

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Preliminary Official Statement is delivered in final form. Under no circumstances shall the Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

PRELIMINARY OFFICIAL STATEMENT

Dated October 14, 2019

Ratings:
Moody's: "Aa1"
S&P: "AA+"
(See "OTHER INFORMATION - Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code, as amended and is not a specific preference item for purposes of the alternative minimum tax." See "TAX MATTERS" for a discussion of the opinion of Bond Counsel.

THE BONDS WILL NOT BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



\$35,120,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris County)
GENERAL OBLIGATION REFUNDING AND
IMPROVEMENT BONDS, SERIES 2019

Dated Date: October 15, 2019

Interest Accrual Date: Delivery Date

Due: February 15 as shown on page 2 hereof

PAYMENT TERMS . . . Interest on the \$35,120,000* City of League City, Texas, General Obligation Refunding and Improvement Bonds, Series 2019 (the "Bonds") will accrue from the date of initial delivery to the purchaser thereof described below (the "Delivery Date") and will be payable February 15 and August 15 of each year commencing February 15, 2020, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - BOOK-ENTRY-ONLY SYSTEM" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Chapters 1207, 1331 and 1371, as amended, various elections held in the City, and an ordinance of the City authorizing the issuance of the Bonds (the "Bond Ordinance") (see "THE BONDS – AUTHORITY FOR ISSUANCE OF THE BONDS"). The Bonds constitute direct obligations of the City, payable from the proceeds of a continuing, direct, annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City (see "THE BONDS – SECURITY AND SOURCE OF PAYMENT FOR THE BONDS"). In the Bond Ordinance, the City Council delegated to a designated officer of the City authority to complete the sale of the Bonds pursuant to the terms set forth in a pricing certificate.

PURPOSE . . . Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding obligations described on Schedule I attached hereto (the "Refunded Obligations") to achieve debt service savings, (ii) to fund acquisition, design, construction, equipping, and improvement of streets, roadways, traffic, and drainage improvements, and for the purchase of materials, supplies, equipment, machinery, buildings, land and rights of way related thereto; and, (iii) to pay the costs of issuance associated with the sale of the Bonds.

MATURITY SCHEDULE

See page 2

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, 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 BONDS - OPTIONAL REDEMPTION").

MANDATORY 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 Bonds, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity date of that Term Bond, 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 Bonds 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 Bonds then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds 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 Bonds 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 Bracewell LLP, Bond Counsel, Houston, Texas (see APPENDIX C - "FORM OF BOND COUNSEL'S OPINION").

DELIVERY . . . It is expected that the Bonds will be available for delivery through The Depository Trust Company on November 19, 2019.

BIDS DUE ON THE BONDS WEDNESDAY , OCTOBER 23, 2019, AT 10:45 AM CDT

* Preliminary, subject to change.

\$35,120,000*
CITY OF LEAGUE CITY, TEXAS
(Galveston and Harris County)
GENERAL OBLIGATION REFUNDING AND
IMPROVEMENT BONDS, SERIES 2019

MATURITY SCHEDULE*

CUSIP PREFIX: 521769 ⁽²⁾

<u>Principal Amount</u>	<u>Maturity 2-15</u>	<u>Interest Rate</u>	<u>Price or Yield ⁽¹⁾</u>	<u>CUSIP Suffix ⁽²⁾</u>	<u>Principal Amount</u>	<u>Maturity 2-15</u>	<u>Interest Rate</u>	<u>Price or Yield ⁽¹⁾</u>	<u>CUSIP Suffix ⁽²⁾</u>
\$ 755,000	2020				\$ 2,790,000	2030 ⁽³⁾			
1,985,000	2021				1,640,000	2031 ⁽³⁾			
2,075,000	2022				1,000,000	2032 ⁽³⁾			
2,155,000	2023				1,030,000	2033 ⁽³⁾			
2,235,000	2024				1,065,000	2034 ⁽³⁾			
2,320,000	2025				1,095,000	2035 ⁽³⁾			
2,410,000	2026				1,130,000	2036 ⁽³⁾			
2,510,000	2027				1,165,000	2037 ⁽³⁾			
2,610,000	2028				1,200,000	2038 ⁽³⁾			
2,715,000	2029 ⁽³⁾				1,235,000	2039 ⁽³⁾			

- (1) The initial price or yield is furnished by the Initial Purchaser(s) and represents the initial offering price or yield to the public, which may be changed by the Initial Purchaser(s) at any time.
- (2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the City, the Financial Advisor or the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (3) The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, 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 ("Rule 15c2-12"), 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 Bonds 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 Rule 15c2-12.

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 BONDS- 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 Bonds 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 BONDS**..... The Bonds are issued as \$35,120,000* General Obligation Refunding and Improvement Bonds, Series 2019. The Bonds are issued as serial bonds maturing February 15, 2020, through February 15, 2039, unless the Initial Purchaser designates one or more maturities as a Term Bond (see "THE BONDS -DESCRIPTION OF THE BONDS").
- PAYMENT OF INTEREST** Interest on the Bonds accrues from the Delivery Date, and is payable February 15, 2020, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS - DESCRIPTION OF THE BONDS").
- AUTHORITY FOR ISSUANCE** The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code Chapters 1207, 1331 and 1371, as amended, and an ordinance adopted by the governing body of the City, which delegated to certain officials of the City the authority to complete the sale of the Bonds through the execution of a pricing certificate (the ordinance and the pricing certificate are collectively referred to as the "Ordinance") (see "The BONDS – AUTHORITY FOR ISSUANCE OF THE BONDS").
- SECURITY FOR THE CERTIFICATES**..... The Bonds constitute direct obligations of the City, payable from an annual, continuing ad valorem tax levied, within the limit prescribed by law, on all taxable property located within the City (see "THE BONDS – SECURITY AND SOURCE OF PAYMENT" and "AD VALOREM PROPERTY TAXATION – PUBLIC HEARING AND TAX RATE LIMITATIONS").
- REDEMPTION** The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, 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 BONDS – MANDATORY SINKING-FUND REDEMPTION").
- TAX EXEMPTION**..... In the opinion of Bond Counsel, under existing law, the interest on the Bonds is be excludable from gross income for federal income tax purposes and the Bonds are not "private activity bonds".
- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be used (i) to refund a portion of the City's outstanding obligations described on Schedule I attached hereto (the "Refunded Obligations") to achieve debt service savings, (ii) to fund acquisition, design, construction, equipping, and improvement of streets, roadways, traffic, and drainage improvements, and for the purchase of materials, supplies, equipment, machinery, buildings, land and rights of way related thereto; and, (iii) to pay the costs of issuance associated with the sale of the Bonds.
- RATINGS** The Bonds 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 Bonds 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 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - BOOK-ENTRY-ONLY SYSTEM").
- PAYMENT RECORD** The City has never defaulted in payment of its general obligation tax debt.
- LEGALITY**..... The Bonds 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 the State of Texas and the approval of certain legal matters by Bracewell LLP, Houston, Texas, Bond Counsel. The form of the legal opinion of Bond Counsel appears in APPENDIX C.

* 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		Ratio Tax	
				Debt Outstanding at End of Year ⁽³⁾	Per Capita G.O. Tax Debt	Debt to Taxable Assessed Valuation	Total Tax Collections as a Percent of Total Levy
2016	100,053	\$ 6,465,104,039	\$ 64,617	\$ 227,380,000	\$ 2,273	3.52%	99.74%
2017	102,635	7,123,373,545	69,405	232,765,000	2,268	3.27%	99.70%
2018	104,857	7,825,345,348	74,629	218,570,000	2,084	2.79%	99.55%
2019	106,415	8,103,667,336	76,152	215,920,000	2,029	2.66%	98.86% ⁽⁴⁾
2020	106,803	8,750,404,920	81,930	223,045,000 ⁽⁵⁾	2,088	2.55%	0.00%

- (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) Collections through August 15, 2019.
- (5) Preliminary, subject to change. Includes the Bonds. Excludes the Refunded Bonds.

GENERAL FUND CONSOLIDATED STATEMENT SUMMARY

	For Fiscal Year Ended September 30				
	2018	2017	2016	2015	2014
Total Revenue	\$ 71,121,236	\$ 64,902,711	\$ 59,712,448	\$ 56,372,889	\$ 50,913,480
Total Expenditures	61,687,186	57,853,807	54,870,478	51,727,890	49,607,270
Other Sources (Uses)	(6,990,431)	(11,849,068)	1,160,100	1,451,748	(1,325,979)
Beginning Fund Balance	23,642,003	28,442,167	22,440,097	16,343,350	16,363,119
Increase (decrease) in Fund Balance	2,443,619	(4,800,164)	6,002,070	6,096,747	(19,769)
Ending Fund Balance	\$ 26,085,622	\$ 23,642,003	\$ 28,442,167	\$ 22,440,097	\$ 16,343,350

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CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Title	Length of Service	Term Expires November	Occupation
Pat Hallisey	Mayor	3 Years	2022	Retired
Todd Kinsey	Mayor Pro-Tem/Council Position 4	7 Years	2020	Freelance Writer
Andy Mann	Council Position 1	2 Years	2022	IT Manager
Hank Dugie	Council Position 2	3 Years	2022	Real Estate, Self Employed
Larry Millican	Council Position 3	3 Years	2020	Real Estate
Greg Gripon	Council Position 5	3 Years	2020	Business Owner
Chad Tressler	Council Position 6	4 Years	2022	Engineer
Nick Long	Council Position 7	4 Years	2022	Benefits Consultant

SELECTED ADMINISTRATIVE STAFF

Name	Position	Service To City	Total Governmental Service
John Baumgartner	City Manager	7 Years	31 Years
Ogden "Bo" Bass	Assistant City Manager	2 Years	38 Years
Michael Kramm	Assistant City Manager	26 Years	26 Years
Angie Steelman	Director of Budget & Project Management	11 Years	11 Years
Kristine Polian	Director of Finance	6 Months	16 Years
Diana Stapp	City Secretary	17 Years	18 Years
Nghiem Doan	City Attorney	4 Years	20 Years

CONSULTANTS AND ADVISORS

AuditorsBelt Harris Pechacek, LLLP.
Houston, Texas

Bond CounselBracewell LLP
Houston, Texas

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

For additional information regarding the City, please contact:

Kristine Polian City of League City Director of Finance 300 West Walker League City, Texas 77573 (281)554-1359 Phone (281)554-1354 Fax	or	Joe Morrow Financial Advisor Hilltop Securities Inc. 700 Milam, Suite 500 Houston, Texas 77008 (713) 651-9850 Phone (713) 654-8658 Fax
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PRELIMINARY OFFICIAL STATEMENT

RELATING TO \$35,120,000* CITY OF LEAGUE CITY, TEXAS (Galveston and Harris Counties) GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2019

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$35,120,000* City of League City, Texas (the "City"), General Obligation Refunding and Improvement Bonds, Series 2019 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the applicable ordinances approving the Bonds, except as otherwise indicated herein.

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

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 2020 population is 106,803. 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 2019, the City has received \$3.13 million from FEMA, which covers 90% of this expense. The State of Texas has paid the remaining 10% of debris removal at \$347,638. The City anticipates \$1.08 million from FEMA for reimbursement of Category B payroll reimbursement. 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 BONDS

DESCRIPTION OF THE BONDS

The Bonds are dated October 15, 2019, and interest will accrue from the date of initial delivery, and will 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, 2020. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS – BOOK-ENTRY-ONLY SYSTEM" herein).

* Preliminary, subject to change.

REFUNDED OBLIGATIONS

A description and identification of the Refunded Obligations appears in Schedule I hereto. Upon the issuance of the Bonds, the Refunded Obligations and the ordinances authorizing such Refunded Obligations shall be fully defeased and discharged. The principal and interest due on the Refunded Obligations are to be paid on the scheduled interest payment dates and the respective maturity or redemption dates, as applicable, of such Refunded Obligations, from funds to be deposited pursuant to a certain escrow agreement (the "Escrow Agreement") between the City and The Bank of New York Mellon Trust Company, N.A. (the "Escrow Agent"). The Ordinance provides that from the proceeds of the sale of the Bonds received from the Initial Purchaser, together with other lawfully available funds of the City, if any, the City will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective maturity or redemption dates, as applicable. Such funds will be held by the Escrow Agent in a special escrow account (the "Escrow Fund") and will be used to purchase obligations authorized by Chapter 1207, Texas Government Code, as amended (the "Securities").

Public Finance Partners LLC, a firm of independent certified public accountants, will deliver to the City, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the Securities, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the City. In addition, Public Finance Partners LLC has relied on any information provided to it by the City's retained advisors, consultants or legal counsel. Public Finance Partners LLC was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

By the deposit of the Securities and cash, if necessary, with the Escrow Agent pursuant to the Escrow Agreement, the City will have effected the defeasance of all of the Refunded Obligations in accordance with law. It is the opinion of Bond Counsel that as a result of such defeasance and in reliance upon the report of Public Finance Partners LLC, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the Securities and any cash held for such purpose by the Escrow Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City payable from any revenue source of the City for the purpose of applying any limitation on the issuance of debt.

AUTHORITY FOR ISSUANCE

The Bonds are issued pursuant to the Constitution and general laws of the State, including particularly Texas Government Code, Chapters 1207, 1331 and 1371, Texas Government Code, as amended, an election held in the City on May 4, 2019, and by an ordinance passed by the City Council of the City (the "Bond Ordinance"). In the Bond Ordinance, the City Council delegated to a designated officer of the City authority to complete the sale of the Bonds pursuant to the terms set forth in a pricing certificate.

SECURITY AND SOURCE OF PAYMENT

The principal and interest on the Bonds are payable from a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City.

PAYMENT RECORD

The City has never defaulted in payment of its general obligation tax debt.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or from time to time in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, 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 Bonds 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 Bonds to be redeemed. If less than all of the Bonds are to be redeemed, the City may select the maturities of such Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If an Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Bond (or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

MANDATORY SINKING FUND REDEMPTION

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 Bonds, each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity date of that Term Bond, 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 Bonds 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 Bonds then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds 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 Bond 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 Bond name, CUSIP number, stated maturity, interest rate, dated date, and, in the case of partial redemption. The Bond numbers and respective principal amounts) of Bonds to be redeemed,
- (4) that on the redemption date the redemption price of each of the Bonds 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 Bonds 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 BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BONDS OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BONDS OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DEFESANCE

Any Bond 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 Bond 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 Bonds 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 Bonds together so certified sufficient to make such payment, provided that all the expenses pertaining to the Bonds 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 Bonds then Outstanding, the City will designate the stated maturities of Bond 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 Bonds of a particular Stated Maturity so designated, the Paying Agent/Registrar will select the outstanding Bonds 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 Bonds a denomination larger than \$5,000.

When an Bond 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 Bonds 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 Bonds are discharged, to call for redemption at an earlier date those Bonds 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 Bond for redemption, (ii) gives notice of the reservation of that right to the owners of the Bond 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 Bonds" 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 Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the BOOK-ENTRY-ONLY SYSTEM has been provided by DTC for use in disclosure documents such as this Official Statement. The City 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 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) 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 Bonds, 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 Bonds. 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 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bonds ("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 Bonds 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 Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds 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 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bonds documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In

the alternative, 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 Bonds will be sent to DTC. If less than all of the Bonds 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 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds 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 Bonds 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, Bonds 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, Bonds, 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 Bonds are in the BOOK-ENTRY-ONLY SYSTEM, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

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

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

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar for the Bonds 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 Bonds. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the 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 Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION

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

All Bonds issued in any transfer or exchange of Bonds 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 Bonds surrendered in such transfer or exchange.

Every Bond 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 Bonds, 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 Bonds.

Neither the City nor the Paying Agent/Registrar is required (1) to transfer or exchange any Bond 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 Bond so selected for redemption.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Bonds on any interest payment date means the close of business on the 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 an Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

BOND HOLDERS' REMEDIES

The Ordinance does not establish specific events of default with respect to the Bonds 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 Bonds, 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 Bonds 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 Bonds 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 Bonds may be provided by the laws of the State of Texas with respect to the Bonds.

The Texas legislature has not waived the City's sovereign immunity from a suit for money damages, and unless the facilities financed by the Bonds or their issuance is determined by a court to be for proprietary purposes holders of the Bonds 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 Bonds upon the failure of the City to observe any covenant under the Ordinance.

The City may also be 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 Bonds 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 Bonds, 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 Bonds, 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 Bond 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 Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on any such Bond, (2) give any preference to any Bond over any other Bond, (3) modify any of the provisions in the definition in the Ordinance of the term "Outstanding" or (4) reduce the aggregate principal amount of Bonds 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 Bonds, 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 Bond remains Outstanding except as permitted in this Section.

Any consent to any amendment hereof by the registered owner of any Bond binds every future registered owner of the same Bond and the registered owner of every Bond 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 Bond.

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AD VALOREM PROPERTY TAXATION

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Reference is made to Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

VALUATION OF TAXABLE PROPERTY

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the responsibility of the Harris County Appraisal District and Chambers County Appraisal District (each, an "Appraisal District"). Except as described below, each Appraisal District is required to appraise all property within the respective 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, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to the 10% Homestead Cap.

State law provides that eligible owners of both agricultural land and open-space land, 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 ("Productivity Value"). The same land may not be qualified as both agricultural and open-space land. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to valuation by Productivity Value".

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates. See "AD VALOREM PROPERTY TAXATION – ISSUER AND TAXPAYER REMEDIES".

STATE MANDATED HOMESTEAD EXEMPTIONS

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to exemptions state mandated homestead.

LOCAL OPTION HOMESTEAD EXEMPTIONS

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the market value of all homesteads (but not less than \$5,000) and (2) an additional exemption of the market value of the homesteads of persons 65 years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation, if any, attributable to local option homestead exemptions.

LOCAL OPTION FREEZE FOR THE ELDERLY AND DISABLED

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation attributable to the freeze on taxes for the elderly and disabled.

PERSONAL PROPERTY

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

FREEPORT EXEMPTIONS

Certain goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue to tax Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, principally inventory, that are stored for the purposes of assembling, storing, manufacturing, processing or fabricating the goods in a location that is not owned by the owner of the goods and are transferred from that location to another location within 175 days ("Goods-in-Transit"), are exempt from ad valorem taxation unless a taxing unit takes official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax Goods-in-Transit beginning the following tax year. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include special inventories such as motor vehicles or boats in a dealer's retail inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property. See "TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT" for the reduction in taxable valuation, if any, attributable to Goods-in- Transit or Freeport Property Exemptions.

OTHER EXEMPT PROPERTY

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

TAX INCREMENT FINANCING ZONES

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment financing zones ("TIRZ") within its boundaries, and other overlapping taxing units may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for project costs, as defined in Chapter 311, Texas Government Code, general located within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion of the taxes levied by each participating taxing unit against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units.

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 Bonds. The 2019 Taxable Assessed Value within the four existing zones is equal to \$745,667,760.

- (1) The two performance-based development agreements with the League City Local Government Corporation for Projects Epic and Guidry have neither a start date nor an ending date, but are each limited to ten year terms.
- (2) The performance-based development agreements for Epicenter of League City, LLC League City Local Government Corporation (Project Epic), and League City Local Government Corporation (Project Guidry) include a ten year, 100% rebate of the city's portion of the Hotel Occupancy Tax generated by each eligible hotel in the proposed projects.

TAX ABATEMENT AGREEMENTS

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, 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. See "AD VALOREM PROPERTY TAXATION – TAX ABATEMENT POLICY" for descriptions of the City's tax abatement agreements.

For a discussion of how the various exemptions described above are applied by the City, see "AD VALOREM PROPERTY TAXATION – CITY APPLICATION OF PROPERTY TAX CODE" herein.

PUBLIC HEARING AND TAX RATE LIMITATIONS

The following terms as used in this section have the meanings provided below:

"adjusted" means lost values are not included in the calculation of the prior year's taxes and new values are not included in the current year's taxable values.

"de minimis rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year's taxable value, plus the debt service tax rate.

"no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted).

"special taxing unit" means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

"unused increment rate" means the cumulative difference between a city's voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city's tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

"voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate."

The City's tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the "maintenance and operations tax rate"), and (2) a rate for funding debt service in the current year (the "debt service tax rate"). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

Effective January 1, 2020, the terms rollback tax rate and effective tax rate will be replaced, respectively, with the terms "voter-approval tax rate" and "no-new-revenue tax rate". Beginning with the 2020 tax year, the procedures in this paragraph and the following paragraphs apply. A city must annually calculate its "voter-approval tax rate" and "no-new-revenue tax rate" (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its "de minimis rate", an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census

and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city's voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its "voter-approval tax rate" using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Bonds.

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.

DEBT TAX RATE LIMITATIONS

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. 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. Furthermore, Article VIII of the City Charter limits the City's ad valorem tax rate for maintenance and operations of the City to six-tenths (0.6) of one percent. Any levy of taxes to pay principal or interest on any tax bonds or other tax-supported debt of the City, such as the Obligations, is not subject to this limitation in the Charter. See "CITY CHARTER LIMITATIONS" below.

THE CITY'S RIGHTS IN THE EVENT OF TAX DELINQUENCIES

Taxes levied by the City are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all State and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the City, having power to tax the property. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes. At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions 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.

ISSUER AND TAXPAYER REMEDIES

Under certain circumstances, the City and its taxpayers may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Owners of certain property with a taxable value of at least \$50 million and situated in a county with a population of one million or more as of the most recent federal decennial census may additionally protest the determinations of appraisal district directly to a three-member special panel of the appraisal review board, selected by a State district judge, consisting of highly qualified professionals in the field of property tax appraisal.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (See "– PUBLIC HEARING AND MAINTENANCE AND OPERATION TAX RATE LIMITATIONS") The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

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 2017, 2018 and 2019 was, \$382,426, \$494,992 and \$915,006,628, 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 28, 2014, the City entered into a Chapter 380 Economic Development Agreement with 101 League City I45/646, L.P. and Cabela's Wholesale, Inc. in order to encourage economic development within the City. The City will make annual sales tax and property tax rebates associated with the development through June 30, 2031 or totaling \$9,346,000, whichever occurs first.

The City has also entered into ten additional performance-based agreements with expiration dates ranging from March 2016 to August 2033⁽¹⁾ under which the City has outstanding rebates for an aggregate total of approximately \$1,933,455⁽²⁾ 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 2019 assessed valuation is \$0.

TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2019/2020 Market Valuation Established by Galveston Central and Harris County Appraisal Districts (excluding totally exempt property)		\$ 10,803,038,419
Less Exemptions/Reductions at 100% Market Value:		
Homestead Exemptions	\$ 1,408,614,056	
Veteran Homestead Exemptions	89,005,722	
Homestead Cap Adjustment	185,103,135	
Over 65	271,816,372	
Disabled Persons/Veteran	31,592,615	
Member Armed Services Surviving Spouse	362,150	
Freeport Exemptions	14,592,718	
Solar	35,650	
Pollution	14,561	
Under \$500 Exemption	276	
Productivity Loss	51,496,244	2,052,633,499
2019/2020 Net Taxable Valuation ⁽¹⁾		<u>\$ 8,750,404,920</u>
General Obligation Debt Payable from Ad Valorem Taxes (as of 10/10/19)		
Outstanding Debt	\$ 204,250,000 ⁽²⁾	
The Bonds	<u>35,120,000 ⁽³⁾</u>	
		\$ 239,370,000
Less: Self-Supporting Debt (as of 10/10/19) ⁽⁴⁾		
Water and Sewer System General Obligation Debt		123,166,029 ⁽⁵⁾
Economic Development Corporation General Obligation Debt		5,025,000 ⁽⁵⁾
Tax Increment Reinvestment Zone General Obligation Debt		4,350,000
Public Improvement District		<u>1,900,000</u>
Net Funded Debt Payable From Ad Valorem Taxes		\$ 106,828,971
Interest and Sinking Fund Balance (as of 8/15/2019)		\$ 4,991,804
Ratio Net General Obligation Debt to Taxable Assessed Valuation		1.22%

2020 Estimated Population - 106,803
Per Capita Taxable Assessed Valuation - \$81,930
Per Capita Net General Obligation Funded Debt - \$1,000

- (1) 2019/2020 Taxable Assessed Valuation is comprised of certified values as provided by the Galveston Central Appraisal District as of July 19, 2019 and estimate of value as provided by Harris County Appraisal District on August 2, 2019.
- (2) Excludes the Refunded Bonds. Preliminary, subject to change.
- (3) Preliminary, subject to change
- (4) 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.
- (5) Includes a portion of the Bonds. Preliminary, subject to change.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

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

Category	Fiscal Year Ended September 30,					
	2020		2019		2018	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real Residential, Single- Family	\$ 8,724,253,538	80.76%	\$ 7,668,670,345	79.91%	\$ 7,371,641,880	79.95%
Real, Residential, Multi-Family	417,333,710	3.86%	386,868,225	4.03%	361,598,000	3.92%
Real, Vacant Platted Lots/Tracts	161,548,335	1.50%	160,507,638	1.67%	131,474,820	1.43%
Real, Acreage (Land Only)	52,336,872	0.48%	52,961,434	0.55%	54,271,910	0.59%
Real, Farm and Ranch Improvements	58,308,969	0.54%	50,801,539	0.53%	56,831,528	0.62%
Real, Commercial and Industrial	831,377,986	7.70%	784,115,824	8.17%	724,946,495	7.86%
Real, Oil, Gas & Other Mineral Reserves	0	0.00%	14,196.00	0.00%	-	0.00%
Real and Intangible Personal, Utilities	129,124,820	1.20%	109,086,205	1.14%	108,206,363	1.17%
Tangible Personal, Business	370,671,754	3.43%	320,519,636	3.34%	341,544,834	3.70%
Tangible Personal, Other	6,043,050	0.06%	6,010,209	0.06%	5,791,520	0.06%
Real, Inventory	15,365,408	0.14%	24,836,652	0.26%	31,555,699	0.34%
Special Inventory	36,673,977	0.34%	31,782,970	0.33%	31,883,988	0.35%
Total Appraised Value Before Exemptions	\$ 10,803,038,419	100.00%	\$ 9,596,174,873	100.00%	\$ 9,219,747,037	100.00%
Less: Total Exemption/Reductions	2,052,633,499		1,755,846,351		1,824,948,467	
Value subject to ARB Hearing	-		263,338,814		-	
Plus: Adjustments Made after Certification ⁽¹⁾	-		-		430,546,778	
Taxable Assessed Value	\$ 8,750,404,920		\$ 8,103,667,336		\$ 7,825,345,348	

Category	Fiscal Year Ended September 30,			
	2017		2016	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 6,653,628,082	78.71%	\$ 5,964,283,436	78.19%
Real, Residential, Multi-Family	315,632,964	3.73%	307,614,069	4.03%
Real, Vacant Platted Lots/Tracts	159,350,990	1.89%	133,763,635	1.75%
Real, Acreage (Land Only)	66,464,059	0.79%	112,578,417	1.48%
Real, Farm and Ranch Improvements	51,009,212	0.60%	7,321,170	0.10%
Real, Commercial and Industrial	655,239,644	7.75%	611,170,349	8.01%
Real, Oil, Gas & Other Mineral Reserves	-	0.00%	16,436	0.00%
Real and Intangible Personal, Utilities	101,968,248	1.21%	97,605,310	1.28%
Tangible Personal, Business	382,953,376	4.53%	316,412,159	4.15%
Tangible Personal, Other	5,711,116	0.07%	5,281,606	0.07%
Real, Inventory	27,822,411	0.33%	39,550,970	0.52%
Special Inventory	33,677,888	0.40%	31,940,770	0.42%
Total Appraised Value Before Exemptions	\$ 8,453,457,990	100.00%	\$ 7,627,538,327	100.00%
Less: Total Exemption/Reductions	1,563,361,741		1,545,058,906	
Value subject to ARB Hearing	-		-	
Plus: Adjustments Made after Certification ⁽¹⁾	233,277,296		382,624,618	
Taxable Assessed Value	\$ 7,123,373,545		\$ 6,465,104,039	

(1) Supplemental values added after certification.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	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 Assessed Valuation	G.O. Tax Debt Per Capita
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	232,765,000	3.27%	2,268
2018	104,857	7,825,345,348	74,629	218,570,000	2.79%	2,084
2019	106,415	8,103,667,336	76,152	215,920,000	2.66%	2,029
2020	106,803 ⁽¹⁾	8,750,404,920	81,930	223,045,000 ⁽⁴⁾	2.55% ⁽⁴⁾	2,088 ⁽⁴⁾

(1) Source: Proposed 2020 Budget.

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

(3) Includes self-supporting debt.

(4) Includes the Bonds. Excludes the Refunded Bonds. Preliminary subject to change.

TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year	Tax Year	Total Tax Rate	Total Tax Levy for Fiscal Year	Collected Within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections To Date	
				Amount	Percent of Levy	Amount	Amount	Percent of Levy
2016	2015	\$ 0.5735	\$ 37,134,046	\$ 36,919,979	99.42%	\$ 116,666	\$ 37,036,645	99.74%
2017	2016	0.5700	40,541,899	40,293,280	99.39%	126,815	40,420,095	99.70%
2018	2017	0.5650	43,832,366	43,549,227	99.35%	86,706	43,635,933	99.55%
2019	2018	0.5638	45,260,000	44,745,480 ⁽¹⁾	98.86% ⁽¹⁾	- ⁽¹⁾	44,745,480 ⁽¹⁾	98.86% ⁽¹⁾
2020	2019	0.5500	49,048,567 ⁽²⁾	In Process of Collection				

(1) Source: The City. Collection through August 15, 2019.

(2) Source: Proposed 2020 Budget.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2019/2020 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Komatsu America Corp	Equipment Rental	\$ 63,053,495	0.72%
Texas-New Mexico Power Co	Utility	55,532,530	0.63%
Amalfi & Sorrento Property LLC	Developer	38,490,000	0.44%
VL Town Center Associates LLC	Limited Liability Co	35,417,790	0.40%
VR Fairways Holdings LP	Developer	27,733,700	0.32%
Pure Walker Commons LLC	Apartments	25,520,000	0.29%
KC Watermark Apartments LLC	Apartments	25,200,000	0.29%
BRE Silver MF South Shore TX LP	Utility	24,247,600	0.28%
Strata Beacon LLC	Apartments	23,898,141	0.27%
TL II Apartments LLC	Apartments	23,254,100	0.27%
		<u>\$ 342,347,356</u>	<u>3.91%</u>

GENERAL OBLIGATION DEBT LIMITATION

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

TABLE 6 - TAX ADEQUACY

2020 Principal and Interest Requirements on Net Funded Debt	\$ 11,577,059 ⁽¹⁾
\$0.1351 Tax Rate at 98% Collection Produces	\$ 11,585,361
Average Annual Principal and Interest Requirements on Net Funded Debt, 2020 - 2039	\$ 6,758,472 ⁽¹⁾
\$0.0789 Tax Rate at 98% Collection Produces	\$ 6,765,988
Maximum Principal and Interest Requirements on Net Funded Debt, 2020	\$ 11,577,059 ⁽¹⁾
\$0.1351 Tax Rate at 98% Collection Produces	\$ 11,585,361

(1) Includes the Bonds. Excludes the Refunded Bonds. 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.

	2019/2020	2019/2020	Total	Estimated	City's
	Taxable	Tax Rate	G.O. Debt	%	Overlapping
	Assessed Value		as of 10/15/19	Applicable	G.O. Debt
					as of 10/15/19
City of League City	\$ 8,103,667,336	\$ 0.550000	\$ 107,013,971 ⁽¹⁾	100.00%	\$ 107,013,971
Bay Colony West MUD	197,244,412	1.000000	15,675,000	100.00%	15,675,000
Clear Creek ISD	24,078,991,395	1.310000	910,060,000	31.98%	291,037,188
College of the Mainland	12,085,638,929	0.002040	15,130,000	10.56%	1,597,728
Dickinson ISD	3,852,003,833	1.450000	299,291,138	31.29%	93,648,197
Galveston Co	30,686,499,260	0.516137	244,006,663	26.91%	65,662,193
Galveston Co Mgmt Dist #1	54,929,080	0.950000 ⁽²⁾	3,298,411	100.00%	3,298,411
Galveston Co MUD # 6	612,995,109	0.230000	8,237,331	100.00%	8,237,331
Galveston Co MUD # 14	319,986,238	0.680000 ⁽²⁾	7,788,929	100.00%	7,788,929
Galveston Co MUD # 15	270,211,499	0.510000 ⁽²⁾	4,980,000	100.00%	4,980,000
Galveston Co MUD # 39	408,217,035	0.570000	21,456,905	100.00%	21,456,905
Galveston Co MUD # 43	382,919,407	0.730000	28,701,375	100.00%	28,701,375
Galveston Co MUD # 44	240,640,960	0.800000 ⁽²⁾	21,500,103	100.00%	21,500,103
Galveston Co MUD # 45	316,519,613	0.900000	267,340,001	100.00%	267,340,001
Galveston Co MUD # 46	409,964,263	0.850000	38,325,000	100.00%	38,325,000
Harris Co	483,996,469,666	0.432900	1,907,620,950	0.04%	763,048
Harris Co Department of Education	484,114,300,697	0.005170	6,320,000	0.04%	2,528
Harris Co Flood Control Dist	473,807,724,947	0.029920	78,809,269	0.04%	31,524
Harris Co Hospital District	473,912,014,028	0.179040	57,300,000	0.04%	22,920
Port of Houston Auth	473,749,431,770	0.011600	568,077,397	0.04%	227,231
Santa Fe ISD	1,391,760,692	1.332300	80,538,139	1.09%	877,866
South Shore Harbour MUD # 7	1,391,760,692	0.380000	14,719,838	100.00%	14,719,838
Tara Glen MUD	376,463,153	0.430000	490,000	100.00%	490,000
Total Direct and Overlapping Funded Debt					\$ 993,397,287
Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation					12.26%
Per Capita Overlapping Funded Debt					\$ 9,301

(1) Includes the Bonds. Excludes Refunded Bonds. Preliminary, subject to change.

(2) 2018/19 tax rate shown. 2019/20 tax rate not available at the time of publication.

DEBT INFORMATION

TABLE 8 - PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending	Outstanding Debt Service ⁽¹⁾		The Bonds ⁽²⁾		Total Outstanding Debt Service	Water and Sewer System Self-Supporting Requirements ⁽³⁾	Sales Tax Self Supporting Requirements ⁽³⁾	TIRZ 2 Self Supporting Requirements	TIRZ 4 Self Supporting Requirements	PID 1 Self Supporting Requirements	PID 3 Self Supporting Requirements	Total Net Debt Service Requirements
	Principal	Interest	Principal	Interest								
2020	\$ 15,570,000	\$ 8,077,931	\$ 755,000	\$ 1,081,331	\$ 25,484,261	\$ 12,156,847	\$ 578,865	\$ 150,138	\$ 363,850	\$ 454,354	\$ 203,150	\$ 11,577,059
2021	14,380,000	7,417,619	1,985,000	1,401,625	25,184,244	12,582,605	581,304	145,763	362,175	302,285	169,282	11,040,831
2022	14,940,000	6,761,210	2,075,000	1,300,125	25,076,335	12,600,480	582,093	146,075	365,275	306,533	126,188	10,949,692
2023	14,910,000	6,094,504	2,155,000	1,194,375	24,353,879	12,345,843	581,882	146,200	360,750	186,804	88,923	10,643,478
2024	14,485,000	5,463,630	2,235,000	1,084,625	23,268,255	12,099,296	585,556	150,800	363,375	-	67,265	10,001,964
2025	14,875,000	4,804,835	2,320,000	970,750	22,970,585	12,098,655	583,094	-	365,250	-	50,995	9,872,591
2026	14,190,000	4,119,936	2,410,000	852,500	21,572,436	11,422,733	584,518	-	361,500	-	20,221	9,183,464
2027	14,370,000	3,474,315	2,510,000	729,500	21,083,815	11,426,093	584,692	-	362,125	-	-	8,710,906
2028	14,705,000	2,886,093	2,610,000	601,500	20,802,593	11,241,108	583,615	-	363,550	-	-	8,614,320
2029	14,940,000	2,336,293	2,715,000	468,375	20,459,668	11,196,599	586,453	-	360,950	-	-	8,315,666
2030	14,280,000	1,762,568	2,790,000	358,650	19,191,218	11,172,608	589,377	-	362,850	-	-	7,066,383
2031	14,495,000	1,196,484	1,640,000	292,200	17,623,684	11,306,246	-	-	360,975	-	-	5,956,463
2032	9,745,000	760,212	1,000,000	252,600	11,757,812	5,475,664	-	-	365,400	-	-	5,916,747
2033	5,750,000	500,974	1,030,000	222,150	7,503,124	3,999,902	-	-	-	-	-	3,503,222
2034	5,345,000	329,518	1,065,000	190,725	6,930,243	3,938,261	-	-	-	-	-	2,991,982
2035	3,315,000	189,821	1,095,000	158,325	4,758,146	1,801,902	-	-	-	-	-	2,956,244
2036	2,125,000	100,090	1,130,000	124,950	3,480,040	761,705	-	-	-	-	-	2,718,335
2037	1,275,000	43,433	1,165,000	90,525	2,573,958	497,840	-	-	-	-	-	2,076,118
2038	555,000	10,406	1,200,000	55,050	1,820,456	-	-	-	-	-	-	1,820,456
2039	-	-	1,235,000	18,525	1,253,525	-	-	-	-	-	-	1,253,525
	<u>\$ 204,250,000</u>	<u>\$ 56,329,873</u>	<u>\$ 35,120,000</u>	<u>\$ 11,448,406</u>	<u>\$ 307,148,279</u>	<u>\$ 158,124,386</u>	<u>\$ 6,421,449</u>	<u>\$ 738,975</u>	<u>\$ 4,718,025</u>	<u>\$ 1,249,975</u>	<u>\$ 726,023</u>	<u>\$ 135,169,446</u>

- (1) "Outstanding Debt" does not include lease/purchase obligations. See "TABLE 10 – REVENUES OF WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY GENERAL OBLIGATION DEBT SERVICE" and "OTHER OBLIGATIONS." Excludes the Refunded Bonds. Preliminary, subject to change.
- (2) Interest is calculated at an assumed rate for the purpose of illustration. Preliminary, subject to change.
- (3) Includes a portion of the Bonds. Preliminary, subject to change.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Budgeted Tax Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2020		\$ 12,160,919 ⁽¹⁾
Budgeted Interest and Sinking Fund, 9/30/2019	\$ 4,997,212	
Budgeted Interest and Sinking Fund Collections	13,362,513	
Less: Rebates to Municipal Utility Districts	(887,289)	
Less: Rebates to Tax Increment Zone	(853,635)	
Less: Estimated Fees	(7,000)	
Budgeted Investment Income / Penalty & Interest	<u>210,000</u>	<u>16,821,801</u>
Estimated Balance, 9/30/2020		<u>\$ 4,660,882</u>

(1) Source: 2020 Proposed Budget.

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 \$510,000 GCWA Water System Contract Revenue Bonds, Series 2011F; approximately 1.82% of the currently outstanding \$6,790,000 Water System Contract Revenue Refunding Bonds (South Project), Series 2011A; and approximately 2.01% of the currently outstanding \$1,050,000 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

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 2020 Fiscal Year
Combination Tax and Revenue Certificates of Obligation, Series 2010	100%	TIRZ 2	\$ 150,138
Combination Tax and Revenue Certificates of Obligation, Series 2011 ⁽¹⁾	44%	4B Corporation	428,400
General Obligation Refunding Bonds, Series 2011A	41%	Waterworks and Sewer System	490,756
Combination Tax and Revenue Certifications of Obligation, Series 2011A	100%	Waterworks and Sewer System	2,057,175
General Obligation Refunding Bonds, Series 2012	49%	Waterworks and Sewer System	890,375
Combination Tax and Waterworks and Sewer System Revenue Certificates of Obligation, Series 2012B	100%	Waterworks and Sewer System	1,414,125
General Obligation Refunding Bonds, Series 2013	7%	Waterworks and Sewer System	108,149
General Obligation Refunding Bonds, Series 2014A	100%	PID 3	203,150
General Obligation Refunding Bonds, Series 2013A	100%	PID 1	454,354
General Obligation Refunding Bonds, Series 2015	100%	Waterworks and Sewer System	2,340,150
Combination Tax and Revenue Certificates of Obligation, Series 2015	83%	Waterworks and Sewer System	1,025,369
General Obligation Refunding Bonds, Series 2016	56%	Waterworks and Sewer System	683,850
Combination Tax and Revenue Certificates of Obligation, Series 2016	29%	Waterworks and Sewer System	249,200
General Obligation Refunding Bonds, Series 2016A	81%	Waterworks and Sewer System	1,928,875
Combination Tax and Revenue Certificates of Obligation, Series 2017	50%	Waterworks and Sewer System	739,730
Combination Tax and Revenue Certificates of Obligation, Series 2017	23%	TIRZ 4	363,850
General Obligation Refunding and Improvement Bonds, Series 2019 ⁽²⁾	15%	Waterworks and Sewer System	245,600
General Obligation Refunding and Improvement Bonds, Series 2019 ⁽²⁾	9%	4B Corporation	<u>150,465</u>
			<u>\$ 13,773,245</u>

(1) Excludes a portion of the Bonds being refunded. Preliminary, subject to change.

(2) Preliminary, subject to change.

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 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 (9/30/2018)	\$ 28,067,980
Waterworks and Sewer System Revenue Bond Requirements (9/30/2019)	<u>2,567,925</u>
Balance Available	\$ 25,500,055
Waterworks and Sewer System General Obligation Bond Requirements (9/30/2019)	<u>10,396,375</u>
Balance	\$ 15,103,680
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. (9/30/2018)	\$ 3,454,096
4B Industrial Corp. General Obligation Bond Requirements (9/30/2018)	<u>666,619</u>
Balance	\$ 2,787,477
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 (9/30/2018)	\$ 1,997,798
TIRZ #2 General Obligation Bond Requirements (9/30/2019)	<u>149,188</u>
Balance	\$ 1,848,610
Percentage of TIRZ #2 General Obligation Bonds Self-Supporting	100.00%

PID #1 Computation

Gross Revenues Available for Debt Service from PID #1 Fund (9/30/2018)	\$ 529,844
PID #1 Fund General Obligation Bond Requirements (9/30/2019)	<u>452,739</u>
Balance	\$ 77,105
Percentage of PID #1 General Obligation Bonds Self-Supporting	100.00%

PID #3 Computation

Gross Revenues Available for Debt Service from PID #3 Fund (9/30/2018)	\$ 336,753
PID #3 Fund General Obligation Bond Requirements (9/30/2019)	<u>222,515</u>
Balance	\$ 114,238
Percentage of PID #3 General Obligation Bonds Self-Supporting	100.00%

TIRZ #4 Computation

Gross Revenues Available for Debt Service from TIRZ #4 Fund (9/30/2018)	\$ 528,008
TIRZ #4 General Obligation Bond Requirements (9/30/2019)	<u>365,375</u>
Balance	\$ 162,633
Percentage of TIRZ #4 General Obligation Bonds Self-Supporting	100.00%

TABLE 12 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Purpose	Date of Authorization	Amount Authorized	Issued to Date	Amount	Unissued
				Being Issued	Balance
City Hall	7/15/69	\$ 862,250	\$ 856,000	\$ -	\$ 6,250
Public Safety Improvements	9/19/92	400,000	-	-	400,000
Drainage	5/4/19	73,000,000	-	8,181,000	64,819,000
Mobility Projects	5/4/19	72,000,000	-	11,819,000	60,181,000
		<u>\$ 146,262,250</u>	<u>\$ 856,000</u>	<u>\$ 20,000,000</u>	<u>\$ 125,406,250</u>

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City anticipates the issuance of tax supported debt in the approximate amount of \$20 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 October 11, 2019, 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,				
	2018	2017	2016	2015	2014
<u>Revenue:</u>					
<u>Program Revenues</u>					
Charges for Services	\$ 13,257,754	\$ 12,300,678	\$ 12,949,500	\$ 12,284,453	\$ 10,432,512
Operating Grants and Contributions	7,687,939	5,561,294	4,355,948	3,878,927	3,084,319
Capital Grants and Contributions	14,169,985	23,342,227	20,712,430	25,108,315	26,277,018
<u>General Revenues</u>					
Property Tax	44,795,450	40,748,850	37,399,738	36,335,584	34,663,278
Franchise Tax	7,073,151	6,814,218	6,310,103	6,055,164	5,725,179
Sales and Uses Taxes	20,194,495	17,655,640	16,540,938	14,923,809	13,823,196
Unrestricted Investment Earnings	1,403,426	624,550	265,120	69,707	51,719
Miscellaneous	1,599,979	944,313	301,647	502,014	1,746,482
Total Revenue	<u>\$ 110,182,179</u>	<u>\$ 107,991,770</u>	<u>\$ 98,835,424</u>	<u>\$ 99,157,973</u>	<u>\$ 95,803,703</u>
<u>Expenses:</u>					
General Government	\$ 15,496,208	\$ 14,911,180	\$ 12,708,386	\$ 13,805,776	\$ 13,318,257
Public Safety	30,778,053	29,303,994	25,671,021	24,832,669	24,139,580
Public Works	26,773,910	28,656,932	23,489,631	21,849,163	26,756,596
Community Services	7,802,691	7,825,726	8,358,265	7,849,582	8,072,245
Interest on Long-Term Debt	3,548,694	3,630,628	4,038,467	3,884,858	4,376,432
Total Expenses	<u>\$ 84,399,556</u>	<u>\$ 84,328,460</u>	<u>\$ 74,265,770</u>	<u>\$ 72,222,048</u>	<u>\$ 76,663,110</u>
Increase in Net Assets before Transfers	\$ 25,782,623	\$ 23,663,310	\$ 24,569,654	\$ 26,935,925	\$ 19,140,593
Transfers	3,165,089	2,553,175	2,831,158	2,188,265	2,616,555
Gain/Loss on Disposition of Capital Assets	63,775	-	1,015,762	(228,103)	-
Increase (Decrease) in Net Assets	<u>\$ 29,011,487</u>	<u>\$ 26,216,485</u>	<u>\$ 28,416,574</u>	<u>\$ 28,896,087</u>	<u>\$ 21,757,148</u>
Net Assets at Beginning of Year	280,020,254	253,803,769	225,387,195	210,597,998	188,840,850
Implementation of change in accounting principle	(4,899,617)	-	-	(14,106,890)	-
Net Assets at Beginning of Year - as restated	<u>275,120,637</u>	<u>-</u>	<u>-</u>	<u>196,491,108</u>	<u>-</u>
Net Assets at End of Year	<u>\$ 304,132,124</u>	<u>\$ 280,020,254</u>	<u>\$ 253,803,769</u>	<u>\$ 225,387,195</u>	<u>\$ 210,597,998</u>

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TABLE 14A – GENERAL FUND REVENUES & EXPENDITURES

	For Fiscal Year Ended September 30,				
	2018	2017	2016	2015	2014
Revenues:					
Taxes	\$ 56,128,696	\$ 50,729,779	\$ 46,400,771	\$ 42,985,790	\$ 39,322,980
Licenses & Permits	3,329,320	3,112,914	2,574,942	3,314,882	3,165,889
Fines and Forfeitures	1,694,557	1,715,132	1,798,252	1,898,201	1,854,462
Intergovernmental	344,227	427,256	173,178	210,165	288,464
Charges for Services	8,307,524	7,589,262	7,512,613	6,471,882	5,209,998
Interest on Investments	420,622	218,437	116,027	43,315	28,929
Other	896,290	1,109,931	1,136,665	1,448,654	1,042,758
Total Revenues	\$ 71,121,236	\$ 64,902,711	\$ 59,712,448	\$ 56,372,889	\$ 50,913,480
Expenditures:					
General Government	\$ 12,032,359	\$ 12,100,616	\$ 10,715,105	\$ 9,870,812	\$ 10,122,077
Public Safety	26,653,236	24,586,841	23,824,950	23,499,756	21,874,293
Public Works	17,207,706	15,501,077	15,014,651	13,417,969	12,315,962
Community Services	5,319,255	5,028,774	4,926,323	4,606,561	4,761,994
Capital Outlay	474,630	636,499	389,449	332,792	532,944
Total Expenditures	\$ 61,687,186	\$ 57,853,807	\$ 54,870,478	\$ 51,727,890	\$ 49,607,270
Excess (Deficit) of Revenues Over Expenditures	\$ 9,434,050	\$ 7,048,904	\$ 4,841,970	\$ 4,644,999	\$ 1,306,210
Other Financing sources (Uses):					
Proceeds from sale of capital assets	\$ 17,853	\$ 7,186	\$ -	\$ -	\$ -
Operating Transfers In	3,322,000	3,322,000	3,504,250	3,333,000	2,351,105
Operating Transfers (Out)	(10,330,284)	(15,178,254)	(2,344,150)	(1,881,252)	(3,677,084)
Total Other Financing Sources (Uses)	\$ (6,990,431)	\$ (11,849,068)	\$ 1,160,100	\$ 1,451,748	\$ (1,325,979)
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	\$ 2,443,619	\$ (4,800,164)	\$ 6,002,070	\$ 6,096,747	\$ (19,769)
Fund Balance, Beginning of Year	23,642,003	28,442,167	22,440,097	16,343,350	16,363,119
Fund Balance, End of Year	<u>\$ 26,085,622</u>	<u>\$ 23,642,003</u>	<u>\$ 28,442,167</u>	<u>\$ 22,440,097</u>	<u>\$ 16,343,350</u>

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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. On May 4, 2019, the voters of the City approved the imposition of an additional one-quarter of one percent (1/4 of 1%) for City Sales and Use Tax. The sales tax increase goes into effect on September 1, 2019.

<u>Fiscal Year</u> <u>Ended 9/30</u>	<u>Total</u> <u>Collected ⁽¹⁾</u>	<u>% of</u> <u>Ad Valorem</u> <u>Tax Levy</u>	<u>Equivalent of</u> <u>Ad Valorem</u> <u>Tax Rate</u>	<u>Per</u> <u>Capita ⁽²⁾</u>
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	201
2018	23,560,244	53.75%	0.3037	225
2019	20,807,458 ⁽³⁾	45.97%	0.2592	196

(1) Provided by the City.

(2) Based on population estimates by the City.

(3) As of August 15, 2019.

The sales tax breakdown for the City is as follows:

4 B Industrial Development Corporation	1/4 %
Property Tax Relief	1/2 %
City Sales & Use Tax	1 1/4 %
State Sales & Use Tax	6 1/4 %
<u>Total</u>	<u>8 1/4 %</u>

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.

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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,				
	2018	2017	2016	2015	2014
Revenues:					
Charges for Services	\$ 37,257,244	\$ 35,805,577	\$ 33,793,709	\$ 28,624,718	\$ 29,262,989
Interest Earned	1,017,809	437,569	239,106	81,035	54,828
Gain on Sale of Assets	-	-	5,984	(1,562)	11,392
Other Revenues	107,384	111,594	122,093	667,001	21,014
Total Revenues	\$ 38,382,437	\$ 36,354,740	\$ 34,160,892	\$ 29,371,192	\$ 29,350,223
Operating Expenses:					
Personnel	\$ 5,822,111	\$ 5,632,773	\$ 5,777,686	\$ 5,489,217	\$ 5,526,433
Utilities	1,334,009	1,458,324	1,426,510	1,544,698	1,615,413
Repairs and Maintenance	1,288,233	1,347,449	1,358,777	1,316,770	1,074,237
Supplies	774,692	708,442	646,465	902,321	793,873
Contractual Services	6,266,400	5,761,003	5,103,601	4,385,399	4,985,492
Gulf Coast Water Authority Debt Service ⁽¹⁾	337,345	335,331	306,468	302,864	306,970
	\$ 15,822,790	\$ 15,243,322	\$ 14,619,507	\$ 13,941,269	\$ 14,302,418
Net Revenue From Operations	\$ 22,565,336	\$ 21,111,418	\$ 19,541,385	\$ 15,429,923	\$ 15,047,805
Impact Fees	5,502,644	5,650,349	5,206,212	7,689,266	6,623,624
Available for Debt Service	\$ 28,067,980	\$ 26,761,767	\$ 24,747,597	\$ 23,119,189	\$ 21,671,430
City's Ensuing Year Revenue Debt Service ⁽²⁾	\$ 2,567,925	\$ 2,617,100	\$ 4,313,413	\$ 5,745,757	\$ 8,049,764
Surplus Net Revenue Available ⁽³⁾	\$ 25,500,055	\$ 24,144,667	\$ 20,434,185	\$ 17,373,432	\$ 13,621,666
Water Customers	34,102	33,310	32,459	31,428	30,327
Sewer Customers	32,639	31,878	31,041	30,042	28,968

- (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 2018 Water Usage In Gallons	Estimated % of Total Water Usage
Clear Creek Independent School District	School	82,491,000	2.01%
Westover Park	Community Association	35,017,000	0.85%
Tuscan Lakes CAI	Community Association	32,683,000	0.80%
UTMB Victory Lakes Hospital	Hospital	19,607,000	0.48%
Fairways @ SSH HOA	Apartments	18,668,000	0.45%
Haven South Shore	Apartments	18,563,000	0.45%
Bahia Cover (formerly Jordan Cove)	Apartments	17,908,000	0.44%
Mar Bella Community, Inc	HOA	15,501,000	0.38%
Landmark @ Emerson Park	Apartments	15,230,000	0.37%
Broadstone Walker Commons	Apartments	14,884,000	0.36%
		<u>270,552,000</u>	<u>6.59%</u>

TABLE 18 - HISTORICAL WATER CONSUMPTION (GALLONS)

Fiscal Year Ended 9/30	Estimated City Population ⁽¹⁾	Number of Customers	Water Usage (MGD)			Total Usage	Total Water & Sewer Sales
			Average Day Usage	Peak Day Usage	Peak Month Usage		
2014	92,914	30,327	10.623	18.025	417.251	\$ 29,284,003	
2015	96,209	31,428	9.580	20.510	464.171	29,291,719	
2016	100,053	32,459	10.910	19.445	459.365	33,915,802	
2017	102,635	33,310	11.320	18.342	408.585	34,241,387	
2018	104,857	34,102	12.034	19.586	486.225	37,364,628	

- (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 major 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 may invest its investable funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the City or obligations under a lease, installment sale, or other agreement of the City) in investments authorized by State law in accordance with investment policies approved by the City Council of the City. Both State law and the City's investment policies are subject to change.

Authorized Investments . . . 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 City selects from a list the City Council or a designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the City 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 City'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 City appoints as the City's custodian of the banking deposits issued for the City'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 SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the "Public Funds Investment Act"), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the 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, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC 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 as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the City or cash held by the City to be 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 stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than "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 365 days or less that is rated not less than "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. 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, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

A political subdivision such as the City may enter into 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, other than the prohibited obligations described below, (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) above, 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 of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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, if the City Council of the City authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. 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, and the maximum average dollar-weighted maturity allowed for pooled fund groups. 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, any additions and changes to market value and the ending value and of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and 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.

Additional Provisions . . . Under State law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) 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; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the treasurer, chief financial officer and investment officers; (6) 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 repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

TABLE 19 – CURRENT INVESTMENTS

As of June 30, 2019 the City's investable funds were invested in the following categories:

Description	of Total	Book Value	Market Value
Cash	1.20%	\$ 2,087,688	\$ 2,087,688
TexPool	33.11%	57,759,585	57,759,585
TexSTAR	21.74%	37,921,772	37,921,772
Texas Class	6.16%	10,748,612	10,748,612
Lone Star	1.79%	3,130,304	3,130,304
Certificates of Deposits	11.63%	20,295,004	20,295,004
Money Market	8.60%	15,004,324	15,004,324
Portfolio Investments	15.76%	27,488,771	27,563,278
	100.00%	\$ 174,436,060	\$ 174,510,567

TAX MATTERS

The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

TAX EXEMPTION

In the opinion of Bracewell LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes under Section 103 of the code and is not a specific preference item for purposes of the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in the Bond Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Ordinance pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Bond Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Bond Ordinance upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel's ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

COLLATERAL TAX CONSEQUENCES

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE PREMIUM

The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This

reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

TAX ACCOUNTING TREATMENT OF ORIGINAL ISSUE DISCOUNT

The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions "TAX MATTERS – TAX EXEMPTION" and "TAX MATTERS – ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS – COLLATERAL TAX CONSEQUENCES" and "—TAX LEGISLATIVE CHANGES" generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the [inside] cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

TAX LEGISLATIVE CHANGES

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently-enacted, proposed, pending or future legislation.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains an "obligated person" with respect to the Bonds, 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, 2019, 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 Bond or Bonds, being the information included in Tables 1 through 6 and Tables 8 through 19, 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 Bonds 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 Bonds, or other material events affecting the tax status of the Bonds;
- (7) Modifications to rights of Holders of the Bonds, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds; if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership, or similar event of the 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;
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material;

- (15) Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and
- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

For the purposes of the event identified in (12), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and the words used in clauses (15) and (16) in the immediately preceding paragraphs and in the definition of Financial Obligation have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. The Ordinance defines "Financial Obligation" as a (a) debt obligation; (b) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (c) guarantee of a debt obligation or any such derivative instrument; provided that "Financial Obligation" shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement (as defined in the Rule) has been provided to the MSRB consistent with the Rule.

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 Bonds within the meaning of the Rule, except that the City in any event will give notice of any Bond 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 Bonds, 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 Bonds at any future date.

UNDER NO CIRCUMSTANCES WILL THE CITY BE LIABLE TO THE REGISTERED OWNER OR BENEFICIAL OWNER OF ANY BOND 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 Bonds in the primary offering of the Bonds 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 Bonds 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 Bonds. 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 Bonds.

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 Bonds 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 Bonds.

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 BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds 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 Bonds are legal investments for various institutions in those states.

LEGAL OPINIONS AND NO-LITIGATION BOND

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 Bond and the effect that the Bonds 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 Bonds 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 Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Bonds 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 Bonds 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 Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

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 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. 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 Bonds, 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 Bonds from the City, at an underwriting discount of \$ _____. The Initial Purchaser will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Initial Purchaser and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds and such public offering prices may be changed, from time to time, by the 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.

VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided by the City's Financial Advisor on behalf of the City was verified by Public Finance Partners LLC. Such computations were based solely on assumptions and information supplied by the City's Financial Advisor on behalf of the City. Public Finance Partners LLC has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information on which the computations are based, and accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome. Public Finance Partners LLC will verify from the information provided to it the mathematical accuracy as of the date of the closing on the Bonds of (i) the computations contained in the provided schedules to determine that the anticipated receipts from the Securities and cash deposits listed in the schedules provided by the City's Financial Advisor, to be held in the Escrow Fund, will be sufficient to pay, when due, the principal and interest requirements of the Refunded Obligations, and (ii) the computations of yield on both the Securities and the Bonds contained in the provided schedules used by Bond Counsel in its determination that the interest on the Bonds is excludable from the gross income of the holders thereof and the effective defeasance of the Refunded Obligations.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Bonds, 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 Bonds 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 Bonds 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 Bonds by the Initial Purchaser.

Mayor
City of League City, Texas

ATTEST:

City Secretary

SCHEDULE OF REFUNDED OBLIGATIONS*

Waterworks and Sewer System Revenue Bonds, Series 2011

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Call Date</u>
2/1/2011	2/15/2021	3.750%	\$ 630,000	2/15/2020
	2/15/2022	4.000%	645,000	2/15/2020
	2/15/2023	4.000%	660,000	2/15/2020
	2/15/2024	4.250%	670,000	2/15/2020
	2/15/2025	4.375%	685,000	2/15/2020
	2/15/2026	4.500%	700,000	2/15/2020
Term28	2/15/2027	4.750%	715,000	2/15/2020
	2/15/2028	4.750%	735,000	2/15/2020
Term31	2/15/2029	5.000%	750,000	2/15/2020
	2/15/2030	5.000%	770,000	2/15/2020
	2/15/2031	5.000%	795,000	2/15/2020

Combination Tax and Revenue Certificates of Obligation, Series 2011

<u>Original Dated Date</u>	<u>Original Maturity</u>	<u>Interest Rate</u>	<u>Amount</u>	<u>Call Date</u>
2/1/2011	2/15/2021	4.000%	\$ 1,000,000	2/15/2020
	2/15/2022	4.000%	1,035,000	2/15/2020
	2/15/2023	4.000%	1,060,000	2/15/2020
	2/15/2024	4.750%	1,100,000	2/15/2020
	2/15/2025	4.375%	1,135,000	2/15/2020
	2/15/2026	4.500%	1,175,000	2/15/2020
	2/15/2027	4.500%	1,220,000	2/15/2020
	2/15/2028	4.600%	1,265,000	2/15/2020
	2/15/2029	4.750%	1,315,000	2/15/2020
	2/15/2030	4.750%	1,365,000	2/15/2020

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* Preliminary, subject to change.

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 cruise homeport in the world.

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

BUILDING PERMITS

<u>Fiscal Year</u> <u>Ended 9/30</u>	<u>Residential</u> <u>Gross Value</u>	<u>Commercial</u> <u>Gross Value</u>	<u>Total</u> <u>Gross Value</u>
2015	\$ 226,702,873	\$ 115,534,099	\$ 342,236,972
2016	177,135,746	31,860,865	208,996,611
2017	217,625,591	45,303,061	262,928,652
2018	186,977,407	69,142,896	256,120,303
2019	169,348,297	51,086,320	220,434,617

(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	5,319
American National Insurance	Insurance	715
H.E.B	Supermarket	749
UTMB	Acad Health Center	563
City of League City	Government	580
INEOS USA	Manufacturer	303
Walmart	Retail	320
Kroger	Supermarket	275
Devereaux Texas Treatment Network	Hospital	215
Harbourview Care Center	Senior Living	177

Source: the City.

THE COUNTY

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

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

EMPLOYMENT STATISTICS

League City

Year	Labor Force	Total		Rate
		Employment	Unemployment	
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	57,330	55,257	2,073	3.62%
2019 ⁽¹⁾	57,869	56,373	1,496	2.59%

(1) Average as of May 2019.

Source: Texas Workforce Commission

Galveston County

Year	Labor Force	Total		Rate
		Employment	Unemployment	
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	164,757	157,181	7,576	4.60%
2019 ⁽¹⁾	165,846	160,358	5,488	3.31%

(1) Average as of May 2019.

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, 2018

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, 2018, 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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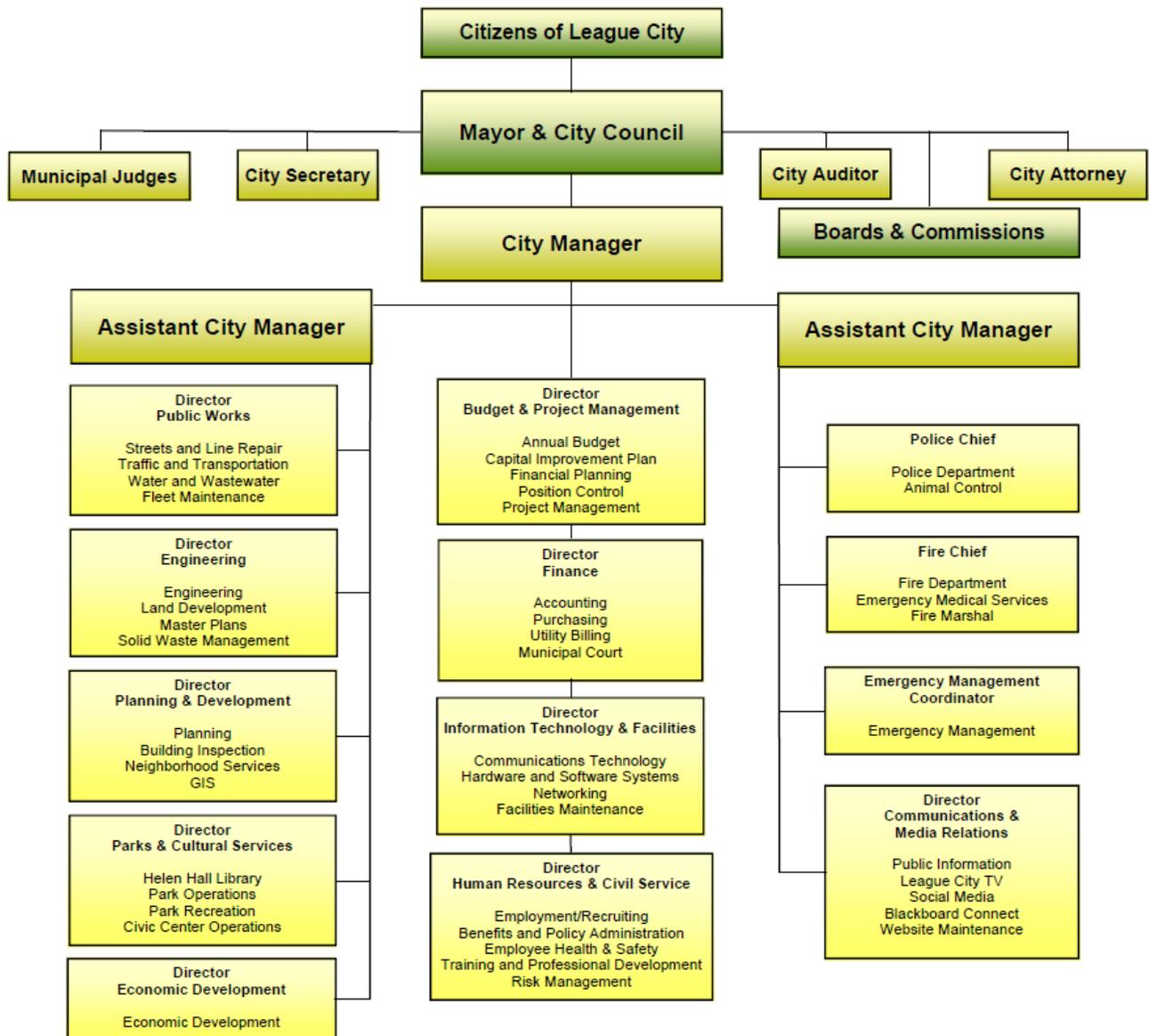
**City of League City
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2017

Christopher P. Morill

Executive Director/CEO



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Financial Section

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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, 2018 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, 2018 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.

Emphasis of Matters

As discussed in Note 1.C., the District adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension* (GASB 75). Also, as discussed in Note 14 to the financial statements, beginning net position has been restated for the implementation of GASB 75. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Required Supplementary Information as listed in 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 25, 2019, 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 25, 2019

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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 42 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 14 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 schedule of funding for progress for the other postemployment benefit plans. 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 \$553,870,241 as of September 30, 2018 for the primary government. This compares with \$512,913,188 for the prior fiscal year. The largest portion of the City's net position, 89.17 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 net investment in 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		Business-Type		Total	
	Activities		Activities		Primary	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 97,947,445	\$ 99,767,420	\$ 80,537,071	\$ 76,161,751	\$ 178,484,516	\$ 175,929,171
Capital assets, net	349,110,889	328,926,643	320,343,311	314,033,168	669,454,200	642,959,811
Total assets	447,058,334	428,694,063	400,880,382	390,194,919	847,938,716	818,888,982
Deferred charges on refunding	1,344,341	1,455,224	1,488,821	1,653,081	2,833,162	3,108,305
Deferred resource outflow related to net pension liability	3,874,518	7,109,879	677,429	1,236,029	4,551,947	8,345,908
Deferred resource outflow related to total other postemployment benefits	582,306	-	100,538	-	682,844	-
Total deferred outflows of resources	5,801,165	8,565,103	2,266,788	2,889,110	8,067,953	11,454,213
Long-term liabilities	136,248,281	144,877,743	146,943,706	155,344,553	283,191,987	300,222,296
Other liabilities	8,541,353	10,705,940	5,282,113	4,052,010	13,823,466	14,757,950
Total liabilities	144,789,634	155,583,683	152,225,819	159,396,563	297,015,453	314,980,246
Deferred gain on issuance of bonds	158,419	168,750	482,681	536,113	641,100	704,863
Deferred resource inflows related to net pension liability	3,779,322	1,486,479	654,289	258,419	4,433,611	1,744,898
Total deferred inflows of resources	3,937,741	1,655,229	1,136,970	794,532	5,074,711	2,449,761
Net position:						
Net investment in capital assets	258,114,024	233,051,773	235,774,211	220,085,019	493,888,235	453,136,792
Restricted	20,998,050	22,236,288	4,777,087	4,659,939	25,775,137	26,896,227
Unrestricted	25,020,050	24,732,193	9,233,083	8,147,976	34,253,133	32,880,169
Total net position	\$ 304,132,124	\$ 280,020,254	\$ 249,784,381	\$ 232,892,934	\$ 553,916,505	\$ 512,913,188

A portion of the primary government's net position, \$25,775,137, or 4.65 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$34,253,133, or 6.18 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

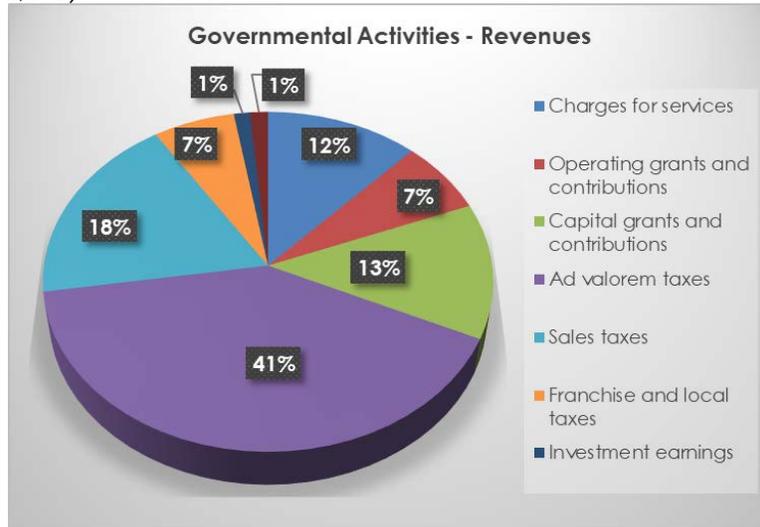
Beginning net position for governmental and business-type activities was restated and decreased \$5,740,573 due to the implementation of GASB 75. See note 1.C. in the notes to the basic financial statements. The City's total net position increased by \$46,743,890 from operations during the current fiscal year.

Statement of Activities

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

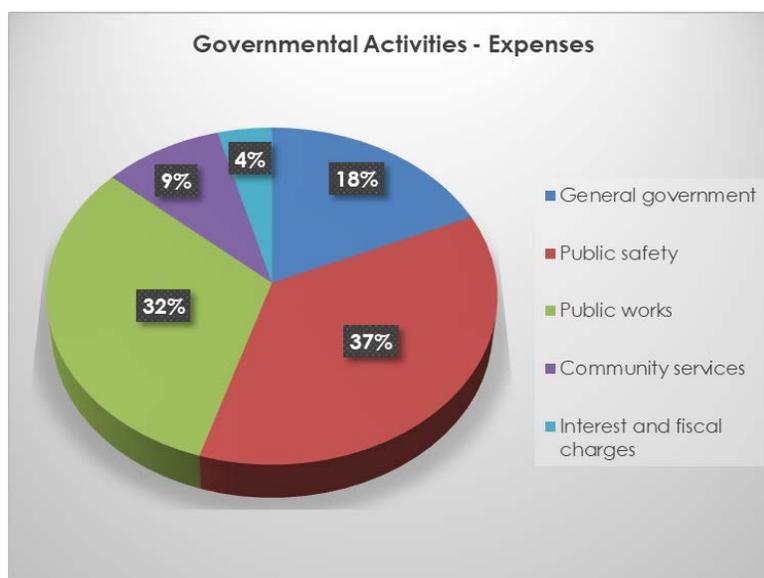
	Governmental Activities		Business-Type Activities		Total Primary Government	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 13,257,754	\$ 12,300,678	\$ 37,364,628	\$ 35,917,171	\$ 50,622,382	\$ 48,217,849
Operating grants and contributions	7,687,939	5,561,294	-	-	7,687,939	5,561,294
Capital grants and contributions	14,169,985	23,342,227	9,999,551	12,257,482	24,169,536	35,599,709
General revenues:						
Ad valorem taxes	44,795,450	40,748,850	-	-	44,795,450	40,748,850
Sales taxes	20,194,495	17,655,640	-	-	20,194,495	17,655,640
Franchise and local taxes	7,073,151	6,814,218	-	-	7,073,151	6,814,218
Investment earnings	1,403,426	624,550	1,017,809	437,569	2,421,235	1,062,119
Other revenue	1,599,979	944,313	-	-	1,599,979	944,313
Total revenues	110,182,179	107,991,770	48,381,988	48,612,222	158,564,167	156,603,992
Expenses:						
General government	15,496,208	14,911,180	-	-	15,496,208	14,911,180
Public safety	30,778,053	29,303,994	-	-	30,778,053	29,303,994
Public works	26,773,910	28,656,932	-	-	26,773,910	28,656,932
Community services	7,802,691	7,825,726	-	-	7,802,691	7,825,726
Interest and fiscal charges	3,548,694	3,630,628	-	-	3,548,694	3,630,628
Water and sewer	-	-	27,490,185	26,386,028	27,490,185	26,386,028
Total expenses	84,399,556	84,328,460	27,490,185	26,386,028	111,889,741	110,714,488
Excess (deficiency) of revenues over (under) expenses	25,782,623	23,663,310	20,891,803	22,226,194	46,674,426	45,889,504
Transfers in/(out)	3,165,089	2,553,175	(3,165,089)	(2,553,175)	-	-
Gain (loss) on sale of capital assets	63,775	-	5,689	-	69,464	-
Changes in net position	29,011,487	26,216,485	17,732,403	19,673,019	46,743,890	45,889,504
Beginning net position	280,020,254	253,803,769	232,892,934	213,219,915	512,913,188	467,023,684
Prior period adjustment - implementation of change in accounting principal	(4,899,617)	-	(840,956)	-	(5,740,573)	-
Net position - beginning, as restated	275,120,637	253,803,769	232,051,978	213,219,915	507,172,615	467,023,684
Ending net position	\$ 304,132,124	\$ 280,020,254	\$ 249,784,381	\$ 232,892,934	\$ 553,916,505	\$ 512,913,188

For the year ended September 30, 2018, total revenues from governmental activities were \$110,182,179, compared with \$107,991,770, in the prior year. This \$2,190,409 increase is due to increases in charges for services of \$957,076, operating grants and contributions of \$2,126,645, ad valorem taxes of \$4,046,600, and sales taxes of \$2,538,855. These increases were offset by a decrease in capital grants and contributions of \$(9,172,242).

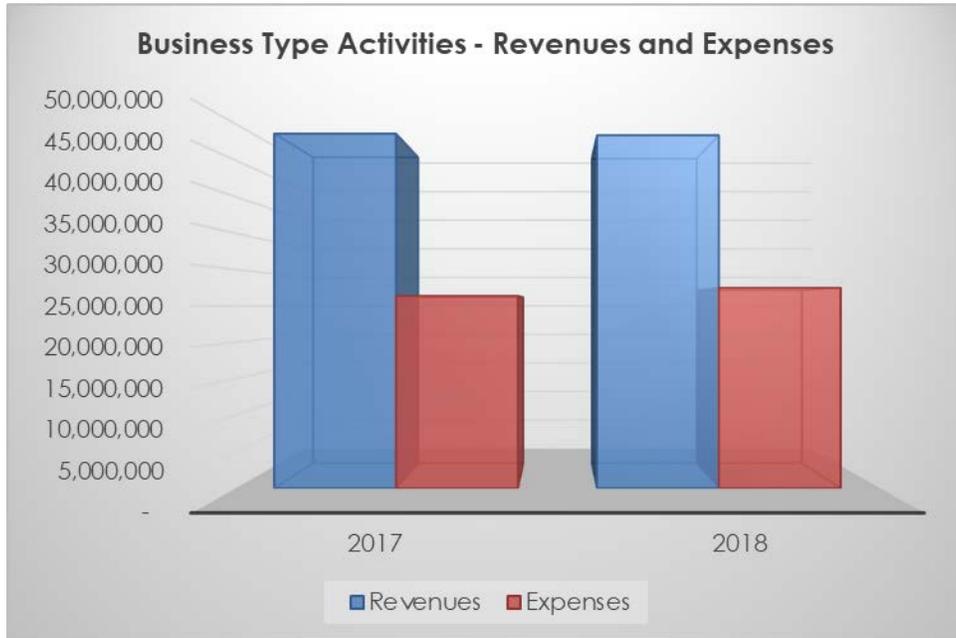


While City Council continued to reduce property taxes through 1) increased local option homestead exemption to the maximum 20% of assessed value and 2) reduction of the property tax rate (from \$0.57 to \$0.565 per \$100 valuation), ad valorem revenue continues to increase through expanded residential 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. Charges for services increased due to an increase in building permits and inspection fees. Operating grants and contributions increased for governmental activities due to increases in operating grants related to Hurricane Harvey.

Governmental expenses increased by \$71,096. This increase is primarily due to increased cost in public safety of \$1,474,059 related to additional personnel, and general government of \$585,028 related to the refunds of PID No. 1 and No. 2 assessments. This increase was offset by a decrease in public works of \$1,883,022 due to a decrease in payments to developers.



Business-type revenues decreased by \$230,234 from the prior period, including a \$2,257,931 decrease in capital contributions, and an increase in service revenue of \$1,447,457. The increase in service revenue is due to a 2% 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 \$75,836,086. This balance is restricted, assigned and unassigned as follows:

Nonspendable	\$	214,938
Restricted for:		
Debt service		5,237,130
Capital projects		12,201,141
Municipal court		41,031
Hotel occupancy tax		1,702,233
Public access channel		1,593,826
Tax increment reinvestment zone		11,153,961
Public improvement district		1,210,591
Assigned to:		
Operating reserve		21,703,895
Special revenue funds		3,037,916
Capital projects funds		13,768,877
Unassigned		3,970,547
	\$	<u>75,836,086</u>

There was a decrease in the combined fund balance of all governmental funds of \$2,734,299 from the prior year. This is primarily due to the \$3,439,416 decrease in the 2016 Certificates of Obligation fund and a \$1,474,872 decrease in the Hurricane Harvey Fund, offset by a \$2,443,619 increase in the General Fund.

The General Fund is the chief operating fund of the City. At the end of the current year, total fund balance was \$26,085,622. 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 42.3 percent of general fund operating expenditures. At year end, the City's 110 day operating reserve was \$21,703,895, representing 35.2 percent of general fund operating expenditures.

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. At the end of the current year, total fund balance was \$5,237,130. The primary source of revenue for debt service is local property taxes which increased \$360,029. Interest and principal payments for the year decreased \$411,349.

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 increase in General Fund balance of \$1,359,910. The final fund balance for the year increased \$2,443,619. Total revenues were less than the amended budget by \$843,335. Actual charges for services were less than the budget by \$1,005,746, other revenue was less than budget by \$189,089, fines and forfeitures were less than budget by \$175,443 and other taxes, licenses fees and permits and intergovernmental combined were less than budget by \$64,122. The remaining revenue lines showed positive budget variances.

Total expenditures were under the amended budget by \$1,930,593. 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 2018, the City's governmental and business-type activities had invested \$669,454,200 in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents a net increase of \$26,494,389 from 2017.

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

- Developer contributions of infrastructure in the amount of \$11,720,644 for governmental activities and \$9,999,551 for business-type activities
- St. Christopher Avenue reconstruction in the amount of \$1,655,915
- Calder Road – Ervin to League City Parkway construction in the amount of \$4,919,091
- Asphalt Street Rehabilitation in the amount of \$1,032,826
- North Kansas Avenue reconstruction in the amount of \$3,314,891
- West Side Well & BPS construction in the amount of \$1,761,642
- Dallas Salmon effluent discharge project in the amount of \$3,662,045

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 \$229,850,001. Of this amount, \$85,215,001 was general obligation debt, \$10,530,000 was revenue bond debt, \$133,355,000 was certificates of obligation, and contract revenue bonds accounted for the remaining \$750,000. 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 averaging 2.84 percent and growth is projected to continue at a rate of 2.89 percent in 2019. The City's population is estimated at 106,803 as of January 2019.

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 thrive, 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 continue to grow at an average of seven percent annually, 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 2019. 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.

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Basic Financial Statements

City of League City, Texas
Statement of Net Position
September 30, 2018

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
ASSETS				
Cash and cash equivalents	\$ 64,707,064	\$ 7,666,950	\$ 72,374,014	\$ 6,058,623
Investments	18,289,526	989,074	19,278,600	-
Receivables, net	14,388,368	7,343,959	21,732,327	543,229
Restricted cash and cash equivalents	308,216	47,016,324	47,324,540	666,812
Restricted investments	-	17,325,119	17,325,119	-
Inventories	39,333	123,474	162,807	-
Prepaid items	214,938	72,171	287,109	-
	97,947,445	80,537,071	178,484,516	7,268,664
Capital assets:				
Non-depreciable	47,763,855	24,227,348	71,991,203	-
Net depreciable capital assets	301,347,034	296,115,963	597,462,997	-
Total capital assets	349,110,889	320,343,311	669,454,200	-
Total assets	447,058,334	400,880,382	847,938,716	7,268,664
DEFERRED OUTFLOWS OF RESOURCES				
Deferred charge on refunding	1,344,341	1,488,821	2,833,162	-
Deferred resource outflow related to net pension liability	3,874,518	677,429	4,551,947	-
Deferred resource outflow related to other postemployment benefits	582,306	100,538	682,844	-
Total deferred outflow of resources	5,801,165	2,266,788	8,067,953	-
Total assets and deferred outflows of resources	452,859,499	403,147,170	856,006,669	7,268,664
LIABILITIES				
Accounts payable and accrued liabilities	7,994,241	3,560,476	11,554,717	164,268
Accrued interest payable	507,408	700,917	1,208,325	-
Customer deposits	27,860	1,020,720	1,048,580	-
Unearned revenue	11,844	-	11,844	-
Total current liabilities	8,541,353	5,282,113	13,823,466	164,268
Noncurrent liabilities:				
Due within one year	11,262,676	8,984,674	20,247,350	-
Due in more than a year	98,662,759	133,382,823	232,045,582	-
Net pension liability	18,132,625	3,158,980	21,291,605	-
Total other postemployment benefits liability	8,190,221	1,417,229	9,607,450	-
Total noncurrent liabilities	136,248,281	146,943,706	283,191,987	-
Total liabilities	144,789,634	152,225,819	297,015,453	164,268
DEFERRED INFLOWS OF RESOURCES				
Deferred gain on issuance of refunding bonds	158,419	482,681	641,100	-
Deferred resource inflows related to net pension liability	3,779,322	654,289	4,433,611	-
Total deferred inflow of resources	3,937,741	1,136,970	5,074,711	-
Total liabilities and deferred inflows of resources	148,727,375	153,362,789	302,090,164	164,268
NET POSITION				
Net investment in capital assets	258,114,024	235,774,211	493,888,235	-
Restricted for:				
Debt service	5,296,408	4,777,087	10,073,495	666,812
Municipal court	41,031	-	41,031	-
Hotel occupancy tax	1,702,233	-	1,702,233	-
Public access channel	1,593,826	-	1,593,826	-
Tax increment reinvestment	11,153,961	-	11,153,961	-
Public improvement district	1,210,591	-	1,210,591	-
Unrestricted	25,020,050	9,233,083	34,253,133	6,437,584
TOTAL NET POSITION	\$ 304,132,124	\$ 249,784,381	\$ 553,916,505	\$ 7,104,396

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, 2018

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT				
Governmental activities:				
General government	\$ 15,496,208	\$ 6,309,066	\$ 23,781	\$ -
Public safety	30,778,053	2,011,329	978,629	-
Public works	26,773,910	3,641,196	4,885,200	14,169,985
Community services	7,802,691	1,296,163	1,800,329	-
Interest and fiscal agent fees	3,548,694	-	-	-
Total governmental activities	84,399,556	13,257,754	7,687,939	14,169,985
Business-type activities:				
Water and sewer	27,490,185	37,364,628	-	9,999,551
Total business-type activities	27,490,185	37,364,628	-	9,999,551
TOTAL PRIMARY GOVERNMENT	\$ 111,889,741	\$ 50,622,382	\$ 7,687,939	\$ 24,169,536
COMPONENT UNITS				
Governmental activities	\$ 1,882,435	\$ -	\$ 59,322	\$ -
TOTAL COMPONENT UNITS	\$ 1,882,435	\$ -	\$ 59,322	\$ -

GENERAL REVENUES

Ad valorem taxes
Sales taxes
Franchise and local taxes
Investment earnings
Other revenues
Gain on disposal of capital assets
Transfers
Total general revenues and transfers
Change in net position
Beginning net position
Prior period adjustment - implementation of change in accounting principal (see Note 1)
Net position - beginning, as restated
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
\$ (9,163,361)	\$ -	\$ (9,163,361)	\$ -
(27,788,095)	-	(27,788,095)	-
(4,077,529)	-	(4,077,529)	-
(4,706,199)	-	(4,706,199)	-
(3,548,694)	-	(3,548,694)	-
(49,283,878)	-	(49,283,878)	-
-	19,873,994	19,873,994	-
-	19,873,994	19,873,994	-
<u>\$ (49,283,878)</u>	<u>\$ 19,873,994</u>	<u>\$ (29,409,884)</u>	<u>\$ -</u>
-	-	-	(1,823,113)
-	-	-	(1,823,113)
44,795,450	-	44,795,450	-
20,194,495	-	20,194,495	3,365,749
7,073,151	-	7,073,151	-
1,403,426	1,017,809	2,421,235	88,347
1,599,979	-	1,599,979	-
63,775	5,689	69,464	-
3,165,089	(3,165,089)	-	-
<u>78,295,365</u>	<u>(2,141,591)</u>	<u>76,153,774</u>	<u>3,454,096</u>
29,011,487	17,732,403	46,743,890	1,630,983
280,020,254	232,892,934	512,913,188	5,473,413
(4,899,617)	(840,956)	(5,740,573)	-
<u>275,120,637</u>	<u>232,051,978</u>	<u>507,172,615</u>	<u>5,473,413</u>
<u>\$ 304,132,124</u>	<u>\$ 249,784,381</u>	<u>\$ 553,916,505</u>	<u>\$ 7,104,396</u>

City of League City, Texas
 Balance Sheet – Governmental Funds
 September 30, 2018

	General Fund	Debt Service	Nonmajor Governmental	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 10,639,022	\$ 5,255,405	\$ 42,371,877	\$ 58,266,304
Investments	12,328,796	-	3,963,354	16,292,150
Receivables, net	8,560,576	491,930	5,312,516	14,365,022
Restricted cash and cash equivalents	-	-	165,369	165,369
Due from other funds	235,259	-	-	235,259
Prepaid items	182,862	-	32,076	214,938
TOTAL ASSETS	\$ 31,946,515	\$ 5,747,335	\$ 51,845,192	\$ 89,539,042
LIABILITIES				
Accounts payable and accrued liabilities	\$ 3,875,698	\$ 27,933	\$ 3,298,746	\$ 7,202,377
Customer deposits	21,090	-	6,770	27,860
Due to other funds	-	-	235,259	235,259
Total liabilities	3,896,788	27,933	3,540,775	7,465,496
DEFERRED INFLOWS OF RESOURCES				
Unavailable revenue - court fines and warrants	982,969	-	-	982,969
Unavailable revenue - property taxes	981,136	482,272	1,440	1,464,848
Unavailable revenue - interlocal reimbursement	-	-	1,852,334	1,852,334
Unavailable revenue - grants	-	-	1,917,764	1,917,764
Unavailable revenue - special assessments	-	-	19,545	19,545
Total deferred inflows of resources	1,964,105	482,272	3,791,083	6,237,460
FUND BALANCES				
Nonspendable:				
Prepaid items	182,862	-	32,076	214,938
Restricted for:				
Debt service	-	5,237,130	-	5,237,130
Capital projects	-	-	12,201,141	12,201,141
Municipal court	-	-	41,031	41,031
Hotel occupancy tax	-	-	1,702,233	1,702,233
Public access channel	-	-	1,593,826	1,593,826
Tax increment reinvestment zone	-	-	11,153,961	11,153,961
Public improvement district	-	-	1,210,591	1,210,591
Assigned to:				
Operating reserve	21,703,895	-	-	21,703,895
Special revenue funds	-	-	3,037,916	3,037,916
Capital project funds	-	-	13,768,877	13,768,877
Unassigned	4,198,865	-	(228,318)	3,970,547
Total fund balances	26,085,622	5,237,130	44,513,334	75,836,086
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	\$ 31,946,515	\$ 5,747,335	\$ 51,845,192	\$ 89,539,042

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, 2018

TOTAL FUND BALANCES - GOVERNMENTAL FUNDS \$ 75,836,086

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	\$ 47,763,855	
Capital assets - depreciable	294,321,442	
		342,085,297

Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the governmental funds.		6,237,460
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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.		14,865,546
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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	\$ (18,132,625)	
Total other postemployment benefits liability	(8,190,221)	
Accrued interest	(507,408)	
Deferred charge on refunding	1,344,341	
Deferred gain on refunding	(158,419)	
Deferred resource outflow related to net pension liability	3,874,518	
Deferred resource inflow related to net pension liability	(3,779,322)	
Deferred resource outflow related to other postemployment benefits liability	582,306	
Non-current liabilities due in one year	(11,262,676)	
Non-current liabilities due in more than one year	(98,662,759)	
		(134,892,265)

NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 304,132,124

City of League City, Texas
Statement of Revenues, Expenditures and Changes
in Fund Balances – Governmental Funds
For the Fiscal Year Ended September 30, 2018

	<u>General Fund</u>	<u>Debt Service</u>	<u>Nonmajor Governmental</u>	<u>Total Governmental Funds</u>
REVENUES				
Ad valorem taxes	\$ 29,853,585	\$ 10,943,191	\$ 3,156,800	\$ 43,953,576
Sales taxes	20,194,495	-	-	20,194,495
Franchise and local taxes	5,711,837	-	273,840	5,985,677
Other taxes	368,779	-	718,695	1,087,474
Licenses and permits	3,329,320	-	-	3,329,320
Fines and forfeitures	1,694,557	-	68,819	1,763,376
Charges for services	8,307,524	-	943,111	9,250,635
Other revenue	872,509	-	2,062,405	2,934,914
Contributions	23,781	-	2,242,435	2,266,216
Assessments	-	-	1,389,207	1,389,207
Investment earnings	420,622	108,177	737,861	1,266,660
Intergovernmental	344,227	-	600,997	945,224
Total revenues	<u>71,121,236</u>	<u>11,051,368</u>	<u>12,194,170</u>	<u>94,366,774</u>
EXPENDITURES				
Current:				
General government	12,032,359	790,490	2,096,501	14,919,350
Public safety	26,653,236	-	2,412,359	29,065,595
Public works	17,207,706	-	3,126,794	20,334,500
Community services	5,319,255	-	1,299,813	6,619,068
Capital outlay	474,630	-	15,841,475	16,316,105
Debt service:				
Principal	-	6,441,026	2,330,000	8,771,026
Interest and fiscal charges	-	3,582,739	561,486	4,144,225
Total expenditures	<u>61,687,186</u>	<u>10,814,255</u>	<u>27,668,428</u>	<u>100,169,869</u>
Excess (deficiency) of revenues over (under) expenditures	9,434,050	237,113	(15,474,258)	(5,803,095)
OTHER FINANCING SOURCES (USES)				
Proceeds from sale of capital assets	17,853	-	12,316	30,169
Transfers in	3,322,000	-	10,203,822	13,525,822
Transfers (out)	(10,330,284)	-	(156,911)	(10,487,195)
Total other financing sources (uses)	<u>(6,990,431)</u>	<u>-</u>	<u>10,059,227</u>	<u>3,068,796</u>
Net change in fund balances	2,443,619	237,113	(5,415,031)	(2,734,299)
Fund balances, beginning of year	<u>23,642,003</u>	<u>5,000,017</u>	<u>49,928,365</u>	<u>78,570,385</u>
FUND BALANCES - ENDING	<u>\$ 26,085,622</u>	<u>\$ 5,237,130</u>	<u>\$ 44,513,334</u>	<u>\$ 75,836,086</u>

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, 2018

NET CHANGES IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ (2,734,299)

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	(10,300,135)
Capital outlay	16,737,342

Capital contributions by outside entities are not recorded in governmental funds as the contributions do not represent current resources.	11,720,644
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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.	(7,335)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	3,616,395
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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.

Principal repayments	8,771,026
Amortization of bond premiums	636,805
Amortization of deferred charges on refunding	(110,883)
Amortization of deferred gain on refunding	10,331
Accrued interest	59,278
Compensated absences	(323,185)
Total other postemployment benefits liability	(1,044,912)
Net pension liability	5,607,021
Deferred resource outflow related to net pension liability	(3,235,361)
Deferred resource inflow related to net pension liability	(2,292,843)
Deferred resource outflow related to other postemployment benefits liability	464,630

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.	1,436,968
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CHANGE IN NET POSITION OF GOVERNMENTAL ACTIVITIES \$ 29,011,487

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, 2018

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Water and Wastewater</u>	<u>Internal Service</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 7,666,950	\$ 6,440,760
Investments	989,074	1,997,376
Receivables, net	7,343,959	23,346
Inventories	123,474	39,333
Restricted cash and cash equivalents:		
Customer deposits	997,088	-
Capital projects	41,527,372	-
Debt service	4,491,864	-
Healthcare claims	-	142,847
Restricted investments:		
Capital projects	16,338,979	-
Debt service	986,140	-
Prepaid items	72,171	-
Total current assets	80,537,071	8,643,662
Noncurrent assets:		
Capital assets:		
Non-depreciable	24,227,348	-
Net depreciable capital assets	296,115,963	7,025,592
Total capital assets, net of accumulated depreciation	320,343,311	7,025,592
Total noncurrent assets	320,343,311	7,025,592
Total assets	400,880,382	15,669,254
DEFERRED OUTFLOWS OF RESOURCES		
Deferred charge on refunding	1,488,821	-
Deferred resource outflow related to net pension liability	677,429	-
Deferred resource outflow related to other postemployment benefits	100,538	-
Total deferred outflows of resources	2,266,788	-
Total assets and deferred outflows of resources	403,147,170	15,669,254

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, 2018

	<u>Business-Type Activities</u> <u>Water and Wastewater</u>	<u>Governmental Activities</u> <u>Internal Service</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 3,560,476	\$ 101,811
Accrued interest payable	700,917	-
Customer deposits	1,020,720	-
Compensated absences	317,982	-
Claims payable	-	690,053
Unearned revenue	-	11,844
Bonds, notes, and loans payable	8,666,692	-
Total current liabilities	<u>14,266,787</u>	<u>803,708</u>
Noncurrent liabilities:		
Compensated absences	242,702	-
Net pension liability	3,158,980	-
Total other postemployment benefits liability	1,417,229	-
Bonds, notes, and loans payable	133,140,121	-
Total noncurrent liabilities	<u>137,959,032</u>	<u>-</u>
Total liabilities	<u>152,225,819</u>	<u>803,708</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred gain on issuance of refunding bonds	482,681	-
Deferred resource inflows related to net pension liability	654,289	-
Total deferred inflows of resources	<u>1,136,970</u>	<u>-</u>
Total liabilities and deferred inflows of resources	<u>153,362,789</u>	<u>803,708</u>
NET POSITION		
Net investment in capital assets	235,774,211	7,025,592
Restricted for debt service	4,777,087	-
Unrestricted	9,233,083	7,839,954
TOTAL NET POSITION	<u><u>\$ 249,784,381</u></u>	<u><u>\$ 14,865,546</u></u>

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, 2018

	<u>Business-Type Activities</u>	<u>Governmental Activities</u>
	<u>Water and Wastewater</u>	<u>Internal Service</u>
OPERATING REVENUES		
Charges for services	\$ 37,257,244	\$ 10,792,654
Other	107,384	63,949
Total operating revenues	<u>37,364,628</u>	<u>10,856,603</u>
OPERATING EXPENSES		
Personnel	5,822,111	740,937
Contractual services	6,266,400	47,927
Utilities	1,334,009	-
Insurance	-	7,190,988
Repairs and maintenance	1,288,233	836,851
Other supplies and expenses	774,692	17,687
Depreciation	6,996,516	1,231,014
Total operating expenses	<u>22,481,961</u>	<u>10,065,404</u>
Operating income	14,882,667	791,199
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	1,017,809	136,766
Interest expense	(5,008,224)	-
Gain (loss) on disposal of capital assets	5,689	40,941
Total nonoperating revenues (expenses)	<u>(3,984,726)</u>	<u>177,707</u>
Income before contributions and transfers	10,897,941	968,906
Capital contributions	9,999,551	341,600
Transfers, net	(3,165,089)	126,462
Change in net position	17,732,403	1,436,968
Net position - beginning	232,892,934	13,428,578
Prior period adjustment - implementation of change in accounting principal (see Note 1)	(840,956)	-
Net position - beginning, as restated	<u>232,051,978</u>	<u>13,428,578</u>
TOTAL NET POSITION - ENDING	<u>\$ 249,784,381</u>	<u>\$ 14,865,546</u>

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, 2018

	Business Type Activities	Governmental Activities
	Water and Wastewater	Internal Service
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 36,637,975	\$ 11,092,660
Payments to suppliers	(8,592,286)	(8,073,490)
Payments to employees	(5,688,772)	(740,522)
Net cash provided by operating activities	22,356,917	2,278,648
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers out	(19,757,747)	-
Transfers in	16,592,658	126,462
Net cash provided by (used in) noncapital financing activities	(3,165,089)	126,462
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal payments on debt	(7,753,974)	-
Acquisition and construction of capital assets	(8,723,212)	(2,965,411)
Proceeds from sale of capital assets	16,212	83,208
Developers contributions	5,502,644	-
Interest and fiscal charges	(5,715,517)	-
Net cash (used in) capital and related financing activities	(16,673,847)	(2,882,203)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of investments	203,053	1,742
Interest on investments	1,017,809	136,766
Net cash provided by investing activities	1,220,862	138,508
Net increase (decrease) in cash and equivalents	3,738,843	(338,585)
Cash and cash equivalents, beginning of year	50,944,431	6,922,192
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 54,683,274	\$ 6,583,607
Unrestricted cash and cash equivalents	\$ 7,666,950	\$ 6,440,760
Restricted cash and cash equivalents	47,016,324	142,847
TOTAL CASH AND CASH EQUIVALENTS	\$ 54,683,274	\$ 6,583,607

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, 2018

	<u>Business Type Activities</u>	<u>Governmental Activities</u>
	<u>Water and Wastewater</u>	<u>Internal Service</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES		
Operating income	\$ 14,882,667	\$ 791,199
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	6,996,516	1,231,014
Change in assets and liabilities:		
Accounts receivable	(811,871)	236,572
Inventories	(11,990)	(7,318)
Prepaid items	(15,669)	-
Accounts payable and accrued liabilities	1,096,260	(9,111)
Claims payable	-	36,807
Unearned revenue	-	(515)
Compensated absences	49,192	-
Customer deposits	85,218	-
Net other post employment benefits obligation	100,202	-
Net pension liability	(13,608)	-
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>\$ 22,356,917</u>	<u>\$ 2,278,648</u>
NONCASH CAPITAL ACTIVITIES CAPITAL ASSETS CONTRIBUTED DURING THE YEAR	<u>\$ 4,496,907</u>	<u>\$ 341,600</u>
CAPITAL ASSETS FINANCED WITH ACCOUNTS PAYABLE	<u>\$ 109,834</u>	<u>\$ -</u>

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, 2018

	<u>4B Industrial Development Corporation</u>	<u>Volunteer Fire Department</u>	<u>Total Discretely Presented Component Units</u>
ASSETS			
Cash and cash equivalents	\$ 5,969,152	\$ 89,471	\$ 6,058,623
Receivables, net	543,229	-	543,229
Restricted cash and cash equivalents	666,812	-	666,812
Total assets	<u>7,179,193</u>	<u>89,471</u>	<u>7,268,664</u>
LIABILITIES			
Accounts payable and accrued liabilities	<u>164,268</u>	<u>-</u>	<u>164,268</u>
Total liabilities	164,268	-	164,268
NET POSITION			
Restricted	666,812	-	666,812
Unrestricted	<u>6,348,113</u>	<u>89,471</u>	<u>6,437,584</u>
TOTAL NET POSITION	<u>\$ 7,014,925</u>	<u>\$ 89,471</u>	<u>\$ 7,104,396</u>

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, 2018

	<u>Expenses</u>	<u>Programs Revenues</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
COMPONENT UNITS			
4B Industrial Development Corporation	\$ 1,837,879	\$ -	\$ -
Volunteer Fire Department	44,556	-	59,322
	<u> </u>	<u> </u>	<u> </u>
TOTAL COMPONENT UNITS	<u>\$ 1,882,435</u>	<u>\$ -</u>	<u>\$ 59,322</u>

GENERAL REVENUES

Sales tax

Investment earnings

Total general revenues

Change in net position

Beginning net position

ENDING NET POSITION

<u>4B Industrial Development Corporation</u>	<u>Volunteer Fire Department</u>	<u>Total</u>
\$ (1,837,879)	\$ -	\$ (1,837,879)
<u>-</u>	<u>14,766</u>	<u>14,766</u>
<u>(1,837,879)</u>	<u>14,766</u>	<u>(1,823,113)</u>
3,365,749	-	3,365,749
<u>88,347</u>	<u>-</u>	<u>88,347</u>
<u>3,454,096</u>	<u>-</u>	<u>3,454,096</u>
1,616,217	14,766	1,630,983
<u>5,398,708</u>	<u>74,705</u>	<u>5,473,413</u>
<u>\$ 7,014,925</u>	<u>\$ 89,471</u>	<u>\$ 7,104,396</u>

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City of League City, Texas

Notes to Basic Financial Statements

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, Texas

Notes to Basic Financial Statements

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 League City Volunteer Fire Department was established for the purpose of organizing and maintaining fire companies, providing free fire protection and firefighting services to the inhabitants of the City. 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 No. Two, 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, Texas

Notes to Basic Financial Statements

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 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.

City of League City Public Improvement District (PID) No. Two – Victory Lakes

The City of League City Tax Increment Reinvestment Zone 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 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.

City of League City, Texas

Notes to Basic Financial Statements

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. New Accounting Standard Adopted

In fiscal year 2018, the City adopted Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75). The requirements of GASB 75 apply to the financial statements of all state and local government employers whose employees are provided postemployment benefits other than pensions (other postemployment benefits or OPEB). GASB 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures related to the OPEB plan. The adoption of GASB 75 has resulted in the restatement of the City's beginning net position for the fiscal year 2018 government-wide financial statements to reflect the reporting of the total OPEB liability and deferred inflow of resources and deferred outflow of resources for its OPEB plan and the recognition of OPEB expense. See Note 14 for information regarding the restatement of beginning net position.

D. 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.

City of League City, Texas

Notes to Basic Financial Statements

E. 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.

City of League City, Texas

Notes to Basic Financial Statements

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.

F. 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 property taxes available if they are collected within 60 days of the end of the current fiscal period. A 120 day availability period is used for recognition of all other governmental fund revenues. 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.

City of League City, Texas

Notes to Basic Financial Statements

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. 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. All other revenue items are considered to be measurable and available only when cash is received by the City.

G. 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.

H. 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

I. 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.

City of League City, Texas
 Notes to Basic Financial Statements

J. 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 or statement of net position 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.

K. 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:

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Building and improvements	30 years
Machinery and equipment	5 years
Water rights	50 years
Water system and sewer system	50 years
Infrastructure	50 years

L. 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 three items that qualify for reporting in this category. They are the deferred charge on refunding bonds, deferred resource outflow related to the net pension liability, and deferred resource outflow related to the total OPEB 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 and total OPEB liability results from differences in projected and actual earnings on plan investments, changes in actuarial assumptions and other inputs, and contributions made subsequent to the measurement date.

City of League City, Texas

Notes to Basic Financial Statements

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 five 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, grants 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 and differences between projected and actual investment earnings.

M. 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.

City of League City, Texas

Notes to Basic Financial Statements

N. 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.

O. 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.

Information regarding the City's net pension liability is obtained from TMRS through reports prepared for the City by the TMRS consulting actuary, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions*.

P. Other Postemployment Benefits (OPEB)

The City offers two OPEB plans, a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund ("SDBF") administered by TMRS and a single-employer defined benefit other postemployment benefits (OPEB) plan, known as the Retiree Medical Program (the "Program") administered by the City. Total OPEB liability, deferred outflows of resources and deferred inflows of resources related to total OPEB liability, and total OPEB expense have been determined on the same basis as they are reported by the Plans. For this purpose, the Plans recognize benefit payments when due and payable in accordance with the benefit terms.

Information regarding the City's total OPEB liability is obtained through reports prepared for the City by a consulting actuary, in compliance with Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*.

City of League City, Texas

Notes to Basic Financial Statements

Q. 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.

R. 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. The general fund is the only fund that reports a positive unassigned fund balance.

S. 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.

City of League City, Texas
Notes to Basic Financial Statements

T. 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, 2018, significant encumbrances included in governmental fund balances are as follows:

	Encumbrances Included in:	
	Restricted Fund Balance	Assigned Fund Balance
Nonmajor governmental	\$ 6,526,752	\$ 4,748,724
Total encumbrances	\$ 6,526,752	\$ 4,748,724

U. 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.

V. 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.

W. 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.

X. 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.

City of League City, Texas

Notes to Basic Financial Statements

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, and CDBG 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 reappropriated 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 \$228,318.

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.

City of League City, Texas
Notes to Basic Financial Statements

As of September 30, 2018, 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	\$ 30,399,990	\$ -	\$ 30,399,990	241
	30,399,990	-	30,399,990	
Investments measured at amortized cost:				
External investment pools				
TexPool	69,622,865	6,297,695	75,920,560	28
Lonestar	3,076,151	-	3,076,151	28
Certificates of deposit	6,203,729	-	6,203,729	456
	78,902,745	6,297,695	85,200,440	
Investments measured at net asset value:				
TexStar	43,421,769	-	43,421,769	30
Cash deposits	3,577,769	427,740	4,005,509	
Total portfolio	\$ 156,302,273	\$ 6,725,435	\$ 163,027,708	
Portfolio weighted average maturity				86

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, 2018, 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.

City of League City, Texas

Notes to Basic Financial Statements

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, 2018, 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 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.

City of League City, Texas
Notes to Basic Financial Statements

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	\$ 1,516,224	\$ 750,800	\$ 2,047	\$ -	\$ -	\$ 2,269,071
Other taxes	4,971,613	-	239,674	-	-	5,211,287
Accounts receivable	5,469,857	-	226,516	7,445,319	12,212	13,153,904
Intergovernmental	93,473	-	2,353,124	-	-	2,446,597
Other	253,156	-	2,491,761	12,027	11,134	2,768,078
Less allowance	<u>(3,743,747)</u>	<u>(258,870)</u>	<u>(606)</u>	<u>(113,387)</u>	<u>-</u>	<u>(4,116,610)</u>
Total	\$ 8,560,576	\$ 491,930	\$ 5,312,516	\$ 7,343,959	\$ 23,346	\$ 21,732,327

Note 5. Capital Assets

The following is a summary of changes in capital assets for governmental activities for the year ended September 30, 2018:

	Primary Government			
	Beginning Balance	Increases	Reclassifications / (Decreases)	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 21,395,933	\$ 111,712	\$ -	\$ 21,507,645
Construction in progress	<u>22,130,443</u>	<u>9,402,332</u>	<u>(5,276,565)</u>	<u>26,256,210</u>
Total capital assets, not being depreciated	43,526,376	9,514,044	(5,276,565)	47,763,855
Capital assets being depreciated:				
Infrastructure	390,031,359	17,991,465	5,276,565	413,299,389
Buildings and improvements	81,162,700	-	-	81,162,700
Machinery and equipment	<u>39,220,908</u>	<u>4,259,487</u>	<u>(1,057,245)</u>	<u>42,423,150</u>
Total other capital assets	510,414,967	22,250,952	4,219,320	536,885,239
Less accumulated depreciation for:				
Infrastructure	(166,692,565)	(7,380,314)	-	(174,072,879)
Buildings and improvements	(30,165,608)	(1,821,908)	-	(31,987,516)
Machinery and equipment	<u>(28,156,527)</u>	<u>(2,328,927)</u>	<u>1,007,644</u>	<u>(29,477,810)</u>
Total accumulated depreciation	<u>(225,014,700)</u>	<u>(11,531,149)</u>	<u>1,007,644</u>	<u>(235,538,205)</u>
Total capital assets being depreciated, net	<u>285,400,267</u>	<u>10,719,803</u>	<u>5,226,964</u>	<u>301,347,034</u>
Governmental activities capital assets, net	\$ 328,926,643	\$ 20,233,847	\$ (49,601)	349,110,889
				Less associated debt (104,383,928)
				Less deferred gain on refunding (158,419)
				Plus deferred charge on refunding 1,344,341
				Plus unspent bond proceeds 12,201,141
				<u>Net investment in capital assets</u> <u>\$ 258,114,024</u>

City of League City, Texas
Notes to Basic Financial Statements

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	\$ 268,787
Public safety	1,700,521
Public works	7,190,825
Community services	1,140,002
Capital assets held by the City's internal service funds are charged to the various activities based on usage of the assets	1,231,014
Total governmental activities depreciation expense	\$ 11,531,149

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

Governmental Activities	Approved Construction Budget	Contract Expenditures	Remaining Commitment
Robinson Bayou Bank Stabilization	\$ 1,936,035	\$ 1,928,031	\$ 8,004
Genco Canal	103,881	85,286	18,595
Main Street/Downtown	1,889,146	1,692,679	196,467
Public Safety Annex Station 6	322,103	218,458	103,645
New Animal Shelter	700,990	441,883	259,107
Animal Adoption Center	147,932	142,702	5,230
TXDOT FM518 Bypass Hike & Bike	1,619,002	537,574	1,081,428
Claremont Connector	168,000	119,532	48,468
Hike and Bike Trails Way-Finding Signage	39,000	17,550	21,450
Hometown Heroes Park 5K Loop	93,000	18,023	74,977
FM270 Boat Ramp	62,000	55,800	6,200
Newport Blvd Sidewalk Renovation	29,250	18,375	10,875
FY18 Sidewalk Replacements	500,074	426,119	73,955
Calder Rd S of Ervin to Cross Colony Recon	951,098	792,551	158,547
Dickinson Ave Reconstruction	1,004,449	790,493	213,956
St. Christopher Ave Reconstruction	2,399,234	1,831,316	567,918
Asphalt Rehab - Package 3	1,644,404	238,641	1,405,763
Fire Training Room Expansion	41,800	31,555	10,245
Bay Colony Harvey Evaluation 2018	49,900	47,900	2,000
The Meadows-Robinson Gully Lateral	24,000	23,899	101
Calder Rd-Ervin to LC Pkwy	8,816,044	7,174,195	1,641,849
HGAC/TIP Design	965,831	899,128	66,703
Ervin/Hobbs Connector	850,802	681,246	169,556
Butler/Turner Improvements	355,922	242,923	112,999
Vance Street	34,922	31,430	3,492
Traffic Signal at LC Pkwy/Brittany Lakes/Fennigan	130,994	64,544	66,450
Total	\$ 24,879,813	\$ 18,551,833	\$ 6,327,980

City of League City, Texas
Notes to Basic Financial Statements

The following is a summary of changes in capital assets for business-type activities for the year ended September 30, 2018:

	Beginning Balance	Increases	Reclassifications / (Decreases)	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 3,106,762	\$ 281,235	\$ -	\$ 3,387,997
Construction in progress	43,686,102	4,103,382	(26,950,133)	20,839,351
Total capital assets not being depreciated	46,792,864	4,384,617	(26,950,133)	24,227,348
Capital assets being depreciated:				
Infrastructure	313,105,578	8,858,633	26,950,133	348,914,344
Water rights	15,935,386	-	-	15,935,386
Buildings and improvements	654,549	-	-	654,549
Machinery and equipment	7,693,701	63,409	(43,773)	7,713,337
Total other capital assets	337,389,214	8,922,042	26,906,360	373,217,616
Less accumulated depreciation for:				
Infrastructure	(58,130,856)	(6,282,400)	-	(64,413,256)
Water rights	(4,860,295)	(327,534)	-	(5,187,829)
Buildings and improvements	(493,305)	(8,523)	-	(501,828)
Machinery and equipment	(6,664,454)	(378,059)	43,773	(6,998,740)
Total accumulated depreciation	(70,148,910)	(6,996,516)	43,773	(77,101,653)
Capital assets being depreciated, net	267,240,304	1,925,526	26,950,133	296,115,963
Business-type activities capital assets, net	\$ 314,033,168	\$ 6,310,143	\$ -	320,343,311
				(141,806,813)
				(482,681)
				1,488,821
				56,231,574
				\$ 235,774,212

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 6,996,516
Total business-type activities depreciation expense	\$ 6,996,516

City of League City, Texas
Notes to Basic Financial Statements

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

Business-type Activities	Approved Construction Budget	Contract Expenses	Remaining Commitment
East Side Elevated Water Tower	\$ 7,782,446	\$ 7,628,945	\$ 153,501
Southeast Service Area Trunks	1,538,554	1,469,481	69,073
36" WL - SH3 to SSH Booster Station	1,241,354	1,028,514	212,840
Newport WL Replacements	303,870	231,898	71,972
Replace 42" WL on SH3	1,200,000	1,063,879	136,121
24" Waterline Stabilization Phase II	185,658	81,655	104,003
39" GCWA Water Transmission Pipeline	244,914	101,450	143,464
SH3 Water Booster Pump Station Expansion	23,269	10,816	12,453
West Side Well & Booster Pump Station	454,873	291,443	163,430
Third Street 0.5 MG GST Improvements	38,800	22,000	16,800
Re-use Improvements-PH 1	232,091	109,629	122,462
Major Trunk Lines-Hobbs/Butler/646	560,771	477,131	83,640
Force Main Upgrade-Bay Colony to Ervin	267,635	224,410	43,225
Smith Lane LS Improvements	66,500	48,221	18,279
Countryside #1 LS Improvements	64,800	46,375	18,425
TxDOT Clear Creek LS Relocation	838,337	642,139	196,198
Sanitary Sewer Rehab 2018	1,170,671	741,210	429,461
Westover Park LS & FM Improvements	159,421	123,453	35,968
SWWRF Blower Replacement	537,267	98,492	438,775
DSWWTP 185 Hp Pump Replacement	115,037	-	115,037
Water System Improvements	1,386,579	1,263,360	123,219
Total	\$ 18,412,847	\$ 15,704,501	\$ 2,708,346

City of League City, Texas
Notes to Basic Financial Statements

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, total OPEB liability, 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	\$ 38,457,988	\$ -	\$ 3,956,026	\$ 34,501,962 *	\$ 3,517,990
Certificates of obligation	66,950,000	-	4,815,000	62,135,000 *	4,225,000
Unamortized premiums and discounts	8,383,771	-	636,805	7,746,966 *	575,566
	113,791,759	-	9,407,831	104,383,928	8,318,556
Other long-term liabilities:					
Compensated absences	5,218,322	3,739,188	3,416,003	5,541,507	2,944,120
Total other postemployment benefit liability***	7,145,309	1,201,331	156,419	8,190,221	-
Net pension liability	23,739,646	17,174,557	22,781,578	18,132,625	-
Total governmental activities	\$ 149,895,036	\$ 22,115,076	\$ 35,761,831	\$ 136,248,281	\$ 11,262,676
					Long-term debt due in more than one year
					\$ 124,985,605
					* Debt associated with governmental activities capital assets
					\$ 104,383,928
Business-type activities:					
Revenue bonds	\$ 12,655,000	\$ -	\$ 2,125,000	\$ 10,530,000 **	\$ 2,155,000
General obligation bonds	54,167,013	-	3,453,974	50,713,039 **	3,172,010
Certificates of obligation	73,160,000	-	1,940,000	71,220,000 **	2,330,000
Contract revenue bonds	985,000	-	235,000	750,000 **	240,000
Unamortized premiums and discounts	9,363,457	-	769,683	8,593,774 **	769,682
	150,330,470	-	8,523,657	141,806,813	8,666,692
Other long-term liabilities:					
Compensated absences	511,492	366,579	317,387	560,684	317,982
Total other postemployment benefit liability***	1,236,821	207,415	27,007	1,417,229	-
Net pension liability	4,127,058	2,965,268	3,933,346	3,158,980	-
Total business-type activities	\$ 156,205,841	\$ 3,539,262	\$ 12,801,397	\$ 146,943,706	\$ 8,984,674
					Long-term debt due in more than one year
					\$ 137,959,032
					** Debt associated with business-type activities capital assets
					\$ 141,806,813

*** Per GASB 75, beginning balance for total other postemployment benefit liability includes the restatement of total other postemployment benefit liability at October 1, 2017.

City of League City, Texas
Notes to Basic Financial Statements

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	3.00% to 5.00%	\$ 3,935,000
2012 General Obligation Refunding Bonds	\$ 6,785,000	3.00% to 5.00%	5,700,000
2013 General Obligation Refunding Bonds	\$ 13,819,988	2.00% to 4.00%	7,166,962
2013A General Obligation Refunding Bonds*	\$ 2,190,000	2.00% to 4.00%	895,000
2014A General Obligation Refunding Bonds*	\$ 3,200,000	2.00% to 4.00%	1,635,000
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%	<u>2,270,000</u>
Total general obligation bonds			34,501,962
Certificates of obligation:			
2009 Tax and Revenue Certificates of Obligation	\$ 11,600,000	4.00% to 5.00%	540,000
2010 Tax and Revenue Certificates of Obligation*	\$ 10,000,000	3.25% to 5.00%	780,000
2011 Tax and Revenue Certificates of Obligation*	\$ 20,390,000	3.125% to 4.75%	13,585,000
2012A Tax and Revenue Certificates of Obligation	\$ 33,675,000	3.00% to 5.00%	27,815,000
2015 Tax and Revenue Certificates of Obligation	\$ 3,020,000	3.625% to 5.00%	2,725,000
2016 Tax and Revenue Certificates of Obligation	\$ 8,970,000	2.125% to 5.00%	8,390,000
2017 Tax and Revenue Certificates of Obligation	\$ 8,730,000	3.00% to 5.00%	<u>8,300,000</u>
Total certificates of obligation			<u>62,135,000</u>
Total governmental activities long-term debt			<u><u>\$ 96,636,962</u></u>

*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.

City of League City, Texas
Notes to Basic Financial Statements

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%	\$ 1,550,000
2011 Water Works & Sewer System Revenue Bonds	\$ 13,040,000	3.00% to 5.00%	8,980,000
Total revenue bonds			10,530,000
General obligation bonds:			
2011A General Obligation Refunding Bonds	\$ 4,705,000	3.00% to 5.00%	2,960,000
2012 General Obligation Refunding Bonds	\$ 6,510,000	3.00% to 5.00%	5,295,000
2013 General Obligation Refunding Bonds	\$ 1,075,012	2.00% to 4.00%	213,039
2015 General Obligation Refunding Bonds	\$ 17,605,000	3.00% to 5.00%	15,390,000
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%	10,500,000
Total general obligation bonds *			50,713,039
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%	15,095,000
2015 Tax and Revenue Certificates of Obligation	\$ 14,425,000	3.625% to 5.00%	13,015,000
2016 Tax and Revenue Certificates of Obligation	\$ 3,645,000	2.125% to 5.00%	3,410,000
2017 Tax and Revenue Certificates of Obligation	\$ 7,905,000	3.00% to 5.00%	7,410,000
Total certificates of obligation			71,220,000
Contract revenue bonds:			
2011F GCWA Contract Revenue Refunding Bonds	\$ 2,250,000	2.00% to 4.00%	750,000
Total contract revenue bonds			750,000
Total business-type activities long-term debt			\$ 133,213,039

*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.

City of League City, Texas
Notes to Basic Financial Statements

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

Year Ending Sept. 30	Governmental Activities			Business - Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
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	\$ 34,501,962	\$ 6,792,170	\$ 41,294,132	\$ 50,713,039	\$ 12,846,487	\$ 63,559,526

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

Year Ending Sept. 30	Business - Type Activities		
	Principal	Interest	Total
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	\$ 10,530,000	\$ 2,882,928	\$ 13,412,928

City of League City, Texas
Notes to Basic Financial Statements

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

Year Ending Sept. 30	Governmental Activities			Business - Type Activities		
	Principal	Interest	Total	Principal	Interest	Total
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	\$ 62,135,000	\$ 19,661,902	\$ 81,796,902	\$ 71,220,000	\$ 25,116,072	\$ 96,336,072

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

Year Ending Sept. 30	Business - Type Activities		
	Principal	Interest	Total
2019	240,000	28,800	268,800
2020	250,000	20,400	270,400
2021	260,000	10,400	270,400
Total	\$ 750,000	\$ 59,600	\$ 809,600

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.

The total amount of governmental and business-type defeased bonds outstanding as of September 30, 2018, is \$12,185,000.

As of September 30, 2018, the City has \$406,250 of authorized but unissued bonds.

City of League City, Texas
Notes to Basic Financial Statements

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

The composition of interfund receivables and payables as of September 30, 2018, is as follows:

Receivable Fund	Payable Fund	Amounts
General fund	Nonmajor governmental funds	\$ 235,259
Total		\$ 235,259

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	\$ 10,203,822
General fund	Internal service fund	126,462
Water and wastewater fund	General fund	3,312,000
Nonmajor governmental fund	General fund	10,000
Nonmajor governmental funds	Water and wastewater fund	146,911
Total		\$ 13,799,195

The general fund made a transfer to a nonmajor governmental fund to provide financing for capital projects and Disaster Preparedness Donation 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.

City of League City, Texas
Notes to Basic Financial Statements

Note 9. Restricted Assets

As of September 30, 2018, the City held restricted cash and investments for the following purposes:

Restricted for:	
Customer deposits	\$ 997,088
Capital projects	57,866,351
Debt service	5,478,004
PID #1 refund	165,369
Healthcare claims	<u>142,847</u>
Total	<u>\$ 64,649,659</u>

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. 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.

City of League City, Texas
Notes to Basic Financial Statements

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, 2018, 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, 2018 and 2017 are as follows:

	2018	2017
Health claim liability, beginning of year	\$ 653,246	\$ 527,040
Claims and changes in estimates	5,317,447	4,700,229
Claim payments	<u>(5,280,640)</u>	<u>(4,574,023)</u>
Health claim liability, end of year	<u>\$ 690,053</u>	<u>\$ 653,246</u>

D. 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.

City of League City, Texas

Notes to Basic Financial Statements

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. Other Postemployment Benefits (OPEB) Plans

A. Texas Municipal Retirement System (TMRS) Supplemental Death Benefit Fund

Plan Description

Texas Municipal Retirement System (“TMRS”) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (“SDBF”). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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 City has elected to participate in the SDBF for its active members including retirees. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded single-employer OPEB plan (i.e. no assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75) for City reporting.

Benefits Provided

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). The death benefit for retirees is considered an other postemployment benefit (“OPEB”) and is a fixed amount of \$7,500.

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees currently receiving benefits	167
Inactive employees entitled to but not yet receiving benefits	54
Active employees	<u>508</u>
Total	<u><u>729</u></u>

Contributions

The member 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.

Contributions are made monthly based on the covered payroll of employee members of the participating member city. The contractually required contribution rate is determined annually for each city. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. There is a one-year delay between the actuarial valuation that serves as the basis for the employer contribution rate and the calendar year when the rate goes into effect. The funding policy of this plan is to assure that adequate resources are available to meet all death benefit payments for the upcoming year.

The retiree portion of contribution rates to the SDBF for the City was 0.02% in both calendar years 2017 and 2018. The City’s contributions to the SDBF for the year ended September 30, 2018 were \$6,367, and were equal to the required contributions.

City of League City, Texas
Notes to Basic Financial Statements

Total OPEB Liability

The City's total OPEB liability (TOL) was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5% to 10.5% including inflation
Discount rate	3.31%
Retiree's share of benefit-related costs	0.00%

Salary increases were based on a service-related table. Mortality rates for service retirees were based on the 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. Mortality rates for disabled retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2017, valuation were developed primarily from an actuarial experience study of the four-year period from December 31, 2010 through December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the Entry Age Normal Actuarial Cost Method.

The discount rate used to measure the total OPEB liability was 3.31% and was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Changes in Total OPEB Liability

	Total OPEB Liability
Balance at December 31, 2016	\$ 971,203
Changes for the year:	
Service cost	56,297
Interest on total OPEB liability	37,657
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	97,169
Benefit payments	(6,255)
Net Changes	<u>184,868</u>
Balance at December 31, 2017	<u>\$ 1,156,071</u>

City of League City, Texas
Notes to Basic Financial Statements

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.31%) or 1 percentage-point higher (4.31%) than the current rate:

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB liability	\$ 1,407,568	\$ 1,156,071	\$ 962,176

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$103,816. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions and other inputs	\$ 80,947	\$ -
Contributions made subsequent to measurement date	4,712	-
Total	\$ 85,659	\$ -

The \$4,712 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will reduce the total OPEB liability during the year ending September 30, 2019. The other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31	
2019	\$ 16,222
2020	16,222
2021	16,222
2022	16,222
2023	16,059
Total	\$ 80,947

City of League City, Texas
Notes to Basic Financial Statements

B. The City Retiree Medical Program

Plan Description

The City administers a single-employer defined benefit other postemployment 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. The Program has no plan assets accumulated in a trust that meet the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided

Retiree medical coverage levels for retirees are the same as coverage provided to active City employees in accordance with the terms and conditions of the Program. Retiree may purchase retiree health care coverage for eligible spouses and dependents at own expense. Surviving spouses and dependents of deceased retired members may continue retiree health care coverage for up to 36 months through COBRA. Retirees are eligible for dental and vision coverage at 100% of cost. Retirees are required to enroll in Medicare once eligible (age 65). The City does not provide Medicare Supplement Health Benefits coverage after the date that the person becomes eligible for Medicare benefits.

Employees are eligible for TMRS retirement with five years of service and age sixty or with twenty years of service and any age. The City contributes up to 100 percent of the monthly premium for retirees that are age 60 with 20 years of service. 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.

The following table provides a summary of the number of participants in the plan as of December 31, 2017:

Inactive plan members or beneficiaries currently receiving benefits	12
Inactive plan members or beneficiaries entitled to but not yet receiving benefits	-
Active Plan Members	<u>508</u>
Total	<u><u>520</u></u>

Total OPEB Liability

The City's total OPEB liability was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary increases	3.5% to 10.5% including inflation
Discount rate	3.31%

City of League City, Texas
Notes to Basic Financial Statements

Salary increases were based on a service-related table. Mortality rates for healthy retirees were based on the RP2000 Combined Healthy 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. Mortality rates for disabled retirees were based on the RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The actuarial assumptions used in the December 31, 2017, valuation were developed primarily from an actuarial experience study of the four-year period from December 31, 2010 through December 31, 2014. The Actuarial Cost Method used was the Individual Entry-Age Method.

The discount rate used to measure the total OPEB liability was 3.31% and was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

Changes in Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at December 31, 2016	\$ 7,410,927
Changes for the year:	
Service cost	436,976
Interest on total OPEB liability	287,306
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes in assumptions or other inputs	493,341
Benefit payments	<u>(177,171)</u>
Net Changes	<u>1,040,452</u>
Balance at December 31, 2017	<u>\$ 8,451,379</u>

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, calculated using the discount rate of 3.31%, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage-point lower (2.31%) or 1 percentage-point higher (4.31%) than the current rate:

	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase in Discount Rate (4.31%)</u>
Total OPEB liability	\$ 9,529,908	\$ 8,451,379	\$ 7,494,247

City of League City, Texas
Notes to Basic Financial Statements

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate

The following presents the total OPEB liability of the City, calculated using the healthcare cost trend rate of 7.2%, as well as what the City's total OPEB liability would be if it were calculated using a the healthcare cost trend rate that is 1 percentage-point lower (6.2%) or 1 percentage-point higher (8.2%) than the current rate:

	1% Decrease Healthcare Cost Trend Rate (6.2% Decreasing to 4.25%)	Healthcare Cost Trend Rate (7.2% Decreasing to 5.25%)	1% Increase Healthcare Cost Trend Rate (8.2% Decreasing to 6.25%)
Total OPEB liability	\$ 7,285,785	\$ 8,451,379	\$ 9,861,801

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$576,668. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in assumptions and other inputs	\$ 434,599	\$ -
Contributions made subsequent to measurement date	162,586	-
Total	\$ 597,185	\$ -

The \$162,586 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will reduce the total OPEB liability during the year ending September 30, 2019. The other amounts reported as deferred outflows and inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended December 31	
2019	\$ 58,742
2020	58,742
2021	58,742
2022	58,742
2023	58,742
Thereafter	140,889
Total	\$ 434,599

Note 12. Defined Benefit Pension Plans

Plan Description

The City participates as one of 883 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.tmars.com.

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

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, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	220
Inactive employees entitled to but not yet receiving benefits	239
Active employees	508
Total	967

City of League City, Texas

Notes to Basic Financial Statements

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 15.39% and 15.11% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were \$4,833,239, and were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017, 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, 2017 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, 2017, 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.

City of League City, Texas

Notes to Basic Financial Statements

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%	

City of League City, Texas
Notes to Basic Financial Statements

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, 2016	\$ 134,602,694	\$ 106,735,990	\$ 27,866,704
Changes for the year:			
Service cost	5,157,392	-	5,157,392
Interest	9,094,253	-	9,094,253
Change of benefit terms	-	-	-
Difference between expected and actual experience	904,184	-	904,184
Changes of assumptions	-	-	-
Contributions - employer	-	4,818,263	(4,818,263)
Contributions - employee	-	2,191,544	(2,191,544)
Net investment income	-	14,801,671	(14,801,671)
Benefit payments, including refunds of employee contributions	(4,903,446)	(4,903,446)	-
Administrative expense	-	(76,665)	76,665
Other changes	-	(3,885)	3,885
Net changes	10,252,383	16,827,482	(6,575,099)
Balance at December 31, 2017	\$ 144,855,077	\$ 123,563,472	\$ 21,291,605

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	\$ 44,661,942	\$ 21,291,605	\$ 2,460,712

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.tms.com.

City of League City, Texas
Notes to Basic Financial Statements

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

For the year ended September 30, 2018, the City recognized pension revenue of \$92,428.

At September 30, 2018, 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
	<u> </u>	<u> </u>
Differences between expected and actual economic experience	\$ 954,687	\$ 1,200,110
Changes in actuarial assumptions	37,306	-
Difference between projected and actual investment earnings		3,233,501
Contributions subsequent to the measurement date	<u>3,559,954</u>	<u>-</u>
Total	<u><u>\$ 4,551,947</u></u>	<u><u>\$ 4,433,611</u></u>

\$3,559,954 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 ending September 30, 2019. 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	
<u> </u>	
2019	(195,611)
2020	(251,321)
2021	(1,605,010)
2022	<u>(1,389,676)</u>
Total	<u><u>\$ (3,441,618)</u></u>

Note 13. 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.

City of League City, Texas

Notes to Basic Financial Statements

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 2018.
- 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 2018, the City rebated \$74,165 in property taxes, \$546,224 in sales taxes, 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 \$3,156,799 in payments for TIF obligations in property tax rebates from general TIF resources in fiscal year 2018.

APPENDIX C

FORM OF BOND COUNSEL'S OPINION

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[Form of Bond Counsel Opinion]

[Date]

\$ _____
CITY OF LEAGUE CITY, TEXAS
GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS,
SERIES 2019

We have represented the City of League City, Texas (the "Issuer"), as its bond counsel in connection with an issue of bonds (the "Bonds") described as follows:

CITY OF LEAGUE CITY, TEXAS, GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2019, dated the date hereof, in the principal amount of \$ _____.

The Bonds mature, bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Bonds and in the ordinance adopted by the City Council of the Issuer (the "Bond Ordinance") and the pricing certificate authorized therein (the "Pricing Certificate," and, together with the Bond Ordinance, the "Ordinance") authorizing their issuance

We have represented the Issuer as its bond counsel for the purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the excludability of interest on the Bonds from gross income for federal income tax purposes. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon the transcript of proceedings described in the following paragraph. We have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

In our capacity as bond counsel, we have participated in the preparation of and have examined a transcript of certified proceedings pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the Issuer; an escrow agreement (the "Escrow Agreement") between the Issuer and The Bank of New York Mellon Trust Company, N.A., as escrow agent (the "Escrow Agent"); the report (the "Report") of Public Finance Partners, Certified Public Accountants (the "Verification Agent"), verifying the sufficiency of the deposits made with the Escrow Agent for defeasance of the obligations being refunded; and customary certificates of officers, agents and representatives of the Issuer, and other public officials, and other

certified showings relating to the authorization and issuance of the Bonds. We also have analyzed such laws, regulations, guidance, documents and other materials as we have deemed necessary to render the opinions herein. We have also examined executed Bond I-1 of this issue.

In providing the opinions set forth herein, we have relied on representations and certifications of the Issuer and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the Issuer and such parties, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance, including, but not limited to, covenants relating to the tax-exempt status of the Bonds. We have further relied upon the Report regarding the mathematical accuracy of certain computations.

BASED ON SUCH EXAMINATION, IT IS OUR OPINION THAT:

- (A) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective and, therefore, the Bonds constitute valid and legally binding obligations of the Issuer;
- (B) A continuing ad valorem tax upon all taxable property within the Issuer necessary to pay the principal of and interest on the Bonds, has been levied and pledged irrevocably for such purposes, within the limit prescribed by law;
- (C) Firm banking and financial arrangements have been made for the discharge and final payment of the obligations being refunded pursuant to the Escrow Agreement on the date of delivery of the Bonds, and therefore, such bonds are deemed to be no longer outstanding except for the purpose of being paid from the funds provided therefore in such Escrow Agreement; and
- (D) Interest on the Bonds is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended. In addition, interest on the Bonds is not a specific preference item for purposes of the alternative minimum tax.

The rights of the owners of the Bonds are subject to the applicable provisions of the federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

Except as stated above, we express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership or disposition of, the Bonds. Further, in the event that the representations of the Issuer and other parties or the Report are determined to be inaccurate or incomplete or the Issuer fails to comply with the covenants of the Ordinance, interest on the Bonds could become includable in gross

income for federal income tax purposes from the date of the original delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Our opinions are based on existing law and our knowledge of facts as of the date hereof and may be affected by certain actions that may be taken or omitted on a later date. We assume no duty to update or supplement our opinions, and this opinion letter may not be relied upon in connection with any changes to the law or facts, or actions taken or omitted, after the date hereof.

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