

PRELIMINARY OFFICIAL STATEMENT

Dated August __, 2018

Ratings:
Moody's: "___"
S&P: "___"
(See "OTHER INFORMATION -
Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS – TAX EXEMPTION" herein, including the alternative minimum tax on corporations.



\$11,340,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris County)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: September 1, 2018

Due: February 15 as shown on page 2 hereof

PAYMENT TERMS . . . Interest on the \$11,340,000* City of League City, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2018 (the "Certificates") will accrue from the date of initial delivery to the purchaser thereof (the "Delivery Date") and will be payable February 15 and August 15 of each year commencing February 15, 2019, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is the Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE CERTIFICATES - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Act"), as amended, and constitute direct obligations of the City of League City, Texas (the "City"), payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited subordinate pledge of surplus net revenues of the City's Waterworks and Sewer System in an amount not to exceed \$10,000, as provided in the ordinance to be passed by City Council on August 14, 2018, authorizing the Certificates (the "Ordinance") (see "THE CERTIFICATES - AUTHORITY FOR ISSUANCE" and "SECURITY AND SOURCE OF PAYMENT").

PURPOSE . . . Proceeds from the sale of the Certificates will be used to fund acquisition, design, construction, equipping, and improvement of (1) streets, roadways, and traffic improvements and related drainage improvements, and for the purchase of materials, supplies, equipment, machinery, buildings, land, and rights-of-way related thereto; (2) a new animal shelter; (3) public safety facilities including specifically Fire Station #6; and (4) certain other costs related and incidental thereto and the issuance costs of the Certificates.

MATURITY SCHEDULE

See page 2

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").

MANDATORY SINKING FUND REDEMPTION . . . In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule on the inside cover page hereof are combined to create Term Certificates, each such Term Certificate shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Certificate and continuing on February 15 in each year thereafter until the stated maturity date of that Term Certificate, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule above. Term Certificates to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from and among the Term Certificates then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Certificates of the maturity then subject to redemption which have been purchased and canceled by the City or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the initial purchaser(s) (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Houston, Texas (see APPENDIX C - "FORM OF BOND COUNSEL'S OPINION").

DELIVERY . . . It is expected that the Certificates will be available for delivery through The Depository Trust Company on September 12, 2018.

BIDS DUE ON THE CERTIFICATES TUESDAY, AUGUST 14, 2018, AT 10:00 A.M. CDT

* Preliminary, subject to change.

\$11,340,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris County)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2018

MATURITY SCHEDULE*

CUSIP PREFIX: 521769 ⁽²⁾

Principal Amount*	Maturity 2-15	Interest Rate	Price or Yield ⁽¹⁾	CUSIP Suffix ⁽²⁾	Principal Amount*	Maturity 2-15	Interest Rate	Price or Yield ⁽¹⁾	CUSIP Suffix ⁽²⁾
\$ 565,000	2019				\$ 565,000	2029 ⁽³⁾			
570,000	2020				565,000	2030 ⁽³⁾			
570,000	2021				565,000	2031 ⁽³⁾			
570,000	2022				565,000	2032 ⁽³⁾			
570,000	2023				565,000	2033 ⁽³⁾			
570,000	2024				565,000	2034 ⁽³⁾			
570,000	2025				565,000	2035 ⁽³⁾			
570,000	2026				565,000	2036 ⁽³⁾			
570,000	2027				565,000	2037 ⁽³⁾			
565,000	2028 ⁽³⁾				565,000	2038 ⁽³⁾			

- (1) The initial price or yield is furnished by the Initial Purchaser(s) and represents the initial offering price or yield to the public, which may be changed by the Initial Purchaser(s) at any time.
- (2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (3) The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2028, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption.

* Preliminary, subject to change.

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule"), this document as the same may be supplemented or corrected by the City from time-to-time, may be treated as an Official Statement with respect to the Certificates described herein "deemed final" by the City as of the date hereof (or of any such supplement or correction) except for the omission of no more than the information provided by subsection (b)(1) of the Rule.

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

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

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

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

None of the City, the Financial Advisors, or the Initial Purchasers make any representation or warranty with respect to the information contained in the Official Statement regarding the Depository Trust Company ("DTC") or its Book-Entry-Only System as described under "THE CERTIFICATES- BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC.

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The cover page hereof, this page, the appendices included herein and any addenda, 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 Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE CITY	The City of League City, Texas, is a political subdivision and municipal corporation of the State, located in Galveston County and Harris County, Texas. The City covers approximately 53 square miles (see "INTRODUCTION - DESCRIPTION OF CITY").
THE CERTIFICATES	The Certificates are issued as \$11,340,000* Combination Tax and Revenue Certificates of Obligation, Series 2018. The Certificates are issued as serial certificates maturing February 15, 2019, through February 15, 2038, unless the Initial Purchaser designates one or more maturities as a Term Certificate (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES").
PAYMENT OF INTEREST	Interest on the Certificates accrues from the Delivery Date, and is payable February 15, 2019, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE CERTIFICATES - DESCRIPTION OF THE CERTIFICATES").
AUTHORITY FOR ISSUANCE	The Certificates are issued pursuant to the general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Certificate of Obligation Act of 1971"), as amended, and an Ordinance passed by the City Council of the City (see "THE CERTIFICATES - AUTHORITY FOR ISSUANCE").
SECURITY FOR THE CERTIFICATES	The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited subordinate pledge of surplus net revenues of the City's Waterworks and Sewer System in an amount not to exceed \$10,000 (see "THE CERTIFICATES - SECURITY AND SOURCE OF PAYMENT").
REDEMPTION	The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2028, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption (see "THE CERTIFICATES - OPTIONAL REDEMPTION").
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax on corporations.
USE OF PROCEEDS	Proceeds from the sale of the Certificates will be used to fund acquisition, design, construction, equipping, and improvement of (1) streets, roadways, and traffic improvements and related drainage improvements, and for the purchase of materials, supplies, equipment, machinery, buildings, land, and rights-of-way related thereto; (2) a new animal shelter; (3) public safety facilities including specifically Fire Station #6; and (4) certain other costs related and incidental thereto and the issuance costs of the Certificates.
RATINGS	The Certificates and presently outstanding general obligation debt of the City are rated "_____" by Moody's Investors Service, Inc. ("Moody's") and "_____" by S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P") (see "OTHER INFORMATION - RATINGS").
BOOK-ENTRY-ONLY SYSTEM	The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Certificates will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES - BOOK-ENTRY-ONLY SYSTEM").
PAYMENT RECORD	The City has never defaulted in payment of its general obligation tax debt.

* Preliminary, subject to change.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Per Capita Taxable Assessed Valuation	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Per Capita G.O. Tax Debt	Ratio Tax Debt to Taxable Assessed Valuation	Total Tax Collections as a Percent of Total Levy
2015	96,209	\$ 6,021,897,168	\$ 62,592	\$ 197,450,000	\$ 2,052	3.28%	99.90%
2016	100,053	6,465,104,039	64,617	227,380,000	2,273	3.52%	99.65%
2017	102,635	7,123,373,545	69,405	232,735,000	2,268	3.27%	99.53%
2018	104,857	7,825,345,348	74,629	229,910,000 ⁽⁴⁾	2,193	2.94%	97.57% ⁽⁵⁾
2019	104,857	8,106,615,351 ⁽⁶⁾	77,311				

(1) Population estimated by the City.

(2) As reported by the Galveston Central and Harris County Appraisal District, subject to adjustments throughout the year.

(3) Includes self-supporting debt.

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

(5) Collections through June 1, 2018.

(6) 2019 Taxable Assessed Valuation is comprised of certified values as provided by the Galveston Central Appraisal District as of July 21, 2018 and preliminary estimate of value as provided by Harris County Appraisal District on April 30, 2018.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30				
	2017	2016	2015	2014	2013
Total Revenue	\$ 64,902,711	\$ 59,712,448	\$ 56,372,889	\$ 50,913,480	\$ 47,476,212
Total Expenditures	57,853,807	54,870,478	51,727,890	49,607,270	47,561,486
Other Sources (Uses)	(11,849,068)	1,160,100	1,451,748	(1,325,979)	91,474
Beginning Fund Balance	28,442,167	22,440,097	16,343,350	16,363,119	16,356,919
Increase (decrease) in Fund Balance	(4,800,164)	6,002,070	6,096,747	(19,769)	6,200
Ending Fund Balance	\$ 23,642,003	\$ 28,442,167	\$ 22,440,097	\$ 16,343,350	\$ 16,363,119

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Title	Length of Service	Term Expires November	Occupation
Pat Hallisey	Mayor	2 Years	2018	Retired
Dan Becker	Council Position 1	7 Years	2018	Engineer
Hank Dugie	Council Position 2	2 Years	2018	Real Estate, Self Employed
Larry Millican	Council Position 3	2 Years	2020	Real Estate
Todd Kinsey	Council Position 4	6 Years	2020	Freelance Writer
Greg Gripon	Council Position 5	2 Years	2020	Business Owner
Keith Gross	Council Position 6	3 Years	2018	Attorney
Nick Long	Council Position 7	3 Years	2018	Insurance Consultant

SELECTED ADMINISTRATIVE STAFF

Name	Position	Service To City	Total Governmental Service
John Baumgartner	City Manager	6 Years	30 Years
Ogden "Bo" Bass	Assistant City Manager	1 Year	37 Years
Michael Kramm	Assistant City Manager	24 Years	29 Years
Allena Portis	Director of Finance	1 Year	17 Years
Diana Stapp	City Secretary	15 Years	15 Years
Nghiem Doan	City Attorney	3 Years	19 Years

CONSULTANTS AND ADVISORS

Auditors Weaver and Tidwell, L.L.P.
Houston, Texas

Bond CounselNorton Rose Fulbright US LLP
Houston, Texas

Financial Advisor.....Hilltop Securities Inc.
Houston, Texas

For additional information regarding the City, please contact:

Allena Portis City of League City Director of Finance 300 West Walker League City, Texas 77573 (281)554-1359 Phone (281)554-1354 Fax	or	Joe Morrow Financial Advisor Hilltop Securities Inc. 700 Milam, Suite 500 Houston, Texas 77008 (713) 651-9850 Phone (713) 654-8658 Fax
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PRELIMINARY OFFICIAL STATEMENT
RELATING TO
\$11,340,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris Counties)
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$11,340,000* City of League City, Texas (the "City"), Combination Tax and Revenue Certificates of Obligation, Series 2018 (the "Certificates"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the applicable ordinances approving the Certificates, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Certificates 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 Advisors, Hilltop Securities Inc., Houston, Texas.

DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State of Texas (the "State"), duly organized under the laws of the State, including the City's Home Rule Charter, and located in Galveston and Harris counties. The City was incorporated in 1961, and first adopted its Home Rule Charter on March 27, 1962. The City operates with a City Council comprised of the Mayor and seven Councilmembers serving four year terms with biennial elections. By virtue of municipal elections conducted on May 8, 2010, the City's Home Rule Charter was amended to adopt the Council-Manager form of government. A City Manager now serves as the Chief Administrative and Executive Officer of the City, appointed by the City Council to administer all municipal affairs of the City. Some of the services that the City provides are public safety, highways and streets, water and sanitary sewer utilities, culture-recreation, planning and zoning, and general administrative services. The 2010 Census population for the City was 83,560, while the estimated 2018 population is 104,857. The City covers approximately 53 square miles.

HURRICANE HARVEY

The Houston area sustained widespread rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The center of the City is located approximately 5 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms and other tropical disturbances. According to the City, many areas of the City including residential, commercial and city owned facilities were impacted by major water flooding. The City established the Hurricane Harvey Fund in September 2017 with \$3 million appropriated by City Council and transferred from the City's General Fund. The City estimates \$11 million in total damage to City property, of which a large portion of expenses are expected to be reimbursed through insurance and FEMA.

The City has also incurred expenses for debris removal. As of July 2018, the City has received \$1.2 million from FEMA and anticipates a final payment of \$1.9 million from FEMA for debris removal, which would cover 90% of this expense. The State of Texas has paid for half of the remaining 10% and the City anticipates receiving the other half once final debris numbers are submitted. According to the Department of Public Safety, 2,978 homes were affected by the flood while 3,126 homes experienced minor damage and 1,276 homes experienced major damage. Further, according to the City, 31 commercial properties experienced flooding or other significant damage.

* Preliminary, subject to change.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated September 1, 2018, and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2019. The definitive Certificates 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 ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Certificates will be made to the owners thereof. Principal of, premium, if any, and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE CERTIFICATES – BOOK-ENTRY-ONLY SYSTEM" herein).

AUTHORITY FOR ISSUANCE

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the "Act"), as amended, and an ordinance (the "Ordinance") passed by the City Council.

SECURITY AND SOURCE OF PAYMENT

All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations payable in whole or in part from ad valorem taxes, which tax must be levied within the limits prescribed by law. Additionally, the Certificates are payable from and secured by a limited subordinate pledge of surplus net revenues of the City's Waterworks and Sewer System in an amount not to exceed \$10,000, as provided in the Ordinance.

TAX RATE LIMITATION

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes.

Article VIII, Section 2A of the City's Home Rule Charter limits its tax rate to \$0.60 per \$100 of market value for the operation and maintenance of the City services and \$2.10 per \$100 Taxable Assessed Valuation for all City purposes; including the payment of debt service.

Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance. See "TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY" for the City's current tax rate and historical tax rate, levy, and collection history.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Certificates having stated maturities on and after February 15, 2028, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2027, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. The optional redemption of Certificates may be conditioned upon issuance on or prior to the redemption date of one or more series of refunding bonds or other obligations to pay the redemption price of the Certificates to be redeemed. If less than all of the Certificates are to be redeemed, the City may select the maturities of such Certificates to be redeemed. If less than all the Certificates of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) shall determine by lot the Certificates, or portions thereof, within such maturity to be redeemed. If a Certificate (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Certificate or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION

In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule on the inside cover page are combined to create Term Certificates, each such Term Certificate shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Certificate and continuing on February 15 in each year thereafter until the stated maturity date of that Term Certificate, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the serial maturity schedule above. Term Certificates

to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from and among the Term Certificates then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Certificates of the maturity then subject to redemption which have been purchased and canceled by the City or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

NOTICE OF REDEMPTION

Not less than 30 days prior to a redemption date, the City shall cause a notice of redemption to be sent by United States Mail, first-class postage prepaid, in the name of the City and at the City's expense, by the Paying Agent/Registrar to each registered owner of a Certificate to be redeemed in whole or in part at the address of the Holder appearing on the Security Register at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the registered owner. All notices of redemption shall state:

- (1) the redemption date,
- (2) the redemption price (the "Redemption Price"),
- (3) the principal amount and identification (by City and Certificate name, CUSIP number, stated maturity, interest rate, dated date, and, in the case of partial redemption. The Certificate numbers and respective principal amounts) of Certificates to be redeemed,
- (4) that on the redemption date the redemption price of each of the Certificates to be redeemed will become due and payable and that interest thereon shall cease to accrue from and after said date, and
- (5) that the Certificates to be redeemed are to be surrendered for payment of the redemption price at the place of payment, and the address of such place of payment.

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 CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY CERTIFICATES OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATES OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFEASANCE

Any Certificate is deemed paid and is no longer considered Outstanding within the meaning of the Ordinance when payment of the principal of and interest on such Certificate to the stated maturity thereof has been made or has been provided for by deposit with the Paying Agent/Registrar for such payment (or with any other bank or trust company which has agreed to hold the same for such purpose) (1) money sufficient to make such payment, (2) Governmental Obligations certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Governmental Obligations together so certified sufficient to make such payment, provided that all the expenses pertaining to the Certificates with respect to which such deposit is made have been paid or the payment thereof provided for to the satisfaction of the Paying Agent/Registrar (and to such other bank or trust company).

If such deposit is made with respect to some but not all of the Certificates then Outstanding, the City will designate the stated maturities of Certificates with respect to which such deposit is made. If such deposit is sufficient so to provide for the payment of the principal of and interest on some but not all outstanding Certificates of a particular Stated Maturity so designated, the Paying Agent/Registrar will select the outstanding Certificates of such Stated Maturity with respect to which such deposit is made by such random method as the Paying Agent/Registrar deems fair and appropriate and which may provide for the selection of portions of Certificates a denomination larger than \$5,000.

When a Certificate is deemed paid it is no longer entitled to the benefits of the Ordinance, except for the purposes of any such payment from such money or Governmental Obligations and for the provisions of the Ordinance relating to exchange and tax exemption.

Upon such deposit as described above, such Certificates are no longer regarded as outstanding or unpaid. The City has the option, to be reserved when the Certificates are discharged, to call for redemption at an earlier date those Certificates which previously have been discharged to their stated maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm bank and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

"Governmental Obligations" means (1) direct obligations of (including obligations issued or held in book entry form on the books of), or obligations the timely payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America, (2) obligations authorized under Texas law at the time of deposit for discharge and final payment of governmental obligations which, at the time of deposit, have been assigned ratings in the highest ratings category by a nationally recognized investment rating firm not less than AAA or its equivalent, but in the case of each of Clauses (1) and (2), only if such obligations may not be called for redemption prior to maturity.

BOOK-ENTRY-ONLY SYSTEM

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

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

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Certificates, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificates documents. For example, Beneficial Owners of

Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the register and request that copies of the notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Certificates 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 Certificates are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

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

Effect of Termination of BOOK-ENTRY-ONLY SYSTEM. In the event that the BOOK-ENTRY-ONLY SYSTEM of the Certificates is discontinued, printed Certificates will be issued to the DTC Participants or the holder, as the case may be, and such Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "CERTIFICATES – TRANSFER, EXCHANGE AND REGISTRATION" below.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar for the Certificates is the Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Certificates. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the United States of America or of any other State, authorized under such laws to exercise corporate trust power, and having a combined capital and surplus of at least \$10,000,000 subject to supervision or examination of a federal or state authority, registered as a transfer agent with the Securities and Exchange Commission. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION

Upon surrender for transfer of any Certificate at the place of payment, the City shall execute, and the Paying Agent/Registrar shall register and deliver, in the name of the designated transferee or transferees, one or more new Certificates of the same stated maturity, of any authorized denominations, and of a like aggregate principal amount. New Certificates registered, and delivered in an exchange or transfer will be delivered by the Paying Agent/Registrar at the place of payment or sent by United States mail at the registered owner's written request, risk, and expense.

At the option of the registered owner, Certificates may be exchanged for other Certificates of the same stated maturity, of any authorized denominations, and of like aggregate principal amount, upon surrender of the Certificates to be exchanged at the place of payment. Whenever any Certificates are so surrendered for exchange, the City shall execute, and the Paying Agent/Registrar shall register and deliver, the Certificates which the registered owner of Certificates making the exchange is entitled to receive.

All Certificates issued in any transfer or exchange of Certificates shall be delivered to the registered owners at the principal corporate trust office of the Paying Agent/Registrar or sent by United States Mail, first class, postage prepaid to the registered owners, and, upon the registration and delivery thereof, the same shall be the valid obligations of the City, evidencing the same obligation to pay, and entitled to the same benefits under the Ordinance, as the Certificates surrendered in such transfer or exchange.

Every Certificate presented or surrendered for transfer or exchange must be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed, by the registered owner thereof or his attorney duly authorized in writing.

No service charge may be made to the registered owner for any registration, transfer, or exchange of Certificates, but the City or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with any transfer or exchange of Certificates.

Neither the City nor the Paying Agent/Registrar is required (1) to transfer or exchange any Certificate during a period beginning 45 days prior to a redemption date and ending at the close of business on the day of mailing of a notice of redemption or (2) thereafter to transfer or exchange in whole or in part any Certificate so selected for redemption.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Certificates on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 10 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 Holder of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

CERTIFICATE HOLDERS' REMEDIES

The Ordinance does not establish specific events of default with respect to the Certificates or 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. If the City defaults in any payment due on the Certificates, or if the City defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinance, a registered owner is entitled to seek a writ of mandamus or mandatory injunction from a court of proper jurisdiction to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Certificates as they become due or to perform other material covenants, conditions or obligations contained in the Ordinance. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract; and Texas law provides that, following their approval by the Attorney General and issuance, the Certificates are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. Such rights are in addition to any other rights the registered owners of the Certificates may be provided by the laws of the State of Texas with respect to the Certificates.

The Texas legislature has not waived the City's sovereign immunity from a suit for money damages, and unless the facilities financed by the Certificates or their issuance is determined by a court to be for proprietary purposes holders of the Certificates may not be able to bring such a suit against the City for breach of the Ordinance covenants. 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.

Under Texas law there is no right to the acceleration of maturity of the Certificates upon the failure of the City to observe any covenant under the Ordinance.

The City may also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity, which has sought protection under Chapter 9.

Should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of another federal or state court); and, the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and may be limited by general principles of equity which permit the exercise of judicial discretion.

AMENDMENT TO THE ORDINANCE

The City may, without the consent of or notice to any registered owners, from time to time and at any time, amend the Ordinance in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the consent of registered owners holding a majority in aggregate principal amount of the Certificates, then Outstanding, amend, add to, or rescind any of the provisions of the Ordinance; provided that, without the consent of all registered owners of Outstanding Certificates, affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any such Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the place or places at or the coin or currency in which any such Certificate or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on any such Certificate, (2) give any preference to any Certificate over any other Certificate, (3) modify any of the provisions in the definition in the Ordinance of the term "Outstanding" or (4) reduce the aggregate principal amount of Certificates required for consent to any amendment, addition, or waiver.

The Ordinance constitutes a contract with the registered owners entered into upon the initial purchase of the Certificates, is binding on the City and its successors and assigns whether or not so expressed, and may not be amended or repealed by the City so long as any Certificate remains Outstanding except as permitted in this Section.

Any consent to any amendment hereof by the registered owner of any Certificate binds every future registered owner of the same Certificate and the registered owner of every Certificate issued upon transfer or in lieu thereof or in exchange therefor, in respect of anything done or suffered to be done by the City in reliance thereon, whether or not notation of such action is made upon such Certificate.

TAX INFORMATION

AD VALOREM TAX LAW

The appraisal of property within the City is the responsibility of the Galveston County Appraisal District and Harris County Appraisal District (collectively, the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Tax Code (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the less of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the preceding year plus (b) the appraised value of the property for the preceding year plus (c) the market value of all new improvements to the property. A residence homestead is valued solely on the basis of its value as a residence homestead, regardless of whether residential use by the owner is considered to be the highest and best use of the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of a category of property within the City and other certain matters by petition filed with the Appraisal Review Board.

Reference is made to the Property Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

The governing body of a political subdivision, at its option, may grant an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of

qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created.

State law mandates an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000. A disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

The governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repeated or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

"Freeport property" may be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods in transit." "Goods in transit" is defined as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. Local governmental entities, on a local option basis, may take official action to tax goods in transit by January 1 of the year preceding a tax year. A taxpayer may receive only one of the freeport exemptions or the goods in transit exemptions for items of personal property.

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

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

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE

The City Council must adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel), and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

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

PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1. Taxpayers who are 65 years of age or older or disabled may defer payment of their taxes without penalty until 181 days after the person no longer owns the property or occupies it as a residence homestead.

PENALTIES AND INTEREST

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

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

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of \$45,000; the disabled are also granted an exemption of \$45,000.

The City has granted an additional exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000. See Table 1 for a listing of the amounts of the exemptions described above.

Pursuant to Article VIII, Section I-b of the Constitution of the State of Texas, the City has granted an ad valorem tax freeze on residence homesteads of the disabled and of individuals 65 years of age or older. Ad valorem tax year 2006 serves as the base valuation year. The freeze loss for tax year 2015, 2016 and 2017 was \$38,422, \$131,883 and \$382,426, respectively.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads.

The City does not tax nonbusiness personal property;

Galveston County collects taxes for the City.

The City does permit split payments, and does not permit discounts. The City does not tax freeport property

The City has adopted a tax abatement policy.

380 AGREEMENTS

On October 10, 2014, the City entered into a Chapter 380 Economic Development Incentives Grant Agreement in order to encourage economic development within the City. The City will provide annual payments consisting of sales tax and property tax associated with the development through December 31, 2030 or totaling \$9,346,000, whichever occurs first.

The City has also entered into six additional performance based 380 agreements with expiration dates ranging from March 2016 to December 2022 under which the City has outstanding payments in an aggregate total of approximately \$1,000,000 over the respective terms.

TAX ABATEMENT POLICY

The City may grant up to 100% abatement of property taxes on buildings, fixed machinery and business personal property for up to ten years. Minimum qualifications for tax abatement are \$1 million in real property improvements and 15 new jobs created. Up to 50% tax abatement may be granted for eligible projects with \$500,000 to \$1 million in improvements and 7 jobs created.

Galveston County may join The City on projects that meet the county's eligibility requirements. Certain manufacturing or research and development corporations may qualify for reduction in school district property taxes under the Texas Economic Development Act. This incentive program was created in order to provide companies making a substantial capital investment to receive tax credits from participating local school districts.

The tax abatement on the 2017 assessed valuation is \$0.

TAX INCREMENT FINANCING ZONE

The City has four tax increment reinvestment zones that are currently in existence. Tax increments have been used to finance the development of major infrastructure within the City.

The Tax Increment Reinvestment Zone No. 2 – Victory Lakes ("TIRZ No. 2") was created with a base year of January 1, 1999 and encompasses an area of approximately 540 acres. The zone was enlarged in 2006 to include an additional 102 acres. Tax increments generated within the zone will be used for capital improvements including streets, drainage, and water and sewer infrastructure.

The Tax Increment Reinvestment Zone No. 3 – Centerpointe ("TIRZ No. 3") was created with a base year of January 1, 2000 and encompasses an area of approximately 352 acres. Tax increments generated within the zone will be used for capital improvements including streets, drainage, and water and sewer infrastructure.

The Tax Increment Reinvestment Zone No. 4 – Westwood ("TIRZ No. 4") was created with a base year of January 1, 2003 and encompasses an area of approximately 493 acres. Tax increments generated within the zone will be used for capital improvements including streets, drainage, and water and sewer infrastructure.

The Tax Increment Reinvestment Zone No. 5 – Downtown (TIRZ No. 5) was created with a base year of January 1, 2018 and encompasses an area of approximately 51.47 acres. The increments generated within the zone will be used for capital improvements including streets, drainage and water and sewer infrastructure.

The City participates at 100% for TIRZ No. 2, No. 3 and No. 5 and at 75% for TIRZ No. 4.

Incremental value created within the tax increment financing zones produces tax revenues which are not pledged to the repayment of the Certificates. The 2017 Taxable Assessed Value within the three existing zones is equal to \$650,692,562.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2018/2019 Market Valuation Established by Galveston Central and Harris County Appraisal Districts (excluding totally exempt property)	\$ 9,833,833,538
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Less Exemptions/Reductions at 100% Market Value:

Homestead Exemptions	\$ 1,243,785,670	
Veteran Homestead Exemptions	78,554,860	
Homestead Cap Adjustment	75,172,543	
Over 65	246,348,488	
Disabled Persons	22,020,561	
Freeport Exemptions	10,260,850	
Pollution	14,561	
Productivity Loss	51,060,654	1,727,218,187

2018/2019 Taxable Assessed Valuation ⁽¹⁾	\$ 8,106,615,351
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General Obligation Debt Payable from Ad Valorem Taxes (as of 6/1/2018)

General Obligation Refunding Bonds	\$ 85,215,000	
Combination Tax & Revenue Certificates of Obligation	133,470,000	
The Certificates	11,340,000 *	

Debt Payable from Ad Valorem Taxes	\$ 230,025,000
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Less: Self-Supporting Debt: ⁽²⁾	135,438,039
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Net Funded Debt Payable From Ad Valorem Taxes	\$ 94,586,961
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Interest and Sinking Fund Balance (as of 9/30/2017)	\$ 5,000,017
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Ratio Net General Obligation Debt to Taxable Assessed Valuation	1.17%
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2018 Estimated Population - 104,857
Per Capita Taxable Assessed Valuation - \$77,311
Per Capita Net General Obligation Funded Debt - \$902

* Preliminary, subject to change

(1) 2018/2019 Taxable Assessed Valuation is comprised of certified values as provided by the Galveston Central Appraisal District as of July 21, 2018 and preliminary estimate of value as provided by Harris County Appraisal District on April 30, 2018.

(2) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 11. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. Includes a portion of the Certificates.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

NOTE: Valuations shown are certified taxable assessed values reported by the Galveston Central and Harris County Appraisal Districts to the State Comptroller of Public Account as of January 1 of the preceding calendar year. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

Category	Fiscal Year Ended September 30,					
	2019		2018		2017	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real Residential, Single- Family	\$ 7,641,960,910	79.85%	\$ 7,371,641,880	79.95%	\$ 6,653,628,082	78.71%
Real, Residential, Multi-Family	387,279,220	4.05%	361,598,000	3.92%	315,632,964	3.73%
Real, Vacant Platted Lots/Tracts	161,629,205	1.69%	131,474,820	1.43%	159,350,990	1.89%
Real, Acreage (Land Only)	51,900,824	0.54%	54,271,910	0.59%	66,464,059	0.79%
Real, Farm and Ranch Improvements	50,772,190	0.53%	56,831,528	0.62%	51,009,212	0.60%
Real, Commercial and Industrial	784,130,146	8.19%	724,946,495	7.86%	655,239,644	7.75%
Real, Oil, Gas & Other Mineral Reserves	14,196.00	0.00%	-	0.00%	-	0.00%
Real and Intangible Personal, Utilities	109,011,364	1.14%	108,206,363	1.17%	101,968,248	1.21%
Tangible Personal, Business	321,177,401	3.36%	341,544,834	3.70%	382,953,376	4.53%
Tangible Personal, Other	6,009,187	0.06%	5,791,520	0.06%	5,711,116	0.07%
Real, Inventory	24,827,110	0.26%	31,555,699	0.34%	27,822,411	0.33%
Special Inventory	31,782,970	0.33%	31,883,988	0.35%	33,677,888	0.40%
Total Appraised Value Before Exemptions	\$ 9,570,494,724	100.00%	\$ 9,219,747,037	100.00%	\$ 8,453,457,990	100.00%
Less: Total Exemption/Reductions	1,727,218,187		1,824,948,467		1,563,361,741	
Value subject to ARB Hearing	263,338,814		-		-	
Plus: Adjustments Made after Certification ⁽¹⁾	-		430,546,778		233,277,296	
Taxable Assessed Value	<u>\$ 8,106,615,351</u>		<u>\$ 7,825,345,348</u>		<u>\$ 7,123,373,545</u>	

Category	Fiscal Year Ended September 30,			
	2016		2015	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 5,964,283,436	78.19%	\$ 5,239,216,190	78.42%
Real, Residential, Multi-Family	307,614,069	4.03%	248,307,326	3.72%
Real, Vacant Platted Lots/Tracts	133,763,635	1.75%	93,197,151	1.39%
Real, Acreage (Land Only)	112,578,417	1.48%	104,055,673	1.56%
Real, Farm and Ranch Improvements	7,321,170	0.10%	7,130,920	0.11%
Real, Commercial and Industrial	611,170,349	8.01%	518,939,768	7.77%
Real, Oil, Gas & Other Mineral Reserves	16,436	0.00%	10,417	0.00%
Real and Intangible Personal, Utilities	97,605,310	1.28%	85,242,301	1.28%
Tangible Personal, Business	316,412,159	4.15%	307,400,135	4.60%
Tangible Personal, Other	5,281,606	0.07%	5,097,336	0.08%
Real, Inventory	39,550,970	0.52%	45,817,448	0.69%
Special Inventory	31,940,770	0.42%	26,460,760	0.40%
Total Appraised Value Before Exemptions	\$ 7,627,538,327	100.00%	\$ 6,680,875,425	100.00%
Less: Total Exemption/Reductions	1,545,058,906		929,005,410	
Plus: Adjustments Made after Certification ⁽¹⁾	382,624,618		270,027,153	
Taxable Assessed Value	<u>\$ 6,465,104,039</u>		<u>\$ 6,021,897,168</u>	

(1) Supplemental values added after certification.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Net Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	G.O. Tax Debt Per Capita
2015	96,209	\$ 6,021,897,168	\$ 62,592	\$ 197,450,000	3.28%	\$ 2,052
2016	100,053	6,465,104,039	64,617	227,380,000	3.52%	2,273
2017	102,635	7,123,373,545	69,405	232,735,000	3.27%	2,268
2018	104,857	7,825,345,348	74,629	229,910,000 ⁽⁴⁾	2.94% ⁽⁴⁾	2,193 ⁽⁴⁾
2019	104,857	8,106,615,351 ⁽⁵⁾	77,311			

(1) Population estimated by the City.

(2) As reported by the Galveston Central and Harris County Appraisal District, subject to adjustments.

(3) Includes self-supporting debt.

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

(5) 2019 Taxable Assessed Valuation is comprised of certified values as provided by the Galveston Central Appraisal District as of July 21, 2018 and preliminary estimate of value as provided by Harris County Appraisal District on April 30, 2018.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year	Tax Year	Total Tax Rate	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years		Total Collections To Date	
				Amount	Percent of Levy	Amount	Amount	Amount	Percent of Levy
2014	2013	\$ 0.5970	\$ 34,334,632	\$ 34,061,842	99.21%	\$ 263,340	\$ 34,325,182		99.97%
2015	2014	0.5970	35,990,638	35,742,044	99.31%	212,196	35,954,240		99.90%
2016	2015	0.5735	37,134,046	36,919,979	99.42%	87,408	37,004,643		99.65%
2017	2016	0.5700	40,541,899	40,293,280	99.39%	58,400	40,351,680		99.53%
2018	2017	0.5650	43,848,492	42,782,594 ⁽¹⁾	97.57% ⁽¹⁾	N/A ⁽¹⁾	42,782,594 ⁽¹⁾		97.57% ⁽¹⁾

(1) Collections through June 1, 2018.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2017/2018 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Komatsu America Corp.	Equipment Rental	\$ 48,816,427	0.62%
Texas-New Mexico Power	Utility	48,361,059	0.62%
Amalfi & Sorrento Prop LLC	Developer	35,975,920	0.46%
Landmark at Emerson Park LLC	Apartments	31,379,010	0.40%
KC Watermark Apartments LLC	Apartments	25,776,160	0.33%
Inland America LC Victory Lakes LP	Developer	25,474,430	0.33%
Pure Walker Commons LLC	Apartments	24,910,640	0.32%
VR Fairways Holdings LP	Developer	23,898,600	0.31%
Strata Beacon LLC	Apartments	23,343,550	0.30%
TL II Apartments LLC	Apartments	22,769,700	0.29%
		<u>\$ 310,705,496</u>	<u>3.97%</u>

GENERAL OBLIGATION DEBT LIMITATION

No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter.

TABLE 6 - TAX ADEQUACY

Maximum Net Principal and Interest Requirements (2019).....	\$ 10,677,764 ⁽¹⁾
\$0.13730 Tax Rate at 96% Collection Produces	10,685,168
Average Net Principal and Interest Requirements on outstanding debt (2018-2020).....	\$ 10,360,726 ⁽¹⁾
\$0.13320 Tax Rate at 96% Collection Produces	10,366,091
Average Net Principal and Interest Requirements on outstanding debt (2021-2038).....	\$ 5,602,538 ⁽¹⁾
\$0.07200 Tax Rate at 96% Collection Produces	5,603,293

(1) Includes the Certificates. Preliminary; subject to change.

TABLE 7 - ESTIMATED OVERLAPPING DEBT

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

	2017/2018 Taxable Assessed Value	2017/2018 Tax Rate	Total G.O. Debt as of 6/30/18	Estimated % Applicable	City's Overlapping G.O. Debt as of 6/30/18
City of League City	\$ 8,106,615,351 ⁽¹⁾	\$ 0.565	\$ 94,586,961 ⁽²⁾	100.00%	\$ 94,586,961
Bay Colony West MUD	176,908,810	1.000	16,540,000	100.00%	16,540,000
Clear Creek ISD	21,531,511,570	1.400	942,950,000	32.53%	306,741,635
College of the Mainland	10,724,482,005	0.217	15,130,000	10.97%	1,659,761
Dickinson ISD	3,437,247,981	1.520	312,435,000	31.68%	98,979,408
Galveston Co	27,738,741,097	0.552	235,674,208	26.92%	63,443,497
Galveston Co Mgmt Dist #1	40,579,440	0.900	3,305,000	100.00%	3,305,000
Galveston Co MUD # 6	506,807,840	0.420	11,770,000	100.00%	11,770,000
Galveston Co MUD # 14	261,408,629	0.690	10,660,000	100.00%	10,660,000
Galveston Co MUD # 15	259,349,982	0.570	5,690,000	100.00%	5,690,000
Galveston Co MUD # 39	387,444,177	0.620	24,680,000	100.00%	24,680,000
Galveston Co MUD # 43	368,569,324	0.770	33,470,000	100.00%	33,470,000
Galveston Co MUD # 44	191,632,798	0.800	17,415,000	100.00%	17,415,000
Galveston Co MUD # 45	216,842,529	0.950	28,075,000	100.00%	28,075,000
Galveston Co MUD # 46	357,823,814	0.930	39,925,000	100.00%	39,925,000
Harris Co	434,424,644,291	0.418	2,208,674,361	0.04%	883,470
Harris Co Department of Education	438,501,034,111	0.005	6,555,000	0.04%	2,622
Harris Co Flood Control Dist	426,577,079,187	0.028	83,075,000	0.04%	33,230
Harris Co Hospital District	429,700,447,319	0.171	59,490,000	0.04%	23,796
Port of Houston Auth	425,789,832,000	0.013	638,829,397	0.04%	255,532
Santa Fe ISD	1,285,949,116	1.402	88,175,000	1.06%	934,655
South Shore Harbour MUD # 7	361,916,680	0.390	17,400,000	100.00%	17,400,000
Tara Glen MUD	82,352,125	0.550	790,000	100.00%	790,000
Total Direct and Overlapping Funded Debt					\$ 777,264,566
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation					9.59%
Per Capita Overlapping Funded Debt					\$ 7,413

(1) 2018/2019 Taxable Assessed Valuation.

(2) Includes the Certificates. Preliminary; subject to change. Includes self-supporting debt.

DEBT INFORMATION

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending	Outstanding Debt Service ⁽¹⁾			The Certificates ⁽²⁾			Less: Self-Supporting	Total Net Debt Service
9/30	Principal	Interest	Total	Principal	Interest	Total	Debt	Requirements
2018	\$ 14,165,000	\$ 9,285,440	\$ 23,450,440				\$ 13,410,319	\$ 10,040,121
2019	13,245,000	8,733,322	21,978,322	\$ 565,000	\$ 387,251	\$ 952,251	12,252,809	10,677,764
2020	15,010,000	8,158,952	23,168,952	570,000	391,325.00	961,325	13,765,984	10,364,293
2021	14,820,000	7,506,641	22,326,641	570,000	371,375.00	941,375	13,395,073	9,872,942
2022	15,415,000	6,837,532	22,252,532	570,000	348,575.00	918,575	13,386,964	9,784,142
2023	15,410,000	6,156,925	21,566,925	570,000	325,775.00	895,775	12,975,683	9,487,017
2024	15,025,000	5,506,727	20,531,727	570,000	302,975.00	872,975	12,550,743	8,853,958
2025	15,450,000	4,824,978	20,274,978	570,000	280,175.00	850,175	12,396,510	8,728,642
2026	14,805,000	4,116,814	18,921,814	570,000	257,375.00	827,375	11,703,024	8,046,164
2027	15,030,000	3,445,305	18,475,305	570,000	234,575.00	804,575	11,703,050	7,576,830
2028	15,410,000	2,825,738	18,235,738	565,000	211,875.00	776,875	11,539,968	7,472,645
2029	15,695,000	2,238,012	17,933,012	565,000	189,275.00	754,275	11,511,955	7,175,332
2030	15,090,000	1,620,509	16,710,509	565,000	166,675.00	731,675	11,510,939	5,931,244
2031	13,940,000	1,039,696	14,979,696	565,000	144,075.00	709,075	10,987,171	4,701,601
2032	9,190,000	621,809	9,811,809	565,000	123,593.75	688,594	5,841,064	4,659,338
2033	5,195,000	381,649	5,576,649	565,000	105,231.25	670,231	3,999,902	2,246,979
2034	4,790,000	231,006	5,021,006	565,000	86,515.63	651,516	3,938,261	1,734,260
2035	2,760,000	113,509	2,873,509	565,000	67,446.88	632,447	1,801,902	1,704,054
2036	1,570,000	45,978	1,615,978	565,000	48,378.13	613,378	761,705	1,467,651
2037	720,000	11,520	731,520	565,000	29,309.38	594,309	497,840	827,989
2038	-	-	-	565,000	9,887.50	574,888	-	574,888
	<u>\$232,735,000</u>	<u>\$ 73,702,059</u>	<u>\$306,437,059</u>	<u>\$11,340,000</u>	<u>\$ 4,081,663</u>	<u>\$ 15,421,663</u>	<u>\$ 189,930,867</u>	<u>\$ 131,927,855</u>

(1) "Outstanding Debt" does not include lease/purchase obligations. See "TABLE 10 – REVENUES OF WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY GENERAL OBLIGATION DEBT SERVICE" and "OTHER OBLIGATIONS."

(2) Average life of the issue - 9.907 years. Interest on the Certificates has been calculated at the rate of 3.27% for purposes of illustration. Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Net Tax Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2018		\$ 10,040,121 ⁽¹⁾
Interest and Sinking Fund, 9/30/2017	\$ 5,000,017	
Budgeted Interest and Sinking Fund Collections	11,720,000	
Less: Rebates to Municipal Utility Districts	(858,185)	
Less: Rebates to Tax Increment Zone	(831,248)	
Less: Estimated Fees	-	
Estimated Investment Income / Penalty & Interest	<u>20,000</u>	<u>15,050,584</u>
Estimated Balance, 9/30/2018		<u>\$ 5,010,463</u>

(1) Projected. Includes the Certificates. Excludes self-supporting debt.

TABLE 10 - REVENUES OF WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY GENERAL OBLIGATION DEBT SERVICE

The City has outstanding contractual bonds sold by the Gulf Coast Water Authority ("GCWA") for the benefit of the City. The City is responsible for 100% of the currently outstanding \$985,000 GCWA Water System Contract Revenue Bonds, Series 2011F; approximately 1.82% of the currently outstanding \$10,835,000 Water System Contract Revenue Refunding Bonds (South Project), Series 2011A; and approximately 2.01% of the currently outstanding \$1,685,000 Water System Contract Revenue Refunding Bonds (South Project), Series 2011B. The contractual bonds are payable as operating expenses of the City's waterworks system.

TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

The City also has certain outstanding general obligation bonds and combination tax and revenue certificates of obligation of which some of the proceeds were used for projects that generate revenue for subsequent repayment. The debt from these bonds and certificates of obligation is currently being paid in full or in part from such revenue and is listed below:

Issue	Percent Attributed to Self-Supporting Revenue	Revenue Source Fund	Self-Supporting Debt Due in 2018 Fiscal Year
Combination Tax and Revenue Certificates of Obligation, Series 2010	100%	TIRZ 2	147,925
Combination Tax and Revenue Certificates of Obligation, Series 2011	44%	4B Corporation	663,949
General Obligation Refunding Bonds, Series 2011A	41%	Waterworks and Sewer System	511,006
General Obligation Refunding Bonds, Series 2011B	100%	TIRZ 3	974,100
Combination Tax and Revenue Certifications of Obligation, Series 2011A	100%	Waterworks and Sewer System	1,428,525
General Obligation Refunding Bonds, Series 2012	49%	Waterworks and Sewer System	890,650
Combination Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2012B	100%	Waterworks and Sewer System	1,413,625
General Obligation Refunding Bonds, Series 2013	7%	Waterworks and Sewer System	117,515
General Obligation Refunding Bonds, Series 2013A	100%	PID 3	287,708
General Obligation Refunding Bonds, Series 2014A	100%	PID 1	445,880
General Obligation Refunding Bonds, Series 2015	100%	Waterworks and Sewer System	1,568,750
Combination Tax and Revenue Certificates of Obligation, Series 2015	83%	Waterworks and Sewer System	1,024,494
General Obligation Refunding Bonds, Series 2016	56%	Waterworks and Sewer System	683,850
Combination Tax and Revenue Certificates of Obligation, Series 2016	29%	Waterworks and Sewer System	247,075
General Obligation Refunding Bonds, Series 2016A	81%	Waterworks and Sewer System	1,830,375
Combination Tax and Revenue Certificates of Obligation, Series 2017	50%	Waterworks and Sewer System	803,879
Combination Tax and Revenue Certificates of Obligation, Series 2017	23%	TIRZ 4	371,013
			<u>\$ 13,410,319</u>

The debt issues described in this table are general obligation debt for which repayment is provided from surplus net revenues of the water and sewer system for the general obligation bonds, payments from Tax Increment Reinvestment Zone No. 2 ("TIRZ #2") for Combination Tax and Revenue Certificates of Obligation, Series 2010, payments from Tax Increment Reinvestment Zone No. 3 ("TIRZ #3") for General Obligation Refunding Bonds, Series 2011B, payments from the 4B Industrial Development Corporation for Combination Tax and Revenue Certificates of Obligation, Series 2011, payments from the Public Improvement District No. 1 ("PID #1") for General Obligation Refunding Bonds, Series 2014A and payments from the Public Improvement District No. 3 ("PID #3") for General Obligation Refunding Bonds, Series 2013A. It is the City's current policy to provide these payments from such respective sources. There is no assurance that the use of these sources to make these payments will continue in the future. If payments are not made from such sources in the future, the difference will be paid for with ad valorem taxes.

Waterworks and Sewer System Computation

Net Revenues Available for Debt Service from Waterworks and Sewer System (9/30/2017)	\$ 26,761,767
Waterworks and Sewer System Revenue Bond Requirements (9/30/2018)	<u>2,617,100</u>
Balance Available	\$ 24,144,667
Waterworks and Sewer System General Obligation Bond Requirements (9/30/2018)	<u>10,519,744</u>
Balance	\$ 13,624,923
Percentage of Waterworks and Sewer System General Obligation Bonds Self-Supporting	100.00%

4B Industrial Corporation Computation

Gross Revenues Available for Debt Service from 4B Industrial Corp. (9/30/2017)	\$ 2,974,064
4B Industrial Corp. General Obligation Bond Requirements (9/30/2018)	<u>663,949</u>
Balance	\$ 2,310,115
Percentage of 4B Industrial Corp. General Obligation Bonds Self-Supporting	100.00%

TIRZ #2 Computation

Gross Revenues Available for Debt Service from TIRZ #2 Fund (9/30/2017)	\$ 1,878,359
TIRZ #2 General Obligation Bond Requirements (9/30/2018)	<u>147,925</u>
Balance	\$ 1,730,434
Percentage of TIRZ #2 General Obligation Bonds Self-Supporting	100.00%

TIRZ #3 Computation

Gross Revenues Available for Debt Service from TIRZ #3 Fund (9/30/2017)	\$ 1,266,579
TIRZ #3 General Obligation Bond Requirements (9/30/2018)	<u>974,100</u>
Balance	\$ 292,479
Percentage of TIRZ #3 General Obligation Bonds Self-Supporting	100.00%

TIRZ #4 Computation

Gross Revenues Available for Debt Service from TIRZ #4 Fund (9/30/2017)	\$ 377,036
TIRZ #4 General Obligation Bond Requirements (9/30/2018)	<u>371,013</u>
Balance	\$ 6,023
Percentage of TIRZ #4 General Obligation Bonds Self-Supporting	100.00%

PID #1 Computation

Gross Revenues Available for Debt Service from PID #1 Fund (9/30/2017)	\$ 543,459
PID #1 Fund General Obligation Bond Requirements (9/30/2018)	<u>445,880</u>
Balance	\$ 97,579
Percentage of PID #1 General Obligation Bonds Self-Supporting	100.00%

PID #3 Computation

Gross Revenues Available for Debt Service from PID #3 Fund (9/30/2017)	\$ 370,367
PID #3 Fund General Obligation Bond Requirements (9/30/2018)	<u>287,708</u>
Balance	\$ 82,659
Percentage of PID #3 General Obligation Bonds Self-Supporting	100.00%

TABLE 12 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

<u>Purpose</u>	<u>Date of Authorization</u>	<u>Amount Authorized</u>	<u>Issued to Date</u>	<u>Unissued Balance</u>
City Hall	7/15/69	\$ 862,250	\$ 856,000	\$ 6,250
Public Safety Improvements	9/19/92	400,000	-	400,000
		<u>\$ 1,262,250</u>	<u>\$ 856,000</u>	<u>\$ 406,250</u>

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City anticipates the issuance of tax supported debt in the approximate amount of \$10 million in the next 12 months, but the City makes no assurances as to the timing or amount of such potential bond issue.

TABLE 13 – OTHER OBLIGATIONS

As of September 30, 2017, the City currently has no other obligations outstanding.

PENSION FUND

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" - Note # 11)

OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits through the Texas Municipal Retirement System ("TMRS"), the City has opted to provide eligible retired employees with the following post-employment benefits:

- Employees retiring from the City with 20 years of service, between the ages of 60 and 65, will have premiums paid at 100% by the City.
- Employees are eligible to retire under TMRS as a disability retiree if they have worked with the City for a minimum of five years and have at least 10 years of combined governmental service are eligible to have a portion of their premium paid by the City based on their age.

The City recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. These payments are budgeted annually. The amount budgeted for the fiscal year ending September 30, 2018 is \$47,200. The City's contributions to the TMRS SDBF based on .02% of covered payroll for the fiscal years ended 2017, 2016 and 2015 totaled \$45,596, \$43,776, and \$42,476, respectively, which equaled the annual required contribution.

As of fiscal year 2009, the City implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions." In preparation of GASB 45, the City commissioned an actuarial valuation of its post-retirement benefit liability. (For more information concerning the City's post-employment benefits and a summary of the actuarial results, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" - Note #10).

FINANCIAL INFORMATION

TABLE 14 - CHANGE IN NET ASSETS

	For Fiscal Year Ended September 30,				
<u>Revenue:</u>	2017	2016	2015	2014	2013
<u>Program Revenues</u>					
Charges for Services	\$ 12,300,678	\$ 12,949,500	\$ 12,284,453	\$ 10,432,512	\$ 13,056,348
Operating Grants and Contributions	5,561,294	4,355,948	3,878,927	3,084,319	3,955,289
Capital Grants and Contributions	23,342,227	20,712,430	25,108,315	26,277,018	13,647,269
<u>General Revenues</u>					
Property Tax	40,748,850	37,399,738	36,335,584	34,663,278	33,655,411
Franchise Tax	6,814,218	6,310,103	6,055,164	5,725,179	5,284,383
Sales and Uses Taxes	17,655,640	16,540,938	14,923,809	13,823,196	12,645,222
Unrestricted Investment Earnings	624,550	265,120	69,707	51,719	122,325
Miscellaneous	944,313	301,647	502,014	1,746,482	2,272,354
Total Revenue	<u>\$ 107,991,770</u>	<u>\$ 98,835,424</u>	<u>\$ 99,157,973</u>	<u>\$ 95,803,703</u>	<u>\$ 84,638,601</u>
<u>Expenses:</u>					
General Government	\$ 14,911,180	\$ 12,708,386	\$ 13,805,776	\$ 13,318,257	\$ 13,619,373
Public Safety	29,303,994	25,671,021	24,832,669	24,139,580	14,137,487
Public Works	28,656,932	23,489,631	21,849,163	26,756,596	32,305,670
Community Services	7,825,726	8,358,265	7,849,582	8,072,245	7,279,603
Interest on Long-Term Debt	3,630,628	4,038,467	3,884,858	4,376,432	4,902,242
Total Expenses	<u>\$ 84,328,460</u>	<u>\$ 74,265,770</u>	<u>\$ 72,222,048</u>	<u>\$ 76,663,110</u>	<u>\$ 72,244,375</u>
Increase in Net Assets before Transfers	\$ 23,663,310	\$ 24,569,654	\$ 26,935,925	\$ 19,140,593	\$ 12,394,226
Transfers	2,553,175	2,831,158	2,188,265	2,616,555	2,250,000
Gain/Loss on Disposition of Capital Assets	-	1,015,762	(228,103)	-	(50,572)
Increase (Decrease) in Net Assets	<u>\$ 26,216,485</u>	<u>\$ 28,416,574</u>	<u>\$ 28,896,087</u>	<u>\$ 21,757,148</u>	<u>\$ 14,593,654</u>
Net Assets at Beginning of Year	253,803,769	225,387,195	210,597,998	188,840,850	174,247,196
Implementation of change in accounting principle	-	-	(14,106,890)	-	-
Net Assets at Beginning of Year - as restated	-	-	196,491,108	-	-
Net Assets at End of Year	<u><u>\$ 280,020,254</u></u>	<u><u>\$ 253,803,769</u></u>	<u><u>\$ 225,387,195</u></u>	<u><u>\$ 210,597,998</u></u>	<u><u>\$ 188,840,850</u></u>

TABLE 14A – GENERAL FUND REVENUES & EXPENDITURES

	For Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Revenues:					
Taxes	\$ 50,729,779	\$ 46,400,771	\$ 42,985,790	\$ 39,322,980	\$ 37,034,346
Licenses & Permits	3,112,914	2,574,942	3,314,882	3,165,889	2,579,909
Fines and Forfeitures	1,715,132	1,798,252	1,898,201	1,854,462	1,600,258
Intergovernmental	427,256	173,178	210,165	288,464	1,243,927
Charges for Services	7,589,262	7,512,613	6,471,882	5,209,998	4,700,707
Interest on Investments	218,437	116,027	43,315	28,929	22,623
Other	1,109,931	1,136,665	1,448,654	1,042,758	294,442
Total Revenues	\$ 64,902,711	\$ 59,712,448	\$ 56,372,889	\$ 50,913,480	\$ 47,476,212
Expenditures:					
General Government	\$ 12,100,616	\$ 10,715,105	\$ 9,870,812	\$ 10,122,077	\$ 10,682,448
Public Safety	24,586,841	23,824,950	23,499,756	21,874,293	20,707,909
Public Works	15,501,077	15,014,651	13,417,969	12,315,962	11,908,510
Community Services	5,028,774	4,926,323	4,606,561	4,761,994	4,262,619
Capital Outlay	636,499	389,449	332,792	532,944	-
Total Expenditures	\$ 57,853,807	\$ 54,870,478	\$ 51,727,890	\$ 49,607,270	\$ 47,561,486
Excess (Deficit) of Revenues Over Expenditures	\$ 7,048,904	\$ 4,841,970	\$ 4,644,999	\$ 1,306,210	\$ (85,274)
Other Financing sources (Uses):					
Proceeds from sale of capital assets	\$ 7,186	\$ -	\$ -	\$ -	\$ -
Operating Transfers In	3,322,000	3,504,250	3,333,000	2,351,105	2,250,000
Operating Transfers (Out)	(15,178,254)	(2,344,150)	(1,881,252)	(3,677,084)	(2,158,526)
Total Other Financing Sources (Uses)	\$ (11,849,068)	\$ 1,160,100	\$ 1,451,748	\$ (1,325,979)	\$ 91,474
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	\$ (4,800,164)	\$ 6,002,070	\$ 6,096,747	\$ (19,769)	\$ 6,200
Fund Balance, Beginning of Year	28,442,167	22,440,097	16,343,350	16,363,119	16,356,919
Fund Balance, End of Year	\$ 23,642,003	\$ 28,442,167	\$ 22,440,097	\$ 16,343,350	\$ 16,363,119

TABLE 15 - MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Certificates. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On May 7, 1994, the voters of the City approved the imposition of an additional one-half of one percent ($\frac{1}{2}$ of 1%) for property tax reduction and another one-quarter of one percent ($\frac{1}{4}$ of 1%) for the Section 4B Industrial Development Corporation which is pledged to the Sales Tax Revenue Bond issued by the Corporation. The sales tax increase went into effect on October 1, 1994.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita ⁽²⁾
2014	\$ 16,127,061	46.97%	\$ 0.2804	\$ 174
2015	17,411,111	48.38%	0.2888	181
2016	19,297,761	51.97%	0.2980	193
2017	20,598,247	50.81%	0.2896	196
2018	13,998,842 ⁽³⁾	31.93%	0.1804	134

(1) Provided by the City.

(2) Based on population estimates by the City.

(3) As of June 1, 2018.

The sales tax breakdown for the City is as follows:

4 B Industrial Development Corporation	$\frac{1}{4}\%$
Property Tax Relief	$\frac{1}{2}\%$
City Sales & Use Tax	1%
State Sales & Use Tax	6 $\frac{1}{4}\%$
Total	8%

CAPITAL IMPROVEMENT PROGRAM

The City prepares a multi-year capital improvement plan that addresses all major categories of improvements and addresses all forms of funding. The current plan includes FY2018 through FY2022, with the first year of the CIP to serve as its Capital Budget for FY2018. The approved CIP includes financing plans that account for all capital funding sources, including current year pay-as-you-go cash funded projects, proceeds from prior years' bond sales, and new funds needed from future bond sales. The CIP includes debt service models for tax supported and revenue supported projects to anticipate and demonstrate the affordability of new bonds within revenue streams from existing property tax rates and water and wastewater rates. Projects are not included in the five year CIP unless financing can be made available through allocation of existing or projected funding sources.

The FY2019 – FY2023 Capital Improvement Plan is currently being formulated with the anticipation of presenting to City Council early summer 2018.

THE SYSTEM

WATERWORKS SYSTEM

The primary water supply for the City is surface water. This water is obtained from Gulf Coast Water Authority (GCWA). The majority of the water is provided to GCWA from the City of Houston with 10% of the surface water capacity coming from the actual plant at GCWA. Houston's supply is from the Trinity River watershed basin while GCWA is from the Brazos River watershed.

League City also has ground water to supplement the surface water supply. Due to subsidence agreements with the subsidence district only 10% of the annual water supply can be supplemented with ground water without incurring a penalty.

During fiscal year 2016/2017 the City pumped approximately 4.1 billion gallons of water (combined surface and ground). This water was delivered to approximately 33,310 accounts. The estimated population of League City is 104,857 at January 1, 2018.

Existing Water Supply— The City maintains 10 Booster stations throughout the distribution system. These Booster stations are strategically placed to provide the required demand flows throughout the distribution system.

The current water supply from Houston is provided from the Southeast Water Treatment Plant (SEWPP). League City has 22.5 million gallons per day contracted from SEWPP through Gulf Coast Water Authority. In addition, GCWA supplies 2.544 million gallons per day from the Thomas Mackey Plant in Texas City. The total surface water supply volume is 25.044 million plus 5.6 million supplemental from wells.

Highway 3 Booster station is the primary Booster for the entire City. This station receives 17.5 MGD water from SEWPP and boosts it to various parts of the City. The remaining 5 MGD comes to the City through the north side pump station on Grissom Road.

Elevated Storage— The City has 2 operational elevated storage tanks. Both tanks are 2 million gallon tanks, one located on South Shore Boulevard and the other at Rustic Oaks Subdivision.

The growth of the City has necessitated an additional elevated storage tank to be located near South Highway 96 and South Shore Blvd. This 2 million gallon elevated tank is currently under construction and is anticipated to be complete in 2017.

Ground Storage— Ground storage tanks are located at 10 of the Booster station locations with a total capacity of 28.9 million gallons. The combined elevated and ground storage will be 34.9 million gallons.

Groundwater— The City has six wells with a combined total capacity of approximately 10.3 million gallons per day. The average depth of the wells in the area range from 700-800 feet. In addition, the City has 2 more wells under construction that should be completed in 2017 and will provide an additional 2 MGD for a total of approximately 12.3 MGD.

League City is in Area 1 of the Houston Galveston subsidence district. The district requirements stipulate that in order to reduce subsidence in the district only 10% of the annual surface supply can be pumped from ground water.

Distribution System— The City has over 300 miles of water lines from 2 inch up to 42 inch. All transmission lines are 24 inch and larger. Various 12 to 18 inch lines interconnect most major transmission lines. New lines are being planned to create a complete transmission loop around the City.

WASTEWATER SYSTEM

The City's wastewater system consists of over 300 miles of gravity lines from 6 inch to 54 inch, 72 lift stations and 2 treatment plants. The Dallas-Salmon treatment plant was expanded from a 7.5 MGD plant to a 12 MGD plant. This plant serves the majority of the City. The new Southwest Water Reclamation Facility (SWWRF) was completed in 2013 and is rated at 4.0 MGD. It serves the far west service areas of the City and will treat water for reuse on public accessible land. Dallas-Salmon is also a plant producing reuse water which is sold to South Shore Country Club for irrigation of the golf course.

TABLE 16 – CONDENSED STATEMENT OF OPERATIONS

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Revenues:					
Charges for Services	\$ 35,805,577	\$ 33,793,709	\$ 28,624,718	\$ 29,262,989	\$ 29,830,436
Interest Earned	437,569	239,106	81,035	54,828	120,856
Gain on Sale of Assets	-	5,984	(1,562)	11,392	2,067
Other Revenues	111,594	122,093	667,001	21,014	23,618
Total Revenues	\$ 36,354,740	\$ 34,160,892	\$ 29,371,192	\$ 29,350,223	\$ 29,976,977
Operating Expenses:					
Personnel	\$ 5,632,773	\$ 5,777,686	\$ 5,489,217	\$ 5,526,433	\$ 5,589,894
Utilities	1,458,324	1,426,510	1,544,698	1,615,413	1,245,096
Repairs and Maintenance	1,347,449	1,358,777	1,316,770	1,074,237	1,636,262
Supplies	708,442	646,465	902,321	793,873	1,231,604
Contractual Services	5,761,003	5,103,601	4,385,399	4,985,492	4,406,481
Gulf Coast Water Authority Debt Service ⁽¹⁾	335,331	306,468	302,864	306,970	307,467
	\$ 15,243,322	\$ 14,619,507	\$ 13,941,269	\$ 14,302,418	\$ 14,416,804
Net Revenue From Operations	\$ 21,111,418	\$ 19,541,385	\$ 15,429,923	\$ 15,047,805	\$ 15,560,173
Impact Fees	5,650,349	5,206,212	7,689,266	6,623,624	4,426,299
Available for Debt Service	\$ 26,761,767	\$ 24,747,597	\$ 23,119,189	\$ 21,671,430	\$ 19,986,472
City's Ensuing Year Revenue Debt Service ⁽²⁾	\$ 2,617,100	\$ 4,313,413	\$ 5,745,757	\$ 8,049,764	\$ 8,370,654
Surplus Net Revenue Available ⁽³⁾	\$ 24,144,667	\$ 20,434,185	\$ 17,373,432	\$ 13,621,666	\$ 11,615,818
Water Customers	33,310	32,459	31,428	30,327	29,326
Sewer Customers	31,878	31,041	30,042	28,968	27,992

(1) Contract Revenue Bonds issued by the Gulf Coast Water Authority that are treated as an operating expense of the System.

(2) Revenue Bonds have a prior lien on the net revenues of the Water and Sewer System.

(3) Surplus Net Revenue is available to pay system general obligation debt and contract revenue debt with a surplus revenue pledge.

TABLE 17 – TEN LARGEST WATER CUSTOMERS (BASED ON GALLONS CONSUMED)

Customer	Type of Industry	Estimated Fiscal Year 2017 Water Usage In Gallons	Estimated % of Total Water Usage
Clear Creek Independent School District	School	82,491,000	2.01%
Westover Park	Community Association	35,017,000	0.85%
Tuscan Lakes CAI	Community Association	32,683,000	0.80%
UTMB Victory Lakes Hospital	Hospital	19,607,000	0.48%
Fairways @ SSH HOA	Apartments	18,668,000	0.45%
Haven South Shore	Apartments	18,563,000	0.45%
Bahia Cover (formerly Jordan Cove)	Apartments	17,908,000	0.44%
Mar Bella Community, Inc	HOA	15,501,000	0.38%
Landmark @ Emerson Park	Apartments	15,230,000	0.37%
Broadstone Walker Commons	Apartments	14,884,000	0.36%
		<u>270,552,000</u>	<u>6.59%</u>

TABLE 18 - HISTORICAL WATER CONSUMPTION (GALLONS)

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Number of Customers	Water Usage (MGD)				Total Water & Sewer Sales
			Average Day Usage	Peak Day Usage	Peak Month Usage	Total Usage	
2013	89,257	29,326	10.500	17.277	412.608	3,385.382	\$ 29,830,436
2014	92,714	30,327	10.623	18.025	417.251	3,877.456	29,187,630
2015	96,209	31,428	9.580	20.510	464.171	3,809.203	28,624,718
2016	100,053	32,459	10.910	19.445	459.365	3,829.097	33,793,709
2017	102,634	33,310	11.320	18.342	408.585	4,104.479	35,805,577

(1) Population estimated by the City.

FINANCIAL POLICIES

The financial statements of the City are prepared in conformity with the generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following are the City's governmental fund types:

General Fund . . . The General Fund is used to account for all financial transactions which are not accounted for in another fund. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses and permits, and fines and forfeitures. Expenditures are for general government, public safety, public works and other community services.

Special Revenue Funds . . . Special Revenue Funds are used to account for revenues derived from specific governmental grants or other revenue sources which are legally restricted or designated to finance particular activities of the City. Capital outlays are charged to expenditures in the accounts of these funds and capitalized in the government wide statement, as appropriate.

Debt Service Fund . . . The Debt Service Fund is used to account for the payment of interest and principal on all general long-term debt of the City except for capital leases which are accounted for in the General Fund. The primary source of revenue for the Debt Service Fund is general property taxes.

Capital Projects Funds . . . Capital Projects Funds are used to account for the receipt and expenditure of resources used for acquisition of or improvements to major capital assets. Principal sources of revenues are cash funding, bond sale proceeds, federal grants and interest revenue.

Enterprise Fund . . . The Enterprise Fund is used to account for operations of the water and wastewater division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises; where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), federal grants and impact fees.

Internal Service Fund . . . The Internal Service Fund is used to account for the financing of goods or services by one department to other departments, on a cost reimbursement basis.

General Budget Policies . . . The budget for the City Government shall present a complete financial plan for the ensuing fiscal year. It shall set forth all proposed expenditures for the administration, operation and maintenance of all departments and agencies of the City Government for which appropriations are required to be made or taxes levied by the City. The budget shall also include: (1) the revenues and expenses of the water and sewer system, and such system may be shown in the budget as a self-supporting enterprise; (2) all expenditures for capital projects to be undertaken or executed during the fiscal year; (3) all interest and debt redemption charges during the fiscal year and the actual or estimated operating deficits from prior fiscal years. In addition, the budget shall set forth the anticipated income and other means of financing the total proposed expenditures of the City for the fiscal year.

Basis of Accounting . . . Basis of accounting refers to the time when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statement, regardless of measurement focus applied. Governmental fund types (General, Debt Service, Special Revenue and Capital Projects) are accounted for on a "spending" or "financial resources" measurement focus.

The budget process begins in early spring each year with the preparation of the Long Range Financial Forecast. The Long Range Financial Forecast is prepared under the direction of the City Manager and presented to Council. The Long Range Financial Forecast includes all majors funds; General, Utility and Debt Service Funds of the City. Once the Long Range Financial Forecast has been presented to Council, city departments present their budgets to the City Manager for review. The budget is prepared under the direction of the City Manager including the Capital Budget which is based on the first year of the five-year Capital Improvement Plan ("CIP"). The Budget and CIP are then presented to Council for review. At least ten (10) days before the beginning of the fiscal year, the Council must approve the budget and enact the appropriation ordinance. As soon thereafter as possible, the City Council passes the tax levy ordinance and such other ordinances as may be required to make the budget effective.

INVESTMENTS

The City invests its investable funds in investments authorized by Texas law and in accordance with investment policies approved by the City Council. Both state law and the City's investment policies are subject to change.

LEGAL INVESTMENTS . . . Available City funds are invested as authorized by Texas law and in accordance with investment policies approved by the City Council. Both State law and the City's investment policies are subject to change. Under State law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this State that the investing entity selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (9) certificates of deposit and share certificates (i) issued by a depository institution that has its main office or a branch office in the State of Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Insurance Fund or its successor, or are secured as to principal by obligations described in the clauses (1) through (8) or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less, (12) certain bankers' acceptances with the remaining term of 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, (13) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (14) a no-load money market mutual fund registered with and regulated by the Securities and Exchange Commission that provides the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and complies with federal Securities and Exchange Commission Rule 2a-7, and (15) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years, and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

INVESTMENT POLICIES . . . Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, 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 City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, 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 City funds without express written authority from the City Council.

Under State law, the City 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 City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (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 mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (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 City.

TABLE 19 – CURRENT INVESTMENTS

As of March 31, 2018 the City's investable funds were invested in the following categories:

Description	Percent of Total	Book Value	Market Value
Cash	1.38%	\$ 2,397,520	\$ 2,397,520
Certificates of Deposits	4.13%	7,189,342	7,189,342
Lone Star	1.75%	3,048,110	3,048,110
Security Investment	15.77%	27,447,330	27,317,403
TexPool	44.19%	76,910,074	76,910,074
TexSTAR	32.77%	57,032,019	57,032,019
	<u>100.00%</u>	<u>\$ 174,024,395</u>	<u>\$ 173,894,468</u>

TAX MATTERS

TAX EXEMPTION

The delivery of the Certificates is subject to the opinion of Bond Counsel to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of 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 who are individuals or, except as hereinafter described, corporations. 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.

For taxable years that began before January 1, 2018, interest on the Certificates owned by a corporation will be included in such corporation's adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

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 Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Certificates. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

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 IRS with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Certificates is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Certificates 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 Certificates, the City may have different or conflicting interests from the owners of the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of 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 Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates 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 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 Certificates 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 Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN CERTIFICATES

The initial public offering price of certain Certificates (the "Discount Certificates") may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (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 Certificates 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 Certificate, taking into account the semiannual compounding of accrued interest,

at the yield to maturity on such Discount Certificate 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 alternative minimum tax on corporations for taxable years that began before January 1, 2018, and 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 Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

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

The initial public offering price of certain Certificates (the "Premium Certificates") may be greater than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains an "obligated person" with respect to the Certificates, within the meaning of the Securities and Exchange Commission's Rule 15c2-12 (the "Rule"). Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (the "MSRB").

ANNUAL REPORTS

The City will provide annually to the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access system ("EMMA"), within six months after the end of each fiscal year ending in or after September 30, 2018, financial information and operating data with respect to the City of the general type included in the Official Statement provided to the Purchaser in connection with its initial approval of its purchase of the Certificate of Obligations, being the information included in Tables 1 through 5 and Tables 8 through 14, and in Appendix B. Any financial statements so to be provided will be (1) prepared in accordance with the accounting principles set forth in Appendix B to the Official Statement, or as may otherwise hereafter be established consistent with Texas law and Generally Accepted Accounting Principles, and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the City will provide audited financial statements for the applicable fiscal year to the MSRB through EMMA, when and if audited financial statements become available but if such audited financial statements are unavailable the City will provide such financial statements on an unaudited basis within the above-described six-month period.

If the City changes its fiscal year, it will notify the MSRB through EMMA of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant.

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 (including an official statement or other offering document, if it is available from the MSRB)

that theretofore has been provided to the MSRB through EMMA or filed with the United States Securities and Exchange Commission (the "SEC"), or may be provided in any other manner consistent with SEC Rule 15c2 12 (the "Rule").

MATERIAL NOTICES

The City will notify the MSRB through EMMA of any of the following events with respect to the Certificates in a timely manner, and not more than 10 business days after occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Certificates, or other material events affecting the tax status of the Certificates;
- (7) Modifications to rights of Holders of the Certificates, if material;
- (8) Certificate calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Certificates; if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership, or similar event of the City, which will occur as described below;
- (13) The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

The City will notify the MSRB through EMMA, in a timely manner, of any failure by the City to provide financial information or operating data by the time required.

AVAILABILITY OF INFORMATION FROM MSRB

The City has agreed to provide the foregoing information only to the MSRB. The MSRB has made the information available to the public without charge through EMMA at www.emma.msrb.org.

LIMITATIONS, DISCLAIMERS, AND AMENDMENTS

The City will be obligated to observe and perform its continuing disclosure covenants while it remains an "obligated person" with respect to the Certificates within the meaning of the Rule, except that the City in any event will give notice of any Certificate calls and defeasance that cause the City to be no longer such an "obligated person".

The provisions of this Article are for the sole benefit of the Holders and beneficial owners of the Certificates, and nothing, express or implied, will give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The City undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide and has not undertaken to provide any other information that may be relevant or material to a complete presentation of the financial results, condition, or prospects of the City or the State of Texas or hereby undertake to update any information except as expressly provided. The City does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Certificates at any future date.

UNDER NO CIRCUMSTANCES WILL THE CITY BE LIABLE TO THE REGISTERED OWNER OR BENEFICIAL OWNER OF ANY CERTIFICATE ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH WILL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the City in observing or performing its obligations will constitute a breach of or default.

The City may amend its continuing disclosure undertaking from time to time to adapt to changed circumstances resulting from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell Certificates in the primary offering of the Certificates 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 (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the Outstanding Certificates consent to such amendment or (b) a Person that is unaffiliated with the City (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Certificates. The City may also amend or repeal the provisions if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Underwriters from lawfully purchasing the Certificates.

COMPLIANCE WITH PRIOR UNDERTAKINGS

During the last five years, the City believes it has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

OTHER INFORMATION

RATINGS

The Certificates and presently outstanding general obligation debt of the City are rated "____" by Moody's Investors Service, Inc. ("Moody's") and "____" by S&P Global Ratings, a Standard & Poor's Financial Services LLC business ("S&P"), without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by (either or both) of such rating companies (company), if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Certificates.

LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Certificates are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Certificates by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Certificates be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at capital of one million

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

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Certificate and the effect that the Certificates are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Certificates will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "TAX MATTERS" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Certificates will also be furnished. Bond Counsel was not requested to participate, and 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 Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent on the sale and delivery of the Certificates. The legal opinion will accompany the Certificates deposited with DTC or will be printed on the Certificates in the event of the discontinuance of the Book-Entry-Only System.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. Hilltop Securities Inc., 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 Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

INITIAL PURCHASER

The Initial Purchaser, _____, has agreed, subject to certain conditions, to purchase the Certificates from the City, at an underwriting discount of \$ _____. The Initial Purchaser will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Initial Purchaser and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates and such public offering prices may be changed, from time to time, by the Initial Purchaser.

FORWARD-LOOKING STATEMENTS DISCLAIMER

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

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

MISCELLANEOUS

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

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

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Certificates, the City will furnish a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last audited financial statements of the City.

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

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

THE CITY

The City is located in the north central part of Galveston County, Texas, and part of Harris County, Texas, five miles south of the city limits of Houston, Texas. The City was incorporated December 9, 1961, and adopted its Home Rule Charter March 27, 1962. The City provides basic municipal services to its citizens including fire and police protection, ambulance service, water, sanitary sewer and garbage services, library, parks and recreational facilities.

ECONOMICS

The City is located 25 miles from the Houston Central Business District, the energy capital of the world. The City is also located approximately 14 to 20 miles from the industrial and petrochemical complexes located in Harris County along the Houston Ship Channel and 10 miles from the petrochemical refineries located in Texas City in Galveston County. The National Aeronautics and Space Administration's ("NASA") Johnson Space Center is located just north of the City in Harris County, and approximately 16% of NASA's employees and contractors live in the City.

The City is the largest community in Galveston County, which hosts operations for more than 25 international companies from countries including Germany, Sweden, Japan, France, Switzerland, Norway. Galveston County's diverse economy, proximity to deep water ports, the Houston economic engine and the overall Texas business climate make Galveston County and the City attractive to new foreign direct investment opportunities. In addition, due to its location on Interstate 45, the City is the popular "gateway" to Galveston Island, which is the fourth busiest cruise port in the United States of America and the seventh busiest cruise homeport in the world.

Healthcare & Social Assistance, Educational Services, Transportation and Warehousing, Entertainment & Recreation, and Retail Trade are significant employment sectors in the local City economy. The current proportion of workers employed in the Healthcare & Social Assistance (13.5 percent) is expected to increase due in large part to the continuing expansion of the University of Texas Medical Branch League City Campus, construction of the 135,000-square foot MD Anderson Cancer Center, and 47,000-square foot Memorial Hermann Convenient Care Clinic.

BUILDING PERMITS

Fiscal Year Ended 9/30 ⁽¹⁾	Residential Gross Value	Commercial Gross Value	Total Gross Value
2013	\$ 195,890,814	\$ 41,947,205	\$ 237,838,019
2014	188,426,865	93,709,677	282,136,542
2015	226,702,873	115,534,099	342,236,972
2016	177,135,746	31,860,865	208,996,611
2017	165,768,046	58,114,155	223,882,201

(1) Provided by the City

EDUCATION

The City is located primarily within the Clear Creek Independent School District which consists of 26 elementary schools, 10 intermediate schools, and 7 high schools.

Higher education institutions serve the local area, including the University of Houston-Clear Lake, located three miles from the City. The University of Houston-Clear Lake, constructed on a 524-acre site, has an 8,200 student enrollment and includes four schools: The School of Human Sciences and Humanities, the School of Business, the School of Education, and the School of Sciences and Computer Engineering. These four schools offer undergraduate degrees in 39 fields of study, master's degrees in 45 fields of study and one doctoral degree.

The College of the Mainland, a junior college located on a 200-acre campus in Texas City, is less than ten miles from the City near the intersection of FM1764 and State Highway 3.

HEALTHCARE AND FACILITIES

The Greater Houston-Galveston Region is noted for the availability of exceptional hospitals and medical care. The League City – Clear Lake area is served by 3 hospitals with full 24-Hour Emergency Departments. UTMB's League City Campus, which has a master plan calling for future buildout of 3 million square feet, represents over 32 specialties and associated services including a Cancer Center and Infusion Center, cardiac rehabilitation, Surgical Specialty Care Clinic, and birthing suites for obstetric and newborn care. The Clear Lake Regional Medical Center and Memorial Hermann Southeast Hospital, both which offer life flight capability, are located within less than 11 miles from the City.

The construction of a 135,000-square foot M.D. Anderson Cancer Center, which is expected to open in fall 2018, and a 47,000-square foot Memorial Hermann Convenient Care Clinic which opened in April 2018 will further expand the healthcare options for residents of the League City-Clear Lake area.

TRANSPORTATION

The City has convenient access to several interstate and major US highways. Interstate Highway 45 passes directly through the City, providing access to other transportation routes such as Interstate Highway 10, US Highways 59 and 290, and State Highways 288, 225, and 146. The Texas Department of Transportation has plans for the expansion of State Highway 99, which is also known as the "Grand Parkway". The Grand Parkway will be the third and most outer loop encircling the Greater Houston Region and extend the full length of the City.

The region's trucking industry is well-integrated with the Port of Houston, Port of Galveston, Port Freeport, George Bush Intercontinental Airport, William P. Hobby (International) Airport, Ellington Field, Houston Spaceport, and the mainline railroads serving the region. The Port of Houston is the busiest port for foreign waterborne cargo and second busiest by overall tonnage. The Houston Airport system is the 9th largest in the United States. The City is served by the Union Pacific Railroad who operates one main line through the City with daily service.

JOHNSON SPACE CENTER

The Johnson Space Center (JSC) of NASA, which was responsible for NASA's prior space shuttle program and remains the central control point for the space station project, is an important part of the Clear Lake City area economy. The JSC Civil Service workforce consists of about 3000 employees, the majority of whom are professional engineers and scientists. Of these, approximately 110 are astronauts. The Johnson Space Center is an attraction to over 50 private companies who act as subcontractors to provide contract personnel to JSC.

SPACE CENTER HOUSTON

The \$70 million Space Center Houston, a visitor's center designed by Walt Disney Imagineering, opened in the fall of 1992. It is a project of the non-profit Manned Space Flight Education Foundation, Inc. in collaboration with the NASA space center. The project is a "hands-on" experience center presenting the inspirational story of human space exploration and behind-the-scenes tours of the space center complex.

MAJOR EMPLOYERS IN LEAGUE CITY

Employer	Nature of Business	Number of Employees
Clear Creek Independent School District	School District	5,336
American National Ins	Insurance	750
H.E.B	Supermarket	637
City of League City	Government	583
Krogers	Supermarket	280
Walmart	Retail	322
UTMB	Acad Health Cntr	599
Ineos USA	Manufacturer	288
Devereaux	Hospital	219
Harborview Care Center	Nursing Home	193
Cabela's	Retail	215
South Shore Harbor Resort	Resort	200

Source: the City.

THE COUNTY

The City lies primarily within Galveston County (the "County") which is located on the upper Texas coast of the Gulf of Mexico. The County comprises a land area of 430 square miles, including Galveston Island, the Mainland and Bolivar Peninsula. The official establishment of Galveston County dates back to May 15, 1838, when Sam Houston, the President of the Republic of Texas, approved an article passed by the Congress, establishing the "County of Galveston." The 2010 census population was 291,309, an increase of 16.45% over 2000.

Galveston County has a diversified economy based on manufacturing, oil and gas production, shipping, agriculture, commercial fishing and tourism. The Galveston County Mainland area is the center of one of the most important industrial concentrations on the Gulf Coast of Texas. Major industries located at Texas City and La Marque include BP, Marathon-Ashland Petroleum, Valero Refining, Sterling Chemical, Dow Chemicals, International Specialty Products, and others.

EMPLOYMENT STATISTICS

League City

Year	Labor Force	Total		Rate
		Employment	Unemployment	
2013	50,920	48,299	2,621	5.15%
2014	52,326	50,195	2,131	4.07%
2015	53,310	51,369	1,941	3.64%
2016	54,870	52,604	2,266	4.13%
2017	55,483	53,295	2,188	3.94%
2018 ⁽¹⁾	57,015	54,973	2,042	3.58%

(1) Average as of April 2018.

Source: Texas Workforce Commission

Galveston County

Year	Labor Force	Total		Rate
		Employment	Unemployment	
2013	155,754	145,043	10,711	6.88%
2014	157,629	148,793	8,836	5.61%
2015	157,808	149,954	7,854	4.98%
2016	159,820	151,306	8,514	5.33%
2017	161,703	153,291	8,412	5.20%
2018 ⁽¹⁾	165,539	158,117	7,422	4.48%

(1) Average as of April 2018.

Source: Texas Workforce Commission

APPENDIX B

EXCERPTS FROM THE
CITY OF LEAGUE CITY, TEXAS
ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the City of League City, Texas Annual Financial Report for the Year Ended September 30, 2017, 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.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION