reserve Fund as required by the Ordinance, or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in the Ordinance, the Owner or Owners of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, nor shall such delay or omission be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

Section 12.02 Remedies Not Exclusive. No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Bonds or now or hereafter existing at law or in equity; provided, however, that notwithstanding any other provision of [the] Ordinance, the right to accelerate the debt evidenced by the Bonds shall not be available as a remedy under [the] Ordinance.

The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

* * *

Section 13.01 Discharge. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Owners, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in [the] Ordinance, then the pledge of Net Revenues of the System under [the] Ordinance and all covenants, agreements, and other obligations of the City to the Owners shall thereupon cease, terminate, and be discharged and satisfied.

Bonds or any principal amount(s) thereof shall be deemed to have been paid within the meaning and with the effect expressed in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at maturity, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent or (ii) Government Obligations shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Obligations shall mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any moneys

deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the stated maturity thereof. In the event of a defeasance of the Bonds, the City shall deliver a certificate from its financial advisor, the Paying Agent/Registrar, an independent certified public accountant, or another qualified third party concerning the sufficiency of the deposit of cash and/or Government Obligations to pay, when due, the principal of, redemption premium (if any), and interest due on any defeased Bonds. The City covenants that no deposit of moneys or Government Obligations will be made under this Section and no use will be made of any such deposit which would cause the Bonds to be treated as "arbitrage bonds" within the meaning of Section 148 of the Code or the regulations adopted pursuant thereto.

All moneys so deposited with the Paying Agent/Registrar or an authorized escrow agent, and all income from Government Obligations held in trust by the Paying Agent/Registrar, or an authorized escrow agent, and all income from Government Obligations held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section, which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such moneys have been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the stated maturity of the Bonds such moneys were deposited and are held in trust to pay shall upon request of the City be remitted to the City against a written receipt therefor. The provisions of this paragraph are subject to the applicable unclaimed property law of the State of Texas.

The City reserves the right, subject to satisfying the requirements of (i) and (ii) above, to substitute other Government Obligations for the Government Obligations originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. Provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption, at an earlier date, those Bonds which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the Owners 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.

* * *

Section 17.01 Amendment to Ordinance.

(a) Amendments Without Consent. [The] Ordinance, the Pricing Certificate, and the rights and obligations of the City and of the owners of the Bonds may be modified or amended at any time without notice to or the consent of any owner of the Bonds or any other Previously Issued Bonds, solely for any one or more of the following purposes:

(i) To add to the covenants and agreements of the City contained in [the] Ordinance or the Pricing Certificate, other covenants and agreements thereafter to be observed, or to surrender any right or power reserved to or conferred upon the City in [the] Ordinance or the Pricing Certificate;

(ii) To cure any ambiguity or inconsistency, or to cure or correct any defective provisions contained in [the] Ordinance or the Pricing Certificate, upon receipt by the City of an opinion of nationally recognized bond counsel, that the same is needed for such purpose, and will more clearly express the intent of [the] Ordinance or the Pricing Certificate;

(iii) To supplement the security for the Bonds, replace or provide additional credit facilities, or change the form of the Bonds or make such other changes in the provisions [of the Ordinance] as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Bonds;

(iv) To make any changes or amendments requested by any bond rating agency then rating or requested to rate Bonds Similarly Secured, as a condition to the issuance or maintenance of a rating, which changes or amendments do not, in the judgment of the City, materially adversely affect the interests of the owners of the outstanding Bonds Similarly Secured; or

(v) To make such other changes in the provisions [of the Ordinance] as the City may deem necessary or desirable and which shall not, in the judgment of the City, materially adversely affect the interests of the owners of outstanding Previously Issued Bonds.

Notice of any such amendment may be published by the City in the manner described in subsection (c) of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory

resolution and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory resolution.

(b) Amendments With Consent. Subject to the other provisions of [the] Ordinance, the owners of outstanding Bonds aggregating a majority in outstanding principal amount shall have the right from time to time to approve any amendment, other than amendments described in subsection (a) of this Section, to [the] Ordinance or the Pricing Certificate which may be deemed necessary or desirable by the City; provided, however, that nothing herein contained shall permit or be construed to permit, without the approval of the owners of all of the outstanding Bonds, the amendment of the terms and conditions in [the] Ordinance, in the Pricing Certificate or in the Bonds so as to:

- (i) Make any change in the maturity of the outstanding Bonds;
- (ii) Reduce the rate of interest borne by outstanding Bonds;
- (iii) Reduce the amount of the principal payable on outstanding Bonds;
- (iv) Modify the terms of payment of principal of or interest on the outstanding Bonds, or impose any conditions with respect to such payment;
- (v) Affect the rights of the owners of less than all Bonds then outstanding; or
- (vi) Change the minimum percentage of the outstanding principal amount of Bonds necessary for consent to such amendment.

(c) Notice. If at any time the City shall desire to amend [the] Ordinance or the Pricing Certificate other than pursuant to subsection (a) of this Section, the City shall cause written notice of the proposed amendment to be given by certified mail to each registered owner of the Bonds affected at the address shown on the Register. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file with the City Clerk or Alternate City Clerk for inspection by all owners of Bonds.

(d) Consent Irrevocable. Any consent given by any owner of Bonds pursuant to the provisions of this Section shall be irrevocable for a period of eighteen (18) months from the date of mailing of the notice provided for in this Section, and shall be conclusive and binding upon all future owners of the same Bonds during such period. Such consent may be revoked at any time after eighteen (18) months from the date of mailing by the owner who gave such consent, or by a successor in title, by filing notice thereof with the Paying Agent/Registrar and the City, but such revocation shall not be effective if the owners of a majority in outstanding principal amount of Bonds, prior to the attempted revocation, consented to and approved the amendment.

(e) Ownership. For the purpose of this Section, the ownership and other matters relating to all Bonds registered as to ownership shall be determined from the registration books kept by the Paying Agent/Registrar therefor. The Paying Agent/Registrar may conclusively assume that such ownership continues until written notice to the contrary is served upon the Paying Agent/Registrar.

TAX MATTERS

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

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

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling

has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations, such as the Bonds. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

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

TAX ACCOUNTING TREATMENT OF DISCOUNT ON THE BONDS.... Each of the Bonds will be deemed to be issued with original issue discount for federal income tax purposes (a "Discount Bond"), because the initial interest payment date is more than twelve months after the Bonds will be delivered to the initial purchasers. The amount of original issue discount will further vary if the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) differs from the amount payable on such Discount Bond at its maturity. A portion of the original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

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

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

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 Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City has obligated the PSB to provide certain updated financial information and operating data annually, and timely notice of certain specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). In the Ordinance, the City has agreed to cause the PSB, acting on behalf of the City, to make all of the required filings set forth below.

ANNUAL REPORTS . . . The PSB will provide certain updated financial information and operating data with respect to the System to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the System of the general type included in this Official Statement under Tables numbered 1 through 8 and in Appendix B. The PSB will update and provide the information in the tables referenced above within six months after the end of each fiscal year ending in and after 2022 and will update and provide audited financial statements within 12 months after the end of each fiscal year ending in and after 2022. If the audit of such financial statements is not completed within 12 months after any such fiscal year end, then the PSB shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements become available.

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 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 PSB commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the PSB will provide unaudited financial statements of the type described in the preceding paragraph 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 PSB may be required to employ from time to time pursuant to State law or regulation.

The PSB's current fiscal year end is the last day of February. Accordingly, the PSB must provide updated information in the tables by August 31 in each year following the end of its fiscal year, and the PSB must provide the audit by the end of February in each year following the end of its fiscal year, unless the PSB changes its fiscal year. If the PSB changes its fiscal year, the City will cause the PSB to notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the PSB otherwise would be required to provide financial information and operating data pursuant to this Section.

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

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the PSB or City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the PSB or 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 PSB or City, and (b) the PSB and the City intend the words used in items (15) and (16) in the immediately preceding paragraph to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018. In addition, the PSB will provide timely notice of any failure by the PSB to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

AVAILABILITY OF INFORMATION . . . The PSB 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 PSB has agreed to update information and to provide notices of certain specified events only as described above. Neither the City nor the PSB have 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 PSB and the City make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City and the PSB disclaim any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City and the PSB 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 PSB or the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The City may also amend or repeal the provisions of the 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 such amendment or repeal would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS — SYSTEM BONDS . . . During the past five years, the PSB has complied in all material respects with all continuing disclosure agreements made by it or the City in accordance with the Rule with respect to any System revenue bonds.

COMPLIANCE WITH PRIOR UNDERTAKINGS — OTHER CITY BONDS . . . During the past five years and with respect to the City’s non-System bonds, the City has complied in all material respects with its continuing disclosure agreements in accordance with the Rule.

OTHER INFORMATION

MUNICIPAL BOND RATING AND INSURANCE

The Bonds and the presently outstanding Previously Issued Bonds are rated “AA+” by Fitch Ratings Inc., without regard to credit enhancement. It is expected that S&P will assign a rating of “AA” (stable outlook) to the Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of principal of and interest on the Bonds will be issued by BAM. Certain of the presently outstanding Previously Issued Bonds are rated “AA+” by S&P, without regard to credit enhancement. The City is not seeking a rating for the Bonds from S&P. The ratings reflect only the respective view 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 by such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

LITIGATION

It is the opinion of the General Counsel for the PSB that there is no pending litigation against the City that would have a material adverse financial impact upon the System, the PSB or its operations or on the ability of the City to issue the Bonds.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201) the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Business and Commerce Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions of the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds must be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

LEGAL MATTERS

The City will furnish to the Underwriters a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State to the effect that the Initial Bond is a valid and binding obligation of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel to the effect that the Bonds issued in compliance with the provisions of the Ordinance are valid and legally binding special obligations of the City and the interest on such Bonds is excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS" herein. A form of such opinion is attached hereto as Appendix C. Bond Counsel did not take part in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions, "THE BONDS" (except for the subcaptions "Book-Entry-Only System", "Bondholders' Remedies" and "Sources and Uses of Proceeds"), "SELECTED PROVISIONS OF THE BOND ORDINANCE," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings -- System Bonds" and "Compliance with Prior Undertakings -- Other City Bonds"), and under the subcaptions "Registration and Qualification of Bonds for Sale," "Legal Investments and Eligibility to Secure Public Funds in Texas" and "Legal Matters" (except for the last sentence of the first paragraph thereof) under the caption "OTHER INFORMATION" and is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Counsel to the Underwriters, whose legal fee is contingent on the sale and delivery of the Bonds.

The various legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or 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

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

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at the aggregate purchase price of \$25,191,240.75 (representing the par amount of the Bonds, plus a premium of \$1,587,688.25 less an underwriting discount of \$146,447.50). The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

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

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

The Underwriters and their respective affiliates also may communicate independent investment recommendations, market advice, or trading ideas and/or publish or express independent research views in respect of such assets, securities or other financial instruments and at any time may hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and other financial instruments.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

In the Bond Ordinance, the City Council authorized (i) the Pricing Officer to execute a Pricing Certificate approving, for and on behalf of the City, the form and content of this Official Statement, and any addenda, supplement or amendment hereto, and (ii) the Underwriters' use of this Official Statement in connection with the public offering and sale of the Bonds.

/s/ OSCAR LEESER
Mayor
City of El Paso, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

LOCATION AND HISTORY . . . The City of El Paso (the “City” or “El Paso”) is located in far West Texas on the international boundary between the United States and the Republic of Mexico, on the Rio Grande, and is the lowest altitude, all-weather pass through the Rocky Mountains. It is approximately equidistant from the Cities of Houston, Texas, Denver, Colorado, and Los Angeles, California. Since the first appearance of Europeans on the North American Continent, it has been a major crossroads for continental north-south and east-west traffic. In 1536, Cabeza de Vaca and his party crossed the Rio Grande at El Paso. In 1659, the first permanent European settlement was established in the El Paso region, and the Mission of Guadalupe was erected (the Mission still stands in the central square of the City of Ciudad Juárez, Mexico). The first trading post was erected in central El Paso in 1848, and the same year, the United States Military Post, later named Fort Bliss, was established. El Paso has continued since that time to be a highly strategic military base. The City's corporate limits encompass 256 square miles.

This historic City, situated at the foot of the Franklin Mountains, enjoys a diversified economy. Mining and manufacturing, important military establishments, domestic and foreign commerce, farming and tourist trade are major contributors to the economy. El Paso's large natural retail and wholesale trade territory extends into New Mexico and Arizona, as well as Texas and Mexico.

El Paso is the largest U.S. city on the Mexico border, the sixth largest city in Texas, and the nineteenth largest city in the U.S. according to estimates by the US Census Bureau. Population in the 1960 Census was 276,687; the 1970 Census was 322,261; the 1980 Census was 425,259; the 1990 Census was 515,342, the 2000 Census was 563,662, the 2010 Census was 649,121 and the Census for 2020 was 678,815. From 2000 – 2006, El Paso was the seventh fastest growing large city in the nation. The City's 2021 estimated population was 681,858. The population of El Paso County was estimated at 839,238 and the population of the sister Mexican city of Ciudad Juárez was estimated at 1,540,000 for 2021.

EDUCATION . . . Most of the public schools in El Paso are under the supervision of three independent school districts, the El Paso Independent School District (with approximately 58,549 students on 84 campuses), the Ysleta Independent School District (with approximately 41,524 students on 62 campuses) and the Socorro Independent School District (with approximately 46,500 students on 47 campuses). In addition to public schools, there are several private and parochial schools in the El Paso area, with enrollment of approximately 5,124.

A number of excellent junior colleges, colleges and universities are located within the El Paso trade area. Among these are: El Paso Community College (El Paso); University of Texas at El Paso (El Paso); New Mexico State University (Las Cruces, New Mexico); Sul Ross State College (Alpine, Texas); Western New Mexico University (Silver City, New Mexico); New Mexico School of Mines (Socorro, New Mexico); Eastern New Mexico University (Portales, New Mexico); and New Mexico Military Institute (Roswell, New Mexico).

The University of Texas at El Paso (the “University”) was established in 1914, and attracts thousands of visitors to seminars, conferences, convocations, sport contests and other events. The University offers degrees in nine schools: Engineering, Business Administration, Science, Education, Health Sciences, Liberal Arts, Nursing, Multidisciplinary Studies and Graduate. At the University, 24,003 students were enrolled in the school for the Fall 2021 semester including in undergraduate and graduate programs with both full-time and part-time attending status.

The Texas Tech University Health Sciences Center (the “Health Sciences Center”) is an educational multi-campus institution created under Chapter 110 of the Texas Education Code and is governed by the Texas Tech University Board of Regents. The Health Sciences Center's administrative center is located in Lubbock, Texas. Currently, the Health Sciences Center located in the City of El Paso includes:

The Paul L. Foster School of Medicine is the first four-year medical school on the U.S./México border. As of 2013, the school was estimated to have improved the local economy by \$1.31 billion. It is expected to be among the catalysts for achieving first-rate medical care in the region, training more physicians, and delivering quality health care to El Pasoans.

The Gayle Greve Hunt School of Nursing was established in 2011 to counteract a long-term shortage of nurses to provide care in this medically underserved area. In 2013, the school received full accreditation for its baccalaureate degree program from the Commission on Collegiate Nursing Education.

The Graduate School of Biomedical Sciences opened in 2013 to educate the next generation of scientists and health-related professionals by providing a dynamic research environment tailored to satisfy the learning needs of a multicultural group of students.

Texas Tech opened the Woody L. Hunt School of Dental Medicine in 2021 as part of an effort to address a critical shortage of dentists in West Texas and welcomed its inaugural class of 40 students.

El Paso County Community College District, which offers a range of studies for both daytime and evening classes, had a Fall 2020 enrollment of 27,428.

Across the border, Ciudad Juárez is home to five colleges: El Colegio de Chihuahua, Instituto Tecnológico de Ciudad Juárez, Universidad Autónoma de Ciudad Juárez, Universidad Tecnológica de Ciudad Juárez and Tecnológico de Monterrey.

HOSPITALS . . . El Paso is a major medical center, with eight hospitals providing approximately 2,658 beds, including William Beaumont Army Medical Center.

AGRICULTURE . . . Agriculture is an important activity in El Paso County, with crop production in the lowlands and livestock in upland areas. Major farm products include beef and dairy cattle, cotton, alfalfa, grain, pecans, onions, forage and peppers. As reported in the Texas Almanac, the average annual income from El Paso County farm products sold is about \$46.7 million.

CONVENTIONS AND TOURISM . . . The El Paso Civic and Convention Center (the “Center”) includes a 70,000 square foot Assembly-Exhibition Hall, theatre-auditorium, and headquarters for the Chamber of Commerce. To accommodate conventioners, approximately 9,657 hotel and motel rooms are available.

Ciudad Juarez, immediately adjacent to El Paso, is a major factor and attraction in the area.

TRANSPORTATION . . . Regional transportation facilities, together with El Paso's strategic location, have contributed to development and growth of the City. Four rail lines operate through El Paso, with the National Railway of Mexico serving Ciudad Juarez. Interstate Highways 10 and 25 provide direct access to El Paso for commercial truckers and tourists. Five other U.S. Highways and the Central Highway of Mexico link El Paso to its surrounding market areas.

The El Paso International Airport is a large, modern airport with facilities equipped for handling many types and sizes of commercial aircraft. The Airport is classified as a medium air traffic hub by the Federal Aviation Administration and is currently served by seven passenger airlines and three all-cargo airlines. The following table shows the total airline passenger enplanements for the past six years (Airport Fiscal Year):

2016	1,384,737	2019	1,764,324
2017	1,461,620	2020	1,101,811
2018	1,576,390	2021	1,089,173

MINING, SMELTING AND REFINERIES . . . Freeport-McMoRan Copper & Gold Inc., with facilities located in El Paso, processes approximately 30% of all copper refined in the United States. While mining within El Paso County is of negligible proportions, substantial supplies of ore are produced in the trade territory, both domestic and in Mexico. Other minerals are also processed in the trade area, notably potash from the Carlsbad vicinity where 90% of the United States’ production is mined.

The steel rolling mill facility of Border Steel Rolling Mill, Inc. currently has the capacity to produce 16,500 tons per month of merchants rod and bar steel products. The modern electric furnaces use scrap metal as the basic ingredient.

Two oil refineries provide asphalt, jet fuel, gasoline and fuel oil for a market area encompassing West Texas, New Mexico and Arizona.

MANUFACTURING . . . Because of El Paso's location on the Mexican border, firms can maintain manufacturing plant operations in the United States but can assemble their goods in Mexico. This “dual plant” operation is commonly called the Maquila Program and enables certain firms to cut production costs by producing the main component of goods across the border while assembling the finished product in the United States.

The Directory of El Paso Manufacturers lists more than 500 industrial firms in El Paso County and Ciudad Juarez. Currently, according to employment and value, the electronics industry has emerged as the leader among El Paso manufacturers, surpassing both the automotive and apparel industries. Other current growth industries in the area include plastics (primarily injected molded parts), electrical equipment, and military defense manufacturing. Approximately 127 Fortune 500 companies are located in El Paso.

MAJOR EMPLOYERS

<u>Name of Business</u>	<u>Nature of Business</u>	<u>Number of Employees</u>
Fort Bliss (Military and Civilian)	Army Base	47,628
El Paso Independent School District	Education	7,875
Socorro Independent School District	Education	7,195
T&T Staff Management, LP	Professional employment organization	6,187
Ysleta Independent School District	Education	6,022
City of El Paso	City government	5,487
Hospitals of Providence	Healthcare	5,300
University of Texas at El Paso	Education	3,170
El Paso Community College	Education	3,102
County of El Paso	County Government	2,980

Source: City of El Paso 2021 ACFR.

EMPLOYMENT STATISTICS

	City of El Paso				
	Average Annual				March
	2018	2019	2020	2021	2022
Civilian Labor Force					
Total Employment	287,136	291,637	280,221	284,661	291,259
Total Unemployment	12,201	11,144	23,250	17,933	12,550
Percentage Unemployed	4.1%	3.7%	7.7%	5.9%	4.1%

	El Paso County				
	Average Annual				March
	2018	2019	2020	2021	2022
Civilian Labor Force					
Total Employment	343,330	348,712	335,061	341,151	349,059
Total Unemployment	15,025	13,870	29,318	22,692	15,849
Percentage Unemployed	4.2%	3.8%	8.3%	6.2%	4.3%

Source: Texas Workforce Commission, Labor Market Information Department.

BANKING . . . The City is the banking center for El Paso County with 52 financial institutions, as well as the El Paso Branch of the Federal Reserve Bank of Dallas.

MILITARY INSTALLATIONS . . . Military installations in and around El Paso have a significant impact on the economy of the City and El Paso County. The employment of civilian personnel is substantial, and, combined with the military payrolls, has a pronounced effect on the level and stability of business volume. Large additional expenditures for supplies and contractual services, when added to the military payrolls, place many millions of dollars annually in local commercial channels.

Fort Bliss, historically important since its establishment as a post in 1848, is now the Army's Air Defense Training Center. From its common boundary with the City, Fort Bliss extends northward to adjoin White Sands Missile Range. The combined facilities represent an uninterrupted distance in excess of 100 miles dedicated to military and scientific pursuits. According to the Department of Defense, Fort Bliss is home to over 91,000 people between active and reserve duty personnel, family members, and other civilians.

Biggs Army Base adjoins both the City and Fort Bliss. Having fulfilled a variety of missions during its history, the base, which once was a major installation of the Strategic Air Command, has now been transferred to the Army. The Army Air Materiel Command, the Defense Language Institute and the Army Aviation Laboratory utilize the facilities of the base.

William Beaumont Army Medical Center, the Army's hospital in El Paso, is a 12-story facility with 432 beds and is a fully accredited, permanent teaching and specialized-treatment hospital. With a complement of approximately 2,200 military and civilian personnel, the hospital's contribution to the El Paso economy is substantial.

White Sands Missile Range in New Mexico has long played an important role in weapons testing. With increasing technology involved in modern weapons, the facility's activities continue to be of significant importance. It is the largest all-land missile range in the Western Hemisphere.

Holloman Air Development Center, near Alamogordo, New Mexico, specializes in the testing and evaluation of new weapons for the Air Force. More than 25 electronic and aircraft companies operate at the Center.

McGregor Range is a testing and experimental area for missiles, rockets and anti-aircraft weapons. Like its neighbors, the impact of both construction and expansion programs, and operations requirements, make the Range an important economic factor in the region.

El Paso Water provides wholesale water and wastewater services to Fort Bliss. El Paso Water provides Fort Bliss with 25% of its water needs and all of its wastewater needs.

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APPENDIX B

EXCERPTS FROM THE
PUBLIC SERVICE BOARD - CITY OF EL PASO, TEXAS
ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended February 28, 2021

The information contained in this Appendix consists of excerpts from the Public Service Board - City of El Paso, Texas Annual Financial Report for the Fiscal Year Ended February 28, 2021, 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.

The information contained in this report is provided as of the respective dates and for the periods specified herein and is subject to change without notice, and the filing of this report does not, under any circumstances, imply that there has been no change in the affairs of the City since the specified date as of which such information is provided. In particular, the dates as of and periods for which information is provided occurred before the worldwide COVID-19 pandemic and before realizing the economic impact of measures instituted to slow it. Accordingly, the historical information set forth in this report is not indicative of future results or performance due to these and other factors, including those discussed in the Official Statement.

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INDEPENDENT AUDITOR'S REPORT

Public Service Board - El Paso Water Utilities,
a component unit of the City of El Paso

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and each major fund of the Public Service Board - El Paso Water Utilities, a component unit of the City of El Paso, as of and for the years ended February 28, 2021 and February 29, 2020, and the related notes to the financial statements, which collectively comprise the Public Service Board - El Paso Water Utilities' 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 audits. We conducted our audits 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of the Public Service Board - El Paso Water Utilities, a component unit of the City of El Paso, as of February 28, 2021 and February 29, 2020, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and required supplementary information as listed in the table of contents on pages 13 through 21 and pages 102 through 110, respectively, 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Public Service Board - El Paso Water Utilities', a component unit of the City of El Paso, basic financial statements. The introductory section, supplementary schedules, and statistical section listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our separate report dated July 6, 2021 on our consideration of the Public Service Board - El Paso Water Utilities', a component unit of the City of El Paso, 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 solely 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 effectiveness of the Public Service Board - El Paso Water Utilities' 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 Public Service Board - El Paso Water Utilities' internal control over financial reporting and compliance.

GIBSON RUDDOCK PATTERSON LLC

El Paso, Texas
July 6, 2021

Management's Discussion and Analysis

As management of the Public Service Board - El Paso Water Utilities (EPWater), we offer readers of the financial statements this narrative overview and analysis of the financial activities for the fiscal year ended February 28, 2021. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found on pages 1-6 of this report.

Financial Highlights

- The assets and deferred outflows of resources of EPWater exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$1.26 billion (*net position*).
- EPWater's total assets and deferred outflows of resources increased by \$113.58 million from 2020 to 2021 mainly due to an increase in water, wastewater, and stormwater infrastructure net of accumulated depreciation of \$91.53 million.
- EPWater's total liabilities and deferred inflows of resources increased by \$15.83 million during the fiscal year mainly due to increases in Commercial Paper notes of \$25 million, and an increase in Revolving notes of \$5 million offsets by decreases in net pension liability of \$7.42 million and OPEB liability of \$7.29 million.
- The debt service coverage for the Water and Wastewater Utility of 2.38 times is well above the required 1.50 times debt service coverage as per its bond ordinance. The Municipal Drainage Utility's debt service coverage of 1.89 times is also well above the required 1.25 times as per its bond ordinance.

Overview of Financial Statements

- Enterprise Funds – EPWater consists of two funds, the Water and Wastewater Utility fund and the Municipal Drainage Utility fund. Enterprise Funds Statements eliminate all transactions between the two funds.
- Statements of Net Position – present information as of the end of each fiscal year on all of EPWater's assets, liabilities, deferred outflows and inflows of resources and total net position. This statement is useful in evaluating the financial health of EPWater.
- Statements of Revenues, Expenses and Changes in Net Position – present information of changes in net position during the fiscal years presented. This statement is useful in evaluating if EPWater recovered all its costs through its rates and other charges.
- Statements of Cash Flows – provide information for the fiscal years presented of cash flows from operating, capital and related financing, and from investing activities.
- Notes to financial statements – present detail information that is essential for a complete understanding of EPWater's financial statements.
- Required Supplemental Information – present information concerning EPWater's progress in funding its pension liability and other postemployment benefit plans.

Other supplemental information is provided for additional analysis and is not a required part of the basic financial statements.

- Supplementary Schedules – Include separate financial statements by fund and other

schedules that provide detail information for each fund.

- **Statistical Section** – Presents summary information as a context for understanding what the information in the financial statements, notes disclosures, and required supplementary information say about EPWater’s financial health.

El Paso Service Area and Customer Growth

Over the last ten years, the average annual retail customer growth has been a manageable 1.3%. The following table shows water, wastewater, and drainage customer growth for the past three years:

Water Customers	FY 2021	FY 2020	FY 2019
Metered water customers, beginning of year	212,985	209,809	206,919
Additions, net	3,587	3,176	2,890
Metered water customers, end of year	216,572	212,985	209,809
Wastewater Customers	FY 2021	FY 2020	FY 2019
Wastewater customers, beginning of year	202,919	199,788	196,560
Additions, net	3,622	3,131	3,228
Wastewater customers, end of year	206,541	202,919	199,788
Drainage Customers	FY 2021	FY 2020	FY 2019
Drainage customers, beginning of year	198,803	196,458	194,228
Additions, net	3,057	2,345	2,230
Drainage customers, end of year	201,860	198,803	196,458

Outside the city limits, EPWater provides wholesale water service and wastewater service to the Lower Valley Water District, Gaslight Square MHE, Paseo Del Este, Square Dance, and Fort Bliss. Wholesale water service is provided to the County of El Paso – East Montana, Haciendas del Norte, Colonia Revolucion, and Mayfair/Nuway and Schuman. Outside city retail water and wastewater service is provided to Westway and Canutillo, and outside city retail water provided to Ponderosa/Western Village, Homestead, unincorporated areas and areas of Village of Vinton, an incorporated area. Drainage service is only provided for customers within the city limits of El Paso.

The Public Service Board (PSB) has established outside city retail water and wastewater rates at 115% of inside city rates. El Paso’s water and wastewater rates remain among the lowest in the Southwest and are extremely competitive with neighboring utilities.

Fiscal Year 2021 Financial Results

The following are the Enterprise Funds Statements of Net Position for the activities for the Water & Wastewater Utility and the Municipal Drainage Utility after elimination of inter-fund payables and receivables.

Enterprise Funds Statements of Net Position

	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>
Current Assets	\$332,792,863	\$243,654,506	\$319,269,518
Noncurrent Assets	19,177,064	77,019,749	13,208,852
Capital Assets (Net)	<u>2,001,253,590</u>	<u>1,909,720,492</u>	<u>1,816,739,351</u>
Total Assets	<u>2,353,223,517</u>	<u>2,230,394,747</u>	<u>2,149,217,721</u>
Deferred Outflows of Resources	<u>12,871,772</u>	<u>22,121,746</u>	<u>13,072,573</u>
Total Assets and Deferred Outflows of Resources	<u>2,366,095,289</u>	<u>2,252,516,493</u>	<u>2,162,290,294</u>
Current Liabilities	131,303,470	124,624,657	129,913,925
Noncurrent Liabilities	<u>955,251,605</u>	<u>958,045,709</u>	<u>951,113,607</u>
Total Liabilities	<u>1,086,555,075</u>	<u>1,082,670,366</u>	<u>1,081,027,532</u>
Deferred Inflows of Resources	<u>17,573,468</u>	<u>5,629,406</u>	<u>2,666,062</u>
Net Position:			
Restricted	162,901,274	159,682,224	129,364,124
Net Investment in Capital Assets	1,071,688,610	993,871,555	948,468,245
Unrestricted	<u>27,376,862</u>	<u>10,662,942</u>	<u>764,331</u>
Total Net Position	<u>1,261,966,746</u>	<u>1,164,216,721</u>	<u>1,078,596,700</u>
Total Liabilities, Deferred Inflows of Resources and Net Position	<u>\$2,366,095,289</u>	<u>\$2,252,516,493</u>	<u>\$2,162,290,294</u>

Enterprise Funds Statements of Net Position and Statements of Revenues, Expenses and Changes in Net Position

Total Assets and Deferred Outflows

- From fiscal year 2020 to 2021, total assets and deferred outflows of resources of \$2.37 billion increased by \$113.58 million mainly due to an increase of \$82.53 million in water and wastewater infrastructure and \$9 million in stormwater infrastructure put in service during fiscal year 2021, and an increase in customer accounts receivable of \$9.40 million due to the suspension of cut-offs due to the COVID-19 pandemic.
- From fiscal year 2019 to 2020, total assets and deferred outflows of resources of \$2.25 billion increased by \$90.23 million mainly due to an increase of \$83.69 million in water and wastewater infrastructure and \$19.96 million in stormwater infrastructure put in service during fiscal year 2020 and offset by a decrease of \$62.71 million in cash and cash equivalents restricted for construction and improvements as EPWater continues to draw down on these funds for construction projects.

Current Assets

- From 2020 to 2021, current assets increased by \$89.14 million mainly due to an increase of \$59.06 million in investments and an increase in accounts receivable for government grants of \$8.96 million.
- From 2019 to 2020, current assets decreased by \$75.62 million mainly due to a decrease of \$62.71 million in cash and cash equivalents from assets restricted for construction.

Total Liabilities

- From 2020 to 2021, total liabilities increased by \$3.88 million mainly due to increases of

\$25 million in Commercial Paper notes and \$5 million in Stormwater Revolving notes and offset by decreases of \$14.71 million in total combined OPEB and net pension liability and \$18.15 million in revenue bonds payable and unamortized premiums.

- From 2019 to 2020, total liabilities increased by \$1.64 million mainly due to an increase of \$14.71 million in total OPEB liability and net pension liability and offset by a decrease in revenue bonds payable and unamortized premiums of \$13.01 million.

Enterprise Funds Statements of Revenues, Expenses, and Changes in Net Position

	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>
Operating Revenues:			
Water	\$141,392,620	\$128,074,462	\$123,904,158
Water supply replacement charge	32,509,672	30,489,523	29,146,782
Reclaimed Water	5,816,201	4,264,689	4,299,939
Wastewater	94,808,389	90,021,675	83,943,118
Drainage fees	23,907,690	23,556,888	23,142,845
Other operating revenue	19,882,000	16,836,787	15,276,932
Total Operating Revenues	<u>318,316,572</u>	<u>293,244,024</u>	<u>279,713,774</u>
Operating Expenses:			
O&M – Water and Reclaimed Water	51,932,288	47,341,729	49,227,550
O&M – Wastewater	25,428,725	24,433,593	25,363,968
General, Administrative and Engineering	29,185,873	25,996,371	27,132,435
O&M – Drainage	5,260,894	5,794,603	4,664,369
Farming and Other Operating Expenses	1,624,245	1,740,633	1,679,657
Other Post-Employment Benefits	1,726,560	2,299,036	1,793,066
Pension Expense	6,354,248	9,695,671	5,336,585
Depreciation	73,728,173	71,892,234	68,573,241
Payment to City of El Paso Franchise fee	6,550,000	3,469,911	3,588,827
Payment to City of El Paso per Bond Covenants	16,849,709	15,442,395	14,630,638
Total Operating Expenses	<u>218,640,715</u>	<u>208,106,176</u>	<u>201,990,336</u>
Operating Income	<u>99,675,857</u>	<u>85,137,848</u>	<u>77,723,438</u>
Interest Earnings	2,115,774	5,254,426	5,921,048
Gain on Land Assets Converted by Sale	1,145,805	8,009,544	1,090,824
Gain on Sale of Miscellaneous Assets	111,980	403,909	356,577
Other nonoperating expenses	(1,152,619)	(1,008,052)	(833,653)
Interest on Long-Term Debt	(24,195,797)	(26,539,742)	(26,143,578)
Total Nonoperating Expenses	<u>(21,974,857)</u>	<u>(13,879,915)</u>	<u>(19,608,782)</u>
Increase in Net Position, Before Contributions	77,701,000	71,257,933	58,114,656
Federal Grant Contributions	3,310,590	432,017	1,957,033

Enterprise Funds Statements of Revenues, Expenses, and Changes in Net Position

	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>
Capital and Non-Federal Grant Contributions	16,738,435	13,930,071	9,627,603
Change in Net Position	97,750,025	85,620,021	69,699,292
Total Net Position – Beginning	1,164,216,721	1,078,596,700	1,016,585,514
Prior period adjustment	-	-	(7,688,106)
Total Net Position – Ending	<u>\$1,261,966,746</u>	<u>\$1,164,216,721</u>	<u>\$1,078,596,700</u>

Water and Wastewater Utility Fund

Total operating revenues increased by \$24.95 million from 2020 to 2021 mainly due to an increase of \$13.32 million in water and \$4.79 million in wastewater revenue. The increase in operating revenues was driven by a five percent rate increase in water and wastewater which was effective March 1, 2020. Water consumption for 2021 of 35.57 billion gallons increased by 1.48 billion gallons compared to 2020. In FY 2021, there was an eight percent increase in residential water consumption mainly due to the COVID-19 pandemic, as a large number of residents stayed home.

Total operating expenses of the Water and Wastewater Utility of \$208.21 million for 2021 increased by \$11.31 million from 2020. The increase was mainly due to increases in operations and maintenance for the water and wastewater system of \$5.58 million; \$3.23 million in general, administrative, and engineering expenses, and \$3.08 million in the City of El Paso Franchise Fee, which City Council approved an increase of \$3 million effective March 1, 2020. This was offset by a decrease of \$3.12 million in pension expense.

Total nonoperating expenses of \$18.45 million for 2021 increased by \$17.30 million from 2020 due to a decrease from land sales of \$16.47 million compared to 2020 and a decrease in interest revenue of \$2.46 million as the Federal Reserve Bank reduced the Federal Funds Rate to historic lows in response to the COVID-19 pandemic.

Net position before capital contributions decreased by \$3.66 million from 2020 to 2021 for the following reasons: a decrease in gain from land sales of \$16.47 million; a decrease of \$2.46 million in interest earnings; an increase in operating expenses of \$11.31 million which was mainly due to an increase of \$4.59 million in operations and maintenance expenses for the water and reclaimed water system and an increase of \$3.23 million for general, administrative and engineering expenses and offset by an increase in operating revenues of \$24.95 million mainly due to the additional revenues generated from the approved five percent water and wastewater rate increase effective March 1, 2020, and a 4.4% increase in water consumption.

Total contributions of \$20.05 million for 2021 were \$5.69 million more than 2020 mainly due to increases of \$7.31 million in non-federal grant contributions and \$2.88 million in federal grant contributions and offset by a decrease in capital contributions of \$4.50 million.

Water & Wastewater Capital Improvement Program

EPWater spent \$140.06 million for water, wastewater, and reclaimed water system capital improvements in fiscal year 2021. Major expenditures included \$9.99 million for Information Technology projects including \$8.55 million for the new CIS Implementation, \$9.16 million for water tanks and reservoirs, and \$20.89 million for wastewater plants upgrades and rehabilitation.

Financial Indicators for the Water & Wastewater Utility			
	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>
Current Ratio	2.41	1.78	2.34
Operating Ratio	0.47	0.48	0.50
Debt Service Coverage	2.38 times	2.21 times	2.22 times
Debt Ratio	0.36	0.37	0.39

Municipal Drainage Utility Fund

Total operating revenues increased \$128,000 from 2020 to 2021 due to normal customer growth. EPWater added 3,057 new drainage accounts and there was no stormwater fee increase in 2021.

Operating expenses for fiscal year 2021 were \$10.61 million, a decrease of \$775,000 from 2020 mainly due to a decrease of \$531,000 in stormwater operations and maintenance due to a milder monsoon season, and a decrease in pension expense of \$217,000.

Drainage Utility Capital Improvement Program

EPWater spent \$14.39 million in fiscal year 2021 in capital improvements for the Municipal Drainage Utility system and includes \$3.24 million for the Sam Snead Stormwater Drain System Phase I, and \$2 million in open space acquisitions. Total assets are summarized in Note 9 of the financial statements.

Financial Indicators for the Municipal Drainage Utility			
	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>
Current Ratio	3.87	3.93	3.46
Operating Ratio	0.29	0.32	0.27
Debt Service Coverage	1.89 times	1.87 times	2.88 times
Debt Ratio	0.37	0.44	0.43

Overall, EPWater met all its financial obligations including operating expenses, debt service, and met the needs of a growing community by rehabilitating or adding water, wastewater, and drainage infrastructure to serve our customers.

Capital Assets

EPWater's investment in water, wastewater, and drainage capital assets as of February 28, 2021, was \$2 billion (net of accumulated depreciation). This is a net increase of 4.8% from 2020. The following table reflects the changes within each classification of capital assets net of depreciation. The increase in capital assets was primarily due to the addition of \$78.15 million in new water, wastewater, and reclaimed water and drainage projects placed in service during the year. The capital asset information is detailed in Note 9. The commitments related to construction

work in progress are discussed in Note 24.

Capital Assets (Net of Accumulated Depreciation)			
	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>
Land and Right-of-Way	\$337,877,150	\$330,143,113	\$306,975,974
Irrigation Water Rights Contracts	11,612,002	10,687,729	10,501,786
Buildings and Shops	25,283,519	24,422,808	25,679,956
Vehicles	10,289,230	10,187,739	9,127,702
Equipment and Tools	6,722,183	8,341,344	8,476,606
Water System	741,304,208	731,397,637	699,167,380
Wastewater System	403,289,539	411,983,290	415,286,658
Drainage System	140,420,630	135,761,755	133,198,472
Construction Work in Progress	324,455,129	246,795,077	208,324,817
Total	<u><u>\$2,001,253,590</u></u>	<u><u>\$1,909,720,492</u></u>	<u><u>\$1,816,739,351</u></u>

Debt Administration

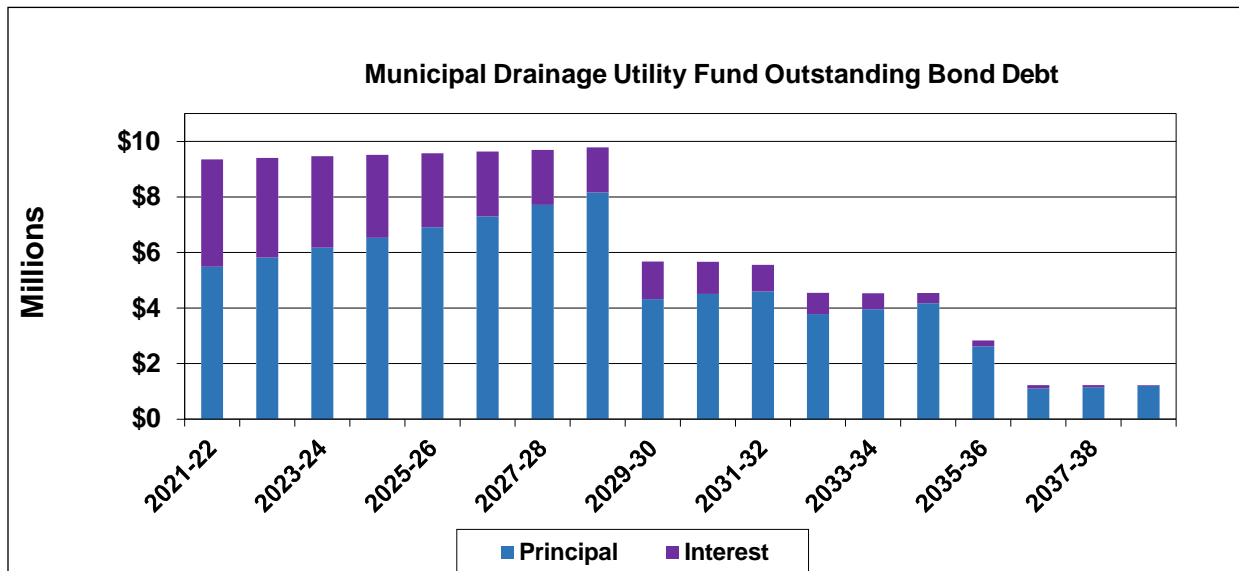
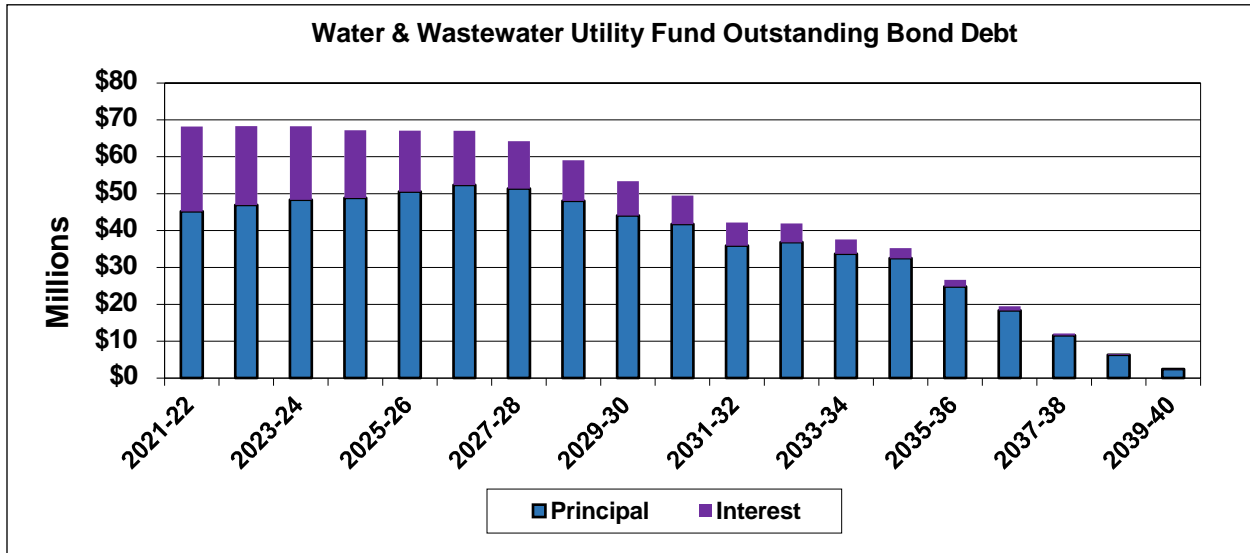
EPWater issued the following two bonds during this fiscal year:

- \$33,880,000 in Water and Sewer Revenue Refunding Bonds, Series 2020 with a true interest rate of 1.91% to refund \$40,000,000 of Water and Sewer Commercial Paper Notes.
- \$62,990,000 in Water and Sewer Revenue Refunding Bonds, Series 2020A with a true interest cost of 1.28% to refund \$58,565,000 of the following outstanding bonds: 2012 and 2012A.

Total long-term liabilities are summarized in Note 10 of the financial statements and the bonds in Note 11.

The following charts show, as of February 28, 2021, all outstanding principal and interest owed by EPWater. An adequate level of debt and strong financial position reflects superior fiscal management which have allowed EPWater to continue to earn among the highest ratings that can be awarded by rating agencies like Standard & Poor's (AA+) and Fitch Ratings (AA+). On August 1, 2015, EPWater through the City of El Paso and Bank of America, N.A. entered into a revolving credit agreement pursuant to which Bank of America N.A. is obligated under the Credit Agreement to loan to the City amounts not to exceed \$40.00 million for the purpose of paying amounts due on the Commercial Paper Program. On August 14, 2018, the first amendment to the credit agreement was executed to extend the contract until August 23, 2021 and reduced the commitment fee rate from 0.40% to 0.37%. EPWater issued \$65.00 million in commercial paper during fiscal year 2021. The commercial paper program information is detailed in Note 12.

Bond and Commercial Paper Ratings			
	<u>Standard & Poor's</u>	<u>Fitch</u>	<u>Moody's</u>
Water & Wastewater Revenue Bonds	AA+	AA+	-
Municipal Drainage System Bonds	AA+	AA+	-
Water & Wastewater Commercial Paper	-	A+/F1	P-1



Summary of Significant Outstanding Debt			
	<u>FY 2021</u>	<u>FY 2020</u>	<u>FY 2019</u>
Water & Wastewater Revenue Bonds	\$722,060,000	\$727,315,000	\$739,010,000
Municipal Drainage System Bonds	90,701,000	95,635,000	100,324,000
Water & Wastewater Commercial Paper	40,000,000	15,000,000	15,000,000
Municipal Drainage System Revolving Note	15,000,000	10,000,000	2,500,000
Unamortized Premiums Net of Discounts	77,679,355	85,645,202	82,274,063
Other Governments Payable	1,547,350	1,892,725	2,054,121
Total	<u>\$946,987,705</u>	<u>\$935,487,927</u>	<u>\$941,162,184</u>

Economic Factors and Next Year's Budget and Rates

- Severe drought conditions are expected to continue which will limit the river water estimated allocation for 2021 to the Utility to an estimated 25,000 acre feet from a normal allotment of approximately 58,000 acre feet.
- In 2020, the El Paso MSA home sales increased by 12% with the median sales prices increasing by 9% according to the Texas A&M Real Estate Center. The number of months Single-Family Housing remained in inventory decreased from 3.1 months to 1.6 months during the same period.
- EPWater did not budget any new bond issues for the Water & Wastewater Utility to fund CIP projects for Fiscal Year 2021-22 but did budget two bond issues to take commercial paper notes to a long-term liability. On April 8, 2021, EPWater refunded \$40.0 million of commercial paper notes and anticipates one more bond issue in Fiscal Year 2021-22. The Municipal Drainage Utility budget includes \$6.86 million in new funding for fiscal year 2021-22 with no new bond issues to fund CIP projects, but budgeted for one bond issue to take direct funded revolving loan notes to a long-term liability which was completed on April 8, 2021, with the refunding of \$15 million of revolving notes.
- Due to the economic crisis caused by COVID-19, many of our customers' ability to stay current with their bills has been reduced. EPWater temporarily suspended water service disconnections for non-payment beginning in March 2020 through January 2021, and restarted water service disconnection for non-payment in early February 2021. The pandemic and temporary suspension of service disconnections had a material effect on the increase of past due customer account balances as an additional 9,600 customers were past due 60 days or more in their utility bill; an increase of over \$4 million compared to the previous year. The Utility has been proactive and continues to encourage customers to make payments or sign up for payment plans and provides referrals to agencies that can provide temporary financial assistance with their utility bills. EPWater also received Coronavirus Relief Funds from the City of El Paso, through the federal government CARES Act to assist customers. This grant funding was used to help around 1,900 customers who met program guidelines and were past due on their water bills. In addition, the Utility has partnered with Project Bravo and Project Amistad, two local not-for-profit organizations that continue to assist customers affected by the pandemic.

All of these factors were taken into consideration in preparing EPWater's budget for fiscal year 2022. The Water and Wastewater Utility adopted a budget with a two percent rate increase for water and wastewater services and a six percent fee increase for the Municipal Drainage Utility. EPWater will continue to look for efficiencies, refinancing debt and cutting costs whenever possible.

Request for Information

The financial report is designed to provide a general overview of the EPWater's finances and for all those with an interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional financial information, should be addressed to Chief Financial Officer: 1154 Hawkins Blvd. El Paso, Texas 79925.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF NET POSITION

February 28, 2021

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 24,429,291	\$ 4,027,623	\$ -	\$ 28,456,914
Investments	30,000,000	-	-	30,000,000
Accounts receivable - customers	35,400,321	1,940,993	-	37,341,314
Accounts receivable - other	3,966,000	24,408	-	3,990,408
Leased property investment costs	373,137	-	-	373,137
Accrued interest receivable	1,518,349	26,095	-	1,544,444
Due from Water and Wastewater Utility	-	183,656	(183,656)	-
Inventory - materials and supplies	4,194,004	-	-	4,194,004
Other current assets	197,077	-	-	197,077
Prepaid expenses	1,860,509	-	-	1,860,509
Accounts receivable - City of El Paso land transfer	329,967	-	-	329,967
Restricted current assets:				
Restricted for bond requirements:				
Cash and cash equivalents	55,879,168	7,438,745	-	63,317,913
Investments	36,631,429	6,456,010	-	43,087,439
Restricted for construction and improvements:				
Cash and cash equivalents	45,872,913	15,400,547	-	61,273,460
Investments	40,754,082	6,000,000	-	46,754,082
Accounts receivable government grants	9,794,614	-	-	9,794,614
Notes receivable	277,581	-	-	277,581
Total current assets	<u>291,478,442</u>	<u>41,498,077</u>	<u>(183,656)</u>	<u>332,792,863</u>
Noncurrent assets:				
Investments	2,000,000	-	-	2,000,000
Accounts receivable - City of El Paso land transfer	8,565,108	-	-	8,565,108
Leased property investment costs	2,611,956	-	-	2,611,956
Due from Municipal Drainage Utility land transfer	4,300,000	-	(4,300,000)	-
Restricted noncurrent assets:				
Restricted for bond requirements:				
Investments	6,000,000	-	-	6,000,000
Restricted for construction and improvements:				
Capital assets:				
Water and Wastewater Utility capital assets	2,420,992,252	-	-	2,420,992,252
Municipal Drainage Utility capital assets	-	168,609,143	-	168,609,143
Land and right of way	305,597,262	42,954,649	(10,674,761)	337,877,150
Construction work in progress	291,179,879	33,275,250	-	324,455,129
Less accumulated depreciation	(1,223,281,990)	(27,398,094)	-	(1,250,680,084)
Total capital assets (net of accumulated depreciation)	<u>1,794,487,403</u>	<u>217,440,948</u>	<u>(10,674,761)</u>	<u>2,001,253,590</u>
Total noncurrent assets	<u>1,817,964,467</u>	<u>217,440,948</u>	<u>(14,974,761)</u>	<u>2,020,430,654</u>
Total assets	<u>2,109,442,909</u>	<u>258,939,025</u>	<u>(15,158,417)</u>	<u>2,353,223,517</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on bond refunding	2,843,804	-	-	2,843,804
Deferred pension contributions	2,675,999	137,716	-	2,813,715
Difference in expected and actual pension experience	1,659,963	96,834	-	1,756,797
Change in proportionate share pension	556,535	14,302	-	570,837
Change in proportionate share OPEB	242,458	-	-	242,458
Change in assumptions OPEB	4,365,172	278,989	-	4,644,161
Total deferred outflows of resources	<u>12,343,931</u>	<u>527,841</u>	<u>-</u>	<u>12,871,772</u>
Total assets and deferred outflows of resources	<u>\$ 2,121,786,840</u>	<u>\$ 259,466,866</u>	<u>\$ (15,158,417)</u>	<u>\$ 2,366,095,289</u>

	Water & Wastewater Utility	Municipal Drainage Utility	Eliminations	Total
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 2,800,006	\$ 248,888	\$ -	\$ 3,048,894
Environmental Services collections and other payments due to City of El Paso	11,677,658	-	-	11,677,658
Customer deposits	11,860,806	-	-	11,860,806
Accrued vacation payable	1,894,848	89,414	-	1,984,262
Accrued payroll and benefits	1,141,762	54,555	-	1,196,317
Due to Municipal Drainage Utility	183,656	-	(183,656)	-
Unearned revenue on land leases	1,131,859	13,476	-	1,145,335
Other current liabilities	820,489	-	-	820,489
Self-insurance workers' compensation and health claims	315,958	-	-	315,958
Other governments payable - current	176,565	-	-	176,565
Customer advances for construction	2,076,361	-	-	2,076,361
Current liabilities payable from restricted assets:				
Revenue bonds payables and unamortized premiums net of discounts	48,623,884	5,966,309	-	54,590,193
Accrued interest on long term debt	12,707,830	2,128,293	-	14,836,123
Accounts payable	21,734,057	1,783,825	-	23,517,882
Retainage payable on construction contracts	3,625,685	430,942	-	4,056,627
Total current liabilities	120,771,424	10,715,702	(183,656)	131,303,470
Noncurrent liabilities:				
Revenue bonds payables and unamortized premiums net of discounts	739,008,880	96,841,282	-	835,850,162
Other governments payable	1,547,350	-	-	1,547,350
Commercial paper notes	40,000,000	-	-	40,000,000
Revolving note	-	15,000,000	-	15,000,000
Due to Water and Wastewater Utility land transfer	-	4,300,000	(4,300,000)	-
Total OPEB Liability	16,739,127	1,025,682	-	17,764,809
Net Pension Liability	40,516,207	2,138,235	-	42,654,442
Accrued vacation payable	1,553,146	57,542	-	1,610,688
Self-insurance workers' compensation claims	824,154	-	-	824,154
Total noncurrent liabilities	840,188,864	119,362,741	(4,300,000)	955,251,605
Total liabilities	960,960,288	130,078,443	(4,483,656)	1,086,555,075
DEFERRED INFLOWS OF RESOURCES				
Gains on bond refunding	6,137,697	-	-	6,137,697
Net difference in projected and actual earning on pension assets	1,221,901	69,824	-	1,291,725
Change in proportionate share pension	12,524	299,216	-	311,740
Difference in expected and actual experience OPEB	6,133,979	379,562	-	6,513,541
Change in proportionate share OPEB	-	242,458	-	242,458
Change in assumptions OPEB	2,898,692	177,615	-	3,076,307
Total deferred inflows of resources	16,404,793	1,168,675	-	17,573,468
NET POSITION				
Restricted:				
Restricted for debt service	85,802,767	11,766,462	-	97,569,229
Restricted for construction and improvements	52,513,379	12,818,666	-	65,332,045
Total restricted	138,316,146	24,585,128	-	162,901,274
Net investment in capital assets	980,662,900	101,700,471	(10,674,761)	1,071,688,610
Unrestricted	25,442,713	1,934,149	-	27,376,862
Total net position	1,144,421,759	128,219,748	(10,674,761)	1,261,966,746
Total liabilities, deferred inflows of resources, and net position	\$ 2,121,786,840	\$ 259,466,866	\$ (15,158,417)	\$ 2,366,095,289

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

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF NET POSITION

February 29, 2020

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 20,244,536	\$ 3,967,349	\$ -	\$ 24,211,885
Investments	5,262,878	-	-	5,262,878
Accounts receivable - customers	26,514,597	1,422,086	-	27,936,683
Accounts receivable - other	2,343,507	23,453	-	2,366,960
Leased property investment costs	373,137	-	-	373,137
Accrued interest receivable	655,853	25,253	-	681,106
Due from Water and Wastewater Utility	-	274,167	(274,167)	-
Inventory - materials and supplies	2,793,577	-	-	2,793,577
Other current assets	600,467	-	-	600,467
Prepaid expenses	1,798,994	-	-	1,798,994
Accounts receivable - City of El Paso land transfer	329,967	-	-	329,967
Restricted current assets:				
Restricted for bond requirements:				
Cash and cash equivalents	52,978,580	6,797,503	-	59,776,083
Investments	33,586,416	3,936,456	-	37,522,872
Restricted for construction and improvements:				
Cash and cash equivalents	37,420,492	23,630,169	-	61,050,661
Investments	17,999,141	-	-	17,999,141
Accounts receivable government grants	837,937	-	-	837,937
Notes receivable	112,158	-	-	112,158
Total current assets	<u>203,852,237</u>	<u>40,076,436</u>	<u>(274,167)</u>	<u>243,654,506</u>
Noncurrent assets:				
Investments	17,000,000	-	-	17,000,000
Accounts receivable - City of El Paso land transfer	8,895,075	-	-	8,895,075
Leased property investment costs	2,985,093	-	-	2,985,093
Due from Municipal Drainage Utility land transfer	6,300,000	-	(6,300,000)	-
Restricted noncurrent assets:				
Restricted for bond requirements:				
Investments	11,946,659	2,431,510	-	14,378,169
Restricted for construction and improvements:				
Investments	33,761,412	-	-	33,761,412
Capital assets:				
Water and Wastewater Utility capital assets	2,350,885,100	-	-	2,350,885,100
Municipal Drainage Utility capital assets	-	160,565,193	-	160,565,193
Land and right of way	297,880,520	42,937,354	(10,674,761)	330,143,113
Construction work in progress	217,949,816	28,845,261	-	246,795,077
Less accumulated depreciation	(1,154,761,511)	(23,906,480)	-	(1,178,667,991)
Total capital assets (net of accumulated depreciation)	<u>1,711,953,925</u>	<u>208,441,328</u>	<u>(10,674,761)</u>	<u>1,909,720,492</u>
Total noncurrent assets	<u>1,792,842,164</u>	<u>210,872,838</u>	<u>(16,974,761)</u>	<u>1,986,740,241</u>
Total assets	<u>1,996,694,401</u>	<u>250,949,274</u>	<u>(17,248,928)</u>	<u>2,230,394,747</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charges on bond refunding	3,449,655	-	-	3,449,655
Deferred pension contributions	2,676,698	145,837	-	2,822,535
Net difference in projected and actual earnings on pension assets	5,710,341	298,537	-	6,008,878
Difference in expected and actual pension experience	2,149,628	125,398	-	2,275,026
Change in assumptions pension	1,213,181	85,687	-	1,298,868
Change in proportionate share pension	718,031	49,702	-	767,733
Change in proportionate share OPEB	218,905	-	-	218,905
Change in assumptions OPEB	4,962,942	317,204	-	5,280,146
Total deferred outflows of resources	<u>21,099,381</u>	<u>1,022,365</u>	<u>-</u>	<u>22,121,746</u>
Total assets and deferred outflows of resources	<u>\$ 2,017,793,782</u>	<u>\$ 251,971,639</u>	<u>\$ (17,248,928)</u>	<u>\$ 2,252,516,493</u>

	Water & Wastewater Utility	Municipal Drainage Utility	Eliminations	Total
LIABILITIES				
Current liabilities:				
Accounts payable	\$ 3,233,952	\$ 83,801	\$ -	\$ 3,317,753
Environmental Services collections and other payments due to City of El Paso	7,826,294	-	-	7,826,294
Customer deposits	11,272,001	-	-	11,272,001
Accrued vacation payable	1,991,842	92,256	-	2,084,098
Accrued payroll and benefits	1,032,564	50,992	-	1,083,556
Due to Municipal Drainage Utility	274,167	-	(274,167)	-
Unearned revenue on land leases	1,009,878	10,940	-	1,020,818
Other current liabilities	709,475	-	-	709,475
Self-insurance workers' compensation and health claims	418,327	-	-	418,327
Other governments payable - current	168,810	-	-	168,810
Customer advances for construction	1,552,102	-	-	1,552,102
Current liabilities payable from restricted assets:				
Revenue bonds payables and unamortized premiums net of discounts	48,567,905	5,692,309	-	54,260,214
Accrued interest on long term debt	13,520,071	2,247,078	-	15,767,149
Accounts payable	19,773,796	1,696,946	-	21,470,742
Retainage payable on construction contracts	3,341,642	331,676	-	3,673,318
Total current liabilities	<u>114,692,826</u>	<u>10,205,998</u>	<u>(274,167)</u>	<u>124,624,657</u>
Noncurrent liabilities:				
Revenue bonds payables and unamortized premiums net of discounts	751,527,396	102,807,592	-	854,334,988
Other governments payable	1,723,915	-	-	1,723,915
Commercial paper notes	15,000,000	-	-	15,000,000
Revolving note	-	10,000,000	-	10,000,000
Due to Water and Wastewater Utility land transfer	-	6,300,000	(6,300,000)	-
Total OPEB Liability	23,547,545	1,502,420	-	25,049,965
Net Pension Liability	47,544,990	2,529,593	-	50,074,583
Accrued vacation payable	1,192,329	51,229	-	1,243,558
Self-insurance workers' compensation claims	618,700	-	-	618,700
Total noncurrent liabilities	<u>841,154,875</u>	<u>123,190,834</u>	<u>(6,300,000)</u>	<u>958,045,709</u>
Total liabilities	<u>955,847,701</u>	<u>133,396,832</u>	<u>(6,574,167)</u>	<u>1,082,670,366</u>
DEFERRED INFLOWS OF RESOURCES				
Gains on bond refunding	2,355,667	-	-	2,355,667
Difference in expected and actual pension experience	733,866	51,832	-	785,698
Change in proportionate share pension	106,724	390,477	-	497,201
Difference in expected and actual experience OPEB	1,665,660	106,275	-	1,771,935
Change in proportionate share OPEB	-	218,905	-	218,905
Total deferred inflows of resources	<u>4,861,917</u>	<u>767,489</u>	<u>-</u>	<u>5,629,406</u>
NET POSITION				
Restricted:				
Restricted for debt service	84,991,584	10,918,392	-	95,909,976
Restricted for construction and improvements	48,991,391	14,780,857	-	63,772,248
Total restricted	<u>133,982,975</u>	<u>25,699,249</u>	<u>-</u>	<u>159,682,224</u>
Net investment in capital assets	914,084,199	90,462,117	(10,674,761)	993,871,555
Unrestricted	9,016,990	1,645,952	-	10,662,942
Total net position	<u>1,057,084,164</u>	<u>117,807,318</u>	<u>(10,674,761)</u>	<u>1,164,216,721</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 2,017,793,782</u>	<u>\$ 251,971,639</u>	<u>\$ (17,248,928)</u>	<u>\$ 2,252,516,493</u>

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

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

For the Year Ended February 28, 2021

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Operating revenues:				
Water	\$ 141,392,620	\$ -	\$ -	\$ 141,392,620
Water supply replacement charge	32,509,672	-	-	32,509,672
Reclaimed water	5,816,201	-	-	5,816,201
Wastewater	94,808,389	-	-	94,808,389
Drainage fees	-	24,065,071	(157,381)	23,907,690
Customer connection fees	6,529,722	-	-	6,529,722
Billing fees - City Environmental Services	656,116	281,193	-	937,309
Rent revenue	4,069,879	-	(24,000)	4,045,879
City of El Paso Franchise fee	6,550,000	-	-	6,550,000
Other operating revenue	1,611,697	207,393	-	1,819,090
Total operating revenues	<u>293,944,296</u>	<u>24,553,657</u>	<u>(181,381)</u>	<u>318,316,572</u>
Operating expenses:				
Operations and maintenance - water & reclaimed water	52,008,318	-	(76,030)	51,932,288
Operations and maintenance - wastewater	25,500,922	-	(72,197)	25,428,725
General, administrative and engineering expenses	27,713,079	-	1,472,794	29,185,873
Operations and maintenance - drainage	-	5,268,842	(7,948)	5,260,894
Indirect cost allocation	-	1,498,000	(1,498,000)	-
Other operating expenses	1,624,245	-	-	1,624,245
Other Post-Employment Benefits	1,658,421	68,139	-	1,726,560
Pension expense	6,091,180	263,068	-	6,354,248
Depreciation	70,211,559	3,516,614	-	73,728,173
Payment to City of El Paso Franchise fee	6,550,000	-	-	6,550,000
Payment to City of El Paso per bond covenants	16,849,709	-	-	16,849,709
Total operating expenses	<u>208,207,433</u>	<u>10,614,663</u>	<u>(181,381)</u>	<u>218,640,715</u>
Operating income	<u>85,736,863</u>	<u>13,938,994</u>	<u>-</u>	<u>99,675,857</u>
Nonoperating revenues (expenses):				
Interest earnings and net change in fair value of investments	1,955,699	160,075	-	2,115,774
Gain on sale of land	1,145,805	-	-	1,145,805
Gain on sale of miscellaneous assets	111,980	-	-	111,980
Other nonoperating expenses	(1,094,897)	(57,722)	-	(1,152,619)
Interest on long term debt	(20,566,880)	(3,628,917)	-	(24,195,797)
Total nonoperating expenses	<u>(18,448,293)</u>	<u>(3,526,564)</u>	<u>-</u>	<u>(21,974,857)</u>
Increase in net position, before contributions	<u>67,288,570</u>	<u>10,412,430</u>	<u>-</u>	<u>77,701,000</u>
Federal grant contributions	3,310,590	-	-	3,310,590
Non-federal grant contributions	7,362,048	-	-	7,362,048
Capital contributions	9,376,387	-	-	9,376,387
Total contributions	<u>20,049,025</u>	<u>-</u>	<u>-</u>	<u>20,049,025</u>
Change in net position	<u>87,337,595</u>	<u>10,412,430</u>	<u>-</u>	<u>97,750,025</u>
Total net position - beginning	<u>1,057,084,164</u>	<u>117,807,318</u>	<u>(10,674,761)</u>	<u>1,164,216,721</u>
Total net position - ending	<u>\$ 1,144,421,759</u>	<u>\$ 128,219,748</u>	<u>\$ (10,674,761)</u>	<u>\$ 1,261,966,746</u>

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

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION

For the Year Ended February 29, 2020

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Operating revenues:				
Water	\$ 128,074,462	\$ -	\$ -	\$ 128,074,462
Water supply replacement charge	30,489,523	-	-	30,489,523
Reclaimed water	4,264,689	-	-	4,264,689
Wastewater	90,021,675	-	-	90,021,675
Drainage fees	-	23,713,494	(156,606)	23,556,888
Customer connection fees	6,841,726	-	-	6,841,726
Billing fees - City Environmental Services	648,555	277,952	-	926,507
Rent revenue	3,715,952	-	(24,000)	3,691,952
City of El Paso Franchise fee	3,469,911	-	-	3,469,911
Other operating revenue	1,472,304	434,387	-	1,906,691
Total operating revenues	<u>268,998,797</u>	<u>24,425,833</u>	<u>(180,606)</u>	<u>293,244,024</u>
Operating expenses:				
Operations and maintenance - water & reclaimed water	47,419,281	-	(77,552)	47,341,729
Operations and maintenance - wastewater	24,505,787	-	(72,194)	24,433,593
General, administrative and engineering expenses	24,487,682	-	1,508,689	25,996,371
Operations and maintenance - drainage	-	5,800,152	(5,549)	5,794,603
Indirect cost allocation	-	1,534,000	(1,534,000)	-
Other operating expenses	1,740,633	-	-	1,740,633
Other Post-Employment Benefits	2,187,414	111,622	-	2,299,036
Pension expense	9,215,739	479,932	-	9,695,671
Depreciation	68,428,204	3,464,030	-	71,892,234
Payment to City of El Paso Franchise fee	3,469,911	-	-	3,469,911
Payment to City of El Paso per bond covenants	15,442,395	-	-	15,442,395
Total operating expenses	<u>196,897,046</u>	<u>11,389,736</u>	<u>(180,606)</u>	<u>208,106,176</u>
Operating income	<u>72,101,751</u>	<u>13,036,097</u>	<u>-</u>	<u>85,137,848</u>
Nonoperating revenues (expenses):				
Interest earnings and net change in fair value of investments	4,412,950	841,476	-	5,254,426
Gain on sale of land	17,617,672	1,066,633	(10,674,761)	8,009,544
Gain on sale of miscellaneous assets	396,124	7,785	-	403,909
Other nonoperating expenses	(897,869)	(110,183)	-	(1,008,052)
Interest on long term debt	(22,678,112)	(3,861,630)	-	(26,539,742)
Total nonoperating expenses	<u>(1,149,235)</u>	<u>(2,055,919)</u>	<u>(10,674,761)</u>	<u>(13,879,915)</u>
Increase in net position, before contributions	<u>70,952,516</u>	<u>10,980,178</u>	<u>(10,674,761)</u>	<u>71,257,933</u>
Federal grant contributions	432,017	-	-	432,017
Non-federal grant contributions	56,921	-	-	56,921
Capital contributions	13,873,150	-	-	13,873,150
Total contributions	<u>14,362,088</u>	<u>-</u>	<u>-</u>	<u>14,362,088</u>
Change in net position	<u>85,314,604</u>	<u>10,980,178</u>	<u>(10,674,761)</u>	<u>85,620,021</u>
Total net position - beginning	<u>971,769,560</u>	<u>106,827,140</u>	<u>-</u>	<u>1,078,596,700</u>
Total net position - ending	<u>\$ 1,057,084,164</u>	<u>\$ 117,807,318</u>	<u>\$ (10,674,761)</u>	<u>\$ 1,164,216,721</u>

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

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2021

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 277,407,443	\$ 23,878,950	\$ -	\$ 301,286,393
Cash received from Municipal Drainage Utility	1,463,437	-	(1,463,437)	-
Cash received from Water and Wastewater Utility	-	157,381	(157,381)	-
Environmental Services fees collected for the City of El Paso	82,053,377	-	-	82,053,377
Franchise fees collected	6,550,000	-	-	6,550,000
Cash payments to suppliers for goods and services	(71,086,048)	(4,142,676)	-	(75,228,724)
Cash payments to employees for services	(43,714,186)	(1,201,690)	-	(44,915,876)
Environmental Services fees paid to the City of El Paso	(78,583,180)	-	-	(78,583,180)
Payments to City of El Paso per bond covenants	(16,808,423)	-	-	(16,808,423)
Payments to City of El Paso Franchise fees	(6,210,120)	-	-	(6,210,120)
Cash payments to Municipal Drainage Utility	(157,381)	-	157,381	-
Cash payments to Water and Wastewater Utility	-	(1,463,437)	1,463,437	-
Net cash provided by operating activities	<u>150,914,919</u>	<u>17,228,528</u>	<u>-</u>	<u>168,143,447</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from:				
Revenue bonds	96,870,000	-	-	96,870,000
Premiums and gains on revenue bonds	10,799,652	-	-	10,799,652
Commercial paper	65,000,000	-	-	65,000,000
Revolving note	-	15,000,000	-	15,000,000
Cash receipts from grants	1,715,962	-	-	1,715,962
Cash receipts from capital contributions	160,000	-	-	160,000
Acquisition and construction from capital grants	(10,672,639)	-	-	(10,672,639)
Acquisition and construction of capital assets net of disposals	(127,553,155)	(14,330,090)	-	(141,883,245)
Refunding revenue bonds	(58,565,000)	-	-	(58,565,000)
Refunding commercial paper	(40,000,000)	-	-	(40,000,000)
Principal payments on revenue bonds	(43,560,000)	(4,934,000)	-	(48,494,000)
Interest and fees on revenue bonds and commercial paper	(36,012,239)	(4,563,733)	-	(40,575,972)
Payments on revolving notes	-	(10,000,000)	-	(10,000,000)
Interest payments on notes and other long term debt	(81,719)	-	-	(81,719)
Proceeds from sale of assets net of related expenses	1,257,785	-	-	1,257,785
Net cash used by capital and related financing activities	<u>(140,641,353)</u>	<u>(18,827,823)</u>	<u>-</u>	<u>(159,469,176)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale and maturities of				
investment securities	124,530,379	11,958,401	-	136,488,780
Purchase of investment securities	(120,408,737)	(18,064,461)	-	(138,473,198)
Interest received on investment securities	1,142,556	177,249	-	1,319,805
Net cash provided (used) by investing activities	<u>5,264,198</u>	<u>(5,928,811)</u>	<u>-</u>	<u>(664,613)</u>
Net increase (decrease) in cash and cash equivalents	15,537,764	(7,528,106)	-	8,009,658
Cash and cash equivalents:				
Beginning of year	110,643,608	34,395,021	-	145,038,629
End of year	<u>\$ 126,181,372</u>	<u>\$ 26,866,915</u>	<u>\$ -</u>	<u>\$ 153,048,287</u>

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

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 28, 2021

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 85,736,863	\$ 13,938,994	\$ -	\$ 99,675,857
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	70,211,559	3,516,614	-	73,728,173
(Increase) decrease in assets and deferred outflows:				
Accounts receivable	(10,673,640)	(519,862)	-	(11,193,502)
Due from Water and Wastewater Utility	-	90,511	(90,511)	-
Inventory	(1,400,427)	-	-	(1,400,427)
Prepaid expenses	(61,515)	-	-	(61,515)
Other current assets	403,390	-	-	403,390
Deferred outflow-Pension contributions	699	8,121	-	8,820
Deferred outflow-Net difference in projected and actual earnings on pension assets	5,710,341	298,537	-	6,008,878
Deferred outflow-Difference in expected and actual pension experience	489,665	28,564	-	518,229
Deferred outflow-Change in assumptions pension	1,213,181	85,687	-	1,298,868
Deferred outflow-Change in proportionate share pension	161,496	35,400	-	196,896
Deferred outflow-Change in proportionate share OPEB	(23,553)	-	-	(23,553)
Deferred outflow-Change in assumptions OPEB	597,770	38,215	-	635,985
Increase (decrease) in liabilities and deferred inflows:				
Accounts payable	(433,947)	165,087	-	(268,860)
Other current liabilities	4,673,797	2,536	-	4,676,333
Due to Municipal Drainage Utility	(90,511)	-	90,511	-
Accrued vacation payable	263,823	3,471	-	267,294
Accrued payroll and benefits	109,198	3,563	-	112,761
Total OPEB Liability	(6,808,418)	(476,738)	-	(7,285,156)
Net Pension Liability	(7,028,783)	(391,358)	-	(7,420,141)
Deferred inflow-Net difference in projected and actual earnings on pension assets	1,221,901	69,824	-	1,291,725
Deferred inflow-Difference in expected and actual pension experience	(733,866)	(51,832)	-	(785,698)
Deferred inflow-Change in proportionate share pension	(94,200)	(91,261)	-	(185,461)
Deferred inflow-Difference in expected and actual experience OPEB	4,468,319	273,287	-	4,741,606
Deferred inflow-Change in proportionate share OPEB	-	23,553	-	23,553
Deferred inflow-Change in assumptions OPEB	2,898,692	177,615	-	3,076,307
Self-insurance claims	103,085	-	-	103,085
Net cash provided by operating activities	<u>150,914,919</u>	<u>17,228,528</u>	<u>-</u>	<u>168,143,447</u>
Noncash investing, capital, and financing activities:				
Capital contributions from developers	\$ 9,216,387	\$ -	\$ -	\$ 9,216,387
Change in fair value of investments	49,353	18,016	-	67,369
	<u>\$ 9,265,740</u>	<u>\$ 18,016</u>	<u>\$ -</u>	<u>\$ 9,283,756</u>

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

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 29, 2020

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
CASH FLOWS FROM OPERATING ACTIVITIES				
Cash received from customers	\$ 264,560,181	\$ 24,451,170	\$ -	\$ 289,011,351
Cash received from Municipal Drainage Utility	1,908,189	-	(1,908,189)	-
Cash received from Water and Wastewater Utility	-	156,606	(156,606)	-
Environmental Services fees collected for the City of El Paso	77,418,451	-	-	77,418,451
Franchise fees collected	3,469,911	-	-	3,469,911
Cash payments to suppliers for goods and services	(61,703,715)	(5,393,691)	-	(67,097,406)
Cash payments to employees for services	(45,279,471)	(983,369)	-	(46,262,840)
Environmental Services fees paid to the City of El Paso	(76,875,314)	-	-	(76,875,314)
Payments to City of El Paso per bond covenants	(15,415,613)	-	-	(15,415,613)
Payments to City of El Paso Franchise fees	(3,573,499)	-	-	(3,573,499)
Cash payments to Municipal Drainage Utility	(156,606)	-	156,606	-
Cash payments to Water and Wastewater Utility	-	(1,908,189)	1,908,189	-
Net cash provided by operating activities	<u>144,352,514</u>	<u>16,322,527</u>	<u>-</u>	<u>160,675,041</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from:				
Revenue bonds	65,385,000	-	-	65,385,000
Premiums and gains on revenue bonds	13,899,614	-	-	13,899,614
Commercial paper	40,000,000	-	-	40,000,000
Revolving note	-	10,000,000	-	10,000,000
Cash receipts from grants	323,732	-	-	323,732
Cash receipts from capital contributions	2,333,833	-	-	2,333,833
Acquisition and construction from capital grants	(488,939)	-	-	(488,939)
Acquisition and construction of capital assets net of disposals	(150,013,670)	(20,057,729)	-	(170,071,399)
Refunding revenue bonds	(34,720,000)	-	-	(34,720,000)
Refunding commercial paper	(40,000,000)	-	-	(40,000,000)
Principal payments on revenue bonds	(42,360,000)	(4,689,000)	-	(47,049,000)
Interest and fees on revenue bonds and commercial paper	(30,741,621)	(4,808,175)	-	(35,549,796)
Payments on revolving notes	-	(2,500,000)	-	(2,500,000)
Interest payments on notes and other long term debt	(89,134)	-	-	(89,134)
Proceeds from sale of assets net of related expenses	18,013,796	1,074,418	-	19,088,214
Net cash used by capital and related financing activities	<u>(158,457,389)</u>	<u>(20,980,486)</u>	<u>-</u>	<u>(179,437,875)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from the sale and maturities of				
investment securities	119,969,836	15,139,386	-	135,109,222
Purchase of investment securities	(194,626,439)	(15,211,696)	-	(209,838,135)
Interest received on investment securities	3,820,953	813,999	-	4,634,952
Net cash provided (used) by investing activities	<u>(70,835,650)</u>	<u>741,689</u>	<u>-</u>	<u>(70,093,961)</u>
Net decrease in cash and cash equivalents	(84,940,525)	(3,916,270)	-	(88,856,795)
Cash and cash equivalents:				
Beginning of year	195,584,133	38,311,291	-	233,895,424
End of year	<u>\$ 110,643,608</u>	<u>\$ 34,395,021</u>	<u>\$ -</u>	<u>\$ 145,038,629</u>

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

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

ENTERPRISE FUNDS

STATEMENT OF CASH FLOWS

For the Year Ended February 29, 2020

	Water & Wastewater Utility Fund	Municipal Drainage Utility Fund	Eliminations	Total
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 72,101,751	\$ 13,036,097	\$ -	\$ 85,137,848
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	68,428,204	3,464,030	-	71,892,234
(Increase) decrease in assets and deferred outflows:				
Accounts receivable	(1,716,381)	171,498	-	(1,544,883)
Due from Municipal Drainage Utility	46,473	-	(46,473)	-
Due from Water and Wastewater Utility	-	(274,167)	274,167	-
Inventory	(508,748)	-	-	(508,748)
Prepaid expenses	171,082	-	-	171,082
Other current assets	(29,673)	-	-	(29,673)
Deferred outflow-Pension contributions	(102,249)	8,006	-	(94,243)
Deferred outflow-Net difference in projected and actual earnings on pension assets	(5,710,341)	(264,692)	-	(5,975,033)
Deferred outflow-Difference in expected and actual pension experience	493,431	28,822	-	522,253
Deferred outflow-Change in assumptions pension	1,427,272	100,808	-	1,528,080
Deferred outflow-Change in proportionate share pension	(214,266)	29,710	-	(184,556)
Deferred outflow-Change in proportionate share OPEB	(218,905)	-	-	(218,905)
Deferred outflow-Change in assumptions OPEB	(4,918,854)	(313,766)	-	(5,232,620)
Increase (decrease) in liabilities and deferred inflows:				
Accounts payable	(354,983)	(203,271)	-	(558,254)
Other current liabilities	1,764,307	10,445	-	1,774,752
Due to Municipal Drainage Utility	274,167	-	(274,167)	-
Due to Water and Wastewater Utility	-	(46,473)	46,473	-
Accrued vacation payable	(120,670)	9,574	-	(111,096)
Accrued payroll and benefits	(1,568,592)	(131,073)	-	(1,699,665)
Total OPEB Liability	5,153,874	67,946	-	5,221,820
Net Pension Liability	9,193,582	292,389	-	9,485,971
Deferred inflow-Net difference in projected and actual earnings on pension assets	(51,697)	-	-	(51,697)
Deferred inflow-Difference in expected and actual pension experience	(863,372)	(60,980)	-	(924,352)
Deferred inflow-Change in proportionate share pension	(125,556)	72,444	-	(53,112)
Deferred inflow-Difference in expected and actual experience OPEB	1,665,660	106,275	-	1,771,935
Deferred inflow-Change in proportionate share OPEB	-	218,905	-	218,905
Self-insurance claims	136,998	-	-	136,998
Net cash provided by operating activities	<u>\$ 144,352,514</u>	<u>\$ 16,322,527</u>	<u>\$ -</u>	<u>\$ 160,675,041</u>
Noncash investing, capital, and financing activities:				
Capital contributions from developers	\$ 11,539,317	\$ -	\$ -	\$ 11,539,317
Change in fair value of investments	(127,532)	(28,775)	-	(156,307)
	<u>\$ 11,411,785</u>	<u>\$ (28,775)</u>	<u>\$ -</u>	<u>\$ 11,383,010</u>

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

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity - El Paso City Ordinance No. 752, adopted May 22, 1952, established a five-member board of trustees known as the "Public Service Board" (PSB) which was given the complete management and control of the city's Water and Wastewater Utility System, and as such a separate entity known as Public Service Board - El Paso Water Utilities (EPWater) was created. Ordinance No. 017167 adopted August 11, 2009 increased the number of board members from five to seven. The PSB consists of the Mayor of the City of El Paso and six residents of El Paso County, Texas. With the exception of the Mayor, all other trustees are appointed by the City Council and serve staggered four-year terms.

EPWater prepares its basic financial statements in conformity with generally accepted accounting principles promulgated by the Governmental Accounting Standards Board (GASB), and it complies with the requirements of contracts and grants of agencies from which it receives funds. EPWater's basic financial statements include the accounts of all EPWater's operations, and there are no component units as defined by GASB which are included in EPWater's reporting entity. However, EPWater is a component unit of the City of El Paso based upon the selection of the governing authority.

The Enterprise Funds Statements of Net Position and Statements of Revenues, Expenses, and Changes in Net Position are the financial statements for EPWater as a whole. They report information on both of EPWater's funds after elimination of the interfund activities, payables and receivables. The Statement of Net Position reports all financial and capital resources of the EPWater. It presents information on assets, deferred outflows of resources, liabilities and deferred inflows of resources with the difference reported as net position. The two funds of EPWater are the Water and Wastewater Utility Fund and the Municipal Drainage Utility Fund.

Nature of Activities - EPWater provides water, wastewater, and drainage services for the El Paso area residents. In addition to the water, wastewater, and drainage system revenue, EPWater receives funding from local, state, and federal government sources and must comply with the requirements of these funding source entities.

During the year ended February 28, 2006, EPWater acquired a municipal golf course and contracted a managing agent to operate the facility. The assets, liabilities, and results of operations are included in these financial statements as part of the Water and Wastewater Utility Fund.

EPWater also purchased agricultural properties in Hudspeth County, Texas commonly referred to as CLM farm and the Carpenter farm (collectively the "Property") in order to obtain the rights to the groundwater. At the time of purchase, much of the Property was being used for farming operations. On December 16, 2016 EPWater contracted with Dell Valley Ranch Management, LLC (DVRM) and its affiliate DanJay Enterprises, LLC (DanJay) on an interim basis to manage and farm the Property and, with the intention of leasing the Property to a third party, continued farming operations into 2018. On December 7, 2018, EPWater entered into a cash farm lease with DVRM and DanJay. The leased property investment costs included in the February 28, 2021 and February 29, 2020 financial statements are expenses related to preservation of the farming operations on the Property as part of EPWater's lease of the Property to a third party. The expenses prevented deterioration in the value of the Property investment and facilitated leasing the Property. The leased property investment costs are being amortized over the initial term of the lease, which became effective retroactively to January 1, 2018.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Accounting - Public Service Board - El Paso Water Utilities is comprised of two funds, the Water and Wastewater Utility and the Municipal Drainage Utility. The funds are accounted for as enterprise funds, which are proprietary funds. Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. All activities necessary to provide such services are accounted for in these funds, including, but not limited to, administration, operations, maintenance, financing and related debt service, and billing and collection.

EPWater reports the following major enterprise funds:

- Water and Wastewater Utility - This fund is used to account for the activity related to providing water and wastewater services to El Paso area residents.
- Municipal Drainage Utility - This fund is used to account for the activity related to the management and collection of storm water runoff.

City Ordinance No. 752 established certain "funds" for the Water and Wastewater Utility Fund. These "funds" are mandatory asset segregation and not funds in the sense of governmental fiscal and accounting entities with self-balancing sets of accounts. These "funds" are more fully explained in Note 2.

Annual Budget - EPWater prepares, prior to the beginning of each fiscal year, separate detailed comprehensive annual budgets for the Water and Wastewater Utility and Municipal Drainage Utility funds reflecting estimates of revenues and expenses and other requirements for the ensuing fiscal year in sufficient detail to indicate the probable gross revenues and pledged revenues for such fiscal year. The budgets are prepared using the accrual basis of accounting and are approved by the Public Service Board.

Basis of Accounting - The financial statements are prepared using the accrual basis of accounting. Revenue is recognized as it is earned and expenses are recognized when goods or services are delivered.

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 EPWater are charges to customers for sales and services. EPWater also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. In addition, EPWater acts as a billing and collecting agent on behalf of the City of El Paso for environmental services collection, and an administrative fee is recognized as operating revenue for this service. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets as well as payments to the City of El Paso based upon 10% of water sales. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is EPWater's policy to use restricted resources first, then unrestricted resources as they are needed.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates - Preparation of these financial statements in conformity with generally accepted accounting principles requires the use of management's estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, and deferred inflows of resources at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash Flows Statement - For purposes of the statement of cash flows, EPWater considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments - All investments with an original maturity greater than one year from date of purchase are stated at fair value based on quoted market prices as of year end. Investments with an original maturity of less than or equal to one year are reported at amortized cost, which approximates fair value. Premiums and discounts on investments are amortized or accreted using the straight-line method, which approximates the interest method, over the terms of the related securities. It is the intent of management to hold securities until maturity, and the securities not maturing within a year after year-end are considered non-current.

Realized gains or losses resulting from the sale of investments are determined by the specific cost of the securities sold.

Inventory - Materials and Supplies - EPWater reports inventories of supplies at average cost. Supplies are recorded as expenses when they are consumed.

Restricted Assets - Based upon certain bond covenants and other requirements, EPWater is required to establish and maintain prescribed amounts of resources (consisting of cash and temporary investments) that can be used only to service outstanding debt and other activities specifically restricted (construction and improvements).

Capital Assets - Capital assets include assets with an individual cost of \$5,000 or more and an estimated useful life in excess of one year. Water and wastewater and drainage additions are recorded at cost, which includes materials, labor, overhead, and interest capitalized during construction. Overhead consists of internal costs that are clearly related to the acquisition of capital assets. Assets acquired through contributions, such as from developers, are capitalized and recorded at acquisition value as of the date of donation. Included in capital assets are intangible assets, which consist of purchased water rights and land easements. It is the policy of EPWater to capitalize infrastructure assets. Maintenance and repairs that do not add to the value or life of the asset are charged to operating expense. Major plant replacements are capitalized.

EPWater records depreciation of capital assets in service on the straight-line method at amounts estimated to amortize costs of assets over their estimated useful lives. At the time of retirement of capital assets, the allowance for depreciation is charged with the original cost of the asset and the cost of removal.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The following estimated useful lives are used in providing for depreciation of capital assets:

Building and shops	25 - 33 years
Vehicles and heavy equipment	5 years
Equipment and tools	3 - 33 years
Water plant	10 - 50 years
Wastewater plant	5 - 50 years
Water rights contract	75 years
Drainage system	50 - 100 years

Vacation and Sick Pay - Full time, permanent EPWater employees earn vacation leave as follows:

<u>Years Employed</u>	<u>Vacation Leave</u>
1 - 5	12 days/year
6- 15	17 days/year
Over 15	20 days/year

Permanent EPWater employees who work 40 hours per week can accumulate a total of 400 vacation leave hours. Vacation is recorded as an expense and related liability in the year earned. As of February 28, 2021 and February 29, 2020, EPWater's total vacation leave liability was \$3,594,950 and \$3,327,656, respectively.

Vacation payable for the Water and Wastewater Utility is as follows:

	2021	2020
Total payable, beginning of year	\$ 3,184,171	\$ 3,304,841
Vacation earned	1,895,518	1,911,767
Vacation used	(1,631,695)	(2,032,437)
	\$ 3,447,994	\$ 3,184,171

Vacation payable for the Municipal Drainage Utility is as follows:

	2021	2020
Total payable, beginning of year	\$ 143,485	\$ 133,911
Vacation earned	93,468	97,101
Vacation used	(89,997)	(87,527)
	\$ 146,956	\$ 143,485

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Sick leave is earned at a rate of 15 days per year for permanent, full time EPWater employees, with an unlimited accumulation of days. Sick pay is recorded as an expense in the year incurred. EPWater does not record any liability for sick pay as employees are not reimbursed upon termination.

Deferred Outflows and Inflows of Resources

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

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

EPWater has the following items that qualify for reporting in these categories:

Deferred charges or gains on bond refunding - A deferred charge or gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred pension contributions - These contributions are deferred and reduce net pension liability in the subsequent fiscal year.

Difference in expected and actual experience - For pensions and OPEB, this difference is deferred and amortized over the average remaining service life of all participants in the pension plan and OPEB and recorded as a component of pension expense beginning with the period in which the difference occurred.

Net difference in projected and actual earnings on pension assets - This difference is deferred and amortized as a component of pension expense on a closed basis over a five-year period beginning with the period in which the difference occurred.

Change in assumptions - For pensions and OPEB, this change is deferred and amortized over the average remaining service life of all participants in the pension plan and OPEB and recorded as a component of pension and OPEB expense beginning with the period in which the change occurred.

Change in proportionate share - For pensions and OPEB, this change is deferred and amortized over the average remaining service life of all participants in the pension plan and OPEB and recorded as a component of pension and OPEB expense beginning with the period that first experienced a change in the proportionate share.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pensions - For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City of El Paso Employees Retirement Trust (CERT) and additions to/deductions from CERT fiduciary net position have been determined on the same basis as they are reported by the CERT. 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.

GASB No. 89 - In fiscal year 2020, EPWater early implemented *GASB Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period*, which requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. EPWater's financial statements as of February 28, 2021 and February 29, 2020 are presented in accordance with the guidance provided by this statement.

GASB No. 95 - In fiscal year 2020, EPWater implemented *GASB Statement No. 95, Postponement of the Effective Dates of Certain Authoritative Guidance*, which provides temporary relief of governments and other stakeholders in light of the COVID-19 pandemic. The objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later.

GASB No. 88 - In fiscal year 2021, EPWater implemented *GASB Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, which requires that essential information related to debt be disclosed in notes to the financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that additional information be provided for direct borrowings and direct placements of debt separately from other debt. The note disclosures on long term debt are presented in accordance with the guidance provided by this statement.

Reclassifications - Certain amounts presented for the prior year data have been reclassified in order to be consistent with the current year's presentation.

2. CITY ORDINANCE NO. 752

On May 22, 1952, City Ordinance No. 752 created the Public Service Board - El Paso Water Utilities for the purpose of providing water and wastewater services that are reported in the Water and Wastewater Utility Fund. This ordinance authorized the issuance of a series of Revenue Bonds entitled "City of El Paso, Texas, Water and Sewer Revenue Bonds Series 1952 (the Series 1952 Bonds)," and the City reserved the right and option in the 1952 resolution to issue, under certain conditions, additional bonds on a parity as to lien and right with the Series 1952 Bonds. This bond ordinance has been amended as a result of subsequent bond issues, but still contains the following key covenants.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

2. CITY ORDINANCE NO. 752 (Continued)

Ordinance No. 752, as amended, requires that gross revenues of the System be applied in sequence to: (a) current expenses of maintenance and operations; (b) debt service and reserve requirements; (c) capital expenditures, or unexpected or extraordinary repairs or replacements, or for any other lawful purpose. The following funds have been established to account for the application of the gross revenues: (i) Water and Sewer Revenue Bonds Waterworks and Sewage Fund; (ii) Water and Sewer Revenue Bonds Interest and Sinking Fund; (iii) Water and Sewer Revenue Bonds Reserve Fund; and (iv) Water and Sewer Improvement Fund. All revenues of every nature received through operations of the System shall be paid into the Waterworks and Sewage Fund. The Bond Funds are required to contain an amount of money and investments equal to the principal and interest requirements during the fiscal year.

Ordinance No. 752 also requires that EPWater maintain rates sufficient to produce or yield revenues to produce in each fiscal year an amount adequate to pay all expenses incurred for the operations and maintenance of the System as such expenses shall accrue during the year and to produce an additional amount equal to 150% of the aggregate amount required to be paid in such year for principal and interest and redemption premiums on bonds payable from the Bond Funds.

Ordinance No. 752 also provides that EPWater will permit no free water or services to be supplied to the City or to any other user. However, the ordinance requires that 10% of the total amounts received by EPWater from the sale of water be paid to the City Treasurer. The money received by the City Treasurer may be expended by the City under the direction of the City Council for any purpose for which revenues of the System may legally be used under the laws of the State of Texas.

3. CITY ORDINANCE NO. 016668 ESTABLISHMENT OF A MUNICIPAL DRAINAGE UTILITY SYSTEM

On June 19, 2007, the City of El Paso adopted Ordinance No. 016668 establishing a Municipal Drainage Utility System. The ordinance states that the Public Service Board - El Paso Water Utilities shall have complete authority and control of the management and operation of the Municipal Drainage Utility on behalf of the City. The Municipal Drainage Utility is necessary and essential to ensure that the management and control of the storm water runoff adequately protects the health, safety, and welfare of the citizens of the City. EPWater assumed full responsibility and control of the Municipal Drainage Utility as of March 1, 2008. City personnel, equipment, and all assets of the Drainage System including infrastructure and land were transferred to EPWater. EPWater began billing drainage fees to fund the operating and capital expenses of the Municipal Drainage Utility as of March 1, 2008.

The Ordinance further states that the Board shall prepare a Master Stormwater Management Plan which was approved by the City Council and took effect in March of 2009. In developing the Stormwater Plan, the Board considered the use of open space as natural drainage and to the extent reasonably possible to preserve the City's open spaces, greenways, arroyos, and wilderness areas in their natural state. The Board shall also allocate an amount equal to 10% of the System's annual drainage utility fee revenues for Green Projects which have the potential dual purposes of stormwater management and preservation of the City's open spaces, greenways, arroyos, and wilderness areas. Since March 1, 2008, \$23,659,773 has been set aside from 10% of revenues for Green Projects and as of February 28, 2021, \$20,360,940 has been disbursed including the following purchases:

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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

3. CITY ORDINANCE NO. 016668 ESTABLISHMENT OF A MUNICIPAL DRAINAGE UTILITY SYSTEM (Continued)

- 1,107 acres for \$11,300,000 on July 23, 2019, of which two payments have been made totaling \$7,000,000 and the remainder to be paid back within 5 to 10 years,
- 202.658 acres for \$2,465,000 on March 31, 2010,
- 140.799 acres for \$2,949,000 on July 14, 2015,
- 69.63 acres for \$1,669,000 on November 6, 2015 and,
- Eight Park-Pond Conversions throughout the city for \$1,800,000.

The Ordinance also requires that a drainage utility fee be imposed on each improved parcel within the City for services and facilities provided by the System, except as to exemptions provided for by law or by the ordinance. At least once a year the Board shall present to the City Council a report on the status of the System.

Ordinance No. 016668 also requires that the revenues collected from drainage utility fees must be segregated and completely identifiable from other City or Board accounts. The Board has adopted a debt service coverage ratio of 1.25 times for all Municipal Drainage Utility bonds which is included in the bond ordinances for such bonds.

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS

The cash, cash equivalents, and investments of EPWater must be deposited and invested under the terms of a contract, contents of which are set out in the depository contract. EPWater accepts as collateral to secure its deposited funds, to the extent not insured by the Federal Deposit Insurance Corporation (“FDIC”), allowable pledged book-entry securities (Eligible Securities) of any type permitted by the provisions of the Public Funds Collateral Act, Title 10, Chapter 2257 of the Texas Government Code, which are eligible to be held in a Securities Account at a Federal Reserve Bank under Federal Reserve Bank Operating Circular 7. The depository bank places these allowable government securities as collateral for safekeeping and trust with EPWater’s agent bank in an amount sufficient to protect EPWater deposits on a day-to-day basis during the period of the contract.

The carrying amount of cash for the Water and Wastewater Utility at February 28, 2021 and February 29, 2020, was \$35,667,611 and \$6,801,920, respectively, and the bank balances totaled \$39,266,086 and \$10,046,464, respectively. The carrying amount of cash for the Municipal Drainage Utility at February 28, 2021 and February 29, 2020, was \$8,291,753 and \$788,246, respectively, and the bank balances totaled \$8,642,886 and \$873,028, respectively. As of February 28, 2021, \$1,250,000 of the bank balances were covered by FDIC and the remaining balance was secured by government securities with a fair value of \$61,327,075. As of February 29, 2020, \$1,250,000 of the bank balances were covered by FDIC and the remaining balance was secured by government securities with a fair value of \$9,873,130.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Cash, cash equivalents and investments for the Water and Wastewater Utility consist of the following:

	February 28, 2021			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 16,419,302	\$ 8,009,989	\$ 24,429,291	\$ 32,000,000
Restricted assets				
Bond requirements	-	55,879,168	55,879,168	42,631,429
Construction and improvements	19,248,309	26,624,604	45,872,913	40,754,082
Total restricted assets	19,248,309	82,503,772	101,752,081	83,385,511
Total	\$ 35,667,611	\$ 90,513,761	\$ 126,181,372	\$ 115,385,511
	February 29, 2020			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 4,455,600	\$ 15,788,936	\$ 20,244,536	\$ 22,262,878
Restricted assets				
Bond requirements	-	52,978,580	52,978,580	45,533,075
Construction and improvements	2,346,320	35,074,172	37,420,492	51,760,553
Total restricted assets	2,346,320	88,052,752	90,399,072	97,293,628
Total	\$ 6,801,920	\$ 103,841,688	\$ 110,643,608	\$ 119,556,506

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Cash, cash equivalents and investments for the Municipal Drainage Utility consist of the following:

	February 28, 2021			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 3,626,032	\$ 401,591	\$ 4,027,623	\$ -
Restricted assets				
Bond requirements	-	7,438,745	7,438,745	6,456,010
Construction and improvements	4,665,721	10,734,826	15,400,547	6,000,000
Total restricted assets	4,665,721	18,173,571	22,839,292	12,456,010
Total	\$ 8,291,753	\$ 18,575,162	\$ 26,866,915	\$ 12,456,010
	February 29, 2020			
	Cash and Cash Equivalents			Investments
	Cash	Cash Equivalents	Total	
Unrestricted assets	\$ 9,935	\$ 3,957,414	\$ 3,967,349	\$ -
Restricted assets				
Bond requirements	-	6,797,503	6,797,503	6,367,966
Construction and improvements	778,311	22,851,858	23,630,169	-
Total restricted assets	778,311	29,649,361	30,427,672	6,367,966
Total	\$ 788,246	\$ 33,606,775	\$ 34,395,021	\$ 6,367,966

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports, and establishment of appropriate policies. Among other things, it requires EPWater to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO**

NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Texas statutes and ordinances of the City of El Paso authorize EPWater to expend funds for the operation of EPWater, including the purchase of investments. EPWater is permitted to invest available funds in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market mutual funds, (5) investment pools, (6) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; obligations of states, agencies, counties, cities, and other political subdivisions of any state having a rating of not less than A or its equivalent, and (7) fully collateralized repurchase agreements having a defined termination date and secured by obligations of the United States or its agencies and instrumentalities.

The Act also requires EPWater to have independent auditors perform test procedures related to investment practices as provided by the Act. EPWater's management asserts that they are in substantial compliance with the requirements of the Act and with local policies.

EPWater participates in TEXPOOL, which is a government investment pool in the State of Texas. The State Comptroller of Public Accounts maintains oversight responsibility for TEXPOOL. This responsibility includes the ability to influence operations, designation of management and accountability for fiscal matters. There is also the TEXPOOL Advisory Board which advises on TEXPOOL's Investment Policy and approves any fee increases. The Advisory Board is composed equally of participants in TEXPOOL and other persons who are qualified to advise TEXPOOL. The TEXPOOL Portfolios are comprised of two investment alternatives: TEXPOOL and TEXPOOL PRIME. Federated Investors manage the daily operations of the pool under a contract with the Comptroller. TEXPOOL has elected to continue reporting assets at amortized cost.

EPWater also participates in TexSTAR which is an investment service created by local governments for local governments. TexSTAR was organized in conformity with the interlocal cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These acts provide for the creation of public funds investment pools such as TexSTAR and authorize eligible governmental entities to invest their public funds in investment pools. So long as the Fund continues to utilize amortized accounting, although all securities are marked to market daily using the fair value method, amortized cost, which generally approximates the market value of the securities, has been deemed to be a proxy for fair value. For financial reporting purposes, TexSTAR uses the fair value method to report its investments. The stated objective of TexSTAR is to maintain a stable \$1 per unit net asset value. The amortized cost approximates fair value as of February 28, 2021 and February 29, 2020. Section 2256.016(g)(1) of the Public Funds Investment Act requires TexSTAR to establish and maintain an advisory board composed of Participants in TexSTAR and other persons who do not have a business relationship with TexSTAR. Members are appointed and serve at the will of the Board. The names of the Advisory Board members are available on the TexSTAR website at www.texstar.org. The business and affairs of TexSTAR are managed by the Board in accordance with the bylaws (the "Bylaws"). The Bylaws set forth procedures governing the selection of, and action taken by, the Board. Board oversight of TexSTAR is maintained through various reporting requirements.

Management is not aware of the presence of any limitations or restrictions on withdrawals such as redemption notice periods, maximum transaction amounts, or the investment pool's authority to impose liquidity fees or redemption gates.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The Water and Wastewater Utility investments at February 28, 2021 and February 29, 2020 are categorized as summarized below:

Investment Type	February 28, 2021						
	Value	Original Maturities - EPWater Position		EPWater's Weighted Avg. Maturity (days)	Pool's Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years				
Government Investment Pools Account							
TexPool	\$ 3,561,297	\$ 3,561,297	\$ -	1	32	AAA	1.73%
TexPool Prime	15,771,217	15,771,217	-	1	52	AAA	7.66%
TexSTAR	13,866,886	13,866,886	-	1	46	AAA	6.73%
Total Pools	33,199,400	33,199,400	-				16.12%
Money Market Funds							
Federal US Treasury Money Market	1,435,193	1,435,193	-	1	41	AAA	0.70%
Fidelity Investment Money Market Treasury	55,879,168	55,879,168	-	1	41	AAA	27.14%
Total Money Market Funds	57,314,361	57,314,361	-				27.84%
Securities							
Federal Agency Discounts:							
Federal Home Loan Bank Discount Notes	4,219,545	4,219,545	-	124			2.05%
Federal Agency Coupons:							
Federal Home Loan Bank Federal National Mortgage Association	7,781,840	5,363,275	2,418,565	217			3.78%
US Treasury Coupon	3,400,880	-	3,400,880	92			1.65%
Certificate of Deposit*	81,000,000	22,000,000	59,000,000	197		Not Rated	39.34%
Municipal Bonds	13,002,579	3,397,164	9,605,415	122		AA	6.32%
Total Securities	115,385,511	36,871,192	78,514,319	183			56.04%
Portfolio Total	\$ 205,899,272	\$ 127,384,953	\$ 78,514,319	103			100.00%

*Certificates of Deposit are not rated but are fully collateralized or FDIC insured.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investment Type	February 29, 2020						
	Value	Original Maturities - EPWater Position		EPWater's Weighted Avg. Maturity (days)	Pool's Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Less than 1 year	1-5 years				
Government Investment Pools Account							
TexPool	\$ 16,860,458	\$ 16,860,458	\$ -	1	28	AAA	7.56%
TexPool Prime	16,882,036	16,882,036	-	1	33	AAA	7.55%
TexSTAR	15,687,750	15,687,750	-	1	32	AAA	7.02%
Total Pools	49,430,244	49,430,244	-				22.13%
Money Market Funds							
Federal US Treasury Money Market	1,432,861	1,432,861	-	1	1	AAA	0.64%
Fidelity Investment Money Market Treasury	52,978,583	52,978,583	-	1	48	AAA	23.71%
Total Money Market Funds	54,411,444	54,411,444	-				24.35%
Securities							
Federal Agency Discounts:							
Federal Home Loan Bank							
Discount Notes	5,006,125	5,006,125	-	57			2.24%
US Treasury Notes	11,325,966	7,921,796	3,404,170	147			5.07%
Federal Agency Coupons:							
Federal Home Loan Bank							
Federal Home Loan Mortgage Corporation	10,552,574	5,901,246	4,651,328	212			4.72%
Federal National Mortgage Association	3,163,027	2,161,940	1,001,087	184			1.42%
	4,841,483	3,589,198	1,252,285	227			2.17%
Certificate of Deposit*	67,000,000	10,000,000	57,000,000	411		Not Rated	29.99%
Municipal Bonds	17,667,331	8,431,363	9,235,968	324		AA	7.91%
Total Securities	119,556,506	43,011,668	76,544,838	327			53.52%
Portfolio Total	\$ 223,398,194	\$ 146,853,356	\$ 76,544,838	169			100.00%

*Certificates of Deposit are not rated but are fully collateralized or FDIC insured.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The Municipal Drainage Utility investments at February 28, 2021 and February 29, 2020 are categorized as summarized below:

Investment Type	Value	February 28, 2021		EPWater's Weighted Avg. Maturity (days)	Pool's Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Original Maturities - EPWater Position					
		Less than 1 year	1-5 years				
Government Investment Pools Account							
TexPool	\$ 828,686	\$ 828,686	\$ -	1	32	AAA	2.67%
TexPool Prime	5,717,418	5,717,418	-	1	52	AAA	18.42%
TexStar	4,590,313	4,590,313	-	1	46	AAA	14.79%
Total Pools	11,136,417	11,136,417	-				35.88%
Money Market Funds							
Wells Fargo 100% Treasury MM Fund	7,438,745	7,438,745	-	1	48	AAA	23.97%
Total Money Market Funds	7,438,745	7,438,745	-				23.97%
Securities							
Federal Agencies:							
Federal Home Loan Bank	524,063	346,154	177,909	231			1.69%
Federal National Mortgage Association	2,408,367	2,408,367	-	175			7.76%
US Treasury Notes	1,060,392	-	1,060,392	92			3.42%
Municipal Bonds	1,463,188	-	1,463,188	138		AA	4.72%
Certificate of Deposit*	7,000,000	7,000,000	-	235		Not Rated	22.56%
Total Securities	12,456,010	9,754,521	2,701,489	200			40.15%
Portfolio Total	\$ 31,031,172	\$ 28,329,683	\$ 2,701,489	80			100.00%

*Certificates of Deposit are not rated but are fully collateralized or FDIC insured.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investment Type	Value	February 29, 2020		EPWater's Weighted Avg. Maturity (days)	Pool's Weighted Avg. Maturity (days)	Credit Rating Standard & Poor's	Percent of Grand Total
		Original Maturities - EPWater Position					
		Less than 1 year	1-5 years				
Government Investment Pools Account							
TexPool	\$ 8,176,844	\$ 8,176,844	\$ -	1	28	AAA	20.46%
TexPool Prime	10,076,173	10,076,173	-	1	33	AAA	25.21%
TexStar	8,556,254	8,556,254	-	1	32	AAA	21.40%
Total Pools	26,809,271	26,809,271	-				67.07%
Money Market Funds							
Treasury Money Market Fund #008	6,797,504	6,797,504	-	1	48	AAA	17.00%
Total Money Market Funds	6,797,504	6,797,504	-				17.00%
Securities							
Federal Home Loan Bank Discount Note	2,033,550	39,961	1,993,589	303			4.99%
US Treasury Notes	2,863,147	791,000	2,072,147	292			7.26%
Municipal Bonds	1,471,269	101,177	1,370,092	477		AA	3.68%
Total Securities	6,367,966	932,138	5,435,828	338			15.93%
Portfolio Total	\$ 39,974,741	\$ 34,538,913	\$ 5,435,828	54			100.00%

Disclosures about Fair Value of Assets

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

- Level 1** Unadjusted inputs using quoted prices in active markets for identical investments.
- Level 2** Other significant observable inputs other than level 1 prices, including, but are not limited to, quoted prices for similar investments, inputs other than quoted prices that are observable for investments (such as interest rates, prepayment speeds, credit risk, etc.) or other market corroborated inputs.
- Level 3** Significant inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Recurring Measurements

The following tables present the fair value measurements of assets for the Water and Wastewater Utility recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy at which the assets are measured at February 28, 2021 and February 29, 2020:

February 28, 2021		<u>Fair Value Measurements Using</u>			
Investments by Fair Value	Level	Fair Value	Level 1	Level 2	Level 3
Securities					
U.S. Agencies		\$ 21,382,932	\$ -	\$ 21,382,932	\$ -
Municipal Bonds		13,002,579	-	13,002,579	-
Total Securities		<u>\$ 34,385,511</u>	<u>\$ -</u>	<u>\$ 34,385,511</u>	<u>\$ -</u>

February 29, 2020		<u>Fair Value Measurements Using</u>			
Investments by Fair Value	Level	Fair Value	Level 1	Level 2	Level 3
Securities					
U.S. Agencies		\$ 34,889,175	\$ -	\$ 34,889,175	\$ -
Municipal Bonds		17,667,331	-	17,667,331	-
Total Securities		<u>\$ 52,556,506</u>	<u>\$ -</u>	<u>\$ 52,556,506</u>	<u>\$ -</u>

Per GASB No. 72, non-negotiable certificates of deposit are not subject to fair value and are not subject to the fair value level disclosures.

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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

The following tables present the fair value measurements of assets for the Municipal Drainage Utility recognized in the accompanying statements of net position measured at fair value on a recurring basis and the level within the fair value hierarchy at which the assets are measured at February 28, 2021 and February 29, 2020:

February 28, 2021	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Securities				
U.S. Agencies	\$ 3,992,822	\$ -	\$ 3,992,822	\$ -
Municipal Bonds	1,463,188	-	1,463,188	-
Total Securities	<u>\$ 5,456,010</u>	<u>\$ -</u>	<u>\$ 5,456,010</u>	<u>\$ -</u>

February 29, 2020	Fair Value Measurements Using			
	Fair Value	Level 1	Level 2	Level 3
Investments by Fair Value Level				
Securities				
U.S. Agencies	\$ 4,896,697	\$ -	\$ 4,896,697	\$ -
Municipal Bonds	1,471,269	-	1,471,269	-
Total Securities	<u>\$ 6,367,966</u>	<u>\$ -</u>	<u>\$ 6,367,966</u>	<u>\$ -</u>

Securities classified as Level 2 are valued using market closing prices under the market approach.

Credit Risk

Credit risk is the risk of loss due to failure of an issuer not fulfilling its obligations.

EPWater minimizes credit risk by limiting investments to the safest types of securities as authorized by the investment policy and described on page 47, and by pre-qualifying the financial institutions and broker/dealers that EPWater conducts business with.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer.

EPWater minimizes concentration of credit risk by diversifying the investment portfolio so that potential losses on individual securities will be minimized. In addition, they also invest in securities with varying maturities, and are continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs) and money market funds.

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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Diversification by investment type shall be established by the following maximum percentages of investment type to the total EPWater portfolio:

U.S. Government Securities	100%
State, Agencies, Counties, Cities, and other	50%
Certificates of Deposit	50%
Money Market Mutual Funds	80%
Eligible Investment Pools	100%

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, EPWater will not be able to recover deposits or collateral securities that are in the possession of an outside party. For investments, the custodial credit risk, is the risk that, in the event of the failure of the counterparty to a transaction, EPWater will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

EPWater minimizes depository custodial credit risk by depositing and investing under the terms of a contract, contents of which are set out in the depository contract. The depository bank places approved pledged securities for safekeeping and trust with EPWater’s agent bank in an amount sufficient to protect EPWater funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank’s dollar amount of Federal Deposit Insurance Corporation (“FDIC”) insurance.

EPWater minimizes investment custodial credit risk by requiring that all collateral securities be held by a third party institution. EPWater requires full collateralization of all EPWater investments, other than investments which are obligations of the U.S. government and its agencies and instrumentalities, or by the Federal Reserve Bank, except the collateral for certificates of deposits in banks. The collateral for certificates of deposits in banks will be registered in EPWater’s name in the bank’s trust department or, alternatively, in a Federal Reserve Bank account in EPWater’s name.

Interest Rate Risk

Interest rate risk is the risk that changes in the market interest rates will adversely affect the fair value of investments.

EPWater minimizes interest rate risk by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity. It is also minimized by investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools. The core of investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. The operating funds portfolio should have a weighted average maturity less than 270 days with a maximum of two years.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

4. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

EPWater does not directly invest in foreign securities; however, the money market funds might invest a minimal amount of the fund's portfolio in foreign securities.

5. RECEIVABLES

No reserve has been provided for doubtful accounts as EPWater charges directly to income those accounts determined to be uncollectible. The accounts written off for the Water and Wastewater Utility during the years ended February 28, 2021 and February 29, 2020, totaled \$896,347 and \$972,446, respectively. The write-off for the Municipal Drainage Utility for fiscal year ending February 28, 2021 and February 29, 2020, totaled \$64,014 and \$79,280, respectively. Management is of the opinion that any additional losses resulting from the collection of receivables will not be material.

EPWater uses the cycle method of billing customers for services. Under this method, customer billings are made by specified cycles established for the service area and each cycle is billed on a specific day each month. For financial reporting purposes, billings made in March which relate to services provided for the month of February are included in customer accounts receivable as unbilled charges. These amounts are summarized as follows for the fiscal years included in the accompanying financial statements:

	2021	2020
Water and Wastewater Utility		
Water	\$ 3,376,170	\$ 3,041,888
Wastewater	3,522,266	3,469,376
Total unbilled accounts receivable	\$ 6,898,436	\$ 6,511,264

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

6. INTERFUND BALANCES AND TRANSACTION ACTIVITY

Interfund Balances - The following interfund balances are the result of normal operations and are periodically cleared out. Management intends to pay these balances within one year.

		February 28, 2021	
		Due from Other Funds	Due to Other Funds
	Water and Wastewater Utility	\$ -	\$ 183,656
	Municipal Drainage Utility	183,656	-
	Total	\$ 183,656	\$ 183,656
		February 29, 2020	
		Due from Other Funds	Due to Other Funds
	Water and Wastewater Utility	\$ -	\$ 274,167
	Municipal Drainage Utility	274,167	-
	Total	\$ 274,167	\$ 274,167

Interfund Charges - The following eliminations were done in order to eliminate duplicate transactions at the overall entity level for revenue and expenses between the two funds.

		February 28, 2021	
		Water and Wastewater Utility	Municipal Drainage Utility
	Drainage fee revenue	\$ -	\$ 157,381
	Rent revenue - water and wastewater	24,000	
	Operation and maintenance - drainage	-	(7,948)
	Operations and maintenance - water and reclaimed water	(76,030)	
	Operations and maintenance - wastewater	(72,197)	
	General, administrative and engineering	1,472,794	-
	Indirect cost allocation	-	(1,498,000)
	Total	\$ 1,348,567	\$ (1,348,567)

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

6. INTERFUND BALANCES AND TRANSACTION ACTIVITY (Continued)

	February 29, 2020	
	Water and Wastewater Utility	Municipal Drainage Utility
Drainage fee revenue	\$ -	\$ 156,606
Rent revenue	24,000	-
Operation and maintenance - drainage	-	(5,549)
Operations and maintenance - water and reclaimed water	(77,552)	-
Operations and maintenance - wastewater	(72,194)	-
General, administrative and engineering	1,508,689	-
Indirect cost allocation	-	(1,534,000)
Total	\$ 1,382,943	\$ (1,382,943)

Indirect Cost Allocation - The indirect cost allocation from the Water and Wastewater Utility to the Municipal Drainage Utility is to pay for indirect costs that the Water and Wastewater Utility incurs related to the general and administrative functions to manage the Municipal Drainage Utility. For fiscal years 2021 and 2020, the budgeted and actual indirect cost were \$1,498,000 and \$1,534,000, respectively. During the budget process the indirect cost allocation will be adjusted based on estimated indirect costs.

Interfund Land Transfer - The following balances are the result of a land transaction between the Water and Wastewater Utility and the Municipal Drainage Utility to preserve the land as open space which was approved by the voters. The Water and Wastewater Utility transferred/sold 1,005.79 acres to the Municipal Drainage Utility for a sales price of \$11,300,000 of which the first payment of \$5,000,000 was made in fiscal year 2020 and a second payment of \$2,000,000 was made in fiscal year 2021. Management intends to pay the remaining balance within five to ten years. An elimination of \$10,674,761 is presented on the Enterprise fund statements for fiscal year 2021 for the gain on the sale of land in fiscal year 2020 which is the sales price of \$11,300,000 less the carrying cost of \$625,239.

	February 28, 2021	
	Due from Municipal Drainage	Due to Water and Wastewater
Water and Wastewater Utility	\$ 4,300,000	\$ -
Municipal Drainage Utility	-	4,300,000
Total	\$ 4,300,000	\$ 4,300,000

	February 29, 2020	
	Due from Municipal Drainage	Due to Water and Wastewater
Water and Wastewater Utility	\$ 6,300,000	\$ -
Municipal Drainage Utility	-	6,300,000
Total	\$ 6,300,000	\$ 6,300,000

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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7. WATER AND WASTEWATER UTILITY GOVERNMENT GRANTS RECEIVABLE

The Water and Wastewater Utility had \$9,794,614 and \$837,937 in government grants receivable for years ended February 28, 2021 and February 29, 2020, respectively. EPWater received funding from the Texas Water Development Board through the Economically Distressed Areas Program and in accordance with Texas Water Code, Chapter 16, Section 16.356. EPWater did not use any revenue received from fees collected from water supply or sewer service constructed in whole or in part from funds from the economically distressed areas program account for purposes other than utility purposes.

<u>Government Grant Projects</u>	2021	2020
<u>Federal Grants</u>		
North Central Reclaimed - EPA#XP96638401	\$ -	\$ 547,169
Fred Hervey Reclamation Diversion Project - USBR #R16AP00217	5,400	225,285
Kay Bay Hutchison Desalination Facility - USBR #R20AP00339	148,286	-
Advanced Water Purification Facility - USBR #R20AP00332	2,213,396	-
<u>Non Federal Grants</u>		
Agricultural Water Conservation Fund Demonstration Grant - TWDB Project #1813582260	13,000	13,000
Montana Vista Collector - TWDB Project #10438 G1000915	7,414,532	52,483
Totals	\$ 9,794,614	\$ 837,937

8. ACCOUNTS RECEIVABLE LAND TRANSFERS - CITY OF EL PASO

During the fiscal year ending February 28, 2017, EPWater transferred land totaling 42.7209 acres to the City of El Paso's land inventory. The City of El Paso agreed to pay EPWater \$4,275,542 when the City of El Paso completes the sale of a parcel of land for economic development. In addition, the City agreed to pay EPWater \$4,949,500 for a parcel of land in 15 equal payments commencing September 30, 2020. As of February 28, 2021, the City had not yet sold the parcel of land that the \$4,275,542 payment is contingent upon thus it is reported as long term. The following is a list of the payments due from the City for the other parcel of land.

<u>Year ended February</u>	<u>Amount</u>
2022	\$ 329,967
2023	329,967
2024	329,967
2025	329,967
2026	329,967
2027 - 2031	1,649,833
2032 - 2035	1,319,865
Total	4,619,533
Due upon sale of land	4,275,542
Total Receivable	\$ 8,895,075
Less current portion	(329,967)
Noncurrent receivable	\$ 8,565,108

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9. CAPITAL ASSETS

Components of the capital assets for the Water and Wastewater Utility are summarized as follows:

	Beginning Balance 03/01/2020	Additions	Transfers	Deletions	Ending Balance 02/28/2021
Utility plant, not being depreciated:					
Land and right-of-way	\$ 11,529,883	\$ 682	\$ 5,052,571	\$ -	\$ 16,583,136
Land	286,350,637	-	3,084,440	420,951	289,014,126
Construction work in progress	217,949,816	139,683,205	(66,453,142)	-	291,179,879
Total utility plant, not being depreciated:	515,830,336	139,683,887	(58,316,131)	420,951	596,777,141
Utility plant and irrigation water rights being depreciated:					
Irrigation water rights contracts	12,582,706	1,099,372	-	-	13,682,078
Buildings and shops	40,324,538	-	2,454,657	-	42,779,195
Vehicles	30,208,097	1,327	3,854,781	363,935	33,700,270
Equipment and tools	53,540,773	582,366	250,564	111,964	54,261,739
Water system	1,320,299,862	6,990,987	41,082,937	1,210,300	1,367,163,486
Wastewater system	893,929,124	4,808,049	10,673,192	4,881	909,405,484
Total utility plant, being depreciated:	2,350,885,100	13,482,101	58,316,131	1,691,080	2,420,992,252
Less accumulated depreciation for:					
Irrigation water rights contracts	(1,894,977)	(175,099)	-	-	(2,070,076)
Buildings and shops	(15,962,931)	(1,589,889)	-	-	(17,552,820)
Vehicles	(20,794,957)	(3,613,736)	-	(363,935)	(24,044,758)
Equipment and tools	(45,260,587)	(2,490,490)	-	(111,964)	(47,639,113)
Water system	(588,902,225)	(38,167,353)	-	(1,210,300)	(625,859,278)
Wastewater system	(481,945,834)	(24,174,992)	-	(4,881)	(506,115,945)
Total accumulated depreciation	(1,154,761,511)	(70,211,559)	-	(1,691,080)	(1,223,281,990)
Total utility plant and irrigation water rights being depreciated, net	1,196,123,589	(56,729,458)	58,316,131	-	1,197,710,262
Utility plant	\$1,711,953,925	\$ 82,954,429	\$ -	\$ 420,951	\$1,794,487,403

Total depreciation charged to operations for the year ended February 28, 2021 was \$70,211,559.

As of February 28, 2021, EPWater owns a total of 170,159.86 acres of land which includes 24,276.39 acres in El Paso County, 74,678.68 acres in Hudspeth, Presidio, Jeff Davis, and Culberson County, 70,336.34 acres in Dell City, and 868.45 acres in New Mexico.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

Components of the capital assets for the Water and Wastewater Utility are summarized as follows:

	Beginning Balance 03/01/2019	Additions	Transfers	Deletions	Ending Balance 02/29/2020
Utility plant, not being depreciated:					
Land and right-of-way	\$ 10,574,821	\$ 806	\$ 954,256	\$ -	\$ 11,529,883
Land	268,391,541	-	18,846,185	887,089	286,350,637
Construction work in progress	182,300,846	134,672,215	(99,023,245)	-	217,949,816
Total utility plant, not being depreciated:	461,267,208	134,673,021	(79,222,804)	887,089	515,830,336
Utility plant and irrigation water rights being depreciated:					
Irrigation water rights contracts	12,231,332	351,374	-	-	12,582,706
Buildings and shops	40,047,464	22,360	254,714	-	40,324,538
Vehicles	26,277,143	24,801	4,586,009	679,856	30,208,097
Equipment and tools	50,761,466	167,645	2,778,361	166,699	53,540,773
Water system	1,252,215,904	11,571,101	58,148,652	1,635,795	1,320,299,862
Wastewater system	873,708,059	6,811,221	13,455,068	45,224	893,929,124
Total utility plant, being depreciated:	2,255,241,368	18,948,502	79,222,804	2,527,574	2,350,885,100
Less accumulated depreciation for:					
Irrigation water rights contracts	(1,729,550)	(165,427)	-	-	(1,894,977)
Buildings and shops	(14,432,768)	(1,530,163)	-	-	(15,962,931)
Vehicles	(18,310,351)	(3,164,462)	-	(679,856)	(20,794,957)
Equipment and tools	(42,306,350)	(3,120,892)	-	(166,655)	(45,260,587)
Water system	(553,048,521)	(36,884,582)	-	(1,030,878)	(588,902,225)
Wastewater system	(458,421,396)	(23,562,678)	-	(38,240)	(481,945,834)
Total accumulated depreciation	(1,088,248,936)	(68,428,204)	-	(1,915,629)	(1,154,761,511)
Total utility plant and irrigation water rights being depreciated, net	1,166,992,432	(49,479,702)	79,222,804	611,945	1,196,123,589
Utility plant	\$1,628,259,640	\$ 85,193,319	\$ -	\$ 1,499,034	\$1,711,953,925

Total depreciation charged to operations for the year ended February 29, 2020 was \$68,428,204.

As of February 29, 2020, EPWater owns a total of 169,363.13 acres of land which includes 24,578.26 acres in El Paso County, 74,678.68 acres in Hudspeth, Presidio, Jeff Davis, and Culberson County, 69,237.74 acres in Dell City, and 868.45 acres in New Mexico.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

Components of the capital assets for the Municipal Drainage Utility are summarized as follows:

	Beginning Balance 03/01/2020	Additions	Transfers	Deletions	Ending Balance 02/28/2021
Drainage Work in Progress, not being depreciated					
Land and right-of-way	\$ 42,937,354	\$ -	\$ 17,295	\$ -	\$ 42,954,649
Construction work in progress	28,845,261	12,440,049	(8,010,060)	-	33,275,250
Total drainage Work in Progress, not being depreciated:	71,782,615	12,440,049	(7,992,765)	-	76,229,899
Drainage System, being depreciated:					
Drainage implementation costs	544,106	-	-	-	544,106
Buildings and shops	101,432	-	-	-	101,432
Vehicles	6,382,701	-	155,355	25,000	6,513,056
Equipment and tools	1,122,784	76,185	-	-	1,198,969
Drainage system	152,414,170	-	7,837,410	-	160,251,580
Total Drainage system, being depreciated:	160,565,193	76,185	7,992,765	25,000	168,609,143
Less accumulated depreciation for:					
Drainage implementation costs	(544,106)	-	-	-	(544,106)
Buildings and shops	(40,231)	(4,057)	-	-	(44,288)
Vehicles	(5,608,102)	(296,236)	-	(25,000)	(5,879,338)
Equipment and tools	(1,061,626)	(37,786)	-	-	(1,099,412)
Drainage system	(16,652,415)	(3,178,535)	-	-	(19,830,950)
Total accumulated depreciation	(23,906,480)	(3,516,614)	-	(25,000)	(27,398,094)
Total Drainage System, being depreciated, net	136,658,713	(3,440,429)	7,992,765	-	141,211,049
Drainage System	\$208,441,328	\$ 8,999,620	\$ -	\$ -	\$217,440,948

Total depreciation charged to operations for the year ended February 28, 2021 was \$3,516,614.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

Components of the capital assets for the Municipal Drainage Utility are summarized as follows:

	Beginning Balance 03/01/2019	Additions	Transfers	Deletions	Ending Balance 02/29/2020
Drainage Work in Progress, not being depreciated					
Land and right-of-way	\$ 28,009,612	\$ 6,300,000	\$ 8,630,662	\$ 2,920	\$ 42,937,354
Construction work in progress	26,023,971	17,450,675	(14,629,385)	-	28,845,261
Total drainage Work in Progress, not being depreciated:	54,033,583	23,750,675	(5,998,723)	2,920	71,782,615
Drainage System, being depreciated:					
Drainage implementation costs	544,106	-	-	-	544,106
Buildings and shops	101,432	-	-	-	101,432
Vehicles	6,422,652	-	-	39,951	6,382,701
Equipment and tools	1,052,648	70,136	-	-	1,122,784
Drainage system	146,841,800	-	5,998,723	426,353	152,414,170
Total Drainage system, being depreciated:	154,962,638	70,136	5,998,723	466,304	160,565,193
Less accumulated depreciation for:					
Drainage implementation costs	(544,106)	-	-	-	(544,106)
Buildings and shops	(36,174)	(4,057)	-	-	(40,231)
Vehicles	(5,261,746)	(386,307)	-	(39,951)	(5,608,102)
Equipment and tools	(1,031,156)	(30,470)	-	-	(1,061,626)
Drainage system	(13,643,328)	(3,043,196)	-	(34,109)	(16,652,415)
Total accumulated depreciation	(20,516,510)	(3,464,030)	-	(74,060)	(23,906,480)
Total Drainage System, being depreciated, net	134,446,128	(3,393,894)	5,998,723	392,244	136,658,713
Drainage System	\$188,479,711	\$ 20,356,781	\$ -	\$ 395,164	\$208,441,328

Total depreciation charged to operations for the year ended February 29, 2020 was \$3,464,030.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

Water and Wastewater Utility construction work in progress at February 28, 2021 and February 29, 2020, composed of the following:

	<u>February 28, 2021</u>	
	<u>Estimated Cost</u>	<u>Cost Incurred To Date</u>
<u>Water Projects</u>		
Field Operations Yard - Construction	\$ 24,431,242	\$ 6,346,345
Customer Information System Replacement	24,077,200	10,794,925
Jonathan Rogers WTP Upgrade - Ozone Generator - Construction	20,835,133	19,657,684
Pumping System Installation, Improvements and Rehabilitation	8,824,386	3,497,690
Advanced Water Treatment Plant - Engineering	8,480,280	5,172,832
Source Water Augmentation Parallel Pipeline - Construction	8,211,000	25,554
Sunset Reservoir Rehabilitation - Construction	7,140,000	4,776,794
Well Construction, Equipping, Drilling and Testing	6,937,946	2,440,417
Vista Del Este and Ranchos Real Tanks	6,763,517	6,113,393
Franklin East 1A 3 MG Elevated Tank - Construction	6,755,652	6,490,714
Water Construction On-Call Service Program	6,211,745	2,570,400
Land Acquisition - Hudspeth County	5,952,501	60,852
Canal Street WTP Discharge Lines - Construction	5,882,340	5,790,872
Water and Wastewater Vehicles and Heavy Equipment	5,758,054	-
North 2 Pump Station - Construction	5,441,374	3,098,930
North 2 Elevated Storage Tank - Construction	5,293,960	5,241,592
Jonathan Rogers WTP Raw Water Improvement - Construction	5,100,587	-
Ranchos Real Tank - Construction	5,080,300	4,276,719
Memphis Elevated Storage Tank - Construction	4,960,579	4,772,062
Jackson Reservoir 2.5 MG - Construction	4,847,820	4,841,889
Montana East 24" Water Main Extension	4,488,000	69,899
Canal Street WTP Chlorine Handling - Construction	4,354,594	3,295,540
Ventanas Elevated Storage Tank - Construction	4,090,296	4,050,195
Northwest Water Distribution Mains	4,080,000	-
Canal Street WTP HMI Upgrades	3,123,750	2,856,000
Canal Water Treatment Plant Emergency Access Road Improvements	3,060,000	28,628
Jonathan Rogers WTP Transmission Pipeline Surge Protection Tanks - Construction	2,805,104	2,563,628
Vinton (Westway) 1.25 MG Construction	2,723,400	13
Canal Street WTP Raw Water Intake Screens	2,499,000	2,424,861
TXDOT US 62 Montana Global Reach to Tierra Este	2,217,700	1,837,331
Emergency Back-Up Power	2,057,721	998,579
Vista Del Sol Water Main Extension - Construction	2,041,710	1,984,129
Pellicano Widening Water Line - Construction	1,980,093	1,918,178
Yandell/Wyoming Poplar - Raynor - Construction	1,888,000	1,887,445
Northeast Dyer/Railroad 16" Water Line Extension	1,836,000	-
JDF Injection Test Wells	1,771,459	1,680,896
Franklin East 1 to Vista Del Norte 24" Waterline Extension - Construction	1,683,000	449,653
Roseway 24" Water Line Replacement - Construction	1,626,797	1,626,468
Electromagnetic Conditional Assessment	1,447,897	1,104,174

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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

	February 28, 2021	
	Estimated Cost	Cost Incurred To Date
EDA Northwest Development Waterline Extension	1,434,000	-
Jonathan Rogers WTP Process Pumps Replacement	1,428,000	-
Plant Equipment Maintenance Shop - Construction	1,428,000	1,907
Montwood 16" Waterline Extension	1,326,000	-
Airport and Well Field Improvement	1,288,581	1,133,275
Kay Bailey Hutchison Desalination Plant Interstage Booster Pumps	1,224,000	959,065
Leak Detection Loggers	1,178,100	981,750
Vista Del Este Elevated Water Storage Tank - Engineering	1,137,092	993,343
Supplement Oversized Water Lines	1,085,750	179,599
Alameda Avenue - Presa to Loop 375	1,077,720	823,935
Sam Snead Waterline Relocation	1,009,274	220,486
Other Water Projects Under \$1,000,000	65,823,439	38,148,119
Subtotal - Water Projects	306,200,093	168,186,760
<u>Wastewater Projects</u>		
Frontera Force Main - Construction	17,691,214	6,405,137
Montana Vista Wastewater Collection System Phase I	13,708,730	10,390,784
Roberto R. Bustamante WWTP Grit Screen	12,293,000	908,068
Roberto R. Bustamante WWTP Headworks Improvement - Design	11,283,357	8,760,622
Haskell R. Street WWTP Headworks Effluent Piping Improvements - Construction	10,696,850	10,657,222
John T. Hickerson WRP Train Improvements	10,100,000	1,649,839
Roberto R. Bustamante Expansion and Upgrade - Design	8,012,100	1,538,815
Sanitary Sewer Construction On-Call Services Program	7,483,297	4,016,515
Fred Hervey WRP Blower Building - Construction	5,814,000	25,138
Canutillo Bosque Wastewater Lift Station/Force Main - Construction	5,736,233	4,394,887
Diversion - Haskell R. Street WWTP to Fred Hervey WRP - Construction	4,916,400	4,513,583
Grouse Lift Station Phase VI - Construction	4,465,806	3,919,914
Wastewater Plant Upgrades	4,036,433	3,260,733
Lift Station Reconstruction - Inglewood - Roseway - LeBarron Construction	3,088,560	3,013,169
Fred Hervey WRP Digester #2 Mixer Improvements - Construction	3,014,100	2,402,220
Doniphan Collector Construction	3,009,000	-
Roberto R. Bustamante WWTP Headworks Switchgear Replacement - Construction	2,711,822	2,539,587
Fred Hervey WRP Digester #1 Cover and Mixer - Construction	2,585,700	2,431,245
Montoya 2/Carolina/Navarette Lift Stations	2,400,958	2,263,064
Canutillo Vacuum Wastewater Collection System Replacement - Construction	2,291,736	1,915,288
Boone Interceptor Phase II - Construction	2,193,000	2,193,000

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

	February 28, 2021	
	Estimated Cost	Cost Incurred To Date
Air Release Valves and Force Mains/Lift Stations-Westside - Construction	2,148,217	86,015
Pellicano Wastewater Improvements Loop 375 County Project - Construction	2,079,984	1,807,705
Roberto R. Bustamante WWTP Digester 2 Rehabilitation	2,065,500	38,316
Fred Hervey WRP Carbon Feed Upgrade - Construction	1,978,800	520
Wastewater Plant Power Upgrades	1,938,082	480,434
Haskell R. Street and Roberto R. Bustamante WWTP Digester Pressure and Vacuum Valves	1,785,000	-
Sunset Heights Sewer Line Replacement - Construction	1,545,300	946,475
Sam Snead Wastewater Relocation	1,530,000	1,324,818
Roberto R. Bustamante WWTP Aeration Basin Inlet Gate Replacement	1,519,652	1,168,552
Pellicano Widening Sewer Line Construction	1,428,000	1,320,858
Haskell R. Street WWTP Belt Press	1,255,000	1,160,196
Blower Control Panels Upgrade	1,254,189	905,957
Fred Hervey WRP Blowers 1 and 3 - Construction	1,224,000	690,907
Fred Hervey WRP Equalization Basin - Construction	1,152,600	1,111,809
Haskell R. Street WWTP Secondary Clarifier RAS Pump J-Box Gate Replacement	1,122,000	520
Roberto R. Bustamante WWTP Belt Filter Press - Construction	1,025,718	1,021,786
Fred Hervey WRP Equalization Pump - Construction	1,020,000	-
Wastewater Field Office Reconstruction	1,020,000	-
Other Sewer Projects Under \$1,000,000	59,299,480	33,729,421
Subtotal-Wastewater Projects	223,923,818	122,993,119
Totals	\$ 530,123,911	\$ 291,179,879

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

	February 29, 2020	
	Estimated Cost	Cost Incurred To Date
<u>Water Projects</u>		
Jonathan Rogers WTP Upgrade-Ozone Generator - Construction	\$ 20,361,600	\$ 17,444,313
Emergency Back-Up Power	14,721,166	13,729,475
Land Acquisition - Hudspeth County	12,735,387	172,347
Vista Del Este and Ranchos Real Tanks	6,763,517	5,304,778
Franklin East 1A 3MG Elevated Tank - Construction	6,755,652	6,008,484
North 2 Pump Station - Construction	5,951,374	60,589
Canal Street WTP Discharge Lines - Construction	5,882,340	5,789,736
Ranchos Real Tank - Construction	5,575,000	3,533,258
North 2 Elevated Storage Tank - Construction	5,331,644	5,562,854
Field Operations Yard - Construction	5,220,309	1,178
Planned Water Line Replacements	5,100,000	-
Jackson Reservoir 2.5 MG - Construction	4,952,391	4,538,877
Memphis Elevated Storage Tank - Construction	4,685,947	4,864,973
Canal Street WTP Chlorine Handling - Construction	4,354,594	4,260
Ventanas Elevated Storage Tank - Construction	4,208,639	4,149,465
Pumping System Furnish and Installation	3,826,386	747,844
Strahan Road Water Transmission Main Phase I	3,380,547	3,377,768
Water Construction On-Call Service Program	3,217,713	1,787,216
Customer Information System Replacement	3,150,000	997,408
George Dieter - Montwood and Rex Baxter 24" Main Replacement	3,143,836	3,141,953
Canal Street WTP HMI Upgrade	3,123,750	2,667,167
Land Acquisition Rojas Elevated Tanks	3,000,000	2,920,034
Replacement of Granular Activated Carbon	2,830,140	1,412,670
Advanced Water Treatment Plant - Engineering	2,546,940	2,508,816
Jonathan Rogers WTP Transmission Pipeline Surge Protection Tanks - Construction	2,499,104	2,165,639
Canal Street WTP Raw Water Intake Screens	2,499,000	2,367,661
CERRO Process Water Recovery - Construction	2,228,796	-
TXDOT US 62 Montana Global Reach to Tierra Este	2,217,700	1,695,111
Well Construction, Equipment and Testing	2,108,532	291,899
Vista Del Sol Water Main Extension - Construction	2,041,710	2,020,660
Field Operations Yard - Engineering	1,868,917	1,117,010
Airport and Well Field Improvement	1,800,000	1,097,961
Tim Floyd 16" Water Main - Construction	1,781,000	831,992
JDF Injection Test Wells	1,742,862	1,652,046
Roseway 24" Water Line Replacement - Construction	1,729,464	1,611,494
Yandell/Wyoming Poplar - Raynor Construction	1,695,704	1,679,139
Jonathan Rogers WTP 20 MGD Expansion - Engineering	1,644,516	1,405,425

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February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

	February 29, 2020	
	Estimated Cost	Cost Incurred To Date
Airport Well Electric Corridor	1,479,000	1,410,114
Electromagnetic Conditional Assessment	1,297,957	837,474
Kay Bailey Hutchison Desalination Plant Membrane Replacement - Construction	1,286,735	1,248,895
Kay Bailey Hutchison Desalination Plant Interstage Booster Pumps	1,224,000	372,823
Vista Del Este Elevated Water Storage Tank - Engineering	1,137,092	902,033
Alameda Avenue - Presa to Loop 375	1,077,720	823,935
PolyOrtho Phosphate Treatment - Construction	1,040,400	-
Building Improvements	1,036,858	982,401
Canutillo 5 Streets	1,020,000	800,494
Sam Snead Waterline Relocation	1,009,274	33,395
Other Water Projects Under \$1,000,000	65,026,654	25,639,565
	243,311,867	141,712,629
 <u>Wastewater Projects</u>		
Montana Vista Wastewater Collection System Phase I	13,708,730	1,280,653
Haskell R. Street WWTP Headworks Effluent Piping Improvements - Construction	10,481,259	8,481,356
John T. Hickerson WRP Train Improvements	10,100,000	-
Roberto R. Bustamante WWTP Headworks Improvement - Design	9,311,580	2,829,740
Canutillo Bosque Wastewater Lift Station/Force Main - Construction	5,736,233	2,237,893
TxDot Wastewater Improvements	5,521,847	510
Diversion-Haskell R. Street WWTP to Fred Hervey WRP - Construction	4,916,400	1,354,423
Sanitary Sewer Construction On-Call Services Program	4,858,670	2,390,816
Haskell R. Street WWTP Primary Clarifiers 1, 2 and 4 - Construction	4,478,233	3,606,431
Grouse Lift Station Phase VI - Construction	4,465,806	1,891,835
Process Automation SCADA - Sewer	3,913,000	3,670,722
Boone Interceptor Phase II - Construction	3,845,400	2,193,000
Wastewater Plant Small Upgrades	3,507,053	2,016,786
Roberto R. Bustamante WWTP Headworks Switchgear Replacement - Construction	3,501,685	2,501,637
Lift Station Reconstruction - Inglewood - Roseway - LeBarron Construction	3,230,260	3,006,321
Fred Hervey WRP Digester #2 Mixer Improvements - Construction	3,014,100	2,402,220
Doniphan Collector Construction	3,009,000	-
Roberto R. Bustamante WWTP Headworks Generator	2,924,340	-
Haskell R. Street WWTP Primary Clarifier Rehabilitation - Construction	2,737,000	2,722,676
Fred Hervey WRP Digester #1 Cover and Mixer - Construction	2,550,000	1,204,760
Northeast Dyer/Railroad 5 MGD Lift Station	2,518,227	-
Haskell R. Street WWTP Odor Control - Construction	2,509,434	540,070

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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

	<u>February 29, 2020</u>	
	<u>Estimated Cost</u>	<u>Cost Incurred To Date</u>
Canutillo Vacuum Wastewater Collection System Replacement - Construction	2,291,736	1,915,288
Air Release Valves and Force Mains/Lift Stations-Westside - Construction	2,148,217	86,015
Montoya 2/Carolina/Navarette Lift Stations	2,142,000	350,290
Wastewater Plant Power Upgrades	1,938,000	114,992
Pellicano Wastewater Improvements Loop 375 County Project - Construction	1,836,000	1,793,789
Roberto R. Bustamante Expansion and Upgrade - Design	1,688,100	538,957
Sunset Heights Sewer Line Replacement - Construction	1,545,300	874
Roberto R. Bustamante WWTP Aeration Basin Inlet Gate Replacement- Project	1,514,552	1,158,316
Pellicano Widening Sewer Line Construction	1,428,000	-
Roberto R. Bustamante Alternate to Expansion-Plan-Design	1,371,468	1,036,321
Sam Snead Wastewater Relocation	1,275,000	662,025
Fred Hervey WRP Blowers 1 and 3 - Construction	1,224,000	690,907
Blower Control Panels Upgrade	1,171,489	905,957
Upper Valley Outfall Relocation - Construction	1,139,573	-
Haskell R. Street WWTP Belt Press	1,102,000	1,085,981
Emergency 18" Sanitary Sewer Main Replacement	1,082,515	-
Fred Hervey WRP Equalization Basin - Construction	1,030,200	384,854
Roberto R. Bustamante WWTP Belt Filter Press - Construction	1,025,718	1,021,786
Other Sewer Projects Under \$1,000,000	46,041,626	20,158,986
	<u>183,833,751</u>	<u>76,237,187</u>
Subtotal-Wastewater Projects		
Totals	<u>\$ 427,145,618</u>	<u>\$ 217,949,816</u>

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

9. CAPITAL ASSETS (Continued)

Municipal Drainage Utility construction work in progress as of February 28, 2021 and February 29, 2020 composed of the following:

	February 28, 2021	
	Estimated Cost	Cost Incurred To Date
<u>Drainage Projects</u>		
Sam Snead Storm Drainage System Phase I	\$ 6,660,012	\$ 4,110,376
Thomas Manor Park Pond and Pump Station Improvements - Construction	5,683,218	5,519,089
Clardy Fox Street and Drainage Improvements - Construction	4,590,000	4,075,998
Various Open Space Projects	4,336,322	-
Doniphan and Frontera - Construction	4,030,429	2,748,157
Copia Pond - Construction	2,539,550	2,510,347
Silver Springs Arroyo Dam - Construction	1,581,000	1,538,312
Thomas Manor Pump Station and Force Main Improvements - Engineering	1,458,761	1,380,700
Will Ruth Pond - Engineering	1,291,320	934,172
San Lorenzo Avenue Construction	1,122,000	281,051
Other Drainage Projects Under \$1,000,000	18,969,037	10,177,048
	<u>\$ 52,261,649</u>	<u>\$ 33,275,250</u>

	February 29, 2020	
	Estimated Cost	Cost Incurred To Date
<u>Drainage Projects</u>		
Sam Snead Storm Drainage System Phase I	\$ 8,160,012	\$ 961,928
Thomas Manor Park Pond and Pump Station Improvements - Construction	5,785,218	5,135,579
Clardy Fox Street and Drainage Improvements - Construction	4,590,000	2,796,702
Various Open Space Projects	3,840,227	-
Kentucky Dam - Dam 5 - Construction	3,556,460	3,521,475
Copia Pond - Construction	3,107,925	2,499,583
Grand Tetons Drive Pond Improvement - Construction	1,655,269	1,625,907
Silver Springs Arroyo Dam - Construction	1,535,936	1,521,908
Thomas Manor Pump Station and Force Main Improvements - Engineering	1,504,661	1,331,708
Mesa Hills Control Basin - Construction	1,363,217	1,183,815
Ridge View/High Ridge Channel Improvements - Construction	1,199,796	-
Will Ruth Pond - Engineering	1,000,620	827,798
Other Drainage Projects Under \$1,000,000	20,626,832	7,438,858
	<u>\$ 57,926,173</u>	<u>\$ 28,845,261</u>

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

10. LONG-TERM LIABILITIES

Long-term liabilities activity for the Water and Wastewater Utility for the years ended February 28, 2021 and February 29, 2020 was as follows:

	Beginning Balance 03/01/2020	Additions	Reductions	Ending Balance 02/28/2021	Due Within One Year	Long-term Portion
Water and Wastewater Utility:						
Revenue Bonds Payable:						
Revenue Bonds	\$ 538,195,000	\$ 96,870,000	\$ 96,765,000	\$ 538,300,000	\$ 37,090,000	\$ 501,210,000
Unamortized premiums net of discounts	72,780,301	6,500,012	13,707,549	65,572,764	6,148,884	59,423,880
Direct Placements:						
Revenue bonds	189,120,000	-	5,360,000	183,760,000	5,385,000	178,375,000
Commercial Paper payable	15,000,000	65,000,000	40,000,000	40,000,000	-	40,000,000
Total Revenue bonds payable and Direct placements	815,095,301	168,370,012	155,832,549	827,632,764	48,623,884	779,008,880
Other governments payable	1,892,725	-	168,810	1,723,915	176,565	1,547,350
Net Pension Liability	47,544,990	5,191,409	12,220,192	40,516,207	-	40,516,207
Total OPEB Liability	23,547,545	2,228,947	9,037,365	16,739,127	-	16,739,127
Self-insurance claims	1,037,027	3,212,911	3,109,826	1,140,112	315,958	824,154
Accrued vacation	3,184,171	1,895,518	1,631,695	3,447,994	1,894,848	1,553,146
Total Long-term liabilities Water and Wastewater Utility	\$ 892,301,759	\$ 180,898,797	\$ 182,000,437	\$ 891,200,119	\$ 51,011,255	\$ 840,188,864
	Beginning Balance 03/01/2019	Additions	Reductions	Ending Balance 02/29/2020	Due Within One Year	Long-term Portion
Water and Wastewater Utility:						
Revenue Bonds Payable:						
Revenue Bonds	\$ 546,775,000	\$ 63,970,000	\$ 72,550,000	\$ 538,195,000	\$ 38,200,000	\$ 499,995,000
Unamortized premiums net of discounts	68,650,853	11,800,300	7,670,852	72,780,301	5,007,905	67,772,396
Direct Placements:						
Revenue bonds	192,235,000	1,415,000	4,530,000	189,120,000	5,360,000	183,760,000
Commercial Paper payable	15,000,000	40,000,000	40,000,000	15,000,000	-	15,000,000
Total Revenue bonds payable and Direct placements	822,660,853	117,185,300	124,750,852	815,095,301	48,567,905	766,527,396
Other governments payable	2,054,121	-	161,396	1,892,725	168,810	1,723,915
Net Pension Liability	38,351,408	14,260,268	5,066,686	47,544,990	-	47,544,990
Total OPEB Liability	18,393,671	5,659,513	505,639	23,547,545	-	23,547,545
Self-insurance claims	900,029	3,356,661	3,219,663	1,037,027	418,327	618,700
Accrued vacation	3,304,841	1,911,767	2,032,437	3,184,171	1,991,842	1,192,329
Total Long-term liabilities Water and Wastewater Utility	\$ 885,664,923	\$ 142,373,509	\$ 135,736,673	\$ 892,301,759	\$ 51,146,884	\$ 841,154,875

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

10. LONG-TERM LIABILITIES (Continued)

Long-term liabilities activity for the Municipal Drainage Utility for the years ended February 28, 2021 and February 29, 2020 was as follows:

	Beginning Balance 03/01/2020	Additions	Reductions	Ending Balance 02/28/2021	Due Within One Year	Long-term Portion
Municipal Drainage Utility:						
Revenue Bonds Payable:						
Revenue Bonds	\$ 94,345,000	\$ -	\$ 4,825,000	\$ 89,520,000	\$ 5,100,000	\$ 84,420,000
Unamortized premiums net of discounts	12,864,901	-	758,310	12,106,591	758,309	11,348,282
Direct Placements:						
Revenue bonds	1,290,000	-	109,000	1,181,000	108,000	1,073,000
Revolving notes	10,000,000	15,000,000	10,000,000	15,000,000	-	15,000,000
<hr/>						
Total Revenue bonds payable and Direct placements	118,499,901	15,000,000	15,692,310	117,807,591	5,966,309	111,841,282
Accrued vacation	143,485	93,468	89,997	146,956	89,414	57,542
Due to W&WW Land Transfer	6,300,000	-	2,000,000	4,300,000	-	4,300,000
Net Pension Liability	2,529,593	273,335	664,693	2,138,235	-	2,138,235
Total OPEB Liability	1,502,420	133,139	609,877	1,025,682	-	1,025,682
<hr/>						
Total Long-term liabilities Municipal Drainage Utility	<u>\$ 128,975,399</u>	<u>\$ 15,499,942</u>	<u>\$ 19,056,877</u>	<u>\$ 125,418,464</u>	<u>\$ 6,055,723</u>	<u>\$ 119,362,741</u>
	Beginning Balance 03/01/2019	Additions	Reductions	Ending Balance 02/29/2020	Due Within One Year	Long-term Portion
Municipal Drainage Utility:						
Revenue Bonds Payable:						
Revenue Bonds	\$ 98,925,000	\$ -	4,580,000	\$ 94,345,000	\$ 4,825,000	\$ 89,520,000
Unamortized premiums net of discounts	13,623,210	-	758,309	12,864,901	758,309	12,106,592
Direct Placements:						
Revenue bonds	1,399,000	-	109,000	1,290,000	109,000	1,181,000
Revolving notes	2,500,000	10,000,000	2,500,000	10,000,000	-	10,000,000
<hr/>						
Total Revenue bonds payable and Direct placements	116,447,210	10,000,000	7,947,309	118,499,901	5,692,309	112,807,592
Accrued vacation	133,911	97,101	87,527	143,485	92,256	51,229
Due to W&WW Land Transfer	-	11,300,000	5,000,000	6,300,000	-	6,300,000
Net Pension Liability	2,237,204	749,366	456,977	2,529,593	-	2,529,593
Total OPEB Liability	1,434,474	345,451	277,505	1,502,420	-	1,502,420
<hr/>						
Total Long-term liabilities Municipal Drainage Utility	<u>\$ 120,252,799</u>	<u>\$ 22,491,918</u>	<u>\$ 13,769,318</u>	<u>\$ 128,975,399</u>	<u>\$ 5,784,565</u>	<u>\$ 123,190,834</u>

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

11. REVENUE BONDS

Water and Wastewater Utility

Water and Sewer Revenue Bonds payable and Texas Water Development Board (TWDB) direct placement revenue bonds for the Water and Wastewater Utility Fund, in the amount of \$722,060,000 and \$727,315,000, as of February 28, 2021 and February 29, 2020, respectively, are equally and ratably secured by and payable from an irrevocable first lien on and pledge of the net revenue of the Water and Wastewater Utility Fund which is presented in Note 15. The pledge of net revenue is in effect until the bonds are extinguished in 2040. The general purpose of the debt is to improve the water and wastewater services EPWater provides to area residents. The Revenue Bonds payable and TWDB direct placement revenue bonds as of February 28, 2021 and February 29, 2020 include the following individual issues:

	Amounts Outstanding 2/29/20	Issued	Retired/ Refunded	Amounts Outstanding 2/28/21	Due Within One Year
*\$1,000,000 2003A Series due in annual installments of \$50,000 with interest at 0.00%. Final payment due 2024.	\$ 250,000	\$ -	\$ 50,000	\$ 200,000	\$ 50,000
\$22,115,000 2010 Series with final installment of \$1,520,000 and interest of 4.00% paid in fiscal year 2021.	1,520,000	-	1,520,000	-	-
\$42,580,000 2010A Series with final installment of \$5,590,000 and interest of 4.00% paid in fiscal year 2021.	5,590,000	-	5,590,000	-	-
\$14,680,000 2011 Series with final installment of \$3,360,000 and interest of 5.00% paid in fiscal year 2021.	3,360,000	-	3,360,000	-	-
\$52,780,000 2012 Series due in annual installments of \$4,235,000 to \$4,240,000 with interest due at 4.00% to 5.00%. Final payment due 2022. Refunded \$26,300,000 with the 2020A Bonds.	38,860,000	-	30,385,000	8,475,000	4,240,000
\$75,715,000 2012A Series due in annual installments of \$5,750,000 to \$5,990,000 with interest due at 3.44% to 5.00%. Final payment due 2022. Refunded \$32,265,000 with the 2020A Bonds.	49,510,000	-	37,770,000	11,740,000	5,750,000
\$64,900,000 2014 Series due in annual installments of \$1,910,000 to \$5,405,000 with interest due at 4.00% to 5.00%. Final payment due 2034.	56,815,000	-	2,015,000	54,800,000	3,710,000

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

11. REVENUE BONDS (Continued)

	Amounts Outstanding 2/29/20	Issued	Retired/ Refunded	Amounts Outstanding 2/28/21	Due Within One Year
\$131,650,000 2015 Series due in annual installments of \$1,405,000 to \$10,175,000 with interest due at 3.25% to 5.00%. Final payment due 2035.	90,495,000	-	6,545,000	83,950,000	9,010,000
\$18,600,000 2015A Series due in annual installments of \$725,000 to \$1,330,000 with interest due at 3.00% to 5.00%. Final payment due 2035.	15,750,000	-	695,000	15,055,000	725,000
*\$50,000,000 2015B Series due in annual installments of \$2,275,000 to \$2,995,000 with interest due at 1.01% to 2.41%. Final payment due 2035.	40,955,000	-	2,250,000	38,705,000	2,275,000
\$48,565,000 2015C Series due in annual installments of \$2,105,000 to \$3,200,000 with interest due at 3.97% to 5.00%. Final payment due 2035.	41,885,000	-	2,000,000	39,885,000	2,105,000
\$68,670,000 2016 Series due in annual installments of \$2,345,000 to \$5,085,000 with interest due at 3.11% to 5.00%. Final payment due 2037.	63,945,000	-	3,445,000	60,500,000	3,595,000
*\$100,000,000 2016A Series due in annual installments of \$2,000,000 to \$7,000,000 with interest due at 0.76% to 2.12%. Final payment due 2036.	97,000,000	-	2,000,000	95,000,000	2,000,000
\$83,880,000 2017 Series due in annual installments of \$775,000 to \$5,505,000 with interest due at 4.00% to 5.00%. Final payment due 2038.	79,825,000	-	3,440,000	76,385,000	775,000
*\$50,000,000 2017A Series due in annual installments of \$1,000,000 to \$4,000,000 with interest due at 0.78% to 2.29%. Final payment due 2037.	49,500,000	-	1,000,000	48,500,000	1,000,000
\$26,670,000 2018 Series due in annual installments of \$1,015,000 to \$2,790,000 with interest due at 5.00%. Final payment due 2039.	26,670,000	-	-	26,670,000	-
*\$1,415,000 2019 Series due in annual installments of \$60,000 to \$90,000 with interest due at 1.80% to 3.60%. Final payment due 2039.	1,415,000	-	60,000	1,355,000	60,000

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

11. REVENUE BONDS (Continued)

	Amounts Outstanding 2/29/20	Issued	Retired/ Refunded	Amounts Outstanding 2/28/21	Due Within One Year
\$33,400,000 2019A Series due in annual installments of \$1,850,000 to \$3,500,000 with interest due at 3.00% to 5.00%. Final payment due 2039.	33,400,000	-	-	33,400,000	-
\$30,570,000 2019B Series due in annual installments of \$385,000 to \$6,930,000 with interest due at 5.00%. Final payment due 2031.	30,570,000	-	-	30,570,000	6,930,000
\$33,880,000 2020 Series due in annual installments of \$2,020,000 to \$3,270,000 with interest due at 3.00% to 5.00%. Final payment due 2040.	-	33,880,000	-	33,880,000	-
\$62,990,000 2020A Series due in annual installments of \$250,000 to \$11,395,000 with interest due at 0.31% to 1.89%. Final payment due 2033.	-	62,990,000	-	62,990,000	250,000
Total bonds outstanding	727,315,000	<u>\$ 96,870,000</u>	<u>\$ 102,125,000</u>	722,060,000	<u>\$ 42,475,000</u>
Less current maturities	<u>43,560,000</u>			<u>42,475,000</u>	
Total long term portion	<u>\$ 683,755,000</u>			<u>\$ 679,585,000</u>	

*Direct placement revenue bonds

Interest costs incurred on revenue bonds totaled \$34,004,804 in 2021 and \$29,464,024 in 2020.

Water and Wastewater Utility Fund Annual Debt Service Requirements

Year Ending February	Revenue Bonds		Direct Placements	
	Principal	Interest	Principal	Interest
2022	\$ 37,090,000	\$ 21,556,078	\$ 5,385,000	\$ 3,108,613
2023	36,780,000	19,979,554	8,415,000	3,045,919
2024	36,965,000	18,444,765	9,945,000	2,955,397
2025	37,315,000	17,101,997	10,980,000	2,842,942
2026	37,850,000	15,635,858	10,970,000	2,716,006
2027 - 2031	189,025,000	53,316,725	57,270,000	11,170,345
2032 - 2036	115,200,000	20,460,186	65,445,000	5,330,901
2037 - 2041	48,075,000	3,429,125	15,350,000	281,936
	<u>\$ 538,300,000</u>	<u>\$ 169,924,288</u>	<u>\$ 183,760,000</u>	<u>\$ 31,452,059</u>

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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11. REVENUE BONDS (Continued)

On April 23, 2019, EPWater issued \$1,415,000 in Water and Sewer Revenue Bonds, Series 2019 with an average interest rate of 2.53% in conjunction with an \$11,450,000 Texas Water Development Board Economically Distressed Areas Program grant to finance the first-time customer wastewater connections in the Colonia of Montana Vista in El Paso County, Texas.

On September 17, 2019, EPWater issued \$33,400,000 in Water and Sewer Revenue Refunding Bonds, Series 2019A with an average interest rate of 4.31% to refund \$40,000,000 of Water and Sewer Commercial Paper Notes with an average interest rate of 1.39%.

On December 4, 2019, EPWater issued \$30,570,000 in Water and Sewer Revenue Refunding Bonds, Series 2019B with an average interest rate of 5.00% to refund the following outstanding bonds:

<u>Series</u>	<u>Amount</u>	<u>Average Coupon</u>
2010	\$ 7,435,000	4.09%
2010A	24,105,000	4.59%
2011	3,180,000	3.84%

The liabilities associated with these bonds were removed from the related payables. As of February 28, 2021, and February 29, 2020, \$0 and \$34,720,000 of the bonds remained outstanding with an estimated escrow balances of \$0 and \$35,493,334, respectively.

The refunding of the 2010, 2010A and 2011 reduced debt service by \$3,989,875 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$3,781,549.

On September 9, 2020, EPWater issued \$62,990,000 in Water and Sewer Revenue Refunding Bonds, Taxable Series 2020A with an average interest rate of 1.21% to refund the following outstanding bonds:

<u>Series</u>	<u>Amount</u>	<u>Average Coupon</u>
2012	\$ 26,300,000	4.63%
2012A	32,265,000	4.20%

The liabilities associated with these bonds were removed from the related payables. As of February 28, 2021, \$58,565,000 of the bonds remained outstanding with an estimated escrow balance of \$62,422,411.

The refunding of the 2012 and 2012A reduced debt service by \$6,160,173 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$5,876,416.

On September 15, 2020, EPWater issued \$33,888,000 in Water and Sewer Revenue Refunding Bonds, Series 2020 with an average interest rate of 3.52% to refund \$40,000,000 of Water and Sewer Commercial Paper Notes with an average interest rate of 0.22%.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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11. REVENUE BONDS (Continued)

Municipal Drainage Utility

Municipal Drainage Revenue Bonds payable and TWDB direct placement revenue bonds for the Municipal Drainage Utility Fund in the amount of \$90,701,000 and \$95,635,000 as of February 28, 2021 and February 29, 2020 are equally and ratably secured by and payable from an irrevocable first lien on and pledge of the net revenue of the Municipal Drainage Utility Fund which is presented in Note 15. The pledge of net revenue is in effect until the bonds are extinguished in 2039. The general purpose of the debt is to improve the drainage services EPWater provides to area residents. The Revenue Bonds payable and TWDB direct placement revenue bonds as of February 28, 2021 and February 29, 2020 include the following individual issues:

	Amounts Outstanding 2/29/20	Issued	Retired/ Refunded	Amounts Outstanding 2/28/21	Due Within One Year
*\$2,163,000 2009A Series due in annual installments of \$107,000 to \$108,000 with interest at 0.00%. Final payment due 2031.	\$ 1,290,000	\$ -	\$ 109,000	\$ 1,181,000	\$ 108,000
\$14,075,000 2012 Series due in annual installments of \$650,000 to \$995,000 with interest due at 3.00% to 5.00%. Final payment due 2032.	10,495,000	-	615,000	9,880,000	650,000
\$22,240,000 2015 Series due in annual installments of \$855,000 to \$1,665,000 with interest due at 3.00% to 5.00%. Final payment due 2035.	18,975,000	-	830,000	18,145,000	855,000
\$19,790,000 2016 Series due in annual installments of \$745,000 to \$1,565,000 with interest due at 3.38% to 5.00%. Final payment due 2036.	18,420,000	-	720,000	17,700,000	745,000
\$48,940,000 2017 Series due in annual installments of \$820,000 to \$4,815,000 with interest due at 4.00% to 5.00%. Final payment due 2039.	46,455,000	-	2,660,000	43,795,000	2,850,000
Total bonds outstanding	95,635,000	\$ -	\$ 4,934,000	90,701,000	\$ 5,208,000
Less current maturities	<u>4,934,000</u>			<u>5,208,000</u>	
Total long term portion	<u>\$ 90,701,000</u>			<u>\$ 85,493,000</u>	

*Direct placement revenue bonds

Interest costs incurred on revenue bonds totaled \$4,223,206 in 2021 and \$4,440,656 in 2020.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

11. REVENUE BONDS (Continued)

Municipal Drainage Utility Fund Annual Debt Service Requirements

Year Ending February	Revenue Bonds		Direct Placements	
	Principal	Interest	Principal	Interest
2022	\$ 5,100,000	\$ 4,110,309	\$ 108,000	\$ -
2023	5,380,000	3,862,912	108,000	-
2024	5,710,000	3,585,662	108,000	-
2025	6,065,000	3,295,037	108,000	-
2026	6,420,000	2,986,662	107,000	-
2027 - 2031	33,875,000	9,943,569	535,000	-
2032 - 2036	20,900,000	3,834,639	107,000	-
2037 - 2040	6,070,000	425,725	-	-
	<u>\$ 89,520,000</u>	<u>\$ 32,044,515</u>	<u>\$ 1,181,000</u>	<u>\$ -</u>

Arbitrage - The Tax Reform Act of 1986 instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years. Arbitrage is evaluated and estimated on an annual basis by a third party arbitrage rebate service company. The company has estimated no liability for EPWater as of February 28, 2021 and February 29, 2020.

EPWater is required to comply with various requirements in the ordinances authorizing the bond issuances. Management of EPWater has indicated they are in compliance with all significant requirements.

**PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
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12. COMMERCIAL PAPER

In October 1997, EPWater, through the City of El Paso, approved a Commercial Paper Program in the amount of \$50,000,000. The purpose of the Commercial Paper Program is to provide funds for the interim financing of a portion of the costs of capital improvements to the system.

The borrowings under the Commercial Paper Program are equally and ratably secured by and are payable from (i) the proceeds from the sale of bonds or additional borrowing under the Commercial Paper Program and (ii) borrowing under and pursuant to the revolving credit agreement.

On August 1, 2015, EPWater, through the City of El Paso and Bank of America, N.A., entered into a direct placement Revolving Credit Agreement pursuant to which Bank of America, N.A. is obligated under the Credit Agreement to loan to the City amounts not to exceed \$40,000,000 for the purpose of paying amounts due on the Commercial Paper Program. Any borrowing under the Credit Agreement is equally and ratably secured by and payable from the above-described sources pledged for payment of the Commercial Paper Program and from a pledge of the Net Revenues of the Water and Wastewater Utility, such pledge being subordinate to the pledge of Net Revenues securing all Senior Lien Obligations. Per the Agreement, the outstanding commercial paper resulting from direct borrowing have a termination event for failure to pay any interest or principal on the loan note, or commitment fees when due for a period of five business days from the date given by the bank. The revolving credit agreement also contains a clause to accelerate payment of principal and accrued interest to become immediately due, if EPWater defaults on any payment on specified debt within the agreement or any other "events of default" as defined in the agreement. Management intends to continue the remarketing of the tax exempt commercial paper notes as it intends to maintain a portion of its debt in variable rates. On August 14, 2018, the first amendment to the credit agreement was executed to extend the contract until August 23, 2021, and reduced the commitment fee rate from 0.040% to 0.037%.

Since the commercial paper represents activity that is the result of EPWater's long term financing plan, the amounts outstanding are presented as long term. The "paper" can be sold in \$100,000 increments and matures from one to 270 days. As of February 29, 2020, there was \$15,000,000 outstanding and as of February 28, 2021, the following amounts were outstanding:

<u>2021</u>	<u>Maturity Date</u>	<u>Coupon Rate</u>
\$ 15,000,000	03/03/2021	0.17%
5,000,000	03/03/2021	0.16%
10,000,000	04/06/2021	0.08%
<u>10,000,000</u>	04/15/2021	0.08%
<u>\$ 40,000,000</u>		

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13. REVOLVING NOTE

EPWater, through the City of El Paso and Bank of America, N.A., entered into a direct placement Note Purchase Agreement in June 2018 with an available commitment of \$25,000,000. Any borrowing under this agreement is equally and ratably secured from a pledge of the Net Revenues of the Municipal Drainage Utility, such pledge being subordinate to the pledge of Net Revenues securing all Senior Lien Obligations.

The borrowings under the agreement are ratably secured by and are payable from (i) the proceeds from the sale additional bonds hereafter issued and to be used to pay outstanding Notes, (ii) borrowings under the agreement, (iii) the amounts held in the Note Payment Fund until the amounts deposited therein are used for authorized purposes, (iv) the Net Revenues, such lien and pledge of Net Revenues, however, being subordinated to the prior and superior lien on and pledge of securing the payment of borrowings made under and pursuant to the agreement, (v) the amounts remaining on deposit in the Note Construction Fund after the payment of all project costs; and the principal of and interest on the Notes and any amounts due under the agreement shall be and hereby equally and ratably secured by and payable from a lien on and pledge of the sources hereby identified. Per the Agreement, the outstanding notes resulting from direct borrowing have a termination event for failure to pay any interest or principal on the loan note, or commitment fees when due for a period of five business days from the date such obligation was due. The Note Purchase Agreement also contains a clause to accelerate payment of principal and accrued interest to become immediately due, if EPWater defaults on any payment on specified debt within the agreement or any other "events of default" as defined in the agreement.

Since these notes represent activity that is the result of EPWater's Municipal Drainage Utility's long-term financing plan, the amounts outstanding are presented as long term. As of February 29, 2020, there was \$10,000,000 outstanding and as of February 28, 2021 the following amounts were outstanding:

	<u>2021</u>	<u>Maturity Date</u>	<u>Coupon Rate</u>
Note #5	\$ 2,500,000	04/26/2021	1.32%
Note #6	2,500,000	06/11/2021	1.10%
Note #7	5,000,000	07/26/2021	0.97%
Note #8	<u>5,000,000</u>	11/01/2021	0.88%
	<u>\$ 15,000,000</u>		

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14. OTHER GOVERNMENT PAYABLES

During the fiscal year ending February 28, 2010, EPWater entered into a wholesale contract with Fort Bliss to provide water services for a 20 year period effective June 1, 2009. The El Paso Water Utility is to credit Fort Bliss \$3,300,000 with an interest rate of 4.5% totaling \$5,010,583 over 20 years (\$20,877 monthly) for the engineering/environmental analysis in connection with the Desalination Plant. The following is a list of the principal and interest payments due to Fort Bliss as of February 28, 2021:

Year Ending February	Principal	Interest	Total
2022	\$ 176,565	\$ 73,964	\$ 250,529
2023	184,676	65,853	250,529
2024	193,160	57,369	250,529
2025	202,034	48,495	250,529
2026	211,316	39,214	250,530
2027 - 2030	756,164	58,056	814,220
	<u>\$ 1,723,915</u>	<u>\$ 342,951</u>	<u>\$ 2,066,866</u>

15. REVENUE PLEDGED AND DEBT SERVICE COVERAGE

Water and Wastewater Utility

The bond ordinances require EPWater to maintain revenues in each fiscal year, after deductions for maintenance and operation expenses, in an amount equal to at least 1.5 times the debt service requirements in such year for the Water and Wastewater Utility Fund. The computations of this ratio are summarized below for the years ended February 28, 2021 and February 29, 2020.

Revenues available for debt service are determined as follows:

	2021	2020
Water and wastewater revenue	\$ 274,526,882	\$ 252,850,349
Operating revenue deductions	112,971,920	107,815,903
Net water and wastewater revenue	161,554,962	145,034,446
Other revenues available for debt service:		
Interest income	1,955,699	4,412,950
Property rentals	4,069,879	3,715,952
Administration fees - City Environmental Services	656,116	648,555
Other miscellaneous operating revenue	1,611,697	1,472,304
Gain on sale of miscellaneous assets	111,980	396,124
Other miscellaneous expenses	(2,719,142)	(2,638,502)
Net other revenues available for debt service	5,686,229	8,007,383
Revenues available for debt service	\$ 167,241,191	\$ 153,041,829

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15. REVENUE PLEDGED AND DEBT SERVICE COVERAGE (Continued)

Comparison of pledged revenues to debt requirements:

	2021	2020
Revenues available for debt service	\$ 167,241,191	\$ 153,041,829
Debt service requirements		
Principal	43,560,000	42,360,000
Interest	26,658,167	26,825,296
Total requirements	\$ 70,218,167	\$ 69,185,296
Debt service ratio	2.38	2.21

As calculated above, the approximate amount of pledged revenue for the years ended February 28, 2021 and February 29, 2020 were \$167,241,191 and \$153,041,829, respectively.

The proportion of the specific revenue stream that has been pledged to cover the debt requirements to the total revenue was 56.90% and 56.89% for the years ended February 28, 2021 and February 29, 2020, respectively.

The bonds, both principal and interest, are secured by a first lien and pledge of the net revenues of the Water and Wastewater Fund.

Municipal Drainage Utility

The bond ordinances require EPWater to maintain revenues in each fiscal year, after deductions for maintenance and operation expenses, in an amount equal to at least 1.25 times the debt service requirements in such year for the Municipal Drainage Utility Fund. The computations of this ratio are summarized below for the years ended February 28, 2021 and February 29, 2020.

Revenues available for debt service are determined as follows:

	2021	2020
Municipal drainage utility revenue	\$ 24,065,071	\$ 23,713,494
Operating revenue deductions	7,098,049	7,925,706
Net municipal drainage utility revenue	16,967,022	15,787,788
Other revenues available for debt service:		
Interest income	160,075	841,476
Property rentals	108,037	101,322
Gain on sale of miscellaneous assets	-	7,785
Other miscellaneous operating revenue	380,549	611,017
Other miscellaneous expenses	(57,722)	(110,183)
Net other revenues available for debt service	590,939	1,451,417
Revenues available for debt service	\$ 17,557,961	\$ 17,239,205

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15. REVENUE PLEDGED AND DEBT SERVICE COVERAGE (Continued)

Comparison of pledged revenues to debt requirements:

	2021	2020
Revenues available for debt service	\$ 17,557,961	\$ 17,239,205
Debt service requirements		
Principal	4,934,000	4,689,000
Interest	4,331,931	4,532,506
Total requirements	\$ 9,265,931	\$ 9,221,506
Debt service ratio	1.89	1.87

As calculated above, the approximate amount of pledged revenue for the years ended February 28, 2021 and February 29, 2020 were \$17,557,961 and \$17,239,205, respectively.

The proportion of the specific revenue stream that has been pledged to cover the debt requirements to the total revenue were 71.51% and 70.58% for the years ended February 28, 2021 and February 29, 2020, respectively.

The bonds, both principal and interest, are secured by a first lien and pledge of the net revenues of the Municipal Drainage Fund.

16. RISK MANAGEMENT

EPWater is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters and is covered under certain policies purchased from independent insurance carriers. Additionally, EPWater, through the City of El Paso, maintains insurance policies acquired from independent insurance carriers covering material structural properties.

EPWater, in conjunction with the City of El Paso, provides health benefits and workers' compensation benefits for eligible employees and a fully insured health benefit plan for retirees. EPWater and the City of El Paso fund these plans separately, and EPWater is responsible for the costs incurred related to the employees and retirees of EPWater. EPWater, in conjunction with the City of El Paso, provides basic life insurance for eligible employees and dependents through a commercial carrier.

The City maintains group health insurance administered through Aetna which is self-insured for active employees and their eligible dependents and fully insured for retired employees and their eligible dependents. Reinsurance coverage limits the annual liability of EPWater to \$275,000 per claim per covered member for the self-insured plans. Contributions are shared by EPWater, participating employees, and retirees. Eligible health expenses and liabilities are paid and recorded separately for the City of El Paso and EPWater.

Claims Administrative Services administers the workers' compensation self-insurance program. A separate bank account is used to pay all claims for workers' compensation, and EPWater accrues estimated future liabilities for workers' compensation claims filed as of the end of the fiscal year based on an actuarial study performed every two years. Management feels that the contributions made during the year for workers' compensation will offset any claims paid during the year.

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16. RISK MANAGEMENT (Continued)

For the years ended February 28, 2021, February 29, 2020, and February 28, 2019, the amount of settlements did not exceed insurance coverage and there were no significant reductions in the coverage from the prior year. The estimated liability for unpaid health claims is based upon the claim lag report. The estimated liability for unpaid workers' compensation claims is the discounted future payments, as actuarially determined, of case reserves plus claims incurred but not reported as of the actuarial report date of February 29, 2020. Accrued liabilities for these self-insurance programs are summarized below for the years ended February 28, 2021, February 29, 2020, and February 28, 2019:

	2021	2020	2019
Health Insurance	\$ 227,866	\$ 124,781	\$ 165,447
Workers' Compensation	912,246	912,246	734,582
	1,140,112	1,037,027	900,029
Total payable			
Less current portion	315,958	418,327	238,627
	\$ 824,154	\$ 618,700	\$ 661,402
Estimated Long-term portion			

Changes in accrued liabilities for self-insurance programs were as follows:

	2021	2020	2019
Total payable, beginning of year	\$ 1,037,027	\$ 900,029	\$ 968,610
Additional claims incurred	3,212,910	3,356,661	4,728,381
Claims paid during the year	(3,109,825)	(3,219,663)	(4,796,962)
	\$ 1,140,112	\$ 1,037,027	\$ 900,029
Total payable, end of year			

17. PENSION AND RETIREMENT PLAN

General - The Public Service Board - El Paso Water Utilities contributes to the City of El Paso Employees Retirement Trust (CERT) which is a single-employer Public Employee Retirement System defined benefit pension plan. However, in accordance with GASB Statement No. 68, as a component unit of the City, EPWater reports its proportionate share of the collective net pension liability as if it was a cost-sharing employer.

Plan Description - The CERT was established in accordance with authority granted by Chapter 2.64 of the El Paso City Code and is a component unit (fiduciary fund type) of the City. It is the responsibility of the CERT to function as an investment and administrative agent for the City of El Paso and EPWater with respect to the pension plan. The CERT is not required to maintain any legally required reserves.

Basis of Accounting - The accounting policies of the CERT have been established to conform to generally accepted accounting principles for state and local governments as promulgated by authoritative pronouncements issued by the Governmental Accounting Standards Board. The CERT is accounted for on an economic resources measurement focus using the accrual basis of accounting.

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17. PENSION AND RETIREMENT PLAN (Continued)

Pension Plan Fiduciary Net Position - Detailed information about the City of El Paso Employees Retirement Trust fiduciary net position is available in separately issued audited plan financial statements, including required supplementary information (RSI). That report may be obtained from the City of El Paso Employees Retirement Trust Administrative Office at 1039 Chelsea St., El Paso, Texas 79903 or online at <http://www.eppension.org/fund-overview.php>.

The collective net pension liability was measured as of August 31, 2020 and August 31, 2019. The total pension liability is based on the actuarial valuation as of September 1, 2018 for both years and update procedures were used to roll forward the total pension liability to the measurement dates of August 31, 2020 and August 31, 2019.

	2020	2019
Total Pension Liability	\$ 1,083,475,771	\$ 1,054,386,823
Less: Fiduciary Net Position	(869,131,842)	(802,755,755)
Net Pension Liability	\$ 214,343,929	\$ 251,631,068
Fiduciary Net Position as percentage of Total Pension Liability	80.22%	76.13%

Benefits Provided: Substantially all full-time employees of the City (including EPWater) are eligible to participate in the Plan. Non-employer contributions are limited to participating employees. Participation is mandatory for classified employees (except permanent part-time employees). For non-classified employees, participation is mandatory for employees hired after July 1997. Classified employees include all persons who are permanent, full-time employees and are not otherwise excluded from the CERT. The designated purpose of the CERT is to provide retirement, death, and disability benefits to participants or their beneficiaries. The CERT is administered by the CERT Board of Trustees, which is comprised of two members of the City Council, two citizens of the City who are not officers or employees of the City, four city employees who are qualified to participate in the trust, and one retired city employee receiving pension benefits from the trust. The CERT Board contracts with an independent pension custodian, investment managers, an investment consultant, an actuary and an attorney to assist in managing the CERT.

Members who were first participants prior to September 1, 2011, accrue benefits based on Tier I provisions as follows:

- Participants who leave the Plan before completion of five years of service receive a refund of their contributions. Participants leaving the Plan with more than five years but less than ten years of service may receive a refund of their contributions plus interest at 5.5%, compounded annually, provided they are not eligible for normal retirement. Participants become fully vested after reaching forty years of age and ten years of service or forty-five years of age and seven years of service. Normal retirement is the earlier of (i) fifty-five years of age with ten years of service, (ii) sixty years of age with seven years of service or (iii) thirty years of service, regardless of age. Participants who have met the minimum vesting requirements may retire but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.5% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, or 2.5% of the average monthly base salary received by the employee during the year immediately prior to retirement, or 2.5% of the monthly base salary pay for the month

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17. PENSION AND RETIREMENT PLAN (Continued)

immediately prior to retirement, whichever is greater, multiplied by the number of completed years of service, plus .2083 of 1% of such average for each additional completed or fractional part of a month of service.

Members who were first participants on or after September 1, 2011, accrue benefits based on Tier II provisions as follows:

- Participants who leave the plan before completion of seven years of service receive a refund of their contributions. Participants leaving the plan with more than seven years but less than ten years of service may receive a refund of their contributions plus interest at 3%, compounded annually, provided they are not eligible for normal retirement. Participants become fully vested after reaching forty-five years of age and seven years of service. Normal retirement is the earlier of (i) sixty years of age with seven years of service or (ii) thirty-five years of service, regardless of age. Participants who have met the minimum vesting requirements may retire but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.25% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, multiplied by the number of completed years of service, plus .1875 of 1% of such average for each additional completed or fractional part of a month of service, limited to 90% of the three year average final pay.

A pension benefit is available to surviving spouses and dependents. The plan includes no automatic increase in retirement benefits, including automatic COLAs. However, the Board, at its discretion after consideration of a recent actuarial review of the funding status, may provide ad hoc cost of living or other increases in retirement benefits. There were no ad-hoc payments issued for the plan years ended August 31, 2020 and August 31, 2019.

Actuarial Methods and Assumptions - Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

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17. PENSION AND RETIREMENT PLAN (Continued)

For the September 1, 2018 actuarial valuation, rolled forward to the measurement dates of August 31, 2020 and August 31, 2019, the entry-age normal cost method was used. The actuarial value of pension benefit assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The actuarial assumptions included a 7.5% investment rate of return (net of expenses), projected salary increases of 3.0%, which includes an inflation rate of 3.0% and no cost of living increases. The remaining amortization period at September 1, 2020 and September 1, 2019 was 17 years using a level percent, open basis, amortization period. For the September 1, 2018 actuarial valuation, rolled forward to August 31, 2020 and August 31, 2019, the mortality rates were based on the RP-2014 employee tables with Blue Collar adjustment projected to 2030 using Scale BB. Mortality rates for disabled participants are based on the RP-2014 Table for Disabled Lives. The actuarial assumptions used in the September 1, 2018 valuation were based on the results of an actuarial experience study performed in 2016.

Changes since the Prior Actuarial Valuation - There were no changes in the actuarial assumptions or other inputs that affected measurement of the total pension liability since the prior measurement date.

There were no changes of benefit terms that affected the measurement of the total pension liability since the prior measurement date.

There were no changes between the measurement date of the collective net pension liability and the employer's reporting date that are expected to have a significant effect on the EPWater's proportionate share of the collective net pension liability.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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 returns by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the CERT's target asset allocation as of August 31, 2020 and August 31, 2019 are summarized in the following table:

Asset Class	2020 Target Allocation	2019 Target Allocation	2020 Long- term Expected Real Rate of Return	2019 Long- term Expected Real Rate of Return
Domestic Equity	31%	24%	6.99%	8.2%
International Equity	21%	16%	6.45%	6.9%
Fixed Income	24%	19%	0.37%	2.0%
Real Estate	10%	10%	4.81%	4.6%
Absolute Return	-	15%	-	3.8%
Master Limited Partnerships	-	5%	-	8.2%
Private Equity	13%	10%	10.62%	11.7%
Alternatives	-	-	3.03%	-
Cash	1%	1%	-	-

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17. PENSION AND RETIREMENT PLAN (Continued)

Discount Rate: The discount rate used to measure the total pension liability was 7.5 percent for the plan years ended August 31, 2020 and August 31, 2019. The projection of cash flows used to determine the discount rate assumed that contributions will be based on the rates established by Ordinance. Based on those assumptions, the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

Contributions Required and Contributions Made - Contribution rates for the CERT are based upon local statutes as enacted by the El Paso City Council and are not actuarially determined. However, each time a new actuarial valuation is performed, contribution requirements are compared to the actuarially determined amount necessary to fund service costs and amortize the unfunded actuarial accrued liability (using entry-age-normal cost method) over thirty years. As of the most recent actuarial valuation, the contribution rate was 23.00 percent of annual covered payroll with employer contributions of 14.05 percent and employee contributions of 8.95 percent.

EPWater Contributions for the years ended February 28, 2021 and February 29, 2020 were as follows:

	2021 - Contributions Required and Made		2020 - Contributions Required and Made	
	Water and Wastewater Utility	Municipal Drainage Utility	Water and Wastewater Utility	Municipal Drainage Utility
Employer contributions	\$ 5,150,746	\$ 271,386	\$ 5,168,935	\$ 273,425
Employee contributions	3,281,084	172,876	3,292,665	174,173
Total contributions	\$ 8,431,830	\$ 444,262	\$ 8,461,600	\$ 447,598

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17. PENSION AND RETIREMENT PLAN (Continued)

Sensitivity to Changes in the Discount Rate: The following presents the EPWater's proportionate share for the Water and Wastewater Utility and Municipal Drainage Utility of the resulting net pension liability calculated using the discount rate of 7.5 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

8/31/2020 - Water and Wastewater Utility's proportionate share of the net pension liability	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Water and Wastewater Utility	\$ 63,903,453	\$ 40,516,207	\$ 20,885,007

8/31/2020 - Municipal Drainage Utility's proportionate share of the net pension liability	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Municipal Drainage Utility	\$ 3,372,493	\$ 2,138,235	\$ 1,102,202

8/31/2019 - Water and Wastewater Utility's proportionate share of the net pension liability	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Water and Wastewater Utility	\$ 70,443,852	\$ 47,544,990	\$ 28,336,882

8/31/2019 - Municipal Drainage Utility's proportionate share of the net pension liability	1% Decrease (6.5%)	Discount Rate (7.5%)	1% Increase (8.5%)
Municipal Drainage Utility	\$ 3,747,908	\$ 2,529,593	\$ 1,507,641

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At February 28, 2021, EPWater reported a net pension liability for its proportionate share of the CERT's net pension liability of \$40,516,207 for the Water and Wastewater Utility and \$2,138,235 for the Municipal Drainage Utility. At February 29, 2020, EPWater reported a net pension liability for its proportionate share of the CERT's net pension liability of \$47,544,990 for the Water and Wastewater Utility and \$2,529,593 for the Municipal Drainage Utility. EPWater's net pension liability reported at February 28, 2021 was measured at August 31, 2020. EPWater's net pension liability reported at February 29, 2020 was measured at August 31, 2019.

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17. PENSION AND RETIREMENT PLAN (Continued)

EPWater's proportion of the net pension liability was based on EPWater's contributions to the pension plan relative to the contributions of the City to the plan for the periods from September 1, 2019 through August 31, 2020 and September 1, 2018 to August 31, 2019. At August 31, 2020 and August 31, 2019, EPWater's proportion of the collective net pension liability was 19.90 percent.

For the years ended February 28, 2021 and February 29, 2020, EPWater recognized pension expense as measured in accordance with GASB Statement No. 68, of \$6,091,180 and \$9,215,739, respectively, for the Water and Wastewater Utility, and \$263,068 and \$479,932, respectively, for the Municipal Drainage Utility.

At February 28, 2021 and February 29, 2020, EPWater reported its proportionate share of the deferred outflows of resources and deferred inflows of resources related to the CERT from the following sources:

	2021 - Water and Wastewater Utility		2021 - Municipal Drainage Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual pension experience	\$ 1,659,963	\$ -	\$ 96,834	\$ -
Changes of assumptions	-	-	-	-
Net difference between projected and actual earnings on pension assets	-	1,221,901	-	69,824
Changes in proportionate share	556,535	12,524	14,302	299,216
Employer contributions subsequent to the measurement date	2,675,999	-	137,716	-
Total	<u>\$ 4,892,497</u>	<u>\$ 1,234,425</u>	<u>\$ 248,852</u>	<u>\$ 369,040</u>
	2020 - Water and Wastewater Utility		2020 - Municipal Drainage Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences in expected and actual pension experience	\$ 2,149,628	\$ 733,866	\$ 125,398	\$ 51,832
Changes of assumptions	1,213,181	-	85,687	-
Net difference between projected and actual earnings on pension assets	5,710,341	-	298,537	-
Changes in proportionate share	718,031	106,724	49,702	390,477
Employer contributions subsequent to the measurement date	2,676,698	-	145,837	-
Total	<u>\$ 12,467,879</u>	<u>\$ 840,590</u>	<u>\$ 705,161</u>	<u>\$ 442,309</u>

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17. PENSION AND RETIREMENT PLAN (Continued)

For the year ended February 28, 2021, EPWater reported \$2,675,999 for the Water and Wastewater Utility and \$137,716 for the Municipal Drainage Utility as deferred outflows of resources related to pensions resulting from EPWater contributions subsequent to the measurement date and prior to year-end. This amount will be recognized as a reduction of the net pension liability for the year ending February 28, 2022.

For the year ended February 29, 2020, EPWater reported \$2,676,698 for the Water and Wastewater Utility and \$145,837 for the Municipal Drainage Utility as deferred outflows of resources related to pensions resulting from EPWater contributions subsequent to the measurement date and prior to year-end. This amount was recognized as a reduction of the net pension liability for the year ending February 28, 2021.

For the year ended February 28, 2021, the amount recognized as pension expense for the deferred outflows and inflows related to pensions was \$911,905 for the Water and Wastewater Utility and (\$10,267) for the Municipal Drainage Utility. For the year ended February 29, 2020, the amount recognized as pension expense for the deferred outflows and inflows related to pensions was \$5,078,478 for the Water and Wastewater Utility and \$259,812 for the Municipal Drainage Utility.

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

Year Ended February	Water and Wastewater Utility	Municipal Drainage Utility
2022	\$ 109,521	\$ (100,343)
2023	864,700	(56,341)
2024	1,138,233	3,429
2025	(1,154,475)	(91,292)
2026	24,267	(2,015)
Thereafter	(173)	(11,342)
Total	\$ 982,073	\$ (257,904)

Payable to the Pension Plan: At February 28, 2021 and February 29, 2020, EPWater reported a payable, including accruals where applicable, of \$183,043 for the Water and Wastewater Utility and \$8,789 for the Municipal Drainage Utility and \$164,220 for the Water and Wastewater Utility and \$8,521 for the Municipal Drainage Utility, respectively, for the outstanding amount of contributions to the pension plan required for each fiscal year.

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18. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description - EPWater through the City of El Paso offers its employees a single employer defined healthcare plan with OPEB benefits for retirees. The City sponsors and administers the informal plan. Texas statute provides that retirees from a municipality with a population of 25,000 or more and who receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the retiree and the retiree's dependents unless the retiree is eligible for group health benefits coverage through another employer. The State of Texas has the authority to establish and amend the requirements of this statute. The City does not issue stand-alone financial statements of the healthcare plan but all required information is presented in this report. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB No. 75.

Benefits Provided - The contribution requirements of plan members are established by City ordinance and may be amended as needed. Retiree coverage for health care benefits for retirees under age 65 is the same as the coverage provided to active City employees. Retirees over age 65 are covered through a Medicare Advantage Plan. Retirees pay premiums ranging from \$135 per month to \$2,471 per month depending on the coverage elected. The cost of retiree health care benefits in the form of a share of the premiums is recognized on a pay-as-you go financing method and is recorded as an expense as liabilities are incurred. Retirees contributed approximately 50% of the total current year cost.

Employees Covered by Benefit Terms - At February 28, 2021 and at February 29, 2020, the following employees were covered by the benefit terms:

	2021		2020	
	Water and Wastewater Utility	Municipal Drainage Utility	Water and Wastewater Utility	Municipal Drainage Utility
Inactive employees or beneficiaries currently receiving benefits	153	2	144	2
Active employees	816	50	815	52
Total	969	52	959	54

Total OPEB Liability - The EPWater's total OPEB liability of \$17,764,809 and \$25,049,965 reported at February 28, 2021 and February 29, 2020, respectively, is based on actuarial valuation performed as of January 1, 2021 and January 1, 2019, respectively. Update procedures were used to roll forward the total OPEB liability to the measurement dates of February 28, 2021 and February 29, 2020.

Actuarial assumptions and other inputs - Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. Actuarial assumptions for OPEB are based on the experience study performed in 2016 for the pension plan. OPEB specific assumptions, such as healthcare trend rates and plan participation, are reviewed during each full actuarial valuation.

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18. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

The EPWater’s total OPEB liability is based on the actuarial valuation as of January 1, 2021, and was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Actuarial Cost Method	Individual Entry-Age Normal
Discount Rate	2.50% as of February 28, 2021 1.81% as of February 29, 2020
Inflation	2.50%
Salary Increases	2.75% to 4.50%
Demographic Assumptions	The demographic assumptions are the same as those used in the City of El Paso Employees Retirement Trust actuarial valuation as of September 1, 2020.
Mortality	For healthy retirees, the gender-distinct RP-2014 Healthy Annuitant Tables with Blue Collar Adjustment (92% of male rates and 100% of female rates) were used, projected using Scale MP-2019 on a fully generational basis.
Health Care Trend Rates	January 1, 2021: Initial rate of 7.00% declining to an ultimate rate of 4.25% after 13 years. January 1, 2020: As a result of the repeal of the Cadillac Tax on December 20, 2019, the ultimate trend assumption was decreased to 4.25% after 15 years.
Participation Rates	35% for eligible retirees between the ages of 50 and 65; 40% for eligible retirees with age greater than 65; 0% for eligible retirees with age less than 50. 45% of retirees were assumed to have 2-person coverage.

The discount rate at February 28, 2021 and at February 29, 2020 is based on the Fidelity 20-Year Municipal GO AA Index.

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18. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Changes in the Total OPEB Liability:

	2021	
	Water and Wastewater Utility	Municipal Drainage Utility
Balance at March 1, 2020	\$ 23,547,545	\$ 1,502,420
Changes for the year:		
Service cost	1,734,662	106,290
Interest	438,168	26,849
Differences between expected and actual experience	(5,251,336)	(321,773)
Changes of assumptions	(3,260,418)	(199,780)
Change in proportionate share	56,117	(56,117)
Benefit payments	(525,611)	(32,207)
Net changes	(6,808,418)	(476,738)
Balance at February 28, 2021	\$ 16,739,127	\$ 1,025,682
	2020	
	Water and Wastewater Utility	Municipal Drainage Utility
Balance at March 1, 2019	\$ 18,393,671	\$ 1,434,474
Changes for the year:		
Service cost	1,063,751	67,871
Interest	699,964	44,661
Differences between expected and actual experience	(1,866,069)	(119,062)
Changes of assumptions	5,516,624	351,981
Change in proportionate share	245,243	(245,243)
Benefit payments	(505,639)	(32,262)
Net changes	5,153,874	67,946
Balance at February 29, 2020	\$ 23,547,545	\$ 1,502,420

Changes of assumptions reflect the change in the discount rate from 1.81% as of February 29, 2020 to 2.50% as of February 28, 2021, and the demographic assumptions were updated to reflect the changes made in the 2020 City of El Paso Pension Valuation. Additionally, the underlying costs of the Medicare Advantage Plan are no longer assumed to vary by age.

The difference between expected and actual experience is mostly related to the favorable premium changes for both years presented.

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18. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate - The following presents the total OPEB liability of EPWater by utility, calculated using the discount rate of 2.50% as of February 28, 2021, and 1.81% as of February 29, 2020, as well as what EPWater's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the respective discount rate:

	1% Decrease (1.50%)	Discount Rate (2.50%)	1% Increase (3.50%)
02/28/2021			
Water and Wastewater Utility			
Total OPEB Liability	\$ 19,225,148	\$ 16,739,127	\$ 14,717,203

	1% Decrease (1.50%)	Discount Rate (2.50%)	1% Increase (3.50%)
02/28/2021			
Municipal Drainage Utility			
Total OPEB Liability	\$ 1,178,012	\$ 1,025,682	\$ 901,789

	1% Decrease (0.81%)	Discount Rate (1.81%)	1% Increase (2.81%)
02/29/2020			
Water and Wastewater Utility			
Total OPEB Liability	\$ 27,618,955	\$ 23,547,545	\$ 20,305,229

	1% Decrease (0.81%)	Discount Rate (1.81%)	1% Increase (2.81%)
02/29/2020			
Municipal Drainage Utility			
Total OPEB Liability	\$ 1,762,191	\$ 1,502,420	\$ 1,295,548

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates - The following presents the total OPEB liability of EPWater by utility, calculated using the assumed trend rates, as well as what EPWater's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current healthcare cost trend rates:

	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
02/28/2021			
Water and Wastewater Utility			
Total OPEB Liability	\$ 14,312,506	\$ 16,739,127	\$ 19,841,081

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18. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

02/28/2021	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Municipal Drainage Utility			
Total OPEB Liability	\$ 876,992	\$ 1,025,682	\$ 1,215,753

02/29/2020	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Water and Wastewater Utility			
Total OPEB Liability	\$ 19,561,006	\$ 23,547,545	\$ 28,760,030

02/29/2020	1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
Municipal Drainage Utility			
Total OPEB Liability	\$ 1,248,064	\$ 1,502,420	\$ 1,834,996

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB -
For the fiscal years ended February 28, 2021 and February 29, 2020, EPWater recognized OPEB expense of \$1,658,421 and \$2,187,414, respectively, for the Water and Wastewater Utility, and \$68,139 and \$111,622, respectively, for the Municipal Drainage Utility.

At February 28, 2021 and February 29, 2020, EPWater reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2021 - Water and Wastewater Utility		2021 - Municipal Drainage Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 6,133,979	\$ -	\$ 379,562
Changes of assumptions	4,365,172	2,898,692	278,989	177,615
Change in proportionate share	242,458	-	-	242,458
Total	\$ 4,607,630	\$ 9,032,671	\$ 278,989	\$ 799,635

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18. POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS (Continued)

	2020 - Water and Wastewater Utility		2020 - Municipal Drainage Utility	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,665,660	\$ -	\$ 106,275
Changes of assumptions	4,962,942	-	317,204	-
Change in proportionate share	218,905	-	-	218,905
Total	<u>\$ 5,181,847</u>	<u>\$1,665,660</u>	<u>\$ 317,204</u>	<u>\$ 325,180</u>

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

Year Ended February	Water and Wastewater Utility	Municipal Drainage Utility
2022	\$ (514,409)	\$ (65,000)
2023	(514,409)	(65,000)
2024	(514,409)	(65,000)
2025	(514,409)	(65,000)
2026	(514,409)	(65,000)
Thereafter	<u>(1,852,996)</u>	<u>(195,646)</u>
Total	<u>\$ (4,425,041)</u>	<u>\$ (520,646)</u>

19. DEFERRED COMPENSATION

The EPWater through the City of El Paso offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457.

The plan, available to all EPWater employees, permits them to defer a portion of their salaries until future years. EPWater does not make any contributions to the plan. The deferred compensation is not available to employees until termination, retirement, or unforeseeable emergency. Deferred compensation is available to employees' beneficiaries in case of death. The investments are managed by an outside administrator and investment options are made by participants.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights are solely the property and rights of the participants.

In management's opinion, EPWater has no liability for losses under the Plan. The City of El Paso has the duty of due care that would be required of an ordinary, prudent fiduciary.

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20. LEASING ARRANGEMENTS WITH EPWATER AS LESSOR

EPWater leases real properties under various long-term lease agreements under the operating method of accounting for leases. Minimum future rentals to be received on non-cancelable leases as of February 28, 2021, for each of the next five years and in the aggregate are:

Water and Wastewater Utility

Year ended February	Amount
2022	\$ 3,113,342
2023	3,055,546
2024	2,887,694
2025	2,553,566
2026	2,203,746
2027-2031	6,719,098
2032-2036	1,477,071
2037-2041	18,966
2042-2046	1,495
2047-2051	1,495
2052-2056	1,495
2057-2059	673
Total minimum future rentals	\$ 22,034,187

The value of the real properties under lease for the years ended February 28, 2021 and February 29, 2020 was \$351,271,787 and \$349,860,587, respectively.

Municipal Drainage Utility

Year ended February	Amount
2022	\$ 54,834
2023	55,088
2024	51,554
2025	22,474
2026	7,920
2027-2031	39,600
2032-2036	32,292
2037-2040	2,280
Total minimum future rentals	\$ 266,042

The value of the real properties under lease was \$7,353,366 as of February 28, 2021 and February 29, 2020.

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21. LEASING ARRANGEMENTS WITH EPWATER AS LESSEE

EPWater leases buildings, land, computer equipment, uniforms, golf carts, and copiers for the Water and Wastewater Utility and the Municipal Drainage Utility under various long-term lease agreements which are recognized using the operating method of accounting for leases. Minimum future payments as of February 28, 2021 are as follows:

Water and Wastewater Utility

Year ended February	Amount
2022	\$ 763,129
2023	610,800
2024	605,225
2025	506,772
2026	409,500
2027 - 2031	2,047,500
2032 - 2036	2,047,500
2037 - 2041	2,047,500
2042 - 2046	2,047,500
2047 - 2051	2,047,500
2052 - 2056	2,047,500
2057 - 2060	1,330,875
	\$ 16,511,301

Rental expense for the years ended February 28, 2021 and February 29, 2020 was \$1,121,681 and \$1,432,039, respectively.

Municipal Drainage Utility:

Year ended February	Amount
2022	\$ 15,258
2023	3,374
2024	3,374
2025	3,374
	\$ 25,380

Rental expense for the years ended February 28, 2021 and February 29, 2020 was \$18,536 and \$22,823, respectively.

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22. WHOLESALE WATER SUPPLY AND WASTEWATER TREATMENT CONTRACTS

EPWater has entered into various wholesale water supply and wastewater treatment contracts to supply water and provide wastewater treatment to several Municipal Utility Districts and other entities which provide retail service to their customers. The contracts vary in length from 5 years to 20 years with renewal options available with the consent of both parties. The wholesale rates are updated annually based on cost of service including specific cost credits or offsets to specific entities due to grant proceeds related to specific water and wastewater service areas.

The following is a summary of wholesale water and wastewater rates to each entity served by EPWater:

Name of Entity	Water Rate	Wastewater Rate
Lower Valley Water District	\$1.15 per ccf	\$1.44 per ccf
County - East Montana	\$2.07 per ccf	N/A
Haciendas Del Norte WID	\$1.79 per ccf	N/A
Gaslight Square MHE	\$2.49 per ccf	\$2.26 per ccf
Paseo del Este MUD (includes fixed base differential rate of \$0.26 for water and \$0.33 for wastewater)	\$2.85 per ccf	\$2.53 per ccf
Fort Bliss	\$1.28 per ccf	\$2.02 per ccf
County - Mayfair/Nuway and Schuman	\$2.95 per ccf	N/A
County - Colonia Revolucion	\$2.39 per ccf	N/A
County - Square Dance	\$2.07 per ccf	\$2.53 per ccf

Transactions with these entities are summarized below:

	<u>2021</u>	<u>2020</u>
Water Sales	<u>\$ 8,968,707</u>	<u>\$ 7,067,442</u>
Wastewater Services	<u>\$ 5,613,803</u>	<u>\$ 5,777,122</u>

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23. SURFACE WATER CONTRACTS

The EPWater purchases all its Rio Grande Project surface water from the El Paso County Water Improvement District #1 (District) through various contracts, briefly described below, among the United States Department of Interior-Bureau of Reclamation, the Lower Valley Water District (LVWD), and the City of El Paso, through EPWater.

In a full allocation year, EPWater is currently entitled to receive approximately 27,725.60 acre feet (AF) of District water under two contracts titled the "1941 Contract" and the "1962 Contract". The 1941 Contract authorizes EPWater to purchase up to 2,000 acres of water rights land and to receive the water appurtenant to such land. The 1962 Contract authorizes EPWater to lease the water rights from residential land tracts inside the city limits and to receive the annual water allotment up to a maximum of 3.50 AF per acre. Under these two contracts, EPWater currently receives water based on its full land purchase authorization of 2,000 acres and 5,921.60 acres of leased water rights, whose terms range from 25 years to 75 years. During calendar year 2020, the cost of the water purchased from the District for the water associated with the land owned was composed of two parts; a land assessment fee of \$25 per acre, plus a water assessment fee of \$20 per AF. These two charges plus a one-time administrative fee of \$100 and an account service charge of \$12 per lease also applies to the water acquired through leases. EPWater also receives water rights associated with land owned and land leased totaling 4,236.10 acres within the LVWD. During a full allocation year, these LVWD water rights are equivalent to 16,944.40 AF worth of raw surface water.

In April of 2001, EPWater executed a contract titled "2001 Implementing Third Party Contract" (ITPC) which allows EPWater to purchase up to 28,116 AF of District water, and as little as zero AF, based on the District's annual water allotment. EPWater currently owns a total 3,176.81 acres of water rights land. Under the terms of the ITPC (as amended March 2010), EPWater pays \$15 per AF in the initial year of the contract for water allotted to EPWater owned acreage in excess of 2,000 acres, up to a 2,250 acre maximum. This price is adjusted annually by the "Consumer Price Index-All Urban Consumers, All Items". For all other water made available by the District under this contract, EPWater pays \$193.50 per AF for the calendar year commencing January 1, 2001, escalating to \$260 per AF for the calendar year commencing January 1, 2010. In March of 2010, the PSB and the District executed a First Amendment to the ITPC in which the parties agreed to increase said price by the CPI starting on January 1, 2013, with the price for the 2011 and 2012 calendar years set a \$260 per AF. This amendment also increased the quantity of water allotted pursuant to PSB owned acreage in excess of 3,000 acres to 3,250 acres.

Under the terms of the ITPC, in any year when the Directors of the District determine that the annual water allotment is two AF or greater, then for each AF of usable sewage effluent discharged by EPWater from the Haskell R. Street Wastewater Treatment Plant into the American Canal, the District allows the City a credit against any charges of the District equal to the current year's price per AF multiplied by one-half. The maximum allowable credit for usable sewage effluent for any given year is 15,000 AF.

In addition to the price of District water, EPWater pays the federal revenue component on all District water delivered to EPWater. This federal revenue component is \$5 per AF or 5% of current year's contract price of the water, whichever is greater. In calendar year 2020, EPWater received an allotment of 4.00 AF per acre of surface water and treated 37,004.00 AF of this water for distribution to its customers.

This note is intended to summarize major components of the contracts; however, it is recommended that the contracts be reviewed, in their entirety, by interested parties.

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24. CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS AND CONTINGENCIES

Through the ordinary course of its operations, EPWater becomes subject to various claims and litigation. As of the date of these financial statements, EPWater was named in various legal actions. To the extent the outcome of such litigation is determined to result in probable loss to the EPWater, such loss is accrued in the financial statements. However, as of February 28, 2021, no amounts have been accrued because legal counsel has not determined that the litigation will result in a probable loss to EPWater since the outcome cannot be determined at this time. Management and legal counsel are of the opinion that settlement of these claims and pending litigation will not have a materially adverse effect on EPWater's financial statements.

EPWater has received federal and state financial assistance for specific purposes that are subject to review and audit by the grantor agencies. Although management believes compliance with grant guidelines is adhered to, grantor audits could result in requests for reimbursement of expenditures determined to be disallowed. Management believes such disallowances, if any, will be immaterial.

EPWater has ongoing construction projects under non-cancelable contracts. At February 28, 2021 and February 29, 2020, the Water and Wastewater Utility had appropriations and estimated commitments for services yet to be performed that totaled \$238,944,032 and \$209,195,802, respectively. At February 28, 2021 and February 29, 2020, the Municipal Drainage Utility had appropriations and estimated commitments for services yet to be performed totaling \$18,986,399 and \$29,080,912, respectively.

25. RELATED PARTY TRANSACTIONS WITH CITY OF EL PASO

From time to time, EPWater may enter into transactions with related parties through the normal course of business. If a Board member has a conflict of interest, proper documentation is completed and he/she is required to abstain from any discussion or voting regarding the matter.

The Public Service Board - El Paso Water Utilities makes payments to the City of El Paso based upon a percentage of water sales. In addition, EPWater acts as a billing and collecting agent for environmental services for the City. The following is a summary of those transactions:

	2021	2020
Revenues from City:		
Water and Wastewater Sales	\$ 7,303,688	\$ 6,990,096
Billing and Collecting Agent fees	937,308	926,507
Drainage fees	475,894	472,985
Expenses to City:		
10% of Water Sales	16,792,419	15,096,009
5% on gain on sale of land	57,290	346,386
Interest paid on garbage collection fees	16,340	132,469
Franchise fee	6,550,000	3,469,911
Receivable:		
Accounts Receivable from City	8,896,132	9,225,627
Payable:		
Garbage collections fees payable to City	10,219,233	6,749,037
10% of water sales payable to City	912,592	871,306
Franchise fee payable to City	545,832	205,952
Property and health insurance payable to City	46,814	178,753
City projects and other expenses payable to City	2,330,514	909,808

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26. FRANCHISE FEE DUE TO THE CITY OF EL PASO

Effective September 1, 2014 through February 28, 2021, City Council established a franchise fee to be paid by EPWater to compensate the City of El Paso for the use of city streets and rights of way for utility lines and wear and tear on City streets in a total amount of Three Million Five Hundred Fifty Thousand and No/100 Dollars (\$3,550,000). Beginning March 1, 2020 the fee increased to Six Million Five Hundred Fifty Thousand and No/100 Dollars (\$6,550,000). For fiscal year ended February 28, 2021, \$6,550,000 has been billed of which \$6,004,168 has been paid to the City of El Paso. For fiscal year ended February 29, 2020, \$3,469,911 was billed of which \$3,263,959 was paid to the City of El Paso.

27. RESTRICTED NET POSITION

Amounts have been restricted for construction projects and for payment of bonded debt.

28. CUSTOMER UTILITY ASSISTANCE

On May 11, 2020, the City Council approved a plan for distributing \$119 million of Coronavirus Relief Funds (CRF) as follows: Public Health and Safety Response \$84.2 million, Community Response and Recovery Programs \$16.4 million, and Economic Response and Recovery Programs \$18.4 million. The City provided some CRF to EPWater as part of a utility assistance program to assist those impacted by COVID-19. As of February 28, 2021, eligible EPWater customers received \$473,817 in assistance for their past due EPWater bills.

29. NEW ACCOUNTING PRONOUNCEMENTS

GASB Statement No. 95, *Postponement of the Effective Dates of Certain Authoritative Guidance*, postponed the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, and later. Based upon this, the following statements that would impact EPWater are postponed until the effective dates as prescribed by GASB Statement No. 95:

- Statement 87 and Implementation Guide 2019-3 - fiscal years beginning after June 15, 2021, and all reporting periods thereafter
- Statement 91 - reporting periods beginning after December 15, 2021
- Statement 92 - reporting periods beginning after June 15, 2021
- Statement 93, paragraphs 13 and 14 - fiscal years beginning after June 15, 2021, and all reporting periods thereafter

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29. NEW ACCOUNTING PRONOUNCEMENTS (Continued)

EPWater has not completed the process of evaluating the impact on its financial position that will result from adopting the following Governmental Accounting Standards Board (GASB) Statements:

- No. 87, *Leases*, effective for fiscal years beginning after June 15, 2021. GASB No. 87 requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases.
- No. 91, *Conduit Debt Obligations*, effective for periods beginning after December 15, 2021. GASB No. 91 requires issuers to disclose general information about their conduit debt obligations.
- No. 92, *Omnibus*, effective for periods beginning after June 15, 2021. GASB No. 92 enhances comparability in accounting and financial reporting and improves the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements.
- No. 93, *Replacement of Interbank Offered Rates*, with exception of paragraphs 11b, 13 and 14, effective for reporting periods beginning after June 15, 2020. The requirement of 11b is effective for reporting periods ending after December 31, 2021. The requirements in paragraphs 13 and 14 are effective for fiscal years beginning after June 15, 2021, and all reporting periods thereafter. GASB No. 93 addresses accounting and financial implications that result from the replacement of an interbank offered rate.
- No. 94, *Public-Private and Public-Public Partnerships and Availability Arrangements*, effective for periods beginning after June 15, 2022. GASB No. 94 improves financial reporting by addressing issues related to public private and public-public partnership arrangements (PPPs) as well as availability payment arrangements (APAs).
- No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for IRS Code Section 457 Deferred Compensation Plans*, effective for periods beginning after June 15, 2021. GASB No. 97 provides specific guidance related to (1) reporting of fiduciary component units that perform duties of a governing board; (2) narrows applicability of certain requirements from GASB No. 84 related to defined benefit pension and OPEB plans and; (3) specific guidance for Internal Revenue Code Section 457 plans that meet the definition of a pension plan and for benefits provided through those plans.

PUBLIC SERVICE BOARD - EL PASO WATER UTILITIES
A COMPONENT UNIT OF THE CITY OF EL PASO

NOTES TO FINANCIAL STATEMENTS

February 28, 2021 and February 29, 2020

30. SUBSEQUENT EVENTS

On April 1, 2021, the Public Service Board - El Paso Water Utilities closed on \$8,945,000 in Municipal Drainage Utility System Revenue Bonds, Taxable Series 2021 through a private placement with Alliance Bank with an average interest rate of 1.60%, to refund \$8,550,000 in Municipal Drainage Utility System Revenue Bonds, Series 2012 with an average interest rate of 3.54%.

On April 7, 2021, the Public Service Board - El Paso Water Utilities closed on \$76,310,000 in Water and Sewer System Revenue Bonds, Taxable Series 2021A with an average interest rate of 1.70% to refund \$34,705,000 of Water and Sewer System Revenue Bonds, Series 2014 with an average interest rate of 4.76% and \$32,035,000 of Water and Sewer System Revenue Bonds, Series 2015 with an average interest rate of 4.63%.

On April 8, 2021, the Public Service Board - El Paso Water Utilities closed on \$35,490,000 in Water and Sewer System Revenue Bonds, Series 2021 with an average interest rate of 3.18%, to refund \$40,000,000 of Water and Sewer Commercial Paper Notes with an average interest rate of 0.08%.

On April 8, 2021, the Public Service Board - El Paso Water Utilities closed on \$13,330,000 in Municipal Drainage Utility System Revenue Bonds, Series 2021A with an average interest rate of 3.29%, to refund \$15,000,000 in Municipal Drainage Revolving Notes with an average interest rate of 1.04%.

On April 14, 2021, the Public Service Board - El Paso Water Utilities approved an Advanced Funding Agreement with Texas Department of Transportation (TXDOT) to relocate water infrastructure as part of TXDOT's Loop 375 expansion from Montana Avenue to Spur 601. El Paso Water Utilities is responsible for the estimated cost to relocate the facilities in the amount of \$15,826,317, of which \$417,815 is eligible for reimbursement. The remaining amount of \$15,408,502 will be due in three equal annual installments in the amount of \$5,136,167 beginning on March 1, 2022 and each subsequent year thereafter.

On June 30, 2021, the Public Service Board - El Paso Water Utilities closed on the purchase of the Esperanza Water Service Company water system for \$1,700,000 plus closing costs of \$1,828. The Esperanza System purchase includes a groundwater lease with the State of Texas General Land Office (GLO). EPWater will provide retail water service for approximately 287 customers of this system.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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June 7, 2022

Norton Rose Fulbright US LLP
2200 Ross Avenue, Suite 3600
Dallas, Texas 75201-7932
United States

Tel +1 214 855 8000
Fax +1 214 855 8200
nortonrosefulbright.com

IN REGARD to the authorization and issuance of the “City of El Paso, Texas, Municipal Drainage Utility System Revenue Refunding Bonds, Series 2022A,” dated May 15, 2022, in the principal amount of \$23,750,000 (the “Bonds”), we have examined into their issuance by the City of El Paso, Texas (the “City”), solely to express legal opinions as to the validity of the Bonds, the defeasance and discharge of the City’s outstanding obligations being refunded by the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on March 1 in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the “Bond Ordinance” and, jointly with the Pricing Certificate, the “Ordinance”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Ordinance, a sufficiency certificate of Bank of America, N.A., as paying agent for the Refunded Revolving Notes (as defined in the Ordinance), and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City, and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

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

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Ordinance, are valid, legally binding and enforceable obligations of the City and, together with certain outstanding parity lien revenue bonds of the City, are payable solely from and equally and ratably secured by a first lien on and pledge of the Net Revenues (as defined in the Bond Ordinance) of the City’s Municipal Drainage Utility System, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with the general principles of equity.

Page 2 of Legal Opinion of Norton Rose Fulbright US LLP

Re: "City of El Paso, Texas, Municipal Drainage Utility System Revenue Refunding Bonds, Series 2022A"

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

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

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

APPENDIX D

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

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A Hilltop Holdings Company.

