HTSContinuingDisclosureServices
A Division of Hilltop Securities.
(See "CONTINUING DISCLOSURE OF INFORMATION" herein)

PRELIMINARY OFFICIAL STATEMENT

Dated October 1, 2018

Ratings:
Moody's: "Aa1"
S&P: "AA+"
(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.

League City TEXAS

$11,550,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris County)
COMBINATION TAX AND REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: October 1, 2018 **Due: February 15 as shown on page 2 hereof**

PAYMENT TERMS . . . Interest on the $11,550,000* 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 October 9, 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").

MA 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 October 18, 2018.

BIDS DUE ON THE CERTIFICATES TUESDAY, OCTOBER 9, 2018, AT 12:00 PM CDT

* Preliminary, subject to change.

$11,550,000*
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]
$ 620,000	2019				$ 575,000	2029 [3]			
580,000	2020				575,000	2030 [3]			
575,000	2021				575,000	2031 [3]			
575,000	2022				575,000	2032 [3]			
575,000	2023				575,000	2033 [3]			
575,000	2024				575,000	2034 [3]			
575,000	2025				575,000	2035 [3]			
575,000	2026				575,000	2036 [3]			
575,000	2027				575,000	2037 [3]			
575,000	2028 [3]				575,000	2038 [3]			

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(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 $11,550,000* 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 "Aa1" by Moody's Investors Service, Inc. ("Moody's") and "AA+" 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.

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* 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	218,570,000	2,084	2.79%	99.50% (5)
2019	106,415	8,106,615,351 (6)	76,179	216,255,000 (4)	2,032	2.67%	NA

(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 July 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 Counsel .... Norton 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

PRELIMINARY OFFICIAL STATEMENT

RELATING TO
$11,550,000*
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 $11,550,000* 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.

THE CERTIFICATES

DESCRIPTION OF THE CERTIFICATES

The Certificates are dated October 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).

* Preliminary, subject to change.

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 2018 Taxable Assessed Value within the three existing zones is equal to $597,783,277.

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
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
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	11,550,000 *	
Debt Payable from Ad Valorem Taxes		$ 230,235,000
Less: Self-Supporting Debt: (2)		135,438,039
Net Funded Debt Payable From Ad Valorem Taxes		$ 94,796,961
Interest and Sinking Fund Balance (as of 9/30/2017)		$ 5,000,980
Ratio Net General Obligation Debt to Taxable Assessed Valuation		1.17%

2019 Estimated Population - 106,415
Per Capita Taxable Assessed Valuation - $76,179
Per Capita Net General Obligation Funded Debt - $891

* 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.

	Fiscal Year Ended September 30,					
	2019		2018		2017	
Category	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	$ 8,106,615,351		$ 7,825,345,348		$ 7,123,373,545	

	Fiscal Year Ended September 30,			
	2016		2015	
Category	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	$ 6,465,104,039		$ 6,021,897,168	

(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	218,570,000	2.79%	2,084
2019	106,415	8,106,615,351 [(5)]	76,179	216,255,000 [(4)]	2.67% [(4)]	2,032 [(4)]

(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

				Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections To Date	
Fiscal Year	Tax Year	Total Tax Rate	Total Tax Levy for Fiscal Year	Amount	Percent of Levy	Amount	Amount	Percent of Levy
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	43,408,931 [(1)]	99.00% [(1)]	221,126 [(1)]	43,630,058 [(1)]	99.50% [(1)]
2019	2018	0.5638	45,260,000	In Process of Collection				

(1) Collections through July 1, 2018.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2018/2019 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Texas-New Mexico Power	Utility	$ 48,953,990	0.60%
Amalfi & Sorrento Prop LLC	Developer	37,240,100	0.46%
Komatsu America Corp.	Equipment Rental	32,618,037	0.40%
American National Insurance Company	Insurance	31,722,610	0.39%
KC Watermark Apartments LLC	Apartments	25,776,160	0.32%
Inland America LC Victory Lakes LP	Developer	25,003,480	0.31%
Pure Walker Commons LLC	Apartments	24,910,640	0.31%
VR Fairways Holdings LP	Developer	24,785,530	0.31%
Strata Beacon LLC	Apartments	23,342,905	0.29%
TL II Apartments LLC	Apartments	22,769,700	0.28%
		$ 297,123,152	3.67%

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)……	$ 10,676,986 (1)
$0.13720 Tax Rate at 96% Collection Produces ……	10,677,385
Average Net Principal and Interest Requirements on outstanding debt (2018-2020)……	$ 10,362,758 (1)
$0.13320 Tax Rate at 96% Collection Produces ……	10,366,091
Average Net Principal and Interest Requirements on outstanding debt (2021-2038)……	$ 5,611,008 (1)
$0.07210 Tax Rate at 96% Collection Produces ……	5,611,075

(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	$ 94,796,961 (2)	100.00%	$ 94,796,961
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					$ 777,474,566
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation					9.59%
Per Capita Overlapping Funded Debt					$ 7,306

(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 9/30	Outstanding Debt Service[1] Principal	Outstanding Debt Service[1] Interest	Outstanding Debt Service[1] Total	The Certificates[2] Principal	The Certificates[2] Interest	The Certificates[2] Total	Less: Self-Supporting Debt	Total Net Debt Service 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	$ 620,000	$ 331,473	$ 951,473	12,252,809	10,676,986
2020	15,010,000	8,158,952	23,168,952	580,000	388,200	968,200	13,765,984	10,371,168
2021	14,820,000	7,506,641	22,326,641	575,000	368,000	943,000	13,395,073	9,874,567
2022	15,415,000	6,837,532	22,252,532	575,000	345,000	920,000	13,386,964	9,785,567
2023	15,410,000	6,156,925	21,566,925	575,000	322,000	897,000	12,975,683	9,488,242
2024	15,025,000	5,506,727	20,531,727	575,000	299,000	874,000	12,550,743	8,854,983
2025	15,450,000	4,824,978	20,274,978	575,000	276,000	851,000	12,396,510	8,729,467
2026	14,805,000	4,116,814	18,921,814	575,000	253,000	828,000	11,703,024	8,046,789
2027	15,030,000	3,445,305	18,475,305	575,000	230,000	805,000	11,703,050	7,577,255
2028	15,410,000	2,825,738	18,235,738	575,000	207,000	782,000	11,539,968	7,477,770
2029	15,695,000	2,238,012	17,933,012	575,000	186,875	761,875	11,511,955	7,182,932
2030	15,090,000	1,620,509	16,710,509	575,000	169,266	744,266	11,510,939	5,943,835
2031	13,940,000	1,039,696	14,979,696	575,000	150,938	725,938	10,987,171	4,718,463
2032	9,190,000	621,809	9,811,809	575,000	131,891	706,891	5,841,064	4,677,635
2033	5,195,000	381,649	5,576,649	575,000	112,484	687,484	3,999,902	2,264,232
2034	4,790,000	231,006	5,021,006	575,000	92,719	667,719	3,938,261	1,750,463
2035	2,760,000	113,509	2,873,509	575,000	72,594	647,594	1,801,902	1,719,201
2036	1,570,000	45,978	1,615,978	575,000	52,109	627,109	761,705	1,481,382
2037	720,000	11,520	731,520	575,000	31,266	606,266	497,840	839,946
2038	-	-	-	575,000	10,422	585,422	-	585,422
	$ 232,735,000	$ 73,702,059	$ 306,437,059	$ 11,550,000	$ 4,030,235	$ 15,580,235	$ 189,930,867	$ 132,086,427

(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 - 9.784 years. Interest on the Certificates has been calculated at the rate of 3.43% 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 9/30/2019		$ 10,676,986
Interest and Sinking Fund, 9/30/2018	$ 5,000,980	
Budgeted Interest and Sinking Fund Collections	12,130,000	
Less: Rebates to Municipal Utility Districts	(943,807)	
Less: Rebates to Tax Increment Zone	(847,297)	
Less: Estimated Fees	7,000	
Estimated Investment Income / Penalty & Interest	85,000	15,431,876
Estimated Balance, 9/30/2019		$ 4,754,890

(1) Projected. 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 2019 Fiscal Year
Combination Tax and Revenue Certificates of Obligation, Series 2010	100%	TIRZ 2	149,188
Combination Tax and Revenue Certificates of Obligation, Series 2011	44%	4B Corporation	666,619
General Obligation Refunding Bonds, Series 2011A	41%	Waterworks and Sewer System	509,519
Combination Tax and Revenue Certifications of Obligation, Series 2011A	100%	Waterworks and Sewer System	1,751,100
General Obigation Refunding Bonds, Series 2012	49%	Waterworks and Sewer System	895,250
Combination Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2012B	100%	Waterworks and Sewer System	1,413,950
General Obligation Refunding Bonds, Series 2013	7%	Waterworks and Sewer System	112,857
General Obligation Refunding Bonds, Series 2013A	100%	PID 3	222,515
General Obligation Refunding Bonds, Series 2014A	100%	PID 1	452,739
General Obligation Refunding Bonds, Series 2015	100%	Waterworks and Sewer System	2,588,450
Combination Tax and Revenue Certificates of Obligation, Series 2015	83%	Waterworks and Sewer System	1,023,119
General Obigation 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	250,825
General Obigation Refunding Bonds, Series 2016A	81%	Waterworks and Sewer System	412,875
Combination Tax and Revenue Certificates of Obligation, Series 2017	50%	Waterworks and Sewer System	754,580
Combination Tax and Revenue Certificates of Obligation, Series 2017	23%	TIRZ 4	365,375
			$ 12,252,811

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)	2,617,100
Balance Available	$ 24,144,667
Waterworks and Sewer System General Obligation Bond Requirements (9/30/2018)	10,396,375
Balance	$ 13,748,292
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)	666,619
Balance	$ 2,307,445
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)	149,188
Balance	$ 1,729,171
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)	974,100
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)	365,375
Balance	$ 11,661
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)	452,739
Balance	$ 90,720
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)	222,515
Balance	$ 147,852
Percentage of PID #3 General Obligation Bonds Self-Supporting	100.00%

TABLE 12 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

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

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,				
Revenue:	2017	2016	2015	2014	2013
Program Revenues					
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
General Revenues					
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	$ 107,991,770	$ 98,835,424	$ 99,157,973	$ 95,803,703	$ 84,638,601
Expenses:					
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	$ 84,328,460	$ 74,265,770	$ 72,222,048	$ 76,663,110	$ 72,244,375
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	$ 26,216,485	$ 28,416,574	$ 28,896,087	$ 21,757,148	$ 14,593,654
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	$ 280,020,254	$ 253,803,769	$ 225,387,195	$ 210,597,998	$ 188,840,850

TABLE 14A – GENERAL FUND REVENUES & EXPENDITURES

	For Fiscal Year Ended September 30,				
Revenues:	2017	2016	2015	2014	2013
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 (½ of 1%) for property tax reduction and another one-quarter of one percent (¼ 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	¼%
Property Tax Relief	½%
City Sales & Use Tax	1%
State Sales & Use Tax	6 ¼%
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 FY2019 through FY2023, with the first year of the CIP to serve as its Capital Budget for FY2019. 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 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,				
Revenues:	2017	2016	2015	2014	2013
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%
		270,552,000	6.59%

TABLE 18 - HISTORICAL WATER CONSUMPTION (GALLONS)

Fiscal Year Ended 9/30	Estimated City Population (1)	Number of Customers	Water Usage (MGD) Average Day Usage	Peak Day Usage	Peak Month Usage	Total Usage	Total Water & Sewer Sales
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	104,857	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 June 30, 2018 the City's investable funds were invested in the following categories:

Description	Percent of Total	Book Value	Market Value
Cash	1.55%	$ 2,586,128	$ 2,586,128
Certificates of Deposits	4.33%	7,204,688	7,204,688
Lone Star	1.84%	3,061,236	3,061,236
Security Investment	18.38%	30,615,830	30,498,886
TexPool	45.98%	76,584,745	76,584,745
TexSTAR	27.92%	46,499,173	46,499,173
	100.00%	$166,551,802	$166,434,858

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 "Aa1" by Moody's Investors Service, Inc. ("Moody's") and "AA+" 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.

PAT HALLISEY
Mayor
City of League City, Texas

ATTEST:

DIANA STAPP
City Secretary

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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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, and 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 cruse 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 47,0000-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	5,608
American National Ins	Insurance	712
H.E.B	Supermarket	705
City of League City	Government	577
Kroger	Supermarket	560
Walmart	Retail	537
UTMB	Acad Health Cntr	537
Ineos USA	Manufacturer	241
Devereaux	Hospital	288
Cabela's	Retail	215

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 Employment	Unemployment	Rate
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 Employment	Unemployment	Rate
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

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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.

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Independent Auditor's Report

To the Honorable Mayor,
City Council Members of the
City of League City, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of League City, Texas (the City), as of and for the year ended September 30, 2017 and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

The Honorable Mayor,
City Council Members of the
City of League City, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of September 30, 2017 and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplemental Information
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund, Schedule of Changes in Net Pension Liability and Related Ratios, Schedule of Contributions, and Schedule of Funding Progress identified as Required Supplementary Information on the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining and individual fund statements and schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements. The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

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

The Honorable Mayor,
City Council Members of the
City of League City, Texas

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 22, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Weaver and Tidwell, L.L.P.

WEAVER AND TIDWELL, L.L.P.

Houston, Texas
March 22, 2018

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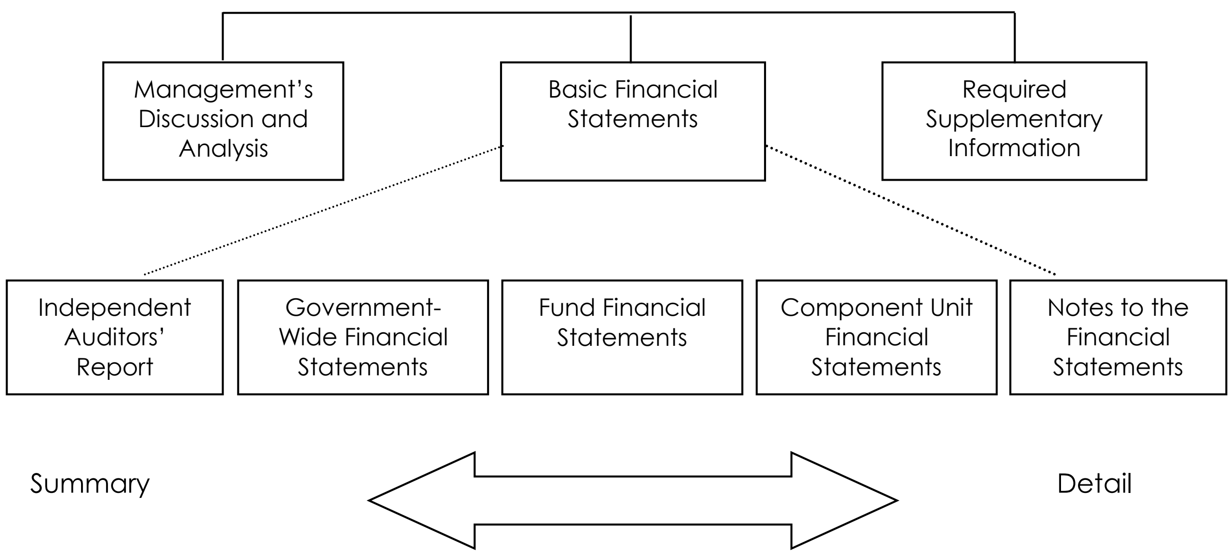
Management's Discussion and Analysis

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of League City (the City) for the year ending September 30, 2017. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's financial statements, which follow this section.

The Structure of Our Annual Report

Components of the Financial Section



The City's basic financial statements include (1) government-wide financial statements, (2) individual fund financial statements, and (3) notes to the financial statements. This report also includes supplementary information intended to furnish additional detail to support the basic financial statements themselves.

Government-Wide Statements. The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, which appear first in the City's financial statements, report information on the City's activities that enable the reader to understand the financial condition of the City. These statements are prepared using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account even if cash has not yet changed hands.

The Statement of Net Position presents information on all of the City's assets, liabilities, and deferred inflows/outflows of resources, with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. Other non-financial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

The Statement of Activities presents information showing how the City's net position changed during the most recent year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows, and using the full accrual method rather than modified accrual that is used in the fund level statements.

The Statement of Net Position and the Statement of Activities divide the City's financials into two classes of activities:

1. *Governmental Activities* include the City's tax-supported services, police and fire protection (public safety), streets, drainage (public works), community services, and general administrative services (general government), and interest payments on the City's tax-supported debt. Property tax, sales tax, franchise taxes, municipal court fines, and permit fees fund most of these activities.

2. *Business-Type Activities* include the City's water and wastewater services, as well as interest payments on debt issued for water and wastewater improvements. Charges for services cover all or most of the cost of these activities.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate industrial development corporation and a legally separate volunteer fire department for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself. The tax increment reinvestment zones and public improvement districts, although also legally separate, function for all practical purposes as a department of the City and, therefore, have been included as an integral part of the primary government.

The government-wide financial statements can be found after the MD&A.

Fund Financial Statements. Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The City uses two fund types - governmental and proprietary.

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

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains 43 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund and debt service fund which are considered to be major funds for reporting purposes. The remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in this report.

The City adopts an annual appropriated budget for its general fund, debt service fund and 13 of the special revenue funds. Budgetary comparison schedules have been provided to demonstrate compliance with these budgets.

Proprietary Funds. The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution and wastewater collection/treatment operations. The proprietary fund financial statements provide separate information for the water distribution and wastewater collection/treatment operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

The City also uses internal service funds to account for its motor pool services, employee benefits, and capital replacement program. These internal service funds have been included within governmental activities in the government-wide financial statements.

Notes to Financial Statements. The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are the last section of the basic financial statements.

Other Information. In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund and schedules of funding progress and schedule of contributions for the Texas Municipal Retirement System and other post-employment benefits for healthcare. RSI can be found after the basic financial statements.

Government-Wide Financial Analysis. As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $512,919,188 as of September 30, 2017 for the primary government. This compares with $467,023,684 for the prior fiscal year. The largest portion of the City's net position, 88.3 percent, reflects its investments in capital assets (e.g., land, buildings and improvements, equipment, construction in progress, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Current and other assets	$ 99,767,420	$ 89,441,272	$ 76,161,751	$ 69,380,030	$ 175,929,171	$ 158,821,302
Capital assets, net	328,926,643	306,568,724	314,033,168	301,933,362	642,959,811	608,502,086
Total assets	428,694,063	396,009,996	390,194,919	371,313,392	818,888,982	767,323,388
Deferred charges on refunding	1,455,224	1,566,105	1,653,081	1,817,341	3,108,305	3,383,446
Deferred resource outflow related to net pension liability	7,109,879	8,202,687	1,236,029	1,487,050	8,345,908	9,689,737
Total deferred outflows of resources	8,565,103	9,768,792	2,889,110	3,304,391	11,454,213	13,073,183
Long-term liabilities	144,877,743	143,907,343	155,344,553	155,092,435	300,222,296	298,999,778
Other liabilities	10,705,940	7,236,707	4,052,010	5,602,289	14,757,950	12,838,996
Total liabilities	155,583,683	151,144,050	159,396,563	160,694,724	314,980,246	311,838,774
Deferred gain on issuance of bonds	168,750	179,082	536,113	113,598	704,863	292,680
Deferred resource inflows related to net pension liability	1,486,479	651,887	258,419	589,546	1,744,898	1,241,433
Total deferred inflows of resources	1,655,229	830,969	794,532	703,144	2,449,761	1,534,113
Net position:						
Net investment in capital assets	233,051,773	210,852,940	220,085,019	203,361,130	453,136,792	414,214,070
Restricted	22,236,288	18,293,840	4,659,939	4,367,845	26,896,227	22,661,685
Unrestricted	24,732,193	24,656,989	8,147,976	5,490,940	32,880,169	30,147,929
Total net position	$ 280,020,254	$ 253,803,769	$ 232,892,934	$ 213,219,915	$ 512,913,188	$ 467,023,684

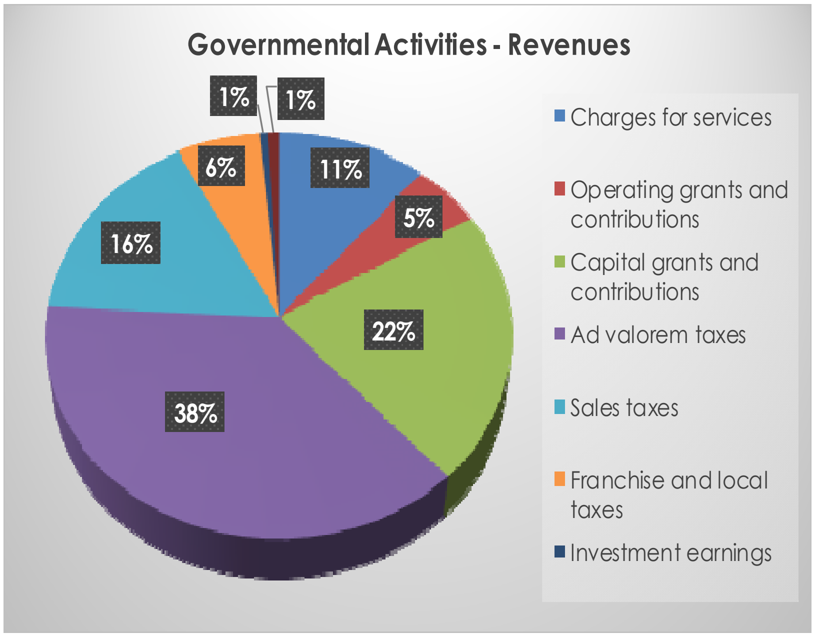
A portion of the primary government's net position, $26,896,227, or 5.2 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, $32,880,169, or 6.4 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by $45,889,504 during the current fiscal year. This increase included $35,599,709 in capital grants and contributions.

Statement of Activities

The following table provides a summary of the City's changes in net position:

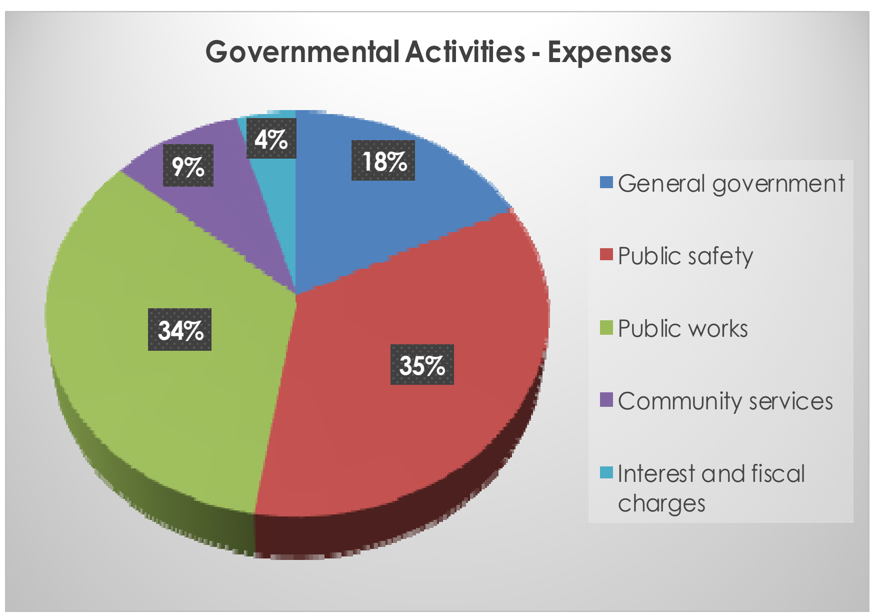
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	$ 12,300,678	$ 12,949,500	$ 35,917,171	$ 33,915,802	$ 48,217,849	$ 46,865,302
Operating grants and contributions	5,561,294	4,355,948	-	-	5,561,294	4,355,948
Capital grants and contributions	23,342,227	20,712,430	12,257,482	11,055,000	35,599,709	31,767,430
General revenues:						
Ad valorem taxes	40,748,850	37,399,738	-	-	40,748,850	37,399,738
Sales taxes	17,655,640	16,540,938	-	-	17,655,640	16,540,938
Franchise and local taxes	6,814,218	6,310,103	-	-	6,814,218	6,310,103
Investment earnings	624,550	265,120	437,569	239,106	1,062,119	504,226
Other revenue	944,313	301,647	-	-	944,313	301,647
Total revenues	107,991,770	98,835,424	48,612,222	45,209,908	156,603,992	144,045,332
Expenses:						
General government	14,911,180	12,708,386	-	-	14,911,180	12,708,386
Public safety	29,303,994	25,671,021	-	-	29,303,994	25,671,021
Public works	28,656,932	23,489,631	-	-	28,656,932	23,489,631
Community services	7,825,726	8,358,265	-	-	7,825,726	8,358,265
Interest and fiscal charges	3,630,628	4,038,467	-	-	3,630,628	4,038,467
Water and sewer	-	-	26,386,028	28,164,959	26,386,028	28,164,959
Total expenses	84,328,460	74,265,770	26,386,028	28,164,959	110,714,488	102,430,729
Excess (deficiency) of revenues over (under) expenses	23,663,310	24,569,654	22,226,194	17,044,949	45,889,504	41,614,603
Transfers in/(out)	2,553,175	2,831,158	(2,553,175)	(2,831,158)	-	-
Gain (loss) on sale of capital assets	-	1,015,762	-	5,984	-	1,021,746
Changes in net position	26,216,485	28,416,574	19,673,019	14,219,775	45,889,504	42,636,349
Beginning net position	253,803,769	225,387,195	213,219,915	199,000,140	467,023,684	424,387,335
Ending net position	$ 280,020,254	$ 253,803,769	$ 232,892,934	$ 213,219,915	$ 512,913,188	$ 467,023,684



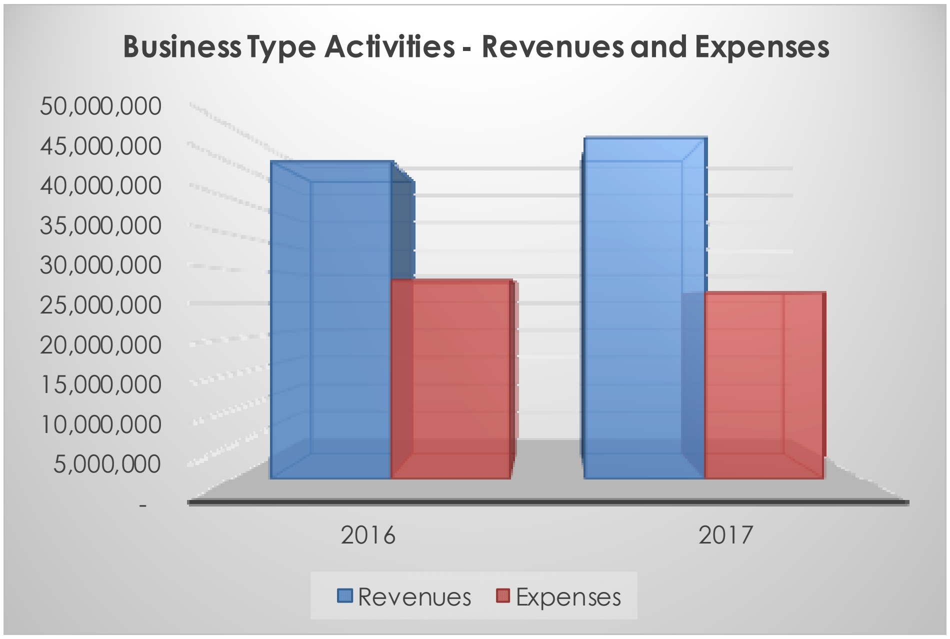
For the year ended September 30, 2017, total revenues from governmental activities were $107,996,770, compared with $98,835,424, in the prior year. This $9,156,346 increase is due to increases in capital grants and contributions of $2,629,797, operating grants and contributions of $1,205,346, ad valorem taxes of $3,349,112, and sales taxes of $1,114,702. These increases were offset by a decrease in charges for services of $(648,822).

While City Council continued to reduce property taxes through 1) increased local option homestead exemption to the maximum 20% of assessed value and 2) reduction of the property tax rate (from $0.5735 to $0.57 per $100 valuation), ad valorem revenue continues to increase through expanded residential and commercial development, along with overall increases in property values. Sales tax revenue increased as a result of a boost in retail sales in the City due to continued improvement in economic conditions and growth in retail development in the City. Capital grants and contributions and operating grants and contributions increased for governmental activities by $2,629,797 and $1,205,346, respectively, due to increases in operating grants related to Hurricanes Harvey and Ike and contributions from the dissolution of Galveston County MUD #13.

Governmental expenses increased by $10,062,690. This increase is primarily due to increased cost in public safety related to additional personnel, increased spending in public works related to street, sidewalk and solid waste activities, and capital projects.



Business-type revenues increased by $3,402,314 from the prior period, including a $1,202,482 increase in capital contributions, and an increase in service revenue of $2,001,369. The increase in service revenue is due to a 3% increase in customers.



Financial Analysis of the City's Funds

As noted earlier, fund accounting is used to demonstrate and ensure compliance with finance-related legal requirements.

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

The City's governmental funds reflect a combined fund balance of $78,570,385. This balance is restricted, assigned and unassigned as follows:

Nonspendable	$	191,763
Restricted for:		
Debt service		5,000,017
Capital projects		16,630,415
Municipal court		49,563
Hotel occupancy tax		1,411,290
Public access channel		1,368,169
FEMA disaster recovery		1,246,317
Tax increment reinvestment zone		11,368,200
Public improvement district		1,836,628
Assigned to:		
Operating reserve		21,996,295
Special revenue funds		2,934,011
Capital projects funds		13,552,715
Unassigned		985,002
	$	78,570,385

There was an increase in the combined fund balance of all governmental funds of $6,676,101 from the prior year. This is primarily due to the $4.9 million increase in the 2017 Certificates of Obligation fund, $5.8 million increase in the Reinvestment Capital Fund and $1.7 million increase in the Hurricane Harvey Fund offset by a $4.8 million decrease in the General Fund. The 2017 Certificates of Obligation is a new fund that received the proceeds of the 2017 debt issue and the Hurricane Harvey Fund was established to account for activities related to this 2017 storm.

The General Fund is the chief operating fund of the City. At the end of the current year, total fund balance was $23,642,003. As a measure of the general fund's liquidity, it may be useful to compare total fund balance to total fund expenditures. Total fund balance represents 40.9 percent of general fund operating expenditures. At year end, the City's 110 day operating reserve was $21,996,295, representing 38.0 percent of general fund operating expenditures.

Proprietary Funds – The City's proprietary funds financial statements provide the same type of information found in the government-wide financial statements, but in more detail.

General Fund Budgetary Highlights

The amended budget included a planned decrease in General Fund balance of $6,953,591. The final fund balance for the year decreased $4,800,164. Total revenues were less than the amended budget by $1,013,819. Actual sales taxes were less than the budget by $1,382,614, licenses and fee revenue was less than budget by $1,170,166 and fines and forfeitures were less than budget by $154,856. The remaining revenue lines showed positive budget variances, except for intergovernmental revenues.

Total expenditures were under the amended budget by $3,177,147. This positive variance from the amended budget was primarily a result of savings within the personnel category due to vacant positions during the year and departments displaying restraint and good stewardship in purchasing supplies and equipment.

Capital Assets. At the end of year 2017, the City's governmental and business-type activities had invested $642,959,811 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of $374,457,725 from 2016.

Major capital asset events during the current year include the following:

- Developer contributions of infrastructure in the amount of $19,411,125 for governmental activities and $6,607,133 for business-type activities
- East Side Elevated Water Tower construction in the amount of $2,682,516
- Calder Road Booster Pump Station construction in the amount of $1,773,521
- Waterline Replacements construction in the amount of $1,014,949
- Sanitary Sewer Rehabilitation construction in the amount of $3,152,643
- Replace 42-inch waterline in South Shore Harbor 3 in the amount of $1,063,879
- Main Street/Downtown construction in the amount of $1,260,816
- Shellside Stormwater Management construction in the amount of $1,035,804

More detailed information about the City's capital assets is presented in Note 5 to the financial statements.

Long-Term Debt. At the end of the current year, the City had total bonds and certificates of obligation outstanding of $246,375,001. Of this amount, $92,625,001 was general obligation debt, $12,655,000 was revenue bond debt, $140,110,000 was certificates of obligation, and contract revenue bonds accounted for the remaining $985,000. Current underlying ratings on both General Obligation and Water and Sewer System Revenue Bonds are Aa1 and AA from Moody's Investors Service and Standard and Poor's, respectively.

More detailed information about the City's long-term liabilities is presented in Note 6 to the financial statements.

Economic Factors and Next Year's Budget

League City, like the region in which it is located, has been characterized by steady long-term growth, resilient economic performance, and a climate and geography considered attractive to families and businesses. In recent years, the City has experienced growth significantly above its historical trend that coincided with the national housing boom and regional energy boom. In the late 2008, the "Great Recession" occurred, slowing growth in the region and in League City as well. In spite of job losses at NASA's Johnson Space Center (JSC) that occurred between 2010 and 2013, the City experienced an increase in its growth rate from 2.3% in 2010 to 3.5% in December of 2013. And that growth continues, at a rate of 2.9 in 2017.

While the energy industry has been hit hard by the precipitous drop in oil prices, the Houston economy as a whole, and League City specifically, seem poised to weather the storm. With other sectors of the economy continuing to recover, and energy jobs being replaced, in part, by a construction boom, the Houston area expects to continue to do well. Meanwhile, League City continues to see new construction growth in all types of property. Sales tax continues to grow at record levels, indicating a strong local economy.

The City's financial planning and reporting processes to monitor the impact of the economy on major revenues have continued into fiscal year 2018. Sales taxes continue to be systematically compared with water customers, energy employment, local business conditions, and growth in the local retail base to better understand current trends in this volatile revenue source. The City continues to plan long term. A five-year operating forecast, Long Range Financial Forecast (LRFF), is prepared annually measuring the impact of economic change and program demands on the operating budget. The LRFF also includes a study of debt capacity using conservative growth and interest rate assumptions that is used to provide a financing plan for the five-year capital improvement plan.

To date, revenue and expenditure trends are tracking closely with budget assumptions. Major revenue sources are generally on budget and expenditures appear to be within budget.

Contacting Financial Management

This financial report is designed to provide a general overview of the finances of the City. Questions concerning this report or requests for additional financial information should be directed to the Office of the Director of Finance, 300 West Walker, League City, TX, 77573, telephone 281-554-1368, or for general City information, visit the City's website at www.leaguecity.com.

Basic Financial Statements

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City of League City, Texas
Statement of Net Position
September 30, 2017

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
ASSETS				
Cash and cash equivalents	$ 61,260,356	$ 5,566,457	$ 66,826,813	$ 4,577,351
Investments	24,127,325	999,903	25,127,228	-
Receivables, net	12,611,262	6,532,088	19,143,350	510,506
Restricted cash and cash equivalents	1,544,699	45,377,974	46,922,673	656,661
Restricted investments	-	17,517,343	17,517,343	-
Inventories	32,015	111,484	143,499	-
Prepaid items	191,763	56,502	248,265	-
	99,767,420	76,161,751	175,929,171	5,744,518
Capital assets:				
Non-depreciable	43,526,376	46,792,864	90,319,240	-
Net depreciable capital assets	285,400,267	267,240,304	552,640,571	-
Total capital assets	328,926,643	314,033,168	642,959,811	-
Total assets	428,694,063	390,194,919	818,888,982	5,744,518
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	1,455,224	1,653,081	3,108,305	-
Deferred resource outflow related to net pension liability	7,109,879	1,236,029	8,345,908	-
Total deferred outflow of resources	8,565,103	2,889,110	11,454,213	-
Total assets and deferred outflows of resources	437,259,166	393,084,029	830,343,195	5,744,518
LIABILITIES				
Accounts payable and accrued liabilities	10,064,386	2,354,382	12,418,768	271,105
Accrued interest payable	566,686	762,126	1,328,812	-
Customer deposits	22,249	935,502	957,751	-
Unearned revenue	52,619	-	52,619	
Total current liabilities	10,705,940	4,052,010	14,757,950	271,105
Noncurrent liabilities:				
Due within one year	12,214,475	8,816,605	21,031,080	-
Due in more than a year	108,923,622	142,400,890	251,324,512	-
Net pension liability	23,739,646	4,127,058	27,866,704	-
Total noncurrent liabilities	144,877,743	155,344,553	300,222,296	-
Total liabilities	155,583,683	159,396,563	314,980,246	271,105
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on issuance of refunding bonds	168,750	536,113	704,863	-
Deferred resource inflows related to net pension liability	1,486,479	258,419	1,744,898	-
Total deferred inflow of resources	1,655,229	794,532	2,449,761	-
Total liabilities and deferred inflows of resources	157,238,912	160,191,095	317,430,007	271,105
NET POSITION				
Net investment in capital assets	233,051,773	220,085,019	453,136,792	-
Restricted for:				
Debt service	4,956,121	4,659,939	9,616,060	656,661
Municipal court	49,563	-	49,563	-
Hotel occupancy tax	1,411,290	-	1,411,290	-
Public access channel	1,368,169	-	1,368,169	-
FEMA disaster recovery	1,246,317	-	1,246,317	-
Tax increment reinvestment	11,368,200	-	11,368,200	-
Public improvement district	1,836,628	-	1,836,628	-
Unrestricted	24,732,193	8,147,976	32,880,169	4,816,752
TOTAL NET POSITION	$ 280,020,254	$ 232,892,934	$ 512,913,188	$ 5,473,413

The Notes to the Basic Financial Statements are an integral part of these statements.

City of League City, Texas
Statement of Activities
For the Fiscal Year Ended September 30, 2017

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	$ 14,911,180	$ 5,895,457	$ 12,563	$ -
Public safety	29,303,994	2,088,921	926,412	-
Public works	28,656,932	3,247,930	2,933,096	23,342,227
Community services	7,825,726	1,068,370	1,689,223	-
Interest and fiscal agent fees	3,630,628	-	-	-
Total governmental activities	84,328,460	12,300,678	5,561,294	23,342,227
Business-type activities:				
Water and sewer	26,386,028	35,917,171	-	12,257,482
Total business-type activities	26,386,028	35,917,171	-	12,257,482
TOTAL PRIMARY GOVERNMENT	$ 110,714,488	$ 48,217,849	$ 5,561,294	$ 35,599,709
COMPONENT UNITS				
Governmental activities	$ 2,410,419	$ -	$ 136,192	$ -
TOTAL COMPONENT UNITS	$ 2,410,419	$ -	$ 136,192	$ -

GENERAL REVENUES
Ad valorem taxes
Sales taxes
Franchise and local taxes
Investment earnings
Other revenues
Transfers

Total general revenues and transfers

Change in net position

Beginning net position

ENDING NET POSITION

The Notes to the Basic Financial Statements are an integral part of these statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			
Governmental Activities	Business-Type Activities	Total	Component Units
$ (9,003,160)	$ -	$ (9,003,160)	$ -
(26,288,661)	-	(26,288,661)	-
866,321	-	866,321	-
(5,068,133)	-	(5,068,133)	-
(3,630,628)	-	(3,630,628)	-
(43,124,261)	-	(43,124,261)	-
-	21,788,625	21,788,625	-
-	21,788,625	21,788,625	-
$ (43,124,261)	$ 21,788,625	$ (21,335,636)	$ -
-	-	-	(2,274,227)
-	-	-	(2,274,227)
40,748,850	-	40,748,850	-
17,655,640	-	17,655,640	2,942,607
6,814,218	-	6,814,218	-
624,550	437,569	1,062,119	31,457
944,313	-	944,313	-
2,553,175	(2,553,175)	-	-
69,340,746	(2,115,606)	67,225,140	2,974,064
26,216,485	19,673,019	45,889,504	699,837
253,803,769	213,219,915	467,023,684	4,773,576
$ 280,020,254	$ 232,892,934	$ 512,913,188	$ 5,473,413

City of League City, Texas
Balance Sheet – Governmental Funds
September 30, 2017

	General Fund	Debt Service	Nonmajor Governmental	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 4,148,727	$ 4,028,199	$ 46,303,069	$ 54,479,995
Investments	16,132,795	999,611	4,995,801	22,128,207
Receivables, net	8,167,401	423,130	3,760,813	12,351,344
Restricted cash and cash equivalents	-	-	1,402,868	1,402,868
Due from other funds	496,616	-	181,824	678,440
Prepaid items	164,506	-	27,257	191,763
TOTAL ASSETS	$ 29,110,045	$ 5,450,940	$ 56,671,632	$ 91,232,617
LIABILITIES				
Accounts payable and accrued liabilities	$ 3,873,820	$ 43,831	$ 5,382,567	$ 9,300,218
Customer deposits	17,349	-	4,900	22,249
Due to other funds	-	-	678,440	678,440
Unearned revenue	7,240	-	33,020	40,260
Total liabilities	3,898,409	43,831	6,098,927	10,041,167
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - court fines and warrants	773,237	-	-	773,237
Unavailable revenue - property taxes	796,396	407,092	1,821	1,205,309
Unavailable revenue - interlocal reimbursement	-	-	622,974	622,974
Unavailable revenue - special assessments	-	-	19,545	19,545
Total deferred inflows of resources	1,569,633	407,092	644,340	2,621,065
FUND BALANCES				
Nonspendable:				
Prepaid items	164,506	-	27,257	191,763
Restricted for:				
Debt service	-	5,000,017	-	5,000,017
Capital projects	-	-	16,630,415	16,630,415
Municipal court	-	-	49,563	49,563
Hotel occupancy tax	-	-	1,411,290	1,411,290
Public access channel	-	-	1,368,169	1,368,169
FEMA disaster recovery			1,246,317	1,246,317
Tax increment reinvestment zone	-	-	11,368,200	11,368,200
Public improvement district	-	-	1,836,628	1,836,628
Assigned to:				
Operating reserve	21,996,295	-	-	21,996,295
Special revenue funds	-	-	2,934,011	2,934,011
Capital project funds	-	-	13,552,715	13,552,715
Unassigned	1,481,202	-	(496,200)	985,002
Total fund balances	23,642,003	5,000,017	49,928,365	78,570,385
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	$ 29,110,045	$ 5,450,940	$ 56,671,632	$ 91,232,617

The Notes to the Basic Financial Statements are an integral part of these statements.

City of League City, Texas
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
September 30, 2017

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS		$ 78,570,385
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the governmental funds.		
Capital assets - non depreciable	$ 43,526,376	
Capital assets - depreciable	280,408,405	
		323,934,781
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.		2,621,065
Internal service funds are used by management to charge the costs of certain capital assets to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the statement of net position.		13,428,578
Some liabilities and assets including bonds payable, deferred outflows of resources, and deferred inflows of resources are not reported in the governmental funds.		
Net pension liability	(23,739,646)	
Accrued interest	(566,686)	
Deferred charge on refunding	1,455,224	
Deferred gain on refunding	(168,750)	
Deferred resource outflow related to net pension liability	7,109,879	
Deferred resource inflow related to net pension liability	(1,486,479)	
Non-current liabilities due in one year	(12,214,475)	
Non-current liabilities due in more than one year	(108,923,622)	
		(138,534,555)
NET POSITION OF GOVERNMENTAL ACTIVITIES		$ 280,020,254

The Notes to the Basic Financial Statements are an integral part of these statements.

City of League City, Texas

Statement of Revenues, Expenditures and Changes
in Fund Balances – Governmental Funds
For the Fiscal Year Ended September 30, 2017

	General Fund	Debt Service	Nonmajor Governmental	Total Governmental Funds
REVENUES				
Ad valorem taxes	$ 27,176,577	$ 10,583,162	$ 2,951,671	$ 40,711,410
Sales taxes	17,655,640	-	-	17,655,640
Franchise and local taxes	5,551,346	-	285,981	5,837,327
Other taxes	346,216	-	630,675	976,891
Licenses and permits	3,112,914	-	-	3,112,914
Fines and forfeitures	1,715,132	-	66,783	1,781,915
Charges for services	7,589,262	-	701,352	8,290,614
Other revenue	1,108,084	-	669,168	1,777,252
Contributions	1,847	1,084,777	2,229,553	3,316,177
Assessments	-	-	1,461,226	1,461,226
Investment earnings	218,437	48,585	300,778	567,800
Intergovernmental	427,256	-	3,851,824	4,279,080
Total revenues	64,902,711	11,716,524	13,149,011	89,768,246
EXPENDITURES				
Current:				
General government	12,100,616	976,608	1,310,196	14,387,420
Public safety	24,586,841	-	2,278,148	26,864,989
Public works	15,501,077	-	6,674,603	22,175,680
Community services	5,028,774	-	1,221,938	6,250,712
Capital outlay	636,499	-	11,481,603	12,118,102
Debt service:				
Principal	-	6,790,044	2,090,000	8,880,044
Interest and fiscal charges	-	3,645,070	452,188	4,097,258
Total expenditures	57,853,807	11,411,722	25,508,676	94,774,205
Excess (deficiency) of revenues over (under) expenditures	7,048,904	304,802	(12,359,665)	(5,005,959)
OTHER FINANCING SOURCES (USES)				
Bond issuances	-	-	8,730,000	8,730,000
Premium on bonds	-	-	735,493	735,493
Proceeds from sale of capital assets	7,186	-	74,460	81,646
Transfers in	3,322,000	-	14,760,000	18,082,000
Transfers (out)	(15,178,254)	-	(768,825)	(15,947,079)
Total other financing sources (uses)	(11,849,068)	-	23,531,128	11,682,060
Net change in fund balances	(4,800,164)	304,802	11,171,463	6,676,101
Fund balances, beginning of year	28,442,167	4,695,215	38,756,902	71,894,284
FUND BALANCES - ENDING	$ 23,642,003	$ 5,000,017	$ 49,928,365	$ 78,570,385

The Notes to the Basic Financial Statements are an integral part of these statements.

City of League City, Texas

Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities

For the Fiscal Year Ended September 30, 2017

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	$ 6,676,101
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Depreciation	(10,955,124)
Capital outlay	13,089,663
Capital contributions by outside entities are not recorded in governmental funds as the contributions do not represent current resources.	19,411,125
Governmental funds report the entire net sales price (proceeds) from sale of an asset as revenue because it provides current financial resources. In contrast, the statement of activities reports only the gain (loss) on the sale of the assets. Thus, the change in net position differs from the change in fund balance by the cost of the asset sold.	(63,968)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(169,351)
The issuance of long-term debt (e.g. bonds, leases, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when it is first issued, whereas these amounts are deferred and amortized in the statement of activities.	
Bond issuances	(8,730,000)
Premium on bond issuances	(735,493)
Acquisition of debt	(1,075,000)
Principal repayments	8,880,044
Amortization of bond premiums	611,075
Amortization of deferred charges on refunding	(110,881)
Amortization of deferred gain on refunding	10,332
Accrued interest	(43,896)
Compensated absences	(292,238)
Net other post employment benefits obligation	(481,122)
Net pension liability	852,334
Deferred resource outflow related to net pension liability	(1,092,808)
Deferred resource inflow related to net pension liability	(834,592)
Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and employee insurance, to individual funds. The net revenue of certain internal service funds is reported with governmental activities.	1,270,284
CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES	$ 26,216,485

The Notes to the Basic Financial Statements are an integral part of these statements.

City of League City, Texas
Statement of Net Position
Proprietary Funds
September 30, 2017

	Business-Type Activities	Governmental Activities
	Water and Wastewater	Internal Service
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,566,457	$ 6,780,361
Investments	999,903	1,999,118
Receivables, net	6,532,088	259,918
Inventories	111,484	32,015
Restricted cash and cash equivalents:		
Customer deposits	981,555	-
Capital projects	39,975,227	-
Debt service	4,421,192	-
Healthcare claims	-	141,831
Restricted investments:		
Capital projects	16,516,470	-
Debt service	1,000,873	-
Prepaid items	56,502	-
Total current assets	76,161,751	9,213,243
Noncurrent assets:		
Capital assets:		
Non-depreciable	46,792,864	-
Net depreciable capital assets	267,240,304	4,991,862
Total capital assets, net of accumulated depreciation	314,033,168	4,991,862
Total noncurrent assets	314,033,168	4,991,862
Total assets	390,194,919	14,205,105
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	1,653,081	-
Deferred resource outflow related to net pension liability	1,236,029	-
Total deferred outflows of resources	2,889,110	-

The Notes to the Basic Financial Statements are an integral part of these statements.

City of League City, Texas
Statement of Net Position
Proprietary Funds – Continued
September 30, 2017

	Business-Type Activities	Governmental Activities
	Water and Wastewater	Internal Service
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 2,354,382	$ 110,922
Accrued interest payable	762,126	-
Customer deposits	935,502	-
Compensated absences	292,949	-
Claims payable	-	653,246
Unearned revenue	-	12,359
Bonds, notes, and loans payable	8,523,656	-
Total current liabilities	12,868,615	776,527
Noncurrent liabilities:		
Compensated absences	218,543	-
Net other post employment benefits obligation	375,533	-
Net pension liability	4,127,058	-
Bonds, notes, and loans payable	141,806,814	-
Total noncurrent liabilities	146,527,948	-
Total liabilities	159,396,563	776,527
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on issuance of refunding bonds	536,113	-
Deferred resource inflows related to net pension liability	258,419	-
Total deferred inflows of resources	794,532	-
Total liabilities and deferred inflows of resources	160,191,095	776,527
NET POSITION		
Net investment in capital assets	220,085,019	4,991,862
Restricted for debt service	4,659,939	-
Unrestricted	8,147,976	8,436,716
TOTAL NET POSITION	$ 232,892,934	$ 13,428,578

The Notes to the Basic Financial Statements are an integral part of these statements.

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City of League City, Texas
Statement of Revenues, Expenses and Changes
in Fund Net Position – Proprietary Funds
For the Fiscal Year Ended September 30, 2017

	Business-Type Activities	Governmental Activities
	Water and Wastewater	Internal Service
OPERATING REVENUES		
Charges for services	$ 35,805,577	$ 9,808,215
Other	111,594	329,608
Total operating revenues	35,917,171	10,137,823
OPERATING EXPENSES		
Personnel	5,632,773	704,936
Contractual services	5,761,003	37,495
Utilities	1,458,324	-
Insurance	-	6,657,772
Repairs and maintenance	1,347,449	685,024
Other supplies and expenses	708,442	19,598
Depreciation	6,266,252	1,021,650
Total operating expenses	21,174,243	9,126,475
Operating income	14,742,928	1,011,348
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	437,569	56,750
Interest expense	(5,211,785)	-
Gain (loss) on disposal of capital assets	-	(216,068)
Total nonoperating revenues (expenses)	(4,774,216)	(159,318)
Income before contributions and transfers	9,968,712	852,030
Capital contributions	12,257,482	-
Transfers, net	(2,553,175)	418,254
Change in net position	19,673,019	1,270,284
Net position - beginning	213,219,915	12,158,294
TOTAL NET POSITION - ENDING	$ 232,892,934	$ 13,428,578

The Notes to the Basic Financial Statements are an integral part of these statements.

City of League City, Texas
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended September 30, 2017

	Business Type Activities	Governmental Activities
	Water and Wastewater	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 34,906,925	$ 9,953,491
Payments to suppliers	(11,483,748)	(7,247,079)
Payments to employees	(5,389,557)	(703,768)
Net cash provided by operating activities	18,033,620	2,002,644
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(19,692,953)	-
Transfers in	17,139,778	418,254
Net cash provided by (used in) noncapital financing activities	(2,553,175)	418,254
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from debt issuances	7,905,000	-
Principal payments on debt	(7,414,954)	-
Acquisition and construction of capital assets	(11,055,968)	(2,138,739)
Proceeds from sale of capital assets	-	24,798
Developers contributions	5,650,349	-
Interest and fiscal charges	(5,142,564)	-
Net cash (used in) capital and related financing activities	(10,058,137)	(2,113,941)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	(4,377,726)	(995,730)
Interest on investments	437,569	56,750
Net cash (used in) investing activities	(3,940,157)	(938,980)
Net increase (decrease) in cash and equivalents	1,482,151	(632,023)
Cash and cash equivalents, beginning of year	49,462,280	7,554,215
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 50,944,431	$ 6,922,192
Unrestricted cash and cash equivalents	$ 5,566,457	$ 6,780,361
Restricted cash and cash equivalents	45,377,974	141,831
TOTAL CASH AND CASH EQUIVALENTS	$ 50,944,431	$ 6,922,192

The Notes to the Basic Financial Statements are an integral part of these statements.

City of League City, Texas
Statement of Cash Flows
Proprietary Funds – Continued
For the Fiscal Year Ended September 30, 2017

	Business Type Activities	Governmental Activities
	Water and Wastewater	Internal Service
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	$ 14,742,928	$ 1,011,348
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,266,252	1,021,650
Change in assets and liabilities:		
Accounts receivable	(971,020)	(196,766)
Due from other funds	-	7,275
Inventories	31,212	(3,295)
Prepaid items	17,964	-
Accounts payable and accrued liabilities	(2,247,759)	31,067
Claims payable	-	126,206
Unearned revenue	-	5,159
Compensated absences	(34,541)	-
Customer deposits	(39,226)	-
Net other post employment benefits obligation	76,204	-
Net pension liability	191,606	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 18,033,620	$ 2,002,644
NONCASH CAPITAL ACTIVITIES CAPITAL ASSETS CONTRIBUTED DURING THE YEAR	$ 6,607,133	$ -
CAPITAL ASSETS FINANCED WITH ACCOUNTS PAYABLE	$ 667,485	$ -

The Notes to the Basic Financial Statements are an integral part of these statements.

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City of League City, Texas
Statement of Net Position
Discretely Presented Component Units
September 30, 2017

	4B Industrial Development Corporation	Volunteer Fire Department	Total Discretely Presented Component Units
ASSETS			
Cash and cash equivalents	$ 4,502,646	$ 74,705	$ 4,577,351
Receivables, net	510,506	-	510,506
Restricted cash and cash equivalents	656,661	-	656,661
Total assets	5,669,813	74,705	5,744,518
LIABILITIES			
Accounts payable and accrued liabilities	271,105	-	271,105
Total liabilities	271,105	-	271,105
NET POSITION			
Restricted	656,661	-	656,661
Unrestricted	4,742,047	74,705	4,816,752
TOTAL NET POSITION	$ 5,398,708	$ 74,705	$ 5,473,413

The Notes to the Basic Financial Statements are an integral part of these statements.

City of League City, Texas
Statement of Activities
Discretely Presented Component Units
For the Fiscal Year Ended September 30, 2017

	Expenses	Programs Revenues: Charges for Services	Programs Revenues: Operating Grants and Contributions
COMPONENT UNITS			
4B Industrial Development Corporation	$ 2,389,653	$ -	$ 105,992
Volunteer Fire Department	20,766	-	30,200
TOTAL COMPONENT UNITS	$ 2,410,419	$ -	$ 136,192

GENERAL REVENUES
Sales tax
Investment earnings
Total general revenues
Change in net position
Beginning net position
ENDING NET POSITION

The Notes to the Basic Financial Statements are an integral part of these statements.

4B Industrial Development Corporation	Volunteer Fire Department	Total
$ (2,283,661)	$ -	$ (2,283,661)
-	9,434	9,434
(2,283,661)	9,434	(2,274,227)
2,942,607	-	2,942,607
31,457	-	31,457
2,974,064	-	2,974,064
690,403	9,434	699,837
4,708,305	65,271	4,773,576
$ 5,398,708	$ 74,705	$ 5,473,413

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Note 1. Summary of Significant Accounting Policies

A. Financial Reporting Entity

The City of League City, Texas (the City) was incorporated in May 1962 and adopted a "Home Rule Charter" which provided for a "Mayor-Council" form of government. In May 2010, the voters of the City approved various amendments to the City charter, including adoption of the Council Manager form of government and the creation of the office of the City Manager. A Mayor and seven Council members are elected by voters of the City at large for four year terms.

The City Council is the principal legislative and administrative body of the City. Subject to confirmation of the City Council, the Mayor has the power to appoint all boards, commissions, agencies, and officers provided for in the charter or by ordinance. The Mayor is the presiding officer of the City Council.

The City Manager is the head of the administrative departments of the City and is the supervisor of all administrative officers, employees, directors, and department heads, with the exception of the City Attorney, City Secretary, and the City Auditor. Departments and agencies of the City submit budget requests to the City Manager.

The City provides the following services: public safety (police, fire, and EMS), public works, water and sewer services, solid waste collection and disposal (contract), community services, and general government.

The City is an independent political subdivision of the State of Texas governed by an elected Council and a Mayor and is considered the primary government. As required by generally accepted accounting principles, these basic financial statements have been prepared based on considerations regarding the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. The component units, as listed below, although legally separate, are considered part of the reporting entity. No other entities have been included in the City's reporting entity. Additionally, as the City is considered the primary government for financial reporting purposes, its activities are not considered a part of any other governmental or other type of reporting entity.

Considerations regarding the potential for inclusion of other entities, organizations, or functions in the City's financial reporting entity are based on criteria prescribed by generally accepted accounting principles. These same criteria are evaluated in considering whether the City is a part of any other governmental or other type of reporting entity. The overriding elements associated with the prescribed criteria considered in determining that the City's financial reporting entity status is that of the primary government are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Additionally, prescribed criteria include considerations pertaining to organizations for which the primary government is financially accountable and considerations pertaining to organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Discretely Presented Component Units
The aggregate governmental discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government.

City of League City Section 4B Industrial Development Corporation
All powers of the Section 4B Industrial Development Corporation (the Corporation) are vested in a Board consisting of seven persons who are appointed by the City Council. The Board acts on behalf of the City in administering the provisions of Section 4B, Article 5190.6, of the Development Act of 1979, State of Texas. The Corporation is funded by a one-quarter percent local sales and use tax approved by local voters. The Corporation is fiscally dependent on the City because the capital budgets are approved by City Council. In addition, the Corporation is prohibited from issuing bonded debt without approval of the City Council. The projects developed by the Corporation serve the citizens of the City.

League City Volunteer Fire Department
The members of the governing board are appointed by City Council. A budget is approved annually to provide fire protection to the citizens of the City. In fiscal year 2011, the City hired a full time fire chief, who provides leadership and direction for the volunteer fire department and the volunteers.

Blended Component Units
The following blended component units are reported with the primary government:

City of League City Tax Increment Reinvestment Zone (TIRZ) No. Two – Victory Lakes
Five of the seven members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The Clear Creek Independent School District is a participant in this TIRZ and appoints one member to the Board. The County of Galveston is also a participant and appoints the remaining member of the Board. This entity was created to provide the financing and management tools needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District created in conjunction with the TIRZ. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs. On January 24, 2017, the City Council approved a resolution to amend the Interlocal agreements between the City of League City, the City of League City Tax Reinvestment Zone #2, the Clear Creek Independent School District and Galveston County. These amendments will discontinue the participation of the School District and the County in the Zone. The City will continue to participate in the Zone until the final projects which the City is funding are complete.

City of League City Tax Increment Reinvestment Zone (TIRZ) No. Three – CenterPointe
Six of the seven members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The remaining board member is appointed by the County of Galveston. This entity was created to provide the financing and management tools needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ Board also oversees the operations of the Public Improvement District created in conjunction with the TIRZ. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs.

City of League City Tax Increment Reinvestment Zone (TIRZ) No. Four – Westwood
Six of the nine members of the governing Board are appointed by City Council as dictated by Chapter 311 of the Texas Tax Code. The remaining board members are represented by a County of Galveston appointee, the State Senator for the area or designee, and the State Representative for the area or designee. This entity was created to provide the financing and management tools needed to facilitate the development of a master planned community and business park within the boundaries of the City. The TIRZ allows developers to create the infrastructure to the master planned community and business park. As the developer of the master planned community completes infrastructure improvements within the TIRZ, the City takes title to the infrastructure and the TIRZ is responsible for reimbursing the developer for the infrastructure costs.

City of League City Public Improvement District (PID) No. One – Magnolia Creek
City Council approved an ordinance terminating Tax Increment Reinvestment Zone (TIRZ) No. One on August 14, 2010. However, the TIRZ Board continues to oversee the operations of the PID created in conjunction with the TIRZ. The PID was created to assist in the financing of the residential costs of a master planned community. The revenues are derived from an assessment levied against each residential lot and are used to reimburse the developer for infrastructure costs. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years. In 2013, two sections of the four existing sections of this development were reassessed at a significant reduction in assessment rate. Excess funds were available and a claims process was initiated. After the receipt of multiple, competing claims for the funds, the funds were placed in the registry of state court and a court action was initiated. On March 13, 2015, a judge ruled on the distribution of the contested claims and the City recorded a liability of $1,382,495 for potential refunds. See Note 13 for subsequent court decision regarding disbursement of funds.

City of League City Public Improvement District (PID) No. Two – Victory Lakes
The City of League City Tax Increment Reinvestment Zone (TIRZ) No. Two - Victory Lakes Board oversees the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

City of League City Public Improvement District (PID) No. Three – CenterPointe
The City of League City Tax Increment Reinvestment Zone (TIRZ) No. Three – Center Pointe Board oversees the operations of the PID created in conjunction with the TIRZ. This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 15 to 20 years.

City of League City Public Improvement District (PID) No. Five – Park on Clear Creek
This entity was created to assist in the financing of the residential cost of a master planned community. The revenues are derived from an assessment levied against each residential lot. The assessment can be paid in full at the time of final occupancy or may be financed for a period of 25 years. The City Council has dissolved the board and now functions on their behalf.

The component units identified above are included in the City's reporting entity because of the significance of their operational or financial relationship with the City. The City appoints a majority of these organizations' boards and is either able to impose its will on them or a financial benefit/burden exists.

TIRZ No. One, a previous component unit of the City, was dissolved during fiscal year 2010. The remaining funds are to be used by the City to complete certain infrastructure improvements within the TIRZ.

Complete financial statements of the individual component units can be obtained directly from the administrative offices of the City.

Not included as part of the City's reporting entity are 12 municipal utility districts (MUDs). The City acts as an "operator" of these facilities. The City rebates 2 of the MUDs from 35 to 40 percent of the taxes levied and collected within the MUDs but does not guarantee the debt of the MUDs. The MUDs' Boards of Directors are elected officials and the City exercises no control over the Boards of Directors. The MUDs construct the facilities and issue bonds to finance such facilities. The MUDs release their security interest in the facilities to the City, and the City operates and maintains the systems. Galveston County MUD #13 was dissolved during fiscal year 2017.Galveston County MUD #3 and South Shore Harbour MUD #6 were dissolved during fiscal year 2015. Galveston County MUD #2, South Shore Harbour MUD #2 and South Shore Harbour MUD #3 were dissolved during fiscal years 2014, 2012, and 2011, respectively. The City took over any outstanding debt of these entities.

Also, not included as part of the reporting entity is the Westwood Management District. This development district is funded through a property tax with no City rebate. The initial Board was appointed by the City Council, but the City does not exercise control over the Board nor does the City guarantee the debt of the District.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component units. Governmental activities, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from business-type activities, which rely to a significant extent on fees and charges to external customers for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

C. Basis of Presentation – Government-Wide Financial Statements

While separate government-wide and fund financial statements are presented, they are interrelated. The governmental activities column incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds and proprietary funds.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments in lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the City's water and wastewater functions and various other functions of the City. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

D. Basis of Presentation – Fund Financial Statements

The fund financial statements provide information about the City's funds, including its blended component units. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and community services. The general fund is always considered a major fund for reporting purposes.

The *debt service* fund is used to account for the payment of interest and principal on all general obligation bonds and other long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue* funds are used to account for proceeds of specific revenue sources that are legally restricted, committed or assigned to expenditures for specified purposes. The special revenue funds are considered nonmajor funds for reporting purposes.

The *capital projects funds* are used to account for the expenditures of resources accumulated from the sale of long-term debt, committed operating funds, designated special revenues, and related interest earnings for capital improvement projects. The capital projects are considered nonmajor funds for reporting purposes.

The City reports the following enterprise fund:

The enterprise fund is used to account for the operations that provide water and wastewater collection and wastewater treatment operations. The services are financed and operated in a manner similar to private business enterprises where the intent of the governing body is that the costs of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges. The water and wastewater fund is considered a major fund for reporting purposes.

Additionally, the City reports the following fund type:

Internal service funds account for services provided to other departments or agencies of the primary government, or to other governments, on a cost reimbursement basis. The City's internal service funds are used to account for motor pool services and the capital replacement of vehicles and equipment for the City's fleet, which are financed from systematic transfers from general governmental and enterprise funds, and to account for insurance benefits provided to City employees.

During the course of operations, the City has activity between funds for various purposes. Any residual balances outstanding at year end are reported as due from/to other funds and advances to/from other funds. While these balances are reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Balances between the funds included in governmental activities (i.e., the governmental and internal service funds) are eliminated so that only the net amount is included as internal balances in the governmental activities column. Similarly, balances between the funds included in business-type activities (i.e., the enterprise funds) are eliminated so that only the net amount is included as internal balances in the business-type activities column.

Further, certain activity occurs during the year involving transfers of resources between funds. In fund financial statements, these amounts are reported at gross amounts as transfers in/out. While reported in fund financial statements, certain eliminations are made in the preparation of the government-wide financial statements. Transfers between the funds included in governmental activities are eliminated so that only the net amount is included as transfers to business-type activities in the governmental activities column. Similarly, balances between the funds included in business-type activities are eliminated so that only the net amount is included as transfers to governmental activities in the business-type activities column.

E. Measurement Focus/Basis of Accounting

The accounting and financial reporting treatment is determined by the applicable measurement focus and basis of accounting. Measurement focus indicates the type of resources being measured such as current financial resources or economic resources. The basis of accounting indicates the timing of transactions or events for recognition in the financial statements.

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

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

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

F. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

The City maintains a pooled cash account. Each fund whose monies are deposited in the pooled cash account has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit are displayed on the combined balance sheet as "cash and cash equivalents." For cash management purposes, the City has a sweep arrangement with the bank to transfer cash balances to a money market mutual fund account each day. Cash in excess of current requirements is invested in various interest-bearing securities or certificates of deposit and disclosed as part of the City's investments.

G. Investments

The City reports all investments at fair value, with the exception of certificates of deposit which are carried at cost and investment pools. The carrying value of investment pools is determined by the valuation policy of the investment pool, either at amortized cost or net asset value of the underlying pool shares. The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

Direct obligations of the U.S. Government or U.S. Government agencies
Obligations of the state of Texas or its agencies
Fully collateralized certificates of deposit
Money market mutual funds that meet certain criteria
Government/Private Sponsored Investment Funds that meet certain criteria
Banker's acceptance
Statewide investment pools

H. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

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

I. Restricted Assets

Certain proceeds of bonds, as well as other resources set aside for specific purposes, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants or contractual agreements. Restricted assets of the enterprise fund are restricted by bond covenants for repayment of debt and to finance construction projects.

J. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effects of capitalization materially impact the financial statements.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Property, plant, and equipment of the primary government are depreciated using the straight-line method over the following estimated useful years:

Asset Description	Estimated Useful Life
Buildings and improvements	30 years
Equipment	5 years
Water rights	50 years
Water and sewer system	50 years
Infrastructure	50 years

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category. They are the deferred charge on refunding bonds and deferred resource outflow related to the net pension liability which are reported in the government-wide and proprietary fund statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred resource outflow related to net pension liability results from differences in projected and actual earnings on plan investments and contributions made subsequent to the measurement date.

In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position or fund balance that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The City has four types of items, which under the modified accrual basis of accounting, qualify for reporting in this category. The governmental funds report unavailable revenues from property taxes, court fines and warrants, special assessments and interlocal reimbursement. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. Additionally, the City has two types of items which are reported in the government-wide and proprietary fund statement of net position. These items are deferred gain on issuance of refunding bonds and deferred resource inflow related to net pension liability. Deferred gain on issuance of refunding bonds results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The deferred resource inflow related to net pension liability results from differences in expected and actual experience.

L. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Accrual rates for all regular full-time employees, excluding Civil Service and Emergency Medical Service employees, shall accrue the following hours of vacation.

Length of Service (Months)	Maximum Vacation Leave Accrual
6 month - 4 years	10 work days
5 - 9 years	15 work days
10 - 14 years	20 work days
15 -19 years	25 work days
Over 20 years	30 work days

Regular full-time employees hired after August 1, 2015 will have an annual cap of 20 work days beginning on their 10th year of employment with the City. Regular full-time employees hired prior August 1, 2015 will have an annual cap of 30 work days beginning on their 20th year of employment with the City. Unused vacation accumulated, up to certain amounts, may be paid to employees upon termination of employment. Vacation leave accruals in excess of two years' accrual will be forfeited at the end of the calendar year.

Regular full-time non-Civil Service employees will accrue sick leave at the rate of four hours per pay period for 24 pay periods per year which equates to 12 days per year. Non-Civil Service employees with ten years of completed service will, upon separation of employment, receive the cash value of accrued sick leave, up to a cap of 360 hours. Employees employed prior to August 1, 2015, who officially retire from City employment, will receive the cash value of accrued sick leave, up to a cap of 720 hours. Civil Service employees will be paid sick leave up to a maximum of 720 hours upon separation.

M. Long-Term Obligations

Long-term debt is recognized as a liability of a governmental fund when due, or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be paid from expendable available financial resources is reported as a fund liability of a governmental fund. The remaining portion of such obligations is reported in the government-wide financial statements. Long-term liabilities expected to be paid from proprietary fund operations are accounted for in those funds.

The government-wide financial statements and proprietary fund type fund financial statements report long-term debt and other long-term liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are amortized over the life of the bond using the effective interest method. Bonds payable are reported net of applicable bond premiums or discounts.

The fund financial statements report bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums or discounts associated with the debt are reported as other financing sources or uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

N. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

O. Net Position Flow Assumption

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted-net position and unrestricted–net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied. It is the City's policy to consider restricted net position to have been depleted before unrestricted net position is applied.

P. Fund Balance Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements, a flow assumption must be made about the order in which resources are considered to be applied. It is the City's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Q. Fund Balance Policies

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance).

Nonspendable fund balance represents amounts that cannot be spent because they are either in nonspendable form (such as inventory or prepaid insurance) or are legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted fund balance represents amounts that are constrained by external parties, constitutional provisions, or by enabling legislation.

The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the City's highest level of decision-making authority. The City Council is the highest level of decision-making authority for the City that can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the action remains in place until a similar action is taken to remove or revise the limitation.

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment. The City Council has adopted a policy to maintain a minimum fund balance assigned for operating reserves in the general fund of 110 days of current year operating expenditures. Fund balances are assigned or restricted in the special revenue funds based on the designated purpose of each fund.

R. Encumbrances

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders, contracts) outstanding at year-end are reported as restricted, committed, or assigned fund balances as appropriate. The encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

Encumbrances are reported in the financial statements as restricted or assigned for specific purposes in the governmental funds. As of September 30, 2017, significant encumbrances included in governmental fund balances are as follows:

	Encumbrances Included in:	
	Restricted Fund Balance	Assigned Fund Balance
General fund	$ -	$ -
Nonmajor governmental	10,816,627	620,131
Total encumbrances	$ 10,816,627	$ 620,131

S. Post-Employment Healthcare Benefits

The City provides post-employment healthcare benefits as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by employees who elect coverage under COBRA, and the City incurs no direct costs. In January 2004, the City approved the payment of health insurance premiums for eligible retirees. Coverage is offered to those employees who retire at age 60 or older, with 20 years of TMRS experience and the most recent five years with League City. The retiree cost for health insurance will be covered until the retiree reaches the age of 65. At this time, the retiree would then be eligible for the Medicare Part B coverage at their own expense.

T. Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

U. Program Revenues

Amounts reported as program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions (including special assessments) that are restricted to meeting the operational or capital requirements of a particular function or segment. All taxes, including those dedicated for specific purposes, and other internally dedicated resources are reported as general revenues rather than as program revenues.

V. Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

W. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

Note 2. Stewardship, Compliance, and Accountability

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt a project length budget. In addition, the following special revenue funds do not have an adopted budget: TIRZ No. One, Two, Three, and Four, PID No. One, Two, Three, and Five, Galveston County MUD#2, TDRA Disaster Recovery Fund, Special Assessments Fund, CDBG Fund, Disaster Preparedness Donation, and Severe Repetitive Loss Grant Fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget, as defined by the charter, is at the department level for all funds. Appropriations lapse at the end of the year, excluding capital project budgets.

Encumbrances represent the estimated amount of expenditures ultimately to result when unperformed contracts (in progress at year end) are completed. Such encumbrances do not constitute expenditures or liabilities because the commitments will be reappropiated and honored during the subsequent year.

A. Deficit Fund Balance

The individual special revenue fund noted below had a deficit fund balance at year end, as indicated: Tax Increment Reinvestment Zone No. Three $496,200.

Note 3. Cash and Cash Equivalents and Investments

The City's investments are stated at fair value, with certain exceptions described below. The City categorizes its fair value measurements within the fair value hierarchy established by GASB Statement No. 72, *Fair Value Measurement and Application,* which provides a framework for measuring fair value and establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs, other than quoted prices within Level 1, that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

Certain investment types are not required to be measured at fair value; these include money market funds and certain investment pools which are measured at amortized cost, and other investment pools which are measured at the net asset value (NAV) determined by the pool, which approximates fair value. These instruments are exempt from categorization within the fair value hierarchy.

As of September 30, 2017, the City had the following cash and cash equivalents and investments:

Investment Type	Primary Government	Component Units	Total	Weighted Average Maturity (Days)
Investments measured at fair value:				
US Agencies	$ 35,481,578	$ -	$ 35,481,578	269
	35,481,578	-	35,481,578	
Investments measured at amortized cost:				
External investment pools				
TexPool	59,481,356	4,684,961	64,166,317	37
Lonestar	3,029,563	-	3,029,563	21
Certificates of deposit	7,162,993	-	7,162,993	51
	69,673,912	4,684,961	74,358,873	
Investments measured at net asset value:				
TexStar	45,204,039	-	45,204,039	28
Cash deposits	6,034,528	549,051	6,583,579	
Total portfolio	$ 156,394,057	$ 5,234,012	$ 161,628,069	
Portfolio weighted average maturity				88

The U.S. agency securities are classified in Level 2 of the fair value hierarchy and are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' relationship to the benchmark quoted prices.

Interest Rate Risk
In accordance with its investment policy, the City manages its exposure to declines in fair values by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations and invest operating funds primarily in short-term securities.

Credit Risk
The City's policy requires that investment pools must be rated no lower than "AAA" or "AAAm". Bankers' acceptances must be issued in the United States and carry a short-term rating of not less than A1 or P1 or an equivalent rating by at least one nationally recognized credit rating agency. Obligations of Texas municipalities must be rated no lower than AA by Standards and Poor's or equivalent rating by Moody's Investor Services. As of September 30, 2017, the City's investments in TexPool and TexStar were rated "AAAm" and Lone Star was rated "AAA" by Standard & Poor's and investments in municipal bonds and U.S. agency securities were rated at least A by Standard and Poor's.

Custodial Credit Risk — Deposits
In the case of deposits, this is the risk that the City's deposits may not be returned in the event of a bank failure. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2017, fair market values of pledged securities and Federal Deposit Insurance Corporation coverage exceeded bank balances.

Custodial Credit Risk — Investments
For an investment, this is the risk that the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party in the event of the failure of the counterparty. The City's investment policy requires that it will seek to custody securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, shall be conducted on a delivery versus payment basis or commercial book entry system as utilized by the Federal Reserve and shall be protected through the use of a third party custody/safekeeping agent.

TexPool
TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

TexSTAR
The Texas Short Term Asset Reserve Fund (TexSTAR) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, Chapter 791, Texas Government Code, and the Public Funds Investment Act, Chapter 2256, Texas Government Code. TexSTAR was created in April 2002 by contract among its participating governmental units and is governed by a board of directors. JPMorgan Fleming Asset Management (USA), Inc. and First Southwest Asset Management, Inc. act as co-administrators, providing investment management services, participant services, and marketing, respectively. JPMorgan Chase Bank and/or its subsidiary, J.P. Morgan Investor Services, Inc., provides custodial, transfer agency, fund accounting, and depository services.

Lone Star
Lone Star Investment Pool is governed by an eleven-member board and is an AAA rated investment program tailored to the investment needs of local governments within the state of Texas sponsored by the Texas Association of School Boards (TASB). TASB has entered into an agreement with First Public, LLC as administrator of the pool.

The investment pools do not have any limitations or restrictions on withdrawals, such as notice periods or maximum transaction amounts, and do not impose any liquidity fees or redemption gates.

Note 4. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general fund, the debt service fund, the nonmajor governmental funds in the aggregate, the enterprise funds, and the internal service funds, including the applicable allowances for uncollectible accounts:

	General	Debt Service	Nonmajor	Water and Wastewater	Internal Service	Total
Ad valorem taxes	$ 1,259,578	$ 644,999	$ 2,557	$ -	$ -	$ 1,907,134
Other taxes	4,694,534	-	270,434	-	-	4,964,968
Accounts receivable	5,701,336	2,792	210,970	6,588,196	8,472	12,511,766
Intergovernmental	101,954	-	2,644,221	-	-	2,746,175
Other	332,234	-	633,366	12,220	251,446	1,229,266
Less allowance	(3,922,235)	(224,661)	(735)	(68,328)	-	(4,215,959)
Total	$ 8,167,401	$ 423,130	$ 3,760,813	$ 6,532,088	$ 259,918	$ 19,143,350

Note 5. Capital Assets

The following is a summary of changes in capital assets for governmental activities for the year ended September 30, 2017:

	Primary Government			
	Beginning Balance	Increases	Reclassifications / (Decreases)	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	$ 20,049,624	$ 1,346,309	$ -	$ 21,395,933
Construction in progress	12,366,138	9,988,015	(223,710)	22,130,443
Total capital assets, not being depreciated	32,415,762	11,334,324	(223,710)	43,526,376
Capital assets being depreciated:				
Infrastructure	369,365,891	20,441,758	223,710	390,031,359
Buildings and improvements	81,162,700	-	-	81,162,700
Machinery and equipment	37,211,882	2,863,445	(854,419)	39,220,908
Total other capital assets	487,740,473	23,305,203	(630,709)	510,414,967
Less accumulated depreciation for:				
Infrastructure	(159,067,018)	(7,625,547)	-	(166,692,565)
Buildings and improvements	(28,125,012)	(2,040,596)	-	(30,165,608)
Machinery and equipment	(26,395,481)	(2,310,631)	549,585	(28,156,527)
Total accumulated depreciation	(213,587,511)	(11,976,774)	549,585	(225,014,700)
Total capital assets being depreciated, net	274,152,962	11,328,429	(81,124)	285,400,267
Governmental activities capital assets, net	$ 306,568,724	$ 22,662,753	$ (304,834)	328,926,643
		Less associated debt		(113,791,759)
		Less deferred gain on refunding		(168,750)
		Plus deferred charge on refunding		1,455,224
		Plus unspent bond proceeds		16,630,415
		Net investment in capital assets		$ 233,051,773

All capital assets constructed or paid for with funds of the component units are titled in the City's name. Accordingly, component unit capital assets and construction in progress are recorded in the governmental activities totals.

Depreciation was charged to governmental functions as follows:

General government	$ 268,718
Public safety	2,090,858
Public works	7,443,680
Community services	1,151,869
Capital assets held by the City's internal service funds are charged to the various activities based on usage of the assets	1,021,649
Total governmental activities depreciation expense	$ 11,976,774

Remaining commitments under related construction contracts for general government construction projects at year end were as follows:

Governmental Activities	Approved Construction Budget	Construction in Progress	Remaining Commitment
Robinson Bayou Bank Stabilization	$ 1,936,035	$ 1,928,031	$ 8,004
Annual Stormwater Improvements'	697,869	665,075	32,794
Interurban Ditch Improvements	193,110	156,198	36,912
Genco Canal	43,730	37,964	5,766
Nottingham Ditch Improvements	81,334	81,334	-
Brookport Extension	2,450,532	2,450,282	250
City Beautification	137,428	137,428	-
Main Street/Downtown	1,667,823	1,512,566	155,257
Public Safety Annex Station 6	4,395	4,395	-
Renovate 500 W Walker	638,223	610,719	27,504
Council/Jury Room Renovations	48,689	48,689	-
New Animal Shelter	687,290	77,315	609,975
Animal Adoption Center	151,052	137,343	13,709
Natatorium/Pool	216,712	216,712	-
Hometown Heroes Park	107,502	105,872	1,630
TXDOT FM518 Bypass Hike & Bike	1,619,002	416,963	1,202,039
Sportsplex Entrance	789,699	754,642	35,057
Claremont Connector	130,000	42,310	87,690
Dog Park	154,994	142,323	12,671
Sidewalk Replacements	795,779	792,956	2,823
Newport Blvd Sidewalk Renovation	29,250	4,688	24,562
North Kansas Ave Reconstruction	300,757	274,386	26,371
Calder Rd S of Ervin to Cross Colony Recon	945,049	546,578	398,471
Dickinson Ave Reconstruction	924,514	534,768	389,746
St. Christopher Ave Reconstruction	241,395	175,401	65,994
Asphalt Street Rehabilitation 2	1,625,279	610,478	1,014,801
Asphalt Rehab - Package 3	151,388	76,863	74,525
McFarland Rd Bridge	69,748	69,748	-
Calder Rd-Ervin to LC Prkwy	8,154,027	2,222,999	5,931,028
Five Corners Realignment	1,542,664	1,514,919	27,745
SH96 at SSH Blv Intersections Improv	501,864	153,535	348,329
Walker St Corridor Upgrades (TIRZ 2)	45,300	45,300	-
Traffic System Improvements	285,006	270,343	14,663
HGAC/TIP Design	880,391	850,679	29,712
Fiber Infrastructure	46,683	46,683	-
Ervin/Hobbs Connector	775,320	596,900	178,420
Shellside Stormwater Management	3,828,726	3,817,058	11,668
Total	$ 32,898,559	$ 22,130,443	$ 10,768,116

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2017:

	Beginning Balance	Increases	Reclassifications / (Decreases)	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	$ 3,026,503	$ 80,259	$ -	$ 3,106,762
Construction in progress	68,021,235	10,818,547	(35,153,680)	43,686,102
Total capital assets not being depreciated	71,047,738	10,898,806	(35,153,680)	46,792,864
Capital assets being depreciated:				
Infrastructure	270,539,375	7,412,523	35,153,680	313,105,578
Water rights	15,935,386	-	-	15,935,386
Buildings and improvements	654,549	-	-	654,549
Machinery and equipment	7,638,973	54,728	-	7,693,701
Total other capital assets	294,768,283	7,467,251	35,153,680	337,389,214
Less accumulated depreciation for:				
Infrastructure	(52,654,909)	(5,475,947)	-	(58,130,856)
Water rights	(4,504,633)	(355,662)	-	(4,860,295)
Buildings and improvements	(484,782)	(8,523)	-	(493,305)
Machinery and equipment	(6,238,335)	(426,119)	-	(6,664,454)
Total accumulated depreciation	(63,882,659)	(6,266,251)	-	(70,148,910)
Capital assets being depreciated, net	230,885,624	1,201,000	35,153,680	267,240,304
Business-type activities capital assets, net	$ 301,933,362	$ 12,099,806	$ -	314,033,168
		Less associated debt		(150,330,470)
		Less deferred gain on refunding		(536,113)
		Plus deferred charge on refunding		1,653,081
		Plus unspent bond proceeds		55,265,353
		Net investment in capital assets		$ 220,085,019

Depreciation was charged to business-type functions as follows:

Water and sewer	$ 6,266,251
Total business-type activities depreciation expense	$ 6,266,251

Remaining commitments under related construction contracts for enterprise fund projects at year end were as follows:

Business-type Activities	Approved Construction Budget	Construction in Progress	Remaining Commitment
Brookport Extension	$ 178,235	$ 178,235	$ -
30" Waterline, West Side	108,761	108,761	-
East Side Elevated Water Tower	7,775,840	7,498,415	277,425
Raise West Side Elevated	140,569	140,569	-
Southeast Service Area Trunks	1,608,437	1,449,981	158,456
36" WL - SH3 to SSH Booster Station	1,196,354	1,028,514	167,840
New Water Wells	797,400	701,700	95,700
Calder Rd Booster Station	13,564,994	13,329,183	235,811
Water Line Upgrades & Replacement	4,978,977	4,571,246	407,731
Newport WL Replacements	289,350	103,895	185,455
Replace 42" WL on SH3	1,200,000	1,063,879	136,121
24" Waterline Stabilization Phase II	58,958	46,400	12,558
39" GCWA Water Transmission Pipeline	244,914	16,464	228,450
Re-Use Improvements-Ph 1	240,550	109,629	130,921
Sanitary Sewer Rehab 2012	7,241,965	7,202,882	39,083
Major Trunk Lines-Hobbs/Butler/646	560,771	293,122	267,649
Force Main Upgrade-Bay Colony to Ervin	245,600	206,265	39,335
30" Gravity Sewer on Calder Rd	3,774,769	3,761,479	13,290
Smith Lane LS Improvements	66,500	15,246	51,254
Dallas Salmon Effluent Discharge	504,768	431,589	73,179
Countryside #1 LS Improvements	64,800	13,416	51,384
Water System Improvements	1,389,079	1,239,668	149,411
Five Corners Realignment	175,564	175,564	-
Total	$ 46,407,155	$ 43,686,102	$ 2,721,053

Note 6. Long-Term Debt

The following is a summary of changes in the City's total long-term liabilities as of year-end. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences, net OPEB obligation, and net pension liability are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

	Beginning Balance	Additions	Reductions	Ending Balance		Amounts Due Within One Year
Governmental activities:						
General obligation bonds	$ 42,633,032	$ 1,075,000	$ 5,250,044	$ 38,457,988	*	$ 3,956,026
Certificates of obligation	61,850,000	8,730,000	3,630,000	66,950,000	*	4,815,000
Unamortized debt items	8,259,353	735,493	611,075	8,383,771	*	627,319
	112,742,385	10,540,493	9,491,119	113,791,759		9,398,345
Other long-term liabilities:						
Compensated absences	4,926,084	5,184,425	4,892,187	5,218,322		2,816,130
Net OPEB obligation	1,646,894	582,073	100,951	2,128,016		-
Net pension liability	24,591,980	13,887,858	14,740,192	23,739,646		-
Total governmental activities	$ 143,907,343	$ 30,194,849	$ 29,224,449	$ 144,877,743		$ 12,214,475
	Long-term debt due in more than one year					$ 132,663,268
	*** Debt associated with governmental activities capital assets**					$ 113,791,759
Business-type activities:						
Revenue bonds	$ 16,370,000	$ -	$ 3,715,000	$ 12,655,000	*	$ 2,125,000
General obligation bonds	56,251,967	-	2,084,954	54,167,013	*	3,453,974
Certificates of obligation	66,645,000	7,905,000	1,390,000	73,160,000	*	1,940,000
Contract revenue bonds	1,210,000	-	225,000	985,000	*	235,000
Unamortized premiums, and discounts	9,438,810	665,990	741,343	9,363,457	*	769,682
	149,915,777	8,570,990	8,156,297	150,330,470		8,523,656
Other long-term liabilities:						
Compensated absences	546,034	423,660	458,202	511,492		292,949
Net OPEB obligation	299,330	92,253	16,050	375,533		-
Net pension liability	4,331,294	2,414,358	2,618,594	4,127,058		-
Total business-type activities	$ 155,092,435	$ 11,501,261	$ 11,249,143	$ 155,344,553		$ 8,816,605
	Long-term debt due in more than one year					$ 146,527,948
	**** Debt associated with business-type activities capital assets**					$ 150,330,470

Long-term debt for governmental activities comprised the following debt issues at year end:

Series	Original Issue	Interest Rate	Balance
General obligation bonds:			
2011A General Obligation Refunding Bonds	$ 6,975,000	2.00% to 5.00%	$ 4,430,000
2011B General Obligation Refunding Bonds*	$ 6,075,000	2.00% to 4.00%	955,000
2012 General Obligation Refunding Bonds	$ 6,785,000	2.00% to 5.00%	5,925,000
2013 General Obligation Refunding Bonds	$ 13,819,988	2.00% to 4.00%	8,477,988
2013A General Obligation Refunding Bonds*	$ 2,190,000	2.00% to 4.00%	1,160,000
2014A General Obligation Refunding Bonds*	$ 3,200,000	2.00% to 4.00%	2,045,000
2016 General Obligation Refunding Bonds	$ 12,900,000	3.00% to 5.00%	12,900,000
2016A General Obligation Refunding Bonds	$ 2,835,000	2.00% to 5.00%	2,565,000
Total general obligation bonds			38,457,988
Certificates of obligation:			
2008 Tax and Revenue Certificates of Obligation	$ 15,500,000	4.00% to 5.00%	695,000
2009 Tax and Revenue Certificates of Obligation	$ 11,600,000	3.13% to 5.13%	1,080,000
2010 Tax and Revenue Certificates of Obligation*	$ 10,000,000	2.00% to 4.00%	895,000
2011 Tax and Revenue Certificates of Obligation*	$ 20,390,000	2.75% to 4.75%	14,500,000
2012A Tax and Revenue Certificates of Obligation	$ 33,675,000	2.00% to 5.00%	29,525,000
2015 Tax and Revenue Certificates of Obligation	$ 3,020,000	3.625% to 5.00%	2,835,000
2016 Tax and Revenue Certificates of Obligation	$ 8,970,000	2.125% to 5.00%	8,690,000
2017 Tax and Revenue Certificates of Obligation	$ 8,730,000	3.00% to 5.00%	8,730,000
Total certificates of obligation			66,950,000
Total governmental activities long-term debt			$ 105,407,988

*This general obligation debt is supported by a general tax pledge, however the repayment of all or a portion of this general obligation debt is expected to be paid from revenues other than ad valorem tax revenues, including payments from tax increment zones, public improvement districts and payments from the Section 4B Industrial Development Corporation. Payments from tax increment reinvestment zones, public improvement districts and the Section 4B Industrial Development Corporation may not be legally pledged to the obligations to which their payments are expected to be dedicated, but are contractually obligated to be paid to the City for that purpose.

Long-term debt for business-type activities comprised the following debt issues at year end:

Series	Original Issue	Interest Rate	Balance
Revenue bonds:			
2009 Water Works & Sewer System Revenue Bonds	$ 37,200,000	3.00% to 5.00%	$ 3,075,000
2011 Water Works & Sewer System Revenue Bonds	$ 13,040,000	3.00% to 5.00%	9,580,000
Total revenue bonds			12,655,000
General obligation bonds:			
2011A General Obligation Refunding Bonds	$ 4,705,000	2.00% to 5.00%	3,340,000
2012 General Obligation Refunding Bonds	$ 6,510,000	2.00% to 5.00%	5,915,000
2013 General Obligation Refunding Bonds	$ 1,075,012	2.00% to 4.00%	322,013
2015 General Obligation Refunding Bonds	$ 17,605,000	3.00% to 5.00%	16,235,000
2016 General Obligation Refunding Bonds	$ 16,355,000	3.00% to 5.00%	16,355,000
2016A General Obligation Refunding Bonds	$ 12,155,000	2.00% to 5.00%	12,000,000
Total general obligation bonds *			54,167,013
Certificates of obligation:			
2011A Tax and Revenue Certificates of Obligation	$ 32,290,000	3.00% to 5.00%	32,290,000
2012B Tax and Revenue Certificates of Obligation	$ 19,635,000	2.00% to 5.00%	15,905,000
2015 Tax and Revenue Certificates of Obligation	$ 14,425,000	3.625% to 5.00%	13,530,000
2016 Tax and Revenue Certificates of Obligation	$ 3,645,000	2.125% to 5.00%	3,530,000
2017 Tax and Revenue Certificates of Obligation	$ 7,905,000	3.00% to 5.00%	7,905,000
Total certificates of obligation			73,160,000
Contract revenue bonds:			
2011F GCWA Contract Revenue Refunding Bonds	$ 2,250,000	2.00% to 4.00%	985,000
Total contract revenue bonds			985,000
Total business-type activities long-term debt			$ 140,967,013

* This general obligation debt is supported by a general property tax pledge, however, the repayment of this general obligation debt is expected to be paid from surplus revenues of the water and sewer system. Water and sewer revenues are pledged to pay certificates of obligation on a subordinate basis, but it is the historic policy of the City to pay portions of the listed general obligation refunding bonds from surplus revenues of the water and sewer system.

The annual requirements to amortize general obligation bonds outstanding at year end are as follows:

Year Ending Sept. 30	Governmental Activities Principal	Governmental Activities Interest	Governmental Activities Total	Business - Type Activities Principal	Business - Type Activities Interest	Business - Type Activities Total
2018	$ 3,956,026	$ 1,386,508	$ 5,342,534	$ 3,453,974	$ 2,148,172	$ 5,602,146
2019	3,517,990	1,268,357	4,786,347	3,172,010	2,030,790	5,202,800
2020	3,893,972	1,123,796	5,017,768	4,581,029	1,861,128	6,442,157
2021	3,495,000	972,655	4,467,655	4,290,000	1,656,057	5,946,057
2022	3,595,000	827,234	4,422,234	4,200,000	1,451,257	5,651,257
2023	3,405,000	681,690	4,086,690	4,065,000	1,246,682	5,311,682
2024	2,810,000	551,888	3,361,888	3,960,000	1,063,122	5,023,122
2025	2,915,000	426,282	3,341,282	3,830,000	885,312	4,715,312
2026	2,385,000	311,255	2,696,255	3,665,000	701,772	4,366,772
2027	2,090,000	228,625	2,318,625	3,505,000	543,407	4,048,407
2028	2,115,000	166,947	2,281,947	3,460,000	409,116	3,869,116
2029	1,975,000	103,950	2,078,950	1,880,000	307,188	2,187,188
2030	910,000	58,550	968,550	1,785,000	244,669	2,029,669
2031	450,000	38,931	488,931	2,065,000	192,625	2,257,625
2032	465,000	23,910	488,910	2,075,000	139,578	2,214,578
2033	480,000	8,100	488,100	2,085,000	84,978	2,169,978
2034	-	-	-	2,095,000	28,806	2,123,806
Total	$ 38,457,988	$ 8,178,678	$ 46,636,666	$ 54,167,013	$ 14,994,659	$ 69,161,672

The annual requirements to amortize revenue bonds outstanding at year end are as follows:

Year Ending Sept. 30	Business - Type Activities Principal	Business - Type Activities Interest	Business - Type Activities Total
2018	$ 2,125,000	$ 492,100	$ 2,617,100
2019	2,155,000	412,925	2,567,925
2020	620,000	361,244	981,244
2021	630,000	338,581	968,581
2022	645,000	313,869	958,869
2023	660,000	287,769	947,769
2024	670,000	260,331	930,331
2025	685,000	231,109	916,109
2026	700,000	200,375	900,375
2027	715,000	167,644	882,644
2028	735,000	133,206	868,206
2029	750,000	97,000	847,000
2030	770,000	59,000	829,000
2031	795,000	19,875	814,875
Total	$ 12,655,000	$ 3,375,028	$ 16,030,028

The annual requirements to amortize certificates of obligation outstanding at year-end are as follows:

Year Ending Sept. 30	Governmental Activities Principal	Governmental Activities Interest	Governmental Activities Total	Business - Type Activities Principal	Business - Type Activities Interest	Business - Type Activities Total
2018	$ 4,815,000	$ 2,773,161	$ 7,588,161	$ 1,940,000	$ 2,977,598	$ 4,917,598
2019	4,225,000	2,570,601	6,795,601	2,330,000	2,863,574	5,193,574
2020	3,810,000	2,413,431	6,223,431	2,725,000	2,760,599	5,485,599
2021	3,865,000	2,243,056	6,108,056	3,170,000	2,634,874	5,804,874
2022	3,985,000	2,069,244	6,054,244	3,635,000	2,489,799	6,124,799
2023	4,065,000	1,885,569	5,950,569	3,875,000	2,342,986	6,217,986
2024	4,180,000	1,687,719	5,867,719	4,075,000	2,203,999	6,278,999
2025	4,135,000	1,482,591	5,617,591	4,570,000	2,030,793	6,600,793
2026	4,290,000	1,280,000	5,570,000	4,465,000	1,823,786	6,288,786
2027	4,410,000	1,071,638	5,481,638	5,025,000	1,601,636	6,626,636
2028	4,560,000	886,858	5,446,858	5,275,000	1,362,818	6,637,818
2029	4,650,000	724,013	5,374,013	7,190,000	1,102,861	8,292,861
2030	4,730,000	534,426	5,264,426	7,665,000	782,864	8,447,864
2031	3,510,000	354,569	3,864,569	7,915,000	453,571	8,368,571
2032	3,645,000	202,235	3,847,235	3,005,000	256,086	3,261,086
2033	980,000	108,648	1,088,648	1,650,000	179,924	1,829,924
2034	1,005,000	77,744	1,082,744	1,690,000	124,455	1,814,455
2035	1,025,000	46,607	1,071,607	1,735,000	66,902	1,801,902
2036	835,000	19,273	854,273	735,000	26,705	761,705
2037	230,000	3,680	233,680	490,000	7,840	497,840
Total	$ 66,950,000	$ 22,435,063	$ 89,385,063	$ 73,160,000	$ 28,093,670	$ 101,253,670

The annual requirements to amortize contract revenue bonds outstanding at year end are as follows:

Year Ending Sept. 30	Business - Type Activities Principal	Business - Type Activities Interest	Business - Type Activities Total
2018	$ 235,000	$ 36,438	$ 271,438
2019	240,000	28,800	268,800
2020	250,000	20,400	270,400
2021	260,000	10,400	270,400
	$ 985,000	$ 96,038	$ 1,081,038

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities (streets, drainage, public safety, water, and wastewater) and equipment for general government and enterprise fund activities. These instruments include general obligation bonds, certificates of obligation, and revenue bonds. Future ad valorem tax revenues and water and sewer system revenues secure these debt obligations.

General obligation bonds are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds is from taxes levied on all taxable property located within the City. The City is not obligated in any manner for special assessment debt.

On July 1, 2017, the City issued $16,635,000 in combination tax and revenue certificates of obligation, Series 2017, with interest rates ranging from 3.00% to 5.00%. These bonds mature February 15, 2037 with the option to redeem bonds 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. After the payment of issuance costs, the proceeds from the sale of the 2017 certificate of obligation will be used to fund acquisition, design construction, equipping, and improvement of (i) an animal shelter; (ii) streets, roadway, and traffic improvements, and for the purchase of materials, supplies, equipment, machinery, buildings, land and rights of way related thereto; and (iv) the water and sanitary sewer system, including the extension of water lines and distribution lines.

During 2017 the City approved an ordinance to dissolved Galveston County MUD #13 and acquired its outstanding debt of $1,075,000. In addition the City also received a cash contribution from Galveston County MUD #13 to liquidate the principal of the debt acquired.

The total amount of governmental and business-type defeased bonds outstanding as of September 30, 2017, is $12,185,000.

Federal Arbitrage
The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, a substantial liability to the City could result. The City periodically engages an arbitrage consultant to perform the calculations in accordance with the rules and regulations of the IRS. There was no liability for arbitrage recorded as of year-end.

Note 7. Interfund Receivables and Payables

Receivable Fund	Payable Fund	Amounts
General fund	Nonmajor governmental funds	$ 496,616
Nonmajor governmental funds	Nonmajor governmental funds	181,824
Total		$ 678,440

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

Note 8. Interfund Transfers

Transfers between the primary government funds during the year were as follows:

Transfer Out	Transfer In	Amounts
General fund	Nonmajor governmental funds	$ 14,760,000
General fund	Internal service fund	418,254
Water and wastewater fund	General fund	3,312,000
Nonmajor governmental fund	General fund	10,000
Nonmajor governmental funds	Water and wastewater fund	758,825
Total		$ 19,259,079

The general fund made a transfer to a nonmajor governmental fund to provide financing for capital projects, SSH MUD #2, and Hurricane Harvey expenses. The general fund also provided funding to internal service funds to fund employee healthcare expenses and other insurance related charges. The water and wastewater fund provided monies to the general fund for reimbursement of administrative costs related to the support of the water and wastewater system. The nonmajor governmental funds made a transfer to the general fund for reimbursement of administrative costs relating to the support of the 4B Industrial Development Corporation. The nonmajor governmental funds made a transfer to the water and wastewater fund to transfer assets.

Note 9. Restricted Assets

As of September 30, 2017, the City held restricted cash and investments for the following purposes:

Restricted for:	
Customer deposits	$ 981,555
Capital projects	56,491,697
Debt service	5,422,065
PID #1 refund	1,402,868
Healthcare claims	141,831
Total	$ 64,440,016

Note 10. Other Information

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with over 2,700 other entities in the Texas Municipal League's Intergovernmental Risk Pools (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years. In addition, the City purchased windstorm insurance from highly rated private carriers to cover City property for that specific loss.

B. Contingent Liabilities

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

The City is a defendant in several lawsuits. Although the outcome of these lawsuits is not presently determinable, it is the opinion of the City's management that resolution of these matters will not have a material adverse effect on the financial condition of the City.

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim settlement trends, including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year-end.

C. Other Post-Employment Benefits

Texas Municipal Retirement System (TMRS) Supplemental Death Benefit Fund

Plan Description
The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other post-employment benefit," or OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the Pension Trust Fund. For the year ended September 30, 2017, the City offered the supplemental death benefit to both active and retired employees.

Contributions
The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

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.

D. Post-Employment Healthcare Plan

Plan Description
The City administers a single-employer defined benefit other post-employment benefits (OPEB) plan, known as the Retiree Medical Program (the "Program"). The Program offers medical and dental insurance benefits to eligible retirees and their spouses. Retiree medical coverage levels for retirees are the same as coverage provided to active City employees. Upon the death of the retiree, the spouse is eligible for coverage under COBRA.

Employees are eligible for retiree health benefits if they retire at the age of 60 or older with at least five years of service from the City, at least ten years of combined service with other municipalities and are also eligible for a pension from TMRS. Employees with 20 years of service may retire at any age. The City contributes up to 100 percent of the monthly premium for retirees that are age 60 with 20 years of service and the most recent five years with League City. Employees 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 ten years of combined service with all municipalities are eligible for a portion of their health insurance based on their age. For employees who become disabled prior to eligibility for retirement, retiree medical benefits are not available. The City requires retirees to enroll in Medicare once eligible. The City does not provide Medicare supplemental health benefits coverage after the date that person becomes eligible for Medicare benefits.

Funding Policy

The City has elected to subsidize premiums for the Program and funding is provided on a pay-as-you go basis.

Annual OPEB Cost

The City's annual OPEB cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that is projected to recognize the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The annual OPEB cost for the fiscal year ending September 30, 2017, is as follows:

Annual Required Contribution (ARC)	$ 672,318
Interest on OPEB Obligation	77,849
Adjustments to ARC	(75,838)
Annual OPEB cost (expense)	674,329
Employer contributions	(117,004)
Increase in net OPEB Obligation	557,325
Net OPEB Obligation - beginning of year	1,946,224
Net OPEB Obligation - end of year	$ 2,503,549

A separate audited GAAP basis post-employment benefit plan report is not available.

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the Program, and the net OPEB obligation for 2017 and the two preceding years are as follows:

Fiscal Year	Annual OPEB Cost (ARC)	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation Beginning	Net OPEB Obligation Ending
2015	$ 589,182	20.0%	$ 955,548	$ 1,426,601
2016	608,322	14.6%	1,426,601	1,946,224
2017	674,329	17.4%	1,946,224	2,503,549

Funded Status and Funding Progress

As of December 31, 2015, the most recent actuarial valuation date, the Program was zero percent funded. The actuarial accrued liability for benefits was $5,561,440 and the actuarial value of assets was zero, resulting in an unfunded actuarial accrued liability (UAAL) of $5,561,440. The annual covered payroll at December 31, 2016 was $29,446,809 and the UAAL as a percentage of the annual covered payroll was 18.9 percent.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Program and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as RSI following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions
The Projected Unit Credit actuarial cost method is used to calculate the ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The projected unit credit method then provides for a systematic recognition of the cost of these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

Projections of health benefits are based on the plan as understood by the City and include the types of benefits in force at the valuation date and the pattern of sharing benefit costs between the City and its employees to that point. Actuarial calculations reflect a long-term perspective and employ methods and assumptions that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets. Significant methods and assumptions were as follows:

Inflation rate	2.50% Per annum
Investment rate of return	4.00% Per annum net of expenses
Actuarial cost method	Projected unit credit
Amortization method	Level as a percentage of employee payroll
Amortization period	30 year open amortization
Asset valuation method	Market value
Salary growth	3.00% per annum
Healthcare cost trend rate (Initial/ultimate)	Initial rate of 7.5%, declining to an ultimate rate of 5.0% after 12 years.

E. Health Care Coverage

During 2016, the City began to provide employees with traditional prescription and health care insurance that covers hospitalization and major medical expenses within specified limits under a plan that is self-funded by the city and administered by a third-party administrator. The City pays the administrator a monthly fixed fee for various claim administration services on a per enrolled employee basis.

The City pays all claims. The third-party administrator submits monthly check registers for all processed claims. The City issues payment to the plan administrator who in turn issues individual claim checks. The City carries stop-loss insurance against catastrophic losses. The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expense regardless of whether allocated to specific claims. The premiums for these policies are billed monthly by the third-party administrator on a per enrolled employee basis. The claims liability reported in the fund at September 30, 2017, was estimated by third party administrators. It is based on the requirements of Governmental Accounting Standards Board Statement No. 10 which requires that a liability for unpaid claims costs, including estimates of costs relating to incurred but not reported claims, be reported. Costs relating to the plan are recorded in an internal service fund.

Changes in health claims for the years ended September 30, 2017 and 2016 are as follows:

	2017	2016
Health claim liability, beginning of year	$ 527,040	$ -
Claims and changes in estimates	4,700,229	4,259,446
Claim payments	(4,574,023)	(3,732,406)
Health claim liability, end of year	$ 653,246	$ 527,040

F. Contracts

Summaries of the City's significant contracts are as follows:

1. Municipal Utility Districts
The City has entered into utility agreements with several Municipal Utility Districts (MUDs) whose boundaries overlap the boundaries of the City. The MUDs construct water, sanitary sewer, and drainage facilities to serve the areas within the MUDs and issue bonds to finance such facilities. The MUDs release their security interests in the facilities to the City, and the City operates and maintains the systems.

2. Galveston County Water Control and Improvement District No. One
The City entered into an agreement dated March 10, 1983 with Galveston County Water Control and Improvement District No. One (the District) providing for an inter-connect to be built between the City and the District by the Gulf Coast Water Authority (GCWA). The City agreed to buy one million gallons of water per day on a take-or-pay basis. Under a revised water supply agreement effective January 1, 1987, the annual volume of water to be paid for by the City on a take-or-pay basis was reduced to a minimum of 150,000 gallons per day, to be adjusted annually to an amount equal to the prior year's average usage, but not to exceed one million gallons per day. The cost to the City will vary depending on the cost to the District to fulfill its obligation. On December 8, 2009, the water supply agreement was revised to adjust the price and the obligation for delivery of water. GCWA shall sell and deliver 150,000 gallons per day of water with a maximum of 1,000,000 gallons per day provided GCWA has excess water available, or for emergency use only.

3. Gulf Coast Water Authority – Water System Improvements
The City entered into an agreement with the GCWA on September 8, 1998 providing for the construction of water system improvements and issuance of GCWA contract bonds to finance the construction. The water system improvement included a transmission system to deliver 2 million gallons per day to the City from the Thomas Mackey Water Treatment Plant. The City is considered the owner of the assets and, as provided in the agreement, makes periodic payments to GCWA to service the debt.

4. Gulf Coast Water Authority – Water Capacity Contract
The City has entered into a long-term cost sharing contract with the GCWA to finance the expansion of the Houston Southeast Water Purification Plant. This twice amended water supply contract provides that GCWA reserve treatment and distribution capacity of 22.5 million gallons per day for the City.

Note 11. Defined Benefit Pension Plans

A. Plan Description

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at *www.tmrs.com*.

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

B. Benefits Provided

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

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

The provisions of the City's plan include a 5 year vesting period with all vested participants eligible to receive retirement benefits upon reaching 5 years of service and age 60 or 20 years of service with no age requirement. The plan requires participant contributions of 7% and the City matches at a ratio of 2 to 1.

Employees Covered by Benefit Terms

At the December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	197
Inactive employees entitiled to but not yet receiving benefits	222
Active employees	490
Total	909

C. Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the City matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 14.86% and 15.39% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were $4,717,212, and were equal to the required contributions.

D. Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2016, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions
The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment rate of return	6.75%, net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with Blue Collar Adjustment, with male rates multiplied by 109% and female rates multiplied by 103%. Based on the size of the City, rates are multiplied by an additional factor of 100%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic equity	17.5%	4.55%
International equity	17.5%	6.35%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	4.15%
Real return	10.0%	4.15%
Real estate	10.0%	4.75%
Absolute return	10.0%	4.00%
Private equity	5.0%	7.75%
Total	100.00%	

Discount Rate

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

Changes in the Net Pension Liability	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015	$ 126,966,230	$ 98,042,956	$ 28,923,274
Changes for the year:			
Service cost	4,864,613	-	4,864,613
Interest	8,589,498	-	8,589,498
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,524,205)	-	(1,524,205)
Changes of assumptions	-	-	-
Contributions - employer	-	4,375,883	(4,375,883)
Contributions - employee	-	2,061,277	(2,061,277)
Net investment income	-	6,628,183	(6,628,183)
Benefit payments, including refunds of employee contributions	(4,293,442)	(4,293,442)	-
Administrative expense	-	(74,832)	74,832
Other changes	-	(4,035)	4,035
Net changes	7,636,464	8,693,034	(1,056,570)
Balance at December 31, 2016	$ 134,602,694	$ 106,735,990	$ 27,866,704

Sensitivity of the Net Pension Liability to Changes in the Discount Rate
The following presents the NPL of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	$ 49,794,542	$ 27,866,704	$ 10,212,876

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

D. Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of $1,266,671.

At September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	$ 364,969	$ 1,744,898
Changes in actuarial assumptions	55,774	-
Difference between projected and actual investment earnings	4,379,737	-
Contributions subsequent to the measurement date	3,545,428	-
Total	$ 8,345,908	$ 1,744,898

$3,545,428 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ended September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended December 31	
2018	$ 1,130,171
2019	1,130,171
2020	1,074,464
2021	(279,224)
2022	-
Thereafter	-
Total	$ 3,055,582

Note 12. Tax Abatements and Economic Incentives

The City will consider entering into economic development agreements to promote development and redevelopment within the City, stimulate commercial activity, generate additional sales and hotel occupancy tax and enhance the property tax base and economic vitality of the City. These programs may include tax abatement, property tax and/or sales tax rebates, incentive payments, and/or reductions in permits and fees. The City's economic development agreements are authorized under Chapter 380 of the Texas Local Government Code Chapters 311 (Tax Increment Financing Act), and 312 (Property Redevelopment and Tax Abatement Act) of the Texas Tax Code.

Recipients may be eligible to receive economic assistance based upon the number of jobs to be created and/or retained, economic impact, fiscal impact, and community impact of the proposed project. Recipients receiving assistance generally commit to creating and/or retaining jobs, building or remodeling real property and related infrastructure, demolishing and redeveloping outdated properties, expanding operations, renewing facility leases, increasing the City's tax base, and/or bringing targeted businesses to the City. Agreements generally contain performance criteria which are required to be attained before the payment of any public tax dollars may be made. Furthermore, the same economic development agreements may contain recapture provisions that require repayment of public funds, or termination of the agreement, if the recipients do not meet the required provisions of the agreement.

The City has three categories of economic development agreements:

- Tax Abatements – Tax Abatements under Chapter 312 of the Texas Tax Code allow the City to designate tax reinvestment zones and negotiate tax abatement agreements with applicants for both new facilities and structures and the expansion or modernization of existing facilities or structures. These abatement agreements authorize the appraisal districts to reduce the assessed value of the taxpayer's property by a percentage specified in the agreement, and the taxpayer will pay taxes on the lower assessed value during the term of the agreement. The City does not currently have any tax abatements; so property taxes abated under this program were $0 in fiscal year 2017.
- General Economic Development – The City may consider entering into various agreements under Chapter 380 of the Texas Local Government Code to stimulate economic development. Agreements may include rebates for a portion of the increased property taxes and/or sales tax received by the City, fee reductions such as utility charges or building inspection fees, and/or payments to offset the cost of targeted infrastructure, full-time primary jobs, full-time primary job training, site improvements, other related improvements, commercial land, commercial buildings, commercial equipment, commercial facilities, and/or other expenditures. For fiscal year 2017, the City rebated $60,932 in property taxes, $417,080 in sales taxes, reduced fees (building permit fees and capital recovery fees) by $78,706, and made incentive payments of $90,000 under these agreements.
- Tax Increment Financing – The City has adopted 3 Tax Increment Financing zones (TIFs) under Chapter 311 of the Texas Tax Code. The City will consider entering into economic development and infrastructure reimbursement agreements which earmark TIF revenues for payment to developers and represent obligations over the life of the TIF or until all terms of the agreements have been met. These obligations are more fully described in Note 1. Additionally, the City may consider entering into general economic development agreements under Chapter 380 of the Texas Local Government Code which are funded with TIF resources. The City made $2,951,648 in payments for TIF obligations in property tax rebates from general TIF resources in fiscal year 2017.

Note 13. Subsequent Event

The On November 14, 2017, the court accepted a proposed final judgement in the case concerning the Public Improvement District #1 assessment refunds and ordered the disbursement of the $1,382,495 held in the Court's registry. The City Council also took action directing staff to release uncontested overpayment refunds in the amount of $305,153.

Required Supplementary Information
(Unaudited)

City of League City, Texas

Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
General Fund
For the Fiscal Year Ended September 30, 2017

	Budgeted Amounts			Variance with Final Budget
	Original Budget	Final Budget	Actual	Positive (Negative)
Revenues				
Ad valorem taxes	$ 26,350,940	$ 27,001,310	$ 27,176,577	$ 175,267
Sales taxes	19,038,254	19,038,254	17,655,640	(1,382,614)
Franchise and local taxes	4,692,980	4,715,589	5,551,346	835,757
Other taxes	261,000	261,000	346,216	85,216
Licenses fees and permits	4,264,000	4,283,080	3,112,914	(1,170,166)
Fines and forfeitures	1,920,000	1,870,000	1,715,132	(154,868)
Charges for services	7,090,058	7,141,348	7,589,262	447,914
Other revenue	1,071,931	1,061,561	1,109,931	48,370
Investment earnings	110,000	110,000	218,437	108,437
Intergovernmental	110,000	434,388	427,256	(7,132)
Total revenues	64,909,163	65,916,530	64,902,711	(1,013,819)
Expenditures				
General government				
Economic development	340,224	344,487	344,810	(323)
City secretary	383,303	385,533	373,460	12,073
City manager	452,073	671,965	623,274	48,691
Information technology	2,558,122	2,569,547	2,214,869	354,678
City auditor	112,785	114,557	114,323	234
City attorney	584,037	589,415	579,925	9,490
Accounting	2,103,656	2,148,998	2,148,121	877
Mayor and City Council	159,770	159,770	134,825	24,945
Municipal court	657,204	696,940	675,110	21,830
Human resources	899,488	904,586	777,578	127,008
Facilities maintenance	1,331,772	1,336,850	1,308,537	28,313
Purchasing	347,888	351,187	335,848	15,339
Communications	468,545	469,687	344,335	125,352
Non-departmental	2,723,357	2,292,477	2,125,601	166,876
Total general government	13,122,224	13,035,999	12,100,616	935,383
Public safety				
Emergency management	195,637	198,436	185,037	13,399
Police	18,546,887	18,410,814	17,452,322	958,492
Animal control	812,179	830,894	830,111	783
Fire marshal	635,560	612,856	539,947	72,909
Fire	2,334,787	2,338,595	2,318,401	20,194
EMS	3,198,049	3,261,023	3,261,023	-
Total public safety	$ 25,723,099	$ 25,652,618	$ 24,586,841	$ 1,065,777

City of League City, Texas
Schedule of Revenues, Expenditures, and Changes
in Fund Balance – Budget and Actual
General Fund – Continued
For the Fiscal Year Ended September 30, 2017

	Budgeted Amounts Original Budget	Budgeted Amounts Final Budget	Actual	Variance with Final Budget Positive (Negative)
Public works				
Building inspection	$ 1,104,021	$ 1,088,688	$ 1,006,800	$ 81,888
Public works administration	458,457	567,978	551,616	16,362
Engineering	1,802,079	1,801,390	1,435,685	365,705
Street and traffic	6,304,509	6,305,406	6,043,034	262,372
Neighborhood Services	573,677	575,800	476,813	98,987
Solid waste	4,774,380	4,886,199	4,847,818	38,381
Planning	1,118,965	1,210,956	1,139,311	71,645
Total public works	16,136,088	16,436,417	15,501,077	935,340
Community services				
Civic center operations	499,970	503,735	499,220	4,515
Library	1,939,484	1,961,785	1,911,131	50,654
Parks recreation	733,613	743,795	627,002	116,793
Parks operation	1,915,028	2,053,047	1,991,421	61,626
Total community services	5,088,095	5,262,362	5,028,774	233,588
Capital outlay	439,428	643,558	636,499	7,059
Total expenditures	60,508,934	61,030,954	57,853,807	3,177,147
Excess (deficiency) of revenues over (under) expenditures	4,400,229	4,885,576	7,048,904	2,163,328
Other financing sources (uses)				
Proceeds from sale of capital assets	25,000	17,087	7,186	(9,901)
Transfers in	3,322,000	3,322,000	3,322,000	-
Transfers (out)	(11,000,000)	(15,178,254)	(15,178,254)	-
Total other financing sources (uses)	(7,653,000)	(11,839,167)	(11,849,068)	(9,901)
Net changes in fund balance	(3,252,771)	(6,953,591)	(4,800,164)	2,153,427
Fund balance, beginning of year	28,442,167	28,442,167	28,442,167	-
FUND BALANCE, end of year	$ 25,189,396	$ 21,488,576	$ 23,642,003	$ 2,153,427

Notes to Required Supplementary Information (RSI):

1. Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

City of League City, Texas

Schedule of Changes in Net Pension Liability and Related Ratios

Texas Municipal Retirement System

For the Fiscal Year Ended September 30, 2017

A. Total pension liability	2017	2016	2015
1. Service cost	$ 4,864,613	$ 4,766,977	$ 4,085,930
2. Interest (on the Total Pension Liability)	8,589,498	8,244,037	7,738,609
3. Changes of benefit terms	-	-	-
4. Difference between expected and actual experience	(1,524,205)	606,671	(1,232,945)
5. Changes of assumptions	-	92,710	-
6. Benefit payments, including refunds or employee contributions	(4,293,442)	(4,265,297)	(3,158,114)
7. Net change in Total Pension Liability	7,636,464	9,445,098	7,433,480
8. Total Pension Liability - beginning	126,966,230	117,521,132	110,087,652
9. Total Pension Liability - ending	$ 134,602,694	$ 126,966,230	$ 117,521,132
B. Plan fiduciary net position			
1. Contributions - employer	$ 4,375,883	$ 4,397,765	$ 3,962,525
2. Contributions - employee	2,061,277	2,085,870	1,938,343
3. Net investment income	6,628,183	141,338	5,037,807
4. Benefit payments, including refunds of employee contributions	(4,293,442)	(4,265,297)	(3,158,114)
5. Administrative expenses	(74,832)	(86,078)	(52,589)
6. Other	(4,035)	(4,251)	(4,323)
7. Net change in Total Pension Liability	8,693,034	2,269,347	7,723,649
8. Total Pension Liability - beginning	98,042,956	95,773,609	88,049,960
9. Total Pension Liability - ending	$ 106,735,990	$ 98,042,956	$ 95,773,609
C. Net pension liability [A9-B9]	$ 27,866,704	$ 28,923,274	$ 21,747,523
D. Plan fiduciary net position as a percentage of the total pension liability [B9/A9]	79.30%	77.22%	81.49%
E. Covered payroll	$ 29,446,809	$ 29,774,998	$ 27,690,617
F. Net pension liability as a percentage of covered payroll [C/E]	94.63%	97.14%	78.54%

Notes to Schedule of Changes in the City's Net Pension Liability and Related Ratios

GASB Statement No. 68 requires 10 years of data; however, three years of data is presented as the data for the years prior to 2015 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule correspond with the period covered as of the year ended December 31st, the current measurement date.

City of League City, Texas

Schedule of Contributions
Texas Municipal Retirement System
For the Fiscal Year Ended September 30, 2017

	2017	2016	2015
Actuarially determined contribution	$ 4,717,212	$ 4,373,626	$ 4,154,127
Contributions in relation to the actuarially determined contribution	4,717,212	4,373,626	4,154,127
Contribution deficiency (excess)	$ -	$ -	$ -
Covered payroll	$ 30,922,708	$ 29,183,791	$ 28,317,437
Contributions as a percentage of covered payroll	15.25%	14.99%	14.67%

Notes to Schedule of Contributions

GASB Statement No. 68 requires 10 years of data; however, three years of data is presented as the data for the years prior to 2015 is not available. Additionally, GASB Statement No. 68 requires that the information on this schedule correspond with the period of the City's fiscal year end of September 30th.

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

Methods and Assumptions Used to Determine Contribution Rates

Actuarial cost method	Entry age normal
Amortization method	Level percentage of payroll, closed
Remaining amortization period	29 years
Asset valuation method	10 Year smoothed market, 15% sort corridor
Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Investment rate of return	6.75%
Retirement age	Experienced-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 - 2014.
Mortality	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.

Other Information:

There were no benefit changes during the year.

City of League City, Texas

Schedule of Funding Progress

Post-Employment Healthcare Benefits

For the Fiscal Year Ended September 30, 2017

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2009	-	$ 2,082,379	$ 2,082,379	0%	$ 22,877,988	9.10%
12/31/2011	-	3,097,039	3,097,039	0%	25,322,107	12.20%
12/31/2013	-	5,235,330	5,235,330	0%	26,976,005	19.41%
12/31/2015	-	5,561,440	5,561,440	0%	29,774,998	18.68%

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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NORTON ROSE FULBRIGHT

October _____, 2018

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We have acted as bond counsel in connection with the issuance by the City of League City, Texas (the "*Issuer*") of its Combination Tax and Revenue Certificates of Obligation, Series 2018 (the "*Certificates*") in the aggregate principal amount of $11,550,000.

In rendering the opinions herein we have examined and relied upon an executed Certificate; original or certified copies of the proceedings had in connection with issuance of the Certificates, including the Ordinance of the governing body of the Issuer which authorizes issuance of the Certificates (the "*Ordinance*"); certificates of officers of the Issuer related to the expected use and investment of proceeds of the sale of the Certificates and certain other funds of the Issuer, which are within its sole knowledge and control; and such other material and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates.

Based upon such examination, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Certificates are valid and legally binding obligations of the Issuer payable from the sources, and enforceable in accordance with the terms and conditions, described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity.

2. The Certificates are payable from and equally and ratably secured solely by a lien on and pledge of taxes within the limits prescribed by law and are further payable from and secured by a pledge of and lien on certain net revenues from the operation of the Issuer's waterworks and sanitary sewer system.

3. Pursuant to the Internal Revenue Code of 1986, as amended and in force on the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, assuming continuing compliance with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Certificates is excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code, and such interest will not be included for federal income tax purposes in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

WE CALL TO YOUR ATTENTION THAT, 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.

We express no other opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. 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, "S" corporations with "subchapter C" earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, taxpayers 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.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any change in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service or any court; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours,

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A Hilltop Holdings Company