

**CITY OF DENTON, TEXAS
VOLUNTARY EVENT NOTICE**

This filing is made voluntarily by the City of Denton, Texas (“Denton” or the “City”), without intention to provide any update to this filing or its subject matter or make similar voluntary filings in the future. Any obligation to do so now or in the future is expressly disclaimed.

Background

Most of Texas, including the Denton area, began experiencing severe winter weather, including snowstorms and historical low temperatures, beginning on Saturday, 2/15/2021, and continuing through the date of this notice. On February 12, 2021, the Governor of Texas declared a state of disaster for all counties in Texas, including Denton County in which the City of Denton is located. On February 14, 2021, the President of the United States made an emergency declaration for the State of Texas, and on February 15, 2021, the Mayor of Denton made a declaration of emergency for the City of Denton. Due to the winter weather emergency, energy demand is far exceeding the generation available across the State of Texas. Energy prices have increased to unprecedented levels, with electric power market prices over 10,000% higher in mid-February 2021 as compared to the same period in 2020. The energy price increases have had considerable impact on the City’s electric utility system, Denton Municipal Electric (“DME” or “Electric”). Denton’s power supply resources, including the Denton Energy Center (“DEC”), which is the City’s natural gas fueled electric power generation facility, have been adversely impacted by the winter weather emergency. To ensure the greatest possible supply to meet customer demand through the emergency, DME has purchased necessary power supply from the Electric Reliability Council of Texas (“ERCOT”) day ahead and real time markets.

As shown in the table below, the City has already purchased approximately \$207 million of energy from the ERCOT market over the past four days (2/15/2021 through 2/18/2021) and anticipates a six-day total approaching \$300 million. These prices are unparalleled for the City, and the four-day total far exceeds typical costs for an entire year for the City. In FY2019, electric power purchase expenses were \$97,075,122 and \$63,764,110 in FY2020. The historically high costs have been reduced by DEC gross margin sales to ERCOT in excess of \$35 million while operational.

ERCOT Daily Payments 2/15/2021 - 2/18/2021 (Includes day ahead purchases)*	
For Tuesday, 2/16	\$27,000,000
For Wednesday, 2/17	\$75,000,000
For Thursday, 2/18	\$60,000,000
For Friday, 2/19	\$45,000,000
	\$207,000,000

*approximate; unaudited

While the City has available cash to fund the purchases through Friday (2/19/2021), available cash may not be available for continued purchases through next week. Next week's funding needs are still unknown but anticipated to be substantial.

As of 2/14/2021, the Electric Fund balance was approximately \$105 million. Prior to the winter weather, the Electric Fund was considered fully funded in accordance with the City's fund balance policy, which provides for a minimum fund balance of \$48.5 million, and substantial to meet unforeseen operational needs. However, due to the factors outlined above the Electric Fund balance is not adequate to meet the current cash funding requirements as well as future needs. DME does not have the available cash needed to continue purchasing power at the current market rates.

Mitigation Efforts

City staff evaluated all options to make available cash necessary for power expenses. Staff considered relying solely on interfund transfers/loans from the Water Utility, Wastewater Utility, Solid Waste Utility, and General Funds to fund Electric's short-term cash requirements, which is allowed by the City's Debt Policy. However, due to the projected needs, the City determined that there is not adequate funding in the other Utility Funds and the General Fund without falling below minimum reserve levels in each fund. Finance staff also analyzed the Utilities Capital Program to determine if the City could debt fund projects that are currently revenue funded to make cash available for Electric. However, despite combining these two approaches, the City determined that cash flow needs required for Electric to continue purchasing power through next week may not be met.

Another possible mitigation strategy included increasing outages to customers beyond the ERCOT blackout requirements for the Denton area. This option would leave Denton's ratepayers without electricity but may reduce costs of purchasing power from ERCOT. It is not possible, however, for the City to determine exactly how much expense could be avoided given the swings in pricing. Regardless, increasing outages alone will not eliminate the need for additional financing, only reduce the funding necessary. The City is not considering this option at this time due to concerns regarding the public health and safety of Denton's residents and ratepayers in exercising this option.

Contemplated Plan

To meet immediate cash flow needs for electric power purchases, the City has initiated the issuance of \$100 million of commercial paper notes through the Utility System Revenue Extendable Commercial Paper Financing Program established by the City on February 2, 2021. The City anticipates that funding may be available for the City's use as early as the end of day Friday, 2/19/2021. The commercial paper notes may be "rolled" by the City from time to time with new commercial paper notes under the program, or the City may refund the notes with long-term bonds, allowing the costs to be recovered over multiple years instead of realizing the substantial cost in the current fiscal year, if the City determines that would be in its best interests.

The City is also actively considering amending the Utility System Revenue Extendable Commercial Paper Financing Program from a maximum amount of \$100 million to \$300 million to provide additional capacity for additional electric power purchases and for other authorized purposes under the program.

The electric power supply restrictions resulting from the winter weather emergency is ongoing, and its dynamic nature leads to uncertainties, including the timing on the ultimate resolution of the various issues affecting the electric power supply. The City cannot determine at this time the impact on the City's financial condition and/or operations, or the availability of assistance from federal or state aid.

This 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. All forward-looking statements included herein 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. Readers are not to place undue reliance on the forward-looking statements, which speak only as of the date hereof.

The publication of this statement does not constitute or imply any representation (i) that the foregoing is material to investors, (ii) regarding any other financial, operating or other information about the City or its debt obligations or (iii) that no other circumstances or events have occurred or that no other information exists concerning the City or its debt obligations which may have a bearing on the financial condition of the City, the security for its debt obligations or an investor's decision to buy, sell or hold any debt obligations.

February 18, 2021