HTS Continuing Disclosure Services
A Division of Hilltop Securities

(See "CONTINUING DISCLOSURE OF INFORMATION" herein)

PRELIMINARY OFFICIAL STATEMENT

Dated October 4, 2019

Ratings:
Fitch: "AAA"
S&P: "AAA"
(See "OTHER INFORMATION - Ratings" herein)

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel (defined below), under current law and subject to conditions described in the section "TAX MATTERS – Tax Exemption" herein, interest on the Obligations (defined below) (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. A holder may be subject to other federal tax consequences as described in the section "TAX MATTERS."

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

CITY OF SUGAR LAND, TEXAS
(Fort Bend County)

$21,650,000*
GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2019A

$16,475,000*
COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019A

Dated Date: November 1, 2019

Due: February 15 as shown on inside cover

PAYMENT TERMS . . . Interest on the $21,650,000* City of Sugar Land, Texas, General Obligation Refunding and Improvement Bonds, Series 2019A (the "Bonds"), and the $16,475,000* City of Sugar Land, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2019A (the "Certificates") (collectively the "Obligations") will accrue from November 14, 2019 (the "Delivery Date"), and will be payable August 15 and February 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 Obligations 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 Obligations may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations 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 Obligations. See "THE OBLIGATIONS - 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 OBLIGATIONS - PAYING AGENT/REGISTRAR").

AUTHORITY FOR ISSUANCE OF THE BONDS . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") including particularly Chapters 1207, 1371 and 1331, Texas Government Code, and are direct obligations of the City of Sugar Land, Texas (the "City"), payable from a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds (the "Bond Ordinance") (see "THE OBLIGATIONS - AUTHORITY FOR ISSUANCE OF THE BONDS").

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas , particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), and constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on certain revenues of the waterworks and sanitary sewer system of the City as provided in the ordinance authorizing the Certificates (the "Certificate Ordinance" and together with the Bond Ordinance, the "Ordinances") (see "THE OBLIGATIONS - AUTHORITY FOR ISSUANCE").

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 Bonds") to achieve debt service savings, (ii) for the acquisition and construction of additions and improvements to the City's parks and recreational facilities, including phase two of Brazos River Park and an adjacent festival site and for the acquisition and construction of additions and improvements to the City's parks and recreational facilities, including a connecting network of approximately ten miles of hike and bike trails and bridges, and (iii) to pay the costs of issuance associated with the sale of the Bonds. Proceeds from the sale of the Certificates will be used for (i) construction, renovation or acquisition of: (a) street and traffic improvements, including but not limited to, streets, boulevards and traffic signals, (b) drainage and flood control improvements, (c) public safety equipment and improvements to public safety facilities, (d) renovation, improvement and equipment of City buildings, and (e) renovation, expansion and improvements to City Airport and (ii) the cost of professional services incurred in connection therewith.

See Maturity Schedules on Page 2

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Obligations 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 to the date of redemption (see "THE OBLIGATIONS - OPTIONAL REDEMPTION").

MANDATORY SINKING FUND REDEMPTION . . . In addition to the foregoing optional redemption provision, if principal amounts designated in the serial maturity schedule on the inside cover are combined to create Term Obligations, each such Term Obligation shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Obligation and continuing on February 15 in each year thereafter until the stated maturity date of that Term Obligation, 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 Obligations 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 Obligations then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Obligations 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 Obligations are offered for delivery when, as and if issued and received by the initial purchaser (the "Initial Purchaser") and subject to the approving opinion of the Attorney General of Texas and the opinion of Hunton Andrews Kurth LLP, Bond Counsel, Houston, Texas (see APPENDIX C, "FORMS OF BOND COUNSEL'S OPINIONS").

DELIVERY . . . It is expected that the Obligations will be available for delivery through The Depository Trust Company on November 14, 2019.

BIDS DUE ON THE BONDS TUESDAY, OCTOBER 15, 2019 AT 10:45 AM CDT
BIDS DUE ON THE CERTIFICATES TUESDAY, OCTOBER 15, 2019 AT 10:15 AM CDT

* Preliminary, subject to change.

MATURITY SCHEDULE*

THE BONDS

Principal Amount	Maturity	Interest Rate	Initial Yield (1)	CUSIP Numbers (2)	Principal Amount	Maturity	Interest Rate	Initial Yield (1)	CUSIP Numbers (2)
$ 2,165,000	2020				$ 505,000	2030 (3)			
3,345,000	2021				520,000	2031 (3)			
1,955,000	2022				535,000	2032 (3)			
2,045,000	2023				555,000	2033 (3)			
1,580,000	2024				570,000	2034 (3)			
1,355,000	2025				585,000	2035 (3)			
1,990,000	2026				605,000	2036 (3)			
450,000	2027				625,000	2037 (3)			
470,000	2028				645,000	2038 (3)			
490,000	2029 (3)				660,000	2039 (3)			

(Accrued Interest from November 14, 2019 to be added)

THE CERTIFICATES

Principal Amount	Maturity	Interest Rate	Initial Yield (1)	CUSIP Numbers (2)	Principal Amount	Maturity	Interest Rate	Initial Yield (1)	CUSIP Numbers (2)
$ 580,000	2021				$ 905,000	2031 (3)			
605,000	2022				930,000	2032 (3)			
640,000	2023				960,000	2033 (3)			
670,000	2024				990,000	2034 (3)			
705,000	2025				1,020,000	2035 (3)			
740,000	2026				1,050,000	2036 (3)			
780,000	2027				1,085,000	2037 (3)			
820,000	2028				1,115,000	2038 (3)			
850,000	2029 (3)				1,150,000	2039 (3)			
880,000	2030 (3)								

(Accrued Interest from November 14, 2019 to be added)

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(1) The initial reoffering prices or yields on the Bonds are furnished by the Initial Purchaser and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser at any time.

(2) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association, and are included solely for the convenience of the beneficial owners of the Bonds. Neither the City nor the Initial Purchaser of the Bonds is responsible for the selection or correctness of the CUSIP numbers set forth herein.

(3) The Obligations maturing on or after February 15, 2029 are subject to redemption, at the option of the City, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. See "THE OBLIGATIONS – OPTIONAL REDEMPTION."

* Preliminary, subject to change.

CITY OFFICIALS, STAFF AND CONSULTANTS

ELECTED OFFICIALS

City Council	Occupation	Position
Joe R. Zimmerman	Engineer	Mayor
Himesh Gandhi	Attorney	Councilmember At Large Position 1
Jennifer J. Lane	Substitute Teacher	Councilmember At Large Position 2
Steve R. Porter	Retired	Councilmember Single Member District 1
Naushad Kermally	Mobile Technology	Councilmember Single Member District 2
Stewart Jacobson	Financial Planning	Councilmember Single Member District 3
Carol K. McCutcheon	Retired (Engineer)	Councilmember Single Member District 4

APPOINTED OFFICIALS

Name	Position	Year Employed
Allen Bogard	City Manager	1995
Doug Brinkley	Assistant City Manager	2005
Chris Steubing	Assistant City Manager	2006
Jennifer May	Assistant City Manager	2006
Jennifer Brown	Director of Finance	2000
Meredith Riede	City Attorney	2013
Thomas Harris III	City Secretary	2016
Elizabeth Huff	Director of Economic Development	2018

CONSULTANTS AND ADVISORS

Certified Public Accountants .... Whitley Penn, LLP
Houston, Texas

Bond Counsel .... Hunton Andrews Kurth LLP
Houston, Texas

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

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule"), this document constitutes an official statement of the City with respect to the Obligations that has been "deemed final" by the City as of the date except for the omission of no more than the information permitted by the Rule.

This Official Statement, which includes the cover page, inside cover page and the Appendices attached 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.

Neither the City, Bond Counsel nor the Financial Advisor make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company ("DTC") or its book-entry-only system as described under "Book-Entry-Only System" as such information has been provided by DTC.

The information and expressions of opinion contained herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City or other matters described herein since the date hereof. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

THE OBLIGATIONS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH ACT. THE REGISTRATION OR QUALIFICATION OF THE OBLIGATIONS IN ACCORDANCE WITH APPLICABLE PROVISIONS OF SECURITIES LAW OF THE STATES IN WHICH THE OBLIGATIONS HAVE BEEN REGISTERED OR QUALIFIED AND THE EXEMPTION FROM REGISTRATION OR QUALIFICATION IN OTHER STATES CANNOT BE REGARDED AS A RECOMMENDATION THEREOF.

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

The prices and other terms respecting the offering and sale of the Obligations may be changed from time to time by the Initial Purchasers after such Obligations are released for sale, and the Obligations may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Obligations into investment accounts.

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

References to website addressees presented herein are for informational purposes only and may be in the form of hyperlinks solely for the reader's convenience. Unless specified otherwise, such websites and the information or links contained herein are not incorporated into, and are not part of this official statement for purposes of, and that term is defined in the Rule.

TABLE OF CONTENTS

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 Obligations 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 Sugar Land (the "City") is a political subdivision and municipal corporation of the State of Texas (the "State"), located in Fort Bend County, Texas. The City covers approximately 42.85 square miles (see "INTRODUCTION - DESCRIPTION OF THE CITY").

THE BONDS .... The Bonds are issued as $21,650,000* General Obligation Refunding and Improvement Bonds, Series 2019A. The Bonds are issued as serial bonds maturing 2021 through 2039, unless the Initial Purchaser of the Bonds designates one or more maturities as a Term Bond (see "THE OBLIGATIONS -DESCRIPTION OF THE OBLIGATIONS").

THE CERTIFICATES .... The Certificates are issued as $16,475,000 Combination Tax and Revenue Certificates of Obligation, Series 2019A. The Certificates are issued as serial certificates maturing 2021 through 2039, unless initial purchaser (the "Initial Purchaser") of the Certificates designates one or more maturities as a Term Certificate (see "THE OBLIGATIONS -DESCRIPTION OF THE OBLIGATIONS").

PAYMENT OF INTEREST .... Interest on the Obligations accrues from Delivery Date, and is payable February 15, 2020, and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE OBLIGATIONS - DESCRIPTION OF THE OBLIGATIONS" and "THE OBLIGATIONS - OPTIONAL REDEMPTION").

AUTHORITY FOR ISSUANCE OF THE BONDS .... The Bonds are issued pursuant to the Constitution and general laws of the State including particularly Chapters 1207, 1371 and 1331, Texas Government Code and an ordinance authorizing their issuance (the "Bond Ordinance") (see "THE OBLIGATIONS - AUTHORITY FOR ISSUANCE OF THE BONDS").

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES .... The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, and an ordinance authorizing their issuance (the "Certificate Ordinance") (see "THE OBLIGATIONS - AUTHORITY FOR ISSUANCE OF THE CERTIFICATES").

SECURITY FOR THE BONDS .... The Bonds constitute direct obligations of the City, payable from the levy and collection of a continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the City as provided in the Bond Ordinance (see "THE OBLIGATIONS - SECURITY AND SOURCE OF PAYMENT").

SECURITY FOR THE CERTIFICATES .... The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on certain revenues of the waterworks and sanitary sewer system of the City as provided in the Certificate Ordinance (see "THE OBLIGATIONS - SECURITY AND SOURCE OF PAYMENT").

REDEMPTION .... The City reserves the right, at its option, to redeem Obligations 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 to the date of redemption (see "THE OBLIGATIONS - OPTIONAL REDEMPTION"). Additionally, the Obligations may be subject to mandatory redemption in the event the Initial Purchasers elect to aggregate one or more maturities as a Term Obligation (see "THE OBLIGATIONS - MANDATORY SINKING FUND REDEMPTION").

TAX EXEMPTION .... In the opinion of Bond Counsel, under current law and subject to conditions described in the section "TAX MATTERS – Tax Exemption" herein, interest on the Obligations (a) is not included in gross income for federal income tax purposes and (b) is not an item of tax preference for purposes of the federal alternative minimum income tax. A holder may be subject to other federal tax consequences as described in the section.

* Preliminary, subject to change.

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 Bonds") to achieve debt service savings, (ii) for the acquisition and construction of additions and improvements to the City's parks and recreational facilities, including phase two of Brazos River Park and an adjacent festival site and for the acquisition and construction of additions and improvements to the City's parks and recreational facilities, including a connecting network of approximately ten miles of hike and bike trails and bridges, and (iii) to pay the costs of issuance associated with the sale of the Bonds.

Proceeds from the sale of the Certificates will be used for (i) construction, renovation or acquisition of: (a) street and traffic improvements, including but not limited to, streets, boulevards and traffic signals, (b) drainage and flood control improvements, (c) public safety equipment and improvements to public safety facilities; (d) renovation, improvement and equipment of City buildings, and (e) renovation, expansion and improvements to City Airport and (ii) the cost of professional services incurred in connection therewith.

RATINGS .... The Obligations and presently outstanding tax backed debt of the City are rated "AAA" by Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business ("S&P") and "AAA" by Fitch Ratings ("Fitch"), without regard to credit enhancement (see "OTHER INFORMATION – RATINGS").

BOOK-ENTRY-ONLY SYSTEM...... The definitive Obligations 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 Obligations may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Obligations 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 Obligations (see "THE OBLIGATIONS - BOOK-ENTRY-ONLY SYSTEM") .

PAYMENT RECORD .... The City has never defaulted in payment of its debt.

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FINANCIAL HIGHLIGHTS

Financial Highlights		
2019 Assessed Valuation (net of exemptions and abatements) (1)		$ 16,183,080,324
Indebtedness Payable from Ad Valorem Taxes		
City Bond Debt Payable from Ad Valorem Taxes (as of September 30, 2019):		
General Obligation Debt Outstanding (2)	$ 298,606,402	
Assumed Utility District Debt Outstanding (2)	8,108,643	
The Bonds	21,650,000	
The Certificates	16,475,000	
Total		$ 344,840,045
Less: Utility Debt Paid from Utility Revenue (3)		98,868,643
Less: Debt Paid from Airport Revenue (3)		11,245,000
Less: Debt Paid from Hotel Occupancy Taxes (3)		12,690,000
Less: Interest and Sinking Fund (As of September 30, 2019) (4)		8,681,098
Net Bond Debt Payable from Ad Valorem Taxes		**$ 213,355,304**
Estimated Overlapping Debt Outstanding (as of September 30, 2019) (5)		$ 730,649,316
Net Direct and Estimated Overlapping Debt		$ 944,004,621

Tax Supported Debt Ratios:	% of 2019 Assessed Value	Per Capita
Net Direct Debt	1.32%	$ 1,806.29
Net Direct and Estimated Overlapping Debt	5.83%	$ 7,992.05

Tax Supported Debt Service Requirements:	
2020 Net Principal and Interest Requirements	$ 22,928,822
Average Annual Net Principal and Interest Requirements, 2020 - 2047	10,099,248
Maximum Net Principal and Interest Requirements, 2020	23,878,290
Total Collections (Arithmetic Averages, Fiscal Years 2015-2019):	
Current Collections	99.71%
Total Collections	99.76%

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(1) Source: Fort Bend Central Appraisal District.
(2) Excludes 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 Computation of Self-Supporting Debt Table. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.
(5) Preliminary information provided by City staff.
(6) Source: Municipal Advisory Council of Texas.

PRELIMINARY OFFICIAL STATEMENT

RELATING TO

$21,650,000*	**$16,475,000***
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2019A	**COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019A**

INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $21,650,000* City of Sugar Land, Texas, General Obligation Refunding and Improvement Bonds, Series 2019A (the "Bonds"), and the $16,475,000* City of Sugar Land, Texas, Combination Tax and Revenue Certificates of Obligation, Series 2019A (the "Certificates") (collectively the "Obligations"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinances of the City Council of the City of Sugar Land, Texas (the "City"), authorizing the issuance of the Bonds and the Certificates (the "Bond Ordinance" and the "Certificate Ordinance", respectively, and collectively the "Ordinances") to be adopted on the date of sale of the Obligations, except as otherwise indicated herein.

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

DESCRIPTION OF THE CITY

The City is a municipal corporation, duly organized and existing under the laws of the State of Texas (the "State"), including the City's Home Rule Charter (the "Charter"). The City was incorporated in 1959 and first adopted its Charter in November 1980. The Charter, provides for a council-manager form of government. The Council is composed of a Mayor and six Council Members, two of whom are elected at large and four of whom are elected by district. The Mayor and Council all serve two-year terms. The 2010 Census population for the City was 78,817, and the City estimates the 2020 population as 118,118. The City encompasses approximately 42.85 square miles.

THE OBLIGATIONS

DESCRIPTION OF THE OBLIGATIONS

The Obligations are dated November1, 2019, (interest accrues from Delivery Date) and mature, or are subject to redemption prior to maturity, 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 August 15 and February 15, commencing February 15, 2020. The definitive Obligations 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 Obligations will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Obligations 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 Obligations. See "THE OBLIGATIONS - BOOK-ENTRY-ONLY SYSTEM" herein.

AUTHORITY FOR ISSUANCE OF THE BONDS

The Bonds are being issued pursuant to the Constitution and general laws of the State including particularly Chapters 1207, 1371 and 1331, Texas Government Code and the Bond Ordinance.

AUTHORITY FOR ISSUANCE OF THE CERTIFICATES

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code (the Certificate of Obligation Act of 1971), and the Certificate Ordinance.

SECURITY AND SOURCE OF PAYMENT

The Bonds constitute direct obligations of the City payable from the proceeds of a continuing ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the Bond Ordinance.

The Certificates constitute direct obligations of the City, payable from a combination of (i) the levy and collection of a continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge of a subordinate lien on the net revenues of the waterworks and sanitary sewer system of the City, as provided in the Certificate Ordinance.

* Preliminary, subject to change.

TAX RATE LIMITATION

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. The City is a Home Rule City with a maximum authorized tax rate for all purposes of $2.50 per $100 Assessed Valuation. Within this $2.50 maximum there is no limit on the amount of taxes which can be levied for debt service on outstanding bonds. The maximum tax rate is imposed both by the Constitution of the State of Texas and the City Charter. Under the rules of the Texas Attorney General, the City may issue general obligation debt in an amount no greater than that which can be serviced by a debt service tax of $1.50 per $100 assessed valuation, based on 90% collection, as calculated at the time of issuance.

OPTIONAL REDEMPTION

The City reserves the right, at its option, to redeem the Obligations 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 to the date of redemption. If less than all of the Obligations are to be redeemed, the City may select the Obligations, or portions thereof, within such maturity to be redeemed. If an Obligation (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Obligation (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 above are combined to create Term Obligations, each such Term Obligation shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Obligation and continuing on February 15 in each year thereafter until the stated maturity date of that Term Obligation, 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 Obligations 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 Obligations then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Obligations 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.

The principal amount of Term Obligations required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Term Obligations of the same maturity which (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Obligations plus accrued interest to the date of purchase and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

NOTICE OF REDEMPTION

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

DEFEASANCE

The City reserves the right to defease the Obligations in any manner now or hereafter permitted by law.

BOOK-ENTRY-ONLY SYSTEM

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

The City and the Underwriters cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Obligations, 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 Obligations), 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, New York, New York, will act as securities depository for the Obligations. The Obligations 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 for each maturity will be issued for the Obligations in the aggregate principal amount thereof and will be deposited with DTC.

DTC, the world's largest securities 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 certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). Direct Participants and Indirect Participants are referred to collectively as the "Participants". DTC has a Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Obligations 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 Obligations 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 Obligations; DTC's records reflect only the identity of the Direct Participant to whose account such Obligations are credited, which may or may not be a Beneficial Owner. The Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

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

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

All payments on the Obligations 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 on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to DTC is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Participants.

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

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Obligations 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 Obligations 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 Obligations, 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 Ordinances 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 Advisors or the Underwriters of the Obligations.

Effect of Termination of Book-Entry-Only System. In the event the Book-Entry-Only System with respect to the Obligations is discontinued by DTC, or the use of the Book-Entry-Only System with respect to the Obligations is discontinued by the City, printed securities certificates will be issued to the holders of the affected Obligations, and the applicable Obligations will be subject to transfer, exchange, and registration provisions as set forth in the Ordinances, summarized under "The Obligations - Transfer, Exchange, and Registration" below.

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Ordinances, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Obligations are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State of Texas or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Obligations by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Obligations will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar. Interest on the Obligations will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record (see "THE OBLIGATIONS – RECORD DATE FOR INTEREST PAYMENT" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Obligations shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding business day which is not such a Saturday, Sunday, or legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

TRANSFER, EXCHANGE AND REGISTRATION

In the event the Book-Entry-Only System should be discontinued, the Obligations may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Obligations may be assigned by the execution of an assignment form on the respective Obligations or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Obligations will be delivered by the Paying Agent/Registrar, in lieu of the Obligations being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Obligations issued in an exchange or transfer of Obligations will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Obligations to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Obligations registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Obligations surrendered for exchange or transfer. See "THE OBLIGATIONS - BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for the interest payable on the Obligations 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 thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of an Obligation appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing of such notice.

BONDHOLDERS' REMEDIES

The Ordinances do not establish specific events of default with respect to the Obligations or provide for the appointment of a trustee to represent the interests of the owners upon any failure of the City to perform in accordance with the terms of the Ordinances, or upon any other condition. If the City defaults in any payment due on the Obligations, or if the City defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Ordinances, any 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 (within the limits described herein) to pay principal of and interest on the Obligations as they become due or to perform other material covenants, conditions or obligations contained in the Ordinances. 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 Obligations 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 Obligations may be provided by the laws of the State with respect to the Obligations. Under Texas law there is no right to the acceleration of maturity of the Obligations upon the failure of the City to observe any covenant under the Ordinances. A registered owner of Obligations could file suit against the City if a default occurred in the payment of principal of or interest on any such Obligations; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity and any judgment could not be satisfied by execution against any property of the City.

On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued," in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit for money damages, holders of the Obligations may not be able to bring such a suit against the City for breach of the Obligations or the Ordinances. In Tooke, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities.

On April 1, 2016, the Texas Supreme Court ruled in Wasson Interests, Ltd. v. City of Jacksonville, 489 S.W. 3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to waive immunity when a city performs a proprietary function.

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

USE OF OBLIGATION PROCEEDS

Proceeds from the sale of the Obligations are expected to be expended as follows:

	The Bonds	The Certificates
Sources of Funds		
Par Amount	$ -	$ -
Net Premium	-	-
Total Sources	$ -	$ -
Uses of Funds		
Deposit to the Escrow Fund	$ -	$ -
Deposit to Construction Fund	-	-
Costs of Issuance	-	-
Total Uses of Funds	$ -	$ -

TAX INFORMATION

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. Prospective investors are encouraged to review 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 District is the responsibility of the Fort Bend Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, 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 (3) 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.

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. The same land may not be qualified as both agricultural and open-space land.

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 District, in establishing their tax rolls and tax rates (see "TAX INFORMATION – District and Taxpayer Remedies").

STATE MANDATED HOMESTEAD EXEMPTIONS

State law grants, with respect to each school district in the State, (1) a $25,000 exemption of the market value of all homesteads, (2) a $10,000 exemption of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled, and (3) 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 "Valuation and Debt Information" Table for the reduction in taxable valuation attributable to the state-mandated homestead exemptions.

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 at least $3,000 of the appraised value of the homesteads of persons sixty-five (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. The governing body of a school district may not repeal or reduce the amount of the local option homestead exemption described in (1), above, that was in place for the 2014 tax year (fiscal year 2015) for a period ending December 31, 2019. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit. See Table "Valuation and Debt Information" Table for the reduction in taxable valuation 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 "Valuation and Debt Information" Table 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 and Goods-In-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are 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 taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal. Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory. A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

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 Reinvestment Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries. 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 "tax increment". During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units. See "[AD VALOREM PROPERTY TAXATION" – City Application of Property Tax Code"] for descriptions of any TIRZ created in the City.

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.

Public Hearing and Maintenance and Operation 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.

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 Obligations.

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 [Issuer] of a continuing, direct annual ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax-supported 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 of Taxable Assessed Valuation. Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

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.

Levy and Collection of Taxes

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. Taxpayers 65 years old or older, disabled veterans or an unmarried surviving spouse of a disabled veteran, are permitted by State law to pay taxes on homesteads in four installments with the first installment due before February 1 of each year and the final installment due before August 1. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances.

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.

City Application of Property Tax Code

The City contracts with Fort Bend County for billing and collection of property taxes. Tax bills are mailed by October 1 or as soon thereafter as practicable. Taxes are due upon receipt of a tax bill and become delinquent on February 1 of the following year. If tax bills are mailed after January 10, the delinquency date is postponed to the first day of the next month that will provide at least twenty-one (21) days to pay. Delinquent taxes incur a penalty of 6% and interest of 1% on February 1. Interest at a rate of 1% per month will continue until July 1 at which time the penalty becomes 12% and interest of 6%, for a total of 18%. Interest on delinquent taxes continues to accrue at the rate of 1% per month until the tax is paid. If the tax is not paid by July 1, an additional penalty of up to 20% may be imposed by the City.

The City contracts with the legal firm Linebarger, Goggan, Blair & Sampson, L.L.P., for collection of delinquent property taxes through the tax collection contract with Fort Bend County. The taxpayer may be subject to seizure and sale of property to satisfy delinquent taxes. 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.

TAX ABATEMENT

The City may enter into tax abatement agreements. Additionally, Fort Bend County, Fort Bend Independent School District, or municipal utility districts located inside the City limits, at the option and discretion of each entity may enter into tax abatement agreements with owners of property. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the City, for a period of up to ten (10) years, all or any part of the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. The terms of all tax abatement agreements must be substantially the same. The City has six (6) agreements eleven (11) accounts active tax abatement agreements with various companies. See "TAX DATA-VALUATION AND DEBT INFORMATION" for a listing of value loss associated with these tax abatement agreements.

TAX INCREMENT REINVESTMENT ZONES

Article VIII, Section 1-g of the Texas Constitution and the Tax Increment Financing Act, Chapter 311, V.T.C.A. Tax Code (the "TIF Act") authorize municipalities in the State to establish one or more tax increment financing reinvestment zones for development or redevelopment of the territory within the zones.

The TIF Act provides that the municipality may appoint a board of directors for a tax increment financing reinvestment zone to develop a project plan and financing plan for the zone and may delegate to the board certain management duties relating to the zone. Project costs, including financing costs, within the zone may be paid from tax increments collected by each of the taxing units in the zone. The amount of a taxing unit's tax increment for a year is the amount of property taxes levied by the unit for that year on the captured appraised value of real property taxable by the unit (the "Captured Appraised Value") and located in the zone. The Captured Appraised Value is the total appraised value of the property for a year, less the tax increment base of the unit. The tax increment base of a taxing unit is the total appraised value of all real property taxable by the unit and located in the zone in the year in which the City created the zone. Participation by a taxing unit in a reinvestment zone is discretionary with such taxing unit, and it may decide to deposit all or none, or a portion, of its tax increments into the fund and retain for its own purposes the remainder. A taxing unit cannot reduce the amount of its participation once the financing plan has been implemented. The City has designated and created three reinvestment zones.

The City created Reinvestment Zone Number One, City of Sugar Land, Texas (Town Square) (the "Town Square TIRZ") in 1998. The Town Square TIRZ encompasses approximately 32 acres of land at the corner of US Highway 59 and State Highway 6. The Town Square TIRZ shall terminate December 31, 2025.

The purpose of the Town Square TIRZ is to develop the City's Town Square, including a hotel and convention center, parking, and a plaza. The City, Fort Bend County, Texas and Fort Bend Levee Improvement District No. 2 have agreed to deposit to a tax increment fund established for the Town Square TIRZ (the "Tax Increment Fund") a percentage of tax collections arising from the increase, if any, since January 1, 1998, in the total appraised value of all real property located in the Town Square TIRZ. The City has agreed to deposit in the Tax Increment Fund 100% of its tax collections arising from the increase in the total appraised value of the real and personal property located in the Town Square TIRZ.

The Town Square TIRZ Board of Directors has nine (9) members, six (6) of whom are appointed by the City. One board member is appointed by Fort Bend County, one is appointed by the Texas State Senator in whose district the Town Square TIRZ is located and the final board member is appointed by the Texas State Representative whose district includes the Town Square TIRZ. For Tax Year 2019, the incremental value attributable to the Town Square TIRZ is $194,340.231.

The City created Reinvestment Zone Number Three, City of Sugar Land, Texas (Imperial) (the "Imperial TIRZ") in 2007. The Board of Directors consists of five members. The City Council appoints four members and Fort Bend County appoints one member. The Imperial TIRZ expires December 31, 2042. For Tax Year 2019, the incremental value attributed to the Imperial TIRZ is $132,747,973. TIRZ 3 encompasses 746 acres east of state highway 6, north of US 90a, south of Voss Rd and west of Burney Rd. The area includes the former Imperial Sugar Company site, and is being developed as Imperial, a mixed use development with high-end residential, commercial and entertainment venues, including constellation field, a city-owned minor league baseball stadium.

The City created Reinvestment Zone Number Four ("TIRZ Four") in December 2009, covering approximately 702 acres near US Highway 59 and University Blvd. The purpose of TIRZ Four is to finance public improvements and facilities necessary to support the development of a high-quality mixed use urban center with retail, office and entertainment uses including Smart Financial Centre at Sugar Land, and an indoor performance venue. Fort Bend County, the Fort Bend County Drainage District, and Fort Bend County Municipal Utility District Nos. 138 and 139 have agreed to participate at varying levels. The Board of Directors of TIRZ Four consists of eight members, with four members appointed by the City, and one member appointed by each of the remaining taxing entities. TIRZ Four expires December 31, 2039. The incremental value attributable to TIRZ Four for Tax Year 2019 is $103,972,575.

The City has agreed to deposit in the Tax Increment Fund 50% of its tax collections arising from the increase in appraised value of real property located in the Imperial TIRZ and TIRZ Four.

As described above, tax revenues of the City generated from assessed value attributable to any of the Town Square TIRZ, Imperial TIRZ or TIRZ Four are deposited into the Tax Increment Fund and are not available to make debt service payments on the Bonds.

PUBLIC IMPROVEMENT DISTRICT

On August 19, 2014, the City of Sugar Land approved Resolution No. 14-32 authorizing the creation of the Enclave at RiverPark Public Improvement District (the "PID"). The PID was created to finance improvements to the Enclave at RiverPark subdivision, an approximately 54 acre single family residential development located along US59, adjacent to and accessed through the RiverPark subdivision. The City contributes 50% of property taxes collected within the district to the PID. Tax year 2019 taxable value in PID is $48,734,810.

TAX DATA

Valuation and Debt Information

2019 Market Valuation Established by Fort Bend Central Appraisal District [1]			$ 19,605,884,978
Less Exemptions/Reductions at 100% Market Value:			
Homestead CAP Adjustments	$ 31,943,675		
Tax Exempt Property	1,256,164,552		
Productivity Loss	10,192,830		
Homestead	1,261,123,181		
Over Age 65	582,951,545		
Disabled Persons	18,641,230		
Disabled Veterans	29,803,485		
Prorated Exempt Property	1,429,501		
Pollution Control	4,628,480		
House Bill 366	14,835		
Abatements	101,722,900		
Solar	406,220		
First Responder Surviving Spouse	166,010		
Leased Vehicles	123,616,210		3,422,804,654
2019 Taxable Assessed Valuation			$ 16,183,080,324
City Bond Debt Payable from Ad Valorem Taxes (as of September 30, 2019):			
General Obligation Debt Outstanding [2]	$ 298,606,402		
Assumed Utility District Debt Outstanding [2]	8,108,643		
The Bonds	21,650,000	[3]	
The Certificates	16,475,000	[3]	$ 344,840,045
Less: Assumed Utility Debt Paid from Utility Revenue [4]			98,868,643
Less: Debt Paid from Hotel Occupancy Taxes [4]			12,690,000
Less: Debt Paid from Airport Revenue [4]			11,245,000
Less: Interest and Sinking Fund (as of September 30, 2019) [5]			8,681,098
Net Bond Debt Payable from Ad Valorem Taxes			**$ 213,355,304**
Ratio of Net Bond Debt to 2019 Taxable Assessed Valuation			1.320%

Estimated 2020 Population - 118,118

Per Capita Taxable Assessed Valuation - $137,008

Per Capita Net General Obligation Funded Debt - $1,806

Area - 42.85 Square Miles

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(1) Source: Fort Bend Central Appraisal District.

(2) Excludes Refunded Bonds. Preliminary, subject to change; includes Self Supporting.

(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 Computation of Self-Supporting Debt Table. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(5) Preliminary information provided by City staff.

TAXABLE ASSESSED VALUATIONS BY CATEGORY

Fiscal Year Ended 9/30	Tax Year	Real Property	Personal Property	Less: Exemptions and Abatements	Total
2016	2015	$ 12,864,737,445	$ 1,637,959,277	$ 2,460,150,956	$ 12,042,545,766
2017	2016	13,598,332,324	1,563,714,089	2,542,235,576	12,619,810,837
2018	2017	14,047,459,751	1,610,202,524	2,624,979,897	13,032,682,378
2019	2018	17,577,019,725	1,627,665,611	3,092,670,774	16,112,014,562
2020	2019	17,835,815,432	1,770,069,546	3,422,804,654	16,183,080,324

NOTE: Valuations shown are certified taxable assessed values reported by the Fort Bend Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

ESTIMATED OVERLAPPING BOND DEBT PAYABLE FROM AD VALOREM TAXES

Expenditures of the various taxing entities within the territory of the City are 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.

	Total G.O. Debt as of 9-30-2019	Estimated % Applicable	City's Overlapping G.O. Debt as of 9-30-2019
City of Sugar Land	$ 316,321,815 (1)	100.00%	$ 316,321,815
Burney Road MUD	8,600,000	100.00%	8,600,000
First Colony MUD No. 10	12,870,000	100.00%	12,870,000
Fort Bend County (2)	59,539,527	21.88%	13,027,249
Fort Bend County LID No. 2	11,680,000	100.00%	11,680,000
Fort Bend County LID No. 10	12,745,000	100.00%	12,745,000
Fort Bend County LID No. 14	2,505,000	100.00%	2,505,000
Fort Bend County LID No. 17	55,145,000	100.00%	55,145,000
Fort Bend County MUD No. 116	24,950,000	33.00%	8,233,500
Fort Bend County MUD No. 136	4,060,000	100.00%	4,060,000
Fort Bend County MUD No. 137	27,545,000	100.00%	27,545,000
Fort Bend County MUD No. 138	38,945,000	100.00%	38,945,000
Fort Bend County MUD No. 139	12,930,000	100.00%	12,930,000
Fort Bend County WC&ID No. 2	103,545,000	47.00%	48,666,150
Fort Bend ISD	1,190,413,767	37.32%	444,262,418
Imperial Redevelopment District	29,435,000	100.00%	29,435,000
Total Direct and Overlapping Funded Debt			$ 1,046,971,131

(1) Includes the Obligations, excludes Refunded Bonds and self-supporting debt. Preliminary, subject to change.
(2) Does not include $108,268,000 Fort Bend County, Texas Unlimited Tax and Subordinate Lien Toll Road Revenue Refunding Bonds, Series 2012.

HISTORICAL TAX RATE AND COLLECTIONS

Fiscal Year Ended 9/30	Tax Rate [(1)]	Distribution General Fund	Distribution Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2016	$ 0.31595	$ 0.17035	$ 0.14560	$ 37,936,779	99.79%	99.89%
2017	0.31595	0.17035	0.14560	39,656,791	99.76%	99.83%
2018	0.31762	0.17921	0.13841	41,023,392	99.53%	99.53%
2019	0.31762	0.18131	0.13631	50,821,147	99.70% [(2)]	99.70% [(2)]
2020	0.33200	0.19705	0.13495	52,026,516	In Process of Collection	

Source: The City of Sugar Land.
(1) Per $100 assessed valuation.
(2) Preliminary information provided by City staff.

MUNICIPAL SALES TAX AND HOTEL OCCUPANCY TAX

Pursuant to the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, the City has adopted a 1% Local Sales and Use Tax and 1/2% sales and use tax for property tax reduction within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, which remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. A sales tax for economic development (1/4 of 1%) is collected for the benefit of each of the Sugar Land Development Corporation and the Sugar Land 4B Corporation (the "Corporations"), and may be pledged to secure payment of sales tax revenue bonds issued by the Corporations. As of September 30, 2018, the Corporations have an aggregate of $77,160,000 in outstanding sales tax revenue bonds. Moreover, pursuant to Chapter 351, Texas Tax Code, the City, by ordinance, has levied a Hotel Occupancy Tax within its corporate limits. The Hotel Occupancy Tax is collected by the City on a quarterly basis. See "OTHER OBLIGATIONS – OBLIGATIONS TO STATE – REFUND OF SALES TAX."

All collections shown below are reported on a cash basis.

Fiscal Year Ended 9-30	General Sales	Economic Development [(1)]	Hotel Occupancy	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2015	$ 38,549,980	$ 12,872,803	$ 2,499,147	$ 53,921,930	155.37%	$ 0.491
2016	39,275,872	13,091,994	2,328,186	54,696,052	144.18%	0.456
2017	35,854,283	11,880,017	2,374,566	50,108,866	126.36%	0.399
2018	40,120,678	13,373,559	2,707,936	56,202,173	137.00%	0.435
2019 [(2)]	40,740,653	13,584,421	2,377,083	56,702,157	111.57%	0.354

Source: The City of Sugar Land.
(1) Represents sales tax collections for the Sugar Land Development Corporation and the Sugar Land 4B Corporation.
(2) Preliminary information provided by City staff.

TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2019 Net Assessed Valuation	% of Total Net Assessed Valuation
LCFRE Sugar Land Town Square LLC	Mixed-Use Development	$ 129,882,616	0.80%
Schlumberger Tech Corp	Energy Technology	116,419,590	0.72%
Tramontina USA Inc	Manufacturing	90,430,340	0.56%
AmerisourceBergen Durg Corporation	Pharmacy/Medical	90,118,080	0.56%
Lakepointe Assets LLC	Real Estate/Engineering	90,000,000	0.56%
First Colony Mall LLC	Shopping Center	87,966,537	0.54%
Market Town Center Owner LLC	Shopping Center	66,359,542	0.41%
Sugar Creek/EPG LLC & Sugar Land TIC Investors LLC	Real Estate	65,960,920	0.41%
API Realty LLC	Real Estate	64,699,570	0.40%
Houston Sugar Creek LLC	Energy Services	58,000,004	0.36%
		$ 859,837,199	5.31%

General Obligation Debt Requirements

No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE OBLIGATIONS – Tax Rate Limitation").

Fiscal Year Ended 9/30	Outstanding Debt Service [1] Principal	Outstanding Debt Service [1] Interest	Outstanding Debt Service [1] Total	The Bonds [2] Principal	The Bonds [2] Interest	The Bonds [2] Total	The Certificates [2] Principal	The Certificates [2] Interest	The Certificates [2] Total	Total Outstanding Debt	Less: Self-Supporting Airport Debt Service	Less: Self-Supporting Hotel/Motel Debt Service	Less: Self-Supporting Utility Debt Service [3]	Total Debt Service Requirements	% of Principal Retired
2020	$ 20,615,406	$ 11,598,597	$ 32,214,002	$ 2,165,000	$ 665,982	$ 2,830,982	$ -	$ 455,468	$ 455,468	$ 35,500,453	$ 1,304,143	$ 1,350,238	$ 9,917,251	$ 22,928,822	
2021	20,145,996	10,769,256	30,915,252	3,345,000	764,725	4,109,725	580,000	590,550	1,170,550	36,195,527	1,386,029	1,341,100	9,590,108	23,878,290	
2022	19,255,000	10,000,221	29,255,221	1,955,000	632,225	2,587,225	605,000	560,925	1,165,925	33,008,371	1,380,966	1,338,769	8,157,279	22,131,357	
2023	19,425,000	9,202,015	28,627,015	2,045,000	532,225	2,577,225	640,000	529,800	1,169,800	32,374,040	1,374,298	1,339,638	8,176,096	21,484,009	
2024	19,700,000	8,357,303	28,057,303	1,580,000	441,600	2,021,600	670,000	497,050	1,167,050	31,245,953	1,367,323	1,338,225	8,068,394	20,472,011	33.48%
2025	18,475,000	7,524,659	25,999,659	1,355,000	368,225	1,723,225	705,000	462,675	1,167,675	28,890,559	1,358,498	1,344,281	7,858,831	18,328,949	
2026	14,645,000	6,757,212	21,402,212	1,990,000	284,600	2,274,600	740,000	426,550	1,166,550	24,843,362	759,726	1,008,025	6,529,419	16,546,193	
2027	14,000,000	6,129,171	20,129,171	450,000	223,600	673,600	780,000	388,550	1,168,550	21,971,321	761,188	652,356	5,606,844	14,950,933	
2028	14,285,000	5,524,960	19,809,960	470,000	200,600	670,600	820,000	348,550	1,168,550	21,649,110	761,735	642,931	5,595,269	14,649,175	
2029	13,535,000	4,947,120	18,482,120	490,000	181,500	671,500	850,000	315,300	1,165,300	20,318,920	440,538	642,719	5,595,519	13,640,144	58.30%
2030	12,990,000	4,405,455	17,395,455	505,000	166,575	671,575	880,000	289,350	1,169,350	19,236,380	423,323	636,588	5,592,019	12,584,451	
2031	11,360,000	3,914,139	15,274,139	520,000	151,200	671,200	905,000	262,575	1,167,575	17,112,914	416,593	629,669	5,584,994	10,481,659	
2032	11,650,000	3,470,406	15,120,406	535,000	135,375	670,375	930,000	235,050	1,165,050	16,955,831	420,094	626,831	5,593,394	10,315,512	
2033	11,915,000	3,045,115	14,960,115	555,000	119,025	674,025	960,000	206,700	1,166,700	16,800,840	408,878	622,675	5,598,269	10,171,018	
2034	10,935,000	2,638,684	13,573,684	570,000	102,150	672,150	990,000	177,450	1,167,450	15,413,284	378,069	625,600	5,591,669	8,817,946	77.96%
2035	11,145,000	2,244,634	13,389,634	585,000	84,825	669,825	1,020,000	147,300	1,167,300	15,226,759	382,503	621,100	5,593,394	8,629,762	
2036	9,390,000	1,870,124	11,260,124	605,000	66,975	671,975	1,050,000	116,250	1,166,250	13,098,349	263,344	630,700	5,593,069	6,611,236	
2037	8,210,000	1,536,203	9,746,203	625,000	48,525	673,525	1,085,000	84,225	1,169,225	11,588,953	265,666	634,200	5,487,019	5,202,069	
2038	7,385,000	1,229,743	8,614,743	645,000	29,475	674,475	1,115,000	51,225	1,166,225	10,455,443	115,100	641,600	5,494,819	4,203,924	
2039	7,630,000	951,645	8,581,645	660,000	9,900	669,900	1,150,000	17,250	1,167,250	10,418,795	116,725	647,800	5,492,344	4,161,926	93.49%
2040	7,025,000	701,966	7,726,966	-	-	-	-	-	-	7,726,966		652,800	5,496,016	1,578,150	
2041	6,600,000	472,586	7,072,586	-	-	-	-	-	-	7,072,586	-	-	5,494,531	1,578,055	
2042	1,240,000	335,810	1,575,810	-	-	-	-	-	-	1,575,810	-	-	-	1,575,810	
2043	1,295,000	281,308	1,576,308	-	-	-	-	-	-	1,576,308	-	-	-	1,576,308	
2044	1,350,000	224,440	1,574,440	-	-	-	-	-	-	1,574,440	-	-	-	1,574,440	98.69%
2045	1,405,000	165,208	1,570,208	-	-	-	-	-	-	1,570,208	-	-	-	1,570,208	
2046	1,465,000	102,038	1,567,038	-	-	-	-	-	-	1,567,038	-	-	-	1,567,038	
2047	1,535,000	34,538	1,569,538	-	-	-	-	-	-	1,569,538	-	-	-	1,569,538	100.00%
	$ 298,606,402	$ 108,434,551	$ 407,040,953	$ 21,650,000	$ 5,209,307	$ 26,859,308	$ 16,475,000	$ 6,162,793	$ 22,637,794	$ 456,538,055	$ 14,084,735	$ 17,967,844	$ 141,706,544	$ 282,778,932	

(1) Excluded the Refunded Bonds, includes self-supporting debt. 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.

INTEREST AND SINKING FUND BUDGET PROJECTIONS

Budgeted General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/2020		$ 27,839,509
Budgeted Interest and Sinking Fund (as of 9/30/2019)	$ 8,681,098 [(1)]	
Budgeted Interest and Sinking Fund Tax Levy	21,135,527	
Budgeted Transfer of Remaining Annexation Fund Balances	-	
Budgeted Rebates, Assignments & Transfers	(1,780,336)	
Budgeted Smart Financial Centre at Sugar Land Lease Revenue [(2)]	2,004,811	
Budgeted Transfer from Hotel Occupancy Taxes	1,352,726	
Budgeted Transfer from Waterworks and Wastewater Utility Fund	5,909,317	37,303,143
Budgeted Estimated Balance, 9/30/2020		$ 9,463,634 [(3)]

(1) The balance shown does not include $300,187 of reserved fund balance attributed to the Series 2014A.
(2) The City budgets to pay 100% of the Combination Tax and Revenue Certificates of Obligation, Series 2014A (Taxable) from lease payments from ACE SL, LLC pursuant to the facility lease for the Smart Financial Centre at Sugar Land.
(3) Does not include projected $701,149 of reserved fund balance attributed to the Series 2014A Certificates.

COMPUTATION OF SELF-SUPPORTING DEBT [(1)]

Waterworks and Sewer System Self-Supporting Debt	
Revenue Available for Debt Service from Waterworks and Sewer System, Fiscal Year Ended 9-30-18	$ 21,875,595
Less: Revenue Bonds Requirements, 2019 Fiscal Year	10,583,023
Balance Available for Other Purposes	$ 11,292,572
System General Obligation Bond Requirements, 2019 Fiscal Year	10,129,568
Balance	$ 1,163,004
Percentage of System General Obligation Bonds, Self-Supporting	100.00%
Hotel/Motel Tax Self-Supporting Debt	
Available for Debt Service from Hotel/Motel Taxes, Fiscal Year Ended 9-30-18	$ 1,950,835
Hotel/Motel Tax General Obligation Bond Requirements, 2019 Fiscal Year	1,350,238
Balance	$ 600,598
Percentage of System General Obligation Bonds, Self-Supporting	100.00%
Airport System Self-Supporting Debt	
Available for Debt Service from Airport System Revenue, Fiscal Year Ended 9-30-18	$ 2,124,176
Airport System General Obligation Bond Requirements, 2019 Fiscal Year	1,304,256
Balance	$ 819,920
Percentage of System General Obligation Bonds, Self-Supporting	100.00%

(1) It is the City's current policy to provide these payments from the respective revenue sources shown above; this policy is subject to change in the future.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

Date of Authorization	Amount Authorized	Purpose	Issued to Date	This Issue	Authorized but Unissued
11/5/2013	$ 21,300,000	Brazos River Park & Festival Site	$ 17,900,000	$ 3,400,000	$ -
11/5/2013	10,160,000	Hike and Bike Trails	3,300,000	6,860,000	-
	$ 31,460,000		$ 21,200,000	$ 10,260,000	$ -

Bond Election – Scheduled for November 5, 2019

The City has called a General Obligation bond election for November 5, 2019, four (4) propositions totaling $90,760,000 are placed on the ballot for consideration by voters. If approved, the bonds are not anticipated to be issued within the next twelve (12) months.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT

The City does not anticipates the issuance of additional general obligation debt in the next twelve (12) months.

OTHER OBLIGATIONS

OBLIGATIONS TO STATE – REFUND OF SALES TAX

During the 1999 fiscal year, the Texas State Comptroller of Public Accounts notified the City of Sugar Land, the Sugar Land Development Corporation and the Sugar Land 4B Corporation that the State had remitted $591,620 in sales tax receipts to the City, which were not collected within the City. The State requested the amount to be returned to the State. The City had allocated the sales tax to the Corporations in accordance with the proper sales tax rates. The City settled with the State to repay the State in annual installments of $19,721 starting October 1, 1999, over a 30-year period without interest.

During fiscal year 2017, the State Comptroller notified the City that it had paid $725,100.54 in local sales taxes to the City in error. The payment was initially withheld from the January 2017 payment, added back to the February 2017 payment and the State agreed to deduct 32 payments of $21,973.00 from March 2017 to October 2019 followed by a final deduction of $21,964.54 in November 2019.

PENSION FUND

The City provides pension benefits for all of its full-time employees through a non-traditional, joint contributory, hybrid defined benefits plan in the state-wide Texas Municipal Retirement System ("TMRS"). The City makes monthly 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 OF SUGAR LAND, TEXAS COMPREHENSIVE ANNUAL FINANCIAL REPORT" – Note # 9.)

OTHER POST-EMPLOYMENT BENEFITS

In addition to providing pension benefits through the TMRS, the City has opted to provide eligible retired employees with the following post-employment benefits:

- Eligible retirees may purchase health insurance from the City's healthcare provider at the City's cost to cover current employees.
- Eligible retirees may purchase health insurance for dependents from the City's healthcare provider at the City's cost to cover current dependents of employees if the dependents were covered by City insurance when the employee retired.

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 received for the fiscal year ending September 30, 2019 is $81,956. The appropriation for the fiscal year ending September 30, 2020 is $103,748. At September 30, 2019, there were 226 retirees, 12 of whom participated in the retiree health care coverage. (For more detailed information concerning the retiree health care plan, see APPENDIX B, "EXCERPTS FROM THE CITY OF SUGAR LAND, TEXAS ANNUAL FINANCIAL REPORT" – Note # 9.)

FINANCIAL INFORMATION

GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ended September 30,				
Revenues:	2018	2017	2016	2015	2014
Property Taxes	$ 22,659,218	$ 21,127,721	$ 20,186,224	$ 18,433,233	$ 17,616,800
Sales Taxes	40,120,678	35,854,284	39,275,872	38,549,980	36,864,046
Franchise & Other Taxes	6,351,623	6,160,773	5,902,848	5,899,673	5,867,489
Licenses & Permits	3,392,020	3,052,646	3,242,529	3,494,806	3,033,205
Fines and Forfeitures	1,724,783	1,550,428	1,801,011	1,874,655	1,891,729
Charges for Services	9,572,254	11,167,633	10,927,714	8,654,100	3,222,666
Interest Earnings	351,270	332,383	486,495	468,598	184,450
Intergovernmental	631,101	657,843	233,980	765,667	819,737
Other	771,951	423,946	463,404	375,475	409,621
Total Revenues	$ 85,574,898	$ 80,327,657	$ 82,520,077	$ 78,516,187	$ 69,909,743
Expenditures:					
General Government	$ 16,286,471	$ 15,339,082	$ 14,598,370	$ 11,484,567	$ 11,193,575
Administrative Services	4,325,775	4,032,334	5,240,088	7,465,770	6,032,405
Public Safety - Police	23,929,656	23,471,122	21,035,289	19,789,824	17,408,143
Public Safety - Fire	13,767,947	12,947,595	12,992,037	14,607,687	10,882,105
Public Safety - EMS	2,014,075	1,711,485	1,591,873	2,935,585	-
Public Works	10,747,689	9,510,418	8,441,979	11,770,859	9,444,192
Parks and Recreation	4,718,182	4,911,262	4,288,928	3,827,743	5,548,147
Community Development	5,269,134	5,163,724	5,155,978	5,583,223	4,917,761
Environmental and Neighborhood Services	5,143,190	5,099,366	4,892,216	-	-
Debt Service	-	-	-	-	365,050
Total Operating Expenditures	$ 86,202,119	$ 82,186,388	$ 78,236,758	$ 77,465,258	$ 65,791,378
Net Revenue From Operations	$ (627,221)	$ (1,858,731)	$ 4,283,319	$ 1,050,929	$ 4,118,365
Operating Transfers (In/Out)	$ 6,559,088	$ 2,305,557	$ (4,572,491)	$ (4,085,008)	$ (2,572,306)
Other Financing Sources (Uses)	36,569	107,275	36,987	3,564,099	54,949
Net Change in fund balance	5,968,436	554,101	(252,185)	530,020	1,601,008
Fund Balance, October 1	$ 29,096,448	$ 28,542,347	$ 28,794,532	$ 28,264,512	$ 26,663,504
Prior Period Adjustments	-	-	-	-	-
Fund Balance, End of Year	$ 35,064,884	$ 29,096,448	$ 28,542,347	$ 28,794,532	$ 28,264,512

FINANCIAL ACCOUNTING

The accounts of the City are organized on the basis of funds, each of which constitutes a separate entity for accounting purposes. The Statement of Net Assets and the Statement of Activities are the government-wide statements and report information about the City as a whole. The most significant area of the fund accounting basis is the General Fund, which accounts for all revenues and expenditures of the City not accounted for in the various enterprise funds or the other funds maintained by the City. Other than ad valorem taxes, the primary sources of General Fund revenue include sales and use taxes, franchise fees, and miscellaneous sources, such as fines, penalties, licenses, fees, interest income from investments and other taxes. The Enterprise Funds consist of the Water and Wastewater Fund, the Surface Water Fund, the Airport Fund, and the Solid Waste Fund (collectively, the "Enterprise Funds"). The GASB 34 entity-wide statements reflect full accrual. For a description of the accrual methods and the reporting entity definition, see Note 1 of the notes to the Financial Statements in APPENDIX B.

Other funds maintained by the City are the following: (i) the Special Revenue Funds, including expendable trust funds; (ii) the Internal Service Funds; (iii) the Debt Service Fund; and (iv) the Capital Projects Funds.

BUDGETING

Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds using the same basis of accounting as for financial reporting. Unencumbered appropriations lapse at the end of the fiscal year.

Expenditures may not legally exceed budgeted appropriations at the department level. Expenditure requests which would require an increase in total budgeted appropriations must be approved by City Council through a formal budget amendment. At any time in the fiscal year, the City Council may make emergency appropriations to meet a pressing need for public expenditure in order to protect the public health, safety, or welfare. The City Council has the power to transfer any unencumbered funds allocated by the budget to one activity, function, or department, to another activity, function, or department, to re-estimate revenues and expenditures, and to amend the budget.

Management has the power to transfer available funds allocated by the budget from one function or activity to another function or activity within the same department.

In cooperation with the department heads of the City and the Budget Office, the City Manager prepares an annual budget for all funds for the ensuing fiscal year, in a form and system deemed desirable by the City Manager. The City Manager submits to the Council, for its review, consideration and revision, both a letter describing the proposed new budget, as well as a balanced budget for the forthcoming fiscal year, not later than sixty (60) days prior to the end of the current fiscal year. The budget, as adopted, must set forth the appropriations for services, functions and activities of the various City departments and agencies, and shall meet all fund requirements provided by law and required by bond covenants.

INVESTMENTS

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

LEGAL INVESTMENTS

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas 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 is guaranteed or insured by or backed by the full faith and credit of, the State of Texas 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) certificates of deposit (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (iii) 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; (iv) 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 (v) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (8) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the 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; (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of ninety (90) days or less and include in their investment objectives the maintenance of a stable net asset value of $1 for each share; and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two (2) years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the Public Funds Investment Act, Texas Government Code, Chapter 2256.

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 (6) 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 (6) above, clauses (10) through (12) 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. 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 (2) 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 ten (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 include a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Public Funds Investment Act. 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, the City's 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 City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending value and fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the end of the reporting period by the type of asset and fund type invested, (5) the maturity date of each separately invested asset that has a maturity date, (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 strategies and (b) Texas law. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS

Under Texas 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 entity 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 ninety (90) days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

CURRENT INVESTMENTS

As of August 31, 2019, the City's investable funds were invested in the following categories:

	Par Value	Book Value	Market Value
Cash/ Sweep	$ 61,180,122	$ 61,180,122	$ 61,180,122
TexPool	4,176,461	4,176,461	4,176,461
TexStar	44,138,133	44,138,133	44,138,133
CD's	6,696,000	6,696,000	6,750,503
Agencies	72,000,000	71,997,822	72,226,511
	$ 188,190,716	$ 188,188,538	$ 188,471,730

TexPool is a local government investment pool under the control of the Texas Comptroller of Public Accounts. Investment management and customer service are outsourced by the Comptroller. The pool's investment objectives include achieving a stable net asset value of $1.00 per share. Daily investment or redemption of funds is allowed by the participants.

TexSTAR is a local government investment pool for whom First Southwest Asset Management, Inc., an affiliate of First Southwest Company, LLC, provides customer service and marketing for the pool. TexSTAR currently maintains an "AAAm" rating from Standard & Poor’s and has an investment objective of achieving and maintaining a stable net asset value of $1.00 per share. Daily investments or redemptions of funds is allowed by the participants.

THE MUNICIPAL AIRPORT SYSTEM

GENERAL

The City owns and operates the Sugar Land Municipal Airport (the "Airport"), which provides general aviation services seven (7) days a week. Airport facilities include an 8,000 foot runway, a control tower, various hangars and a terminal. Services provided include aircraft fueling, defueling, tugging, U.S. Customs and parking. The primary sources of revenues are fuel sales, hangar leases and land leases.

As of September 30, 2019, the City has outstanding $3,255,000 of the $7,115,000 General Obligation Refunding Bonds, Series 2012A (the "Series 2012A Bonds"), $530,000 of the $21,205,000 Combination Tax and Revenue Certificates of Obligation, Series 2013 (the "Series 2013 Certificates"), $1,430,000 of the $15,530,000 Combination Tax and Revenue Certificates of Obligation, Series 2015 (the "Series 2015 Certificates"), $2,240,000 of the $11,890,000 General Obligation Refunding Bonds, Series 2015 (the "Series 2015 Refunding Bonds"), $200,000 of the $22,970,000 General Obligation Refunding Bonds, Series 2016 (the "Series 2016 Refunding Bonds") and $1,925,000 of the $21,115,000 Combination Tax and Revenue Certificates of Obligations, Series 2017 (the "Series 2017 Certificates") (collectively, the "Airport Obligations"). Although the Airport Obligations are payable from ad valorem taxes, the City has historically paid them from net revenues derived from the operation of the Airport and intends to continue to do so. Debt service on the Airport Obligations (excluding the portions of the Series 2009 Certificates, the Series 2012A Bonds, the Series 2013 Certificates, the Series 2015 Certificates, the Series 2015 Refunding Bonds, the Series 2016 Refunding Bonds and the Series 2017 Certificates that are not airport related and are paid from ad valorem tax revenues) is accounted for in the City's Airport Enterprise Fund and not in the General Long-Term Debt Account Group. Property taxes received from Airport property are used for development of the Airport. Should Airport revenues be insufficient in any year to pay principal and interest on the Airport Obligations, the City would be required to levy a tax sufficient, together with other available funds, to pay principal and interest on such obligations.

AIRPORT SYSTEM OPERATING STATEMENT

	Fiscal Year Ended September 30,				
Revenues:	2018	2017	2016	2015	2014
Charges for Service	$ 15,449,972	$ 13,543,538	$ 11,830,391	$ 13,747,794	$ 16,939,277
Non-Operating Revenues	315,680	80,746	111,555	84,333	58,667
Total Revenues	$ 15,765,652	$ 13,624,284	$ 11,941,946	$ 13,832,127	$ 16,997,944
Expenses:					
Total Expenses	$ 13,641,476	$ 11,661,097	$ 9,844,254	$ 11,605,184	$ 14,005,337
Net Revenue Available for Debt Service	$ 2,124,176	$ 1,963,187	$ 2,097,692	$ 2,226,943	$ 2,992,607
Debt Service Requirements	$ 1,258,623	$ 1,262,514	$ 1,143,585	$ 1,120,213	$ 1,031,640
Coverage	1.69x	1.55x	1.83x	1.99x	2.90x

WATERWORKS AND SEWER SYSTEM

GENERAL

The City owns and operates its water supply, storage, and distribution facilities and provides services to approximately 40,000 customers. Wastewater treatment is provided by the Sugar Land Regional Sewerage System Plant and the South Wastewater Treatment Plant (currently operated under contract by the Brazos River Authority). With the annexation of Greatwood and New Territory in December 2017, the City took ownership and operations of the Greatwood and New Territory water and wastewater systems. The City contracted with Si Environmental to operate the Greatwood and New Territory plants from the date of annexation (December 12, 2017) through September 30, 2018. Total daily treatment capacity at the four plants is 17.35 million gallons, and average daily treatment for the year ended September 30, 2018 is 10.75 million gallons.

The City's total water system consists of 576 miles of water mains serving 40,009 distribution connections as of September 30, 2018. The City's water is supplied by 23 groundwater wells and a surface water treatment plant to meet annual water demands of 7.14 billion gallons. Storage capacity is 19.7 million gallons in ground storage tanks and 6.2 million gallons in elevated storage tanks.

For fiscal year ending September 30, 2018, the system had average daily production of 20.1 million gallons and a maximum daily production capacity of 36.219 million gallons.

The City has entered into a contract with the Brazos River Authority (the "BRA") to operate all four wastewater treatment plants beginning October 1, 2018. The annual payments to the BRA and Si Environmental have been recorded in the City Water and Wastewater Fund as operating expenses. Payments during the year ended September 30, 2018 to the BRA amounted to $1.92 million and to Si Environmental totaled $0.45 million. Total payments during the year ended September 30, 2019 are expected to be $3.29 million (including plant rehabilitation).

As of September 30, 2019, the City has outstanding $15,870,000 Waterworks and Sewer System Revenue Bonds, Series 2012, $4,070,000 Waterworks and Sewer System Revenue Refunding Bonds, Series 2012A, $11,960,000 Waterworks and Sewer System

Revenue Bonds, Series 2013, $12,920,000 Waterworks and Sewer System Revenue and Refunding Bonds, Series 2015, $29,145,000 Waterworks and Sewer System Revenue and Refunding Bonds, Series 2016, and $18,470,000 Waterworks and Sewer System Revenue Bonds Series 2017 and $13,260000 Waterworks Revenue Bonds, Series 2019 (the "System Parity Bonds").

GROUNDWATER REDUCTION PLAN AND SURFACE WATER FEES

To meet the Fort Bend Subsidence District ("FBSD") regulations, the City approved a Groundwater Reduction Plan ("GRP") that outlines the City's planned strategies for meeting the mandated conversion to non-groundwater sources. Under the FBSD regulations, 30% of the City's total water demand must be supplied by sources other than groundwater by 2014 and 60% of the City's water demand must be supplied by sources other than groundwater by 2025. The City constructed a surface water treatment plant ("SWTP") adjacent to Oyster Creek and Gannoway Lake along with other associated projects to implement the phased conversion from groundwater to surface water. A series of projects have been implemented since 2008. The SWTP was constructed for an initial production capacity of 9.0 million gallons per day (MGD) (Phase I), with capability for future expansion to 22.0 MGD (Phase II). The SWTP began delivering water to City customers on November 4, 2013, and the City is currently meeting the 2014 conversion requirements. In order to meet the 2025 conversion requirements, the City will consider options including the expansion of the SWTP and water reuse among other options.

The City has established a Surface Water Enterprise Fund to account for expenses associated with the groundwater reduction efforts. Revenue from groundwater reduction fees paid by utility customers of the City are deposited into this fund from all GRP participants, including City utility customers. The GRP fee is currently $1.88 per 1,000 gallons pumped. The GRP fee combined with water and sewer user fees will be increased in amounts estimated to be sufficient to pay the debt service on the City's System Parity Bonds, the "), a portion of the City's Combination Tax and Revenue Certificates of Obligation, Series 2016 (the "Series 2016 Certificates and together with the "Surface Water Enterprise Obligations") and the portion of assumed municipal utility district debt that is allocated to the waterworks and wastewater enterprise system. The Surface Water Enterprise Obligations are secured by a pledge of both ad valorem taxes and a subordinate pledge of net revenues of the City's waterworks and sewer system; however, it is the intention and practice of the City to pay for the Surface Water Enterprise Obligations from such net revenues. Should there be a shortfall in available net revenues, the System Parity Bonds will be paid prior to the Surface Water Enterprise Obligations from net revenues. The City would then be required to levy taxes sufficient with other available funds to pay principal and interest on the Surface Water Enterprise Obligations, but taxes are levied annually in September of each year and become delinquent by February 1, so that the City would need to anticipate the shortfall in order to timely levy taxes. The surface water fund has a general purpose reserve equal to 50% of budgeted expenditures to account for the delay in revenues from increased GRP fee or taxes levied to support the bonds. In the past, the City has paid other outstanding certificates of obligation secured by pledges of ad valorem taxes and a subordinate pledge of the City's waterworks and sewer system primarily from ad valorem taxes.

SYSTEM DEBT SERVICE COVERAGE AND FUND BALANCES

	Fiscal Year Ended September 30				
	2018	2017	2016	2015	2014
Total Operating Revenues	$ 48,262,319	$ 43,070,201	$ 46,750,764	$ 43,600,505	$ 44,461,529
Total Operating Expenses	19,930,282	22,826,764	21,687,088	21,169,904	18,722,110
Amount Available for Revenue Debt Service	$ 28,332,037	$ 20,243,437	$ 25,063,676	$ 22,430,601	$ 25,739,419
Annual Revenue Bond Debt Service	$ 10,583,023 (1)	$ 10,707,194	$ 9,594,044	$ 8,881,591	$ 8,566,394
Net Revenue Coverage	2.68x	1.89x	2.61x	2.53x	3.00x
Surplus Available Funds	$ 17,749,014	$ 9,536,243	$ 15,469,632	$ 13,549,010	$ 17,173,025

THE CITY

GOVERNMENTAL STRUCTURE

The City was incorporated in 1959 and adopted its Charter in November 1980. The City operates under a council-manager form of government. The City Council consists of a Mayor and six council members, all of whom are elected for two year terms. The Mayor and two Council members are elected in even numbered years and four Council members are elected in odd numbered years. The Mayor and two Council members are elected at large, and the remaining four are elected by the City.

The Mayor presides at City Council meetings and is entitled to vote on all matters considered by City Council. Powers of the City are vested in the City Council and include appointment of the City Manager, boards and commissions, adoption of the budget, authorization of bond issues, and adoption of ordinances and resolutions as deemed necessary, desirable and beneficial to the City. The City Manager is responsible for administrative and day to day operations of the City.

LOCATION OF THE CITY

The City is located in Fort Bend County and encompasses approximately 42.85 square miles.

SERVICES PROVIDED BY THE CITY

The City provides water, sanitary sewer, airport, and park services. Additionally, it provides local law enforcement, fire protection, solid waste disposal, and building inspection; maintains its storm drainage facilities, bridges and streets; and operates community recreation facilities.

The City does not operate hospitals, a school system, transit services or a higher education system and does not spend City funds in providing welfare. Public schools within the boundaries of the City are administered by school districts with independent taxing authority.

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 (4) days. The City is located approximately 53 miles from the Texas Gulf Coast and along the Brazos River. Land located in this area is susceptible to high winds and heavy rain caused by hurricanes, tropical storms and other tropical disturbances. The properties on the south side of the City adjacent to the River and near the flood plain are susceptible to flooding from the Brazos River when it reaches major flood stage. Most properties in the City are protected from flooding from the Brazos River by levees, which are operated and maintained by various Levee Improvement Districts (LIDs). The City of Sugar Land has no authority or responsibility to operate, maintain or regulate the LIDs.

According to the City, the City did not sustain any significant damage and there was no interruption of water and sewer service. Further, according to the City, the only flood damage that occurred was from rainfall that occurred once the LIDs closed their outfall structures to the Brazos River after it reached flood stage, with fewer than 250 homes and fewer than 10 commercial properties within the City that experienced flooding or other significant damage. The City requested reappraisal of flood damaged properties from the Fort Bend Central Appraisal District and anticipates a minimal loss of tax revenue from the reappraisal. The City incurred overtime expenses of approximately $1.1 million. There was minor damage to City facilities. Damages to City facilities include water damage to some buildings and utility systems, roadway damages from erosion and damage to irrigation systems in city rights of way and parks. Total expenditures due to the storm were approximately $1.5 million (including personnel cost and debris removal). Reimbursement is expected from FEMA on a large portion of this amount.

Hurricane Harvey could have an adverse impact on the Houston region's economy, including an impact on business activity and development in the region. However, the City predicts that Hurricane Harvey will not have a negative impact on the assessed value of homes and commercial improvements within the City and very little impact on the new home and retail development within the City.

PERIODIC FLOODING

The City of Sugar Land is located in the Texas Gulf Coastal plains. The City has a relatively flat topography and a humid subtropical climate. Two potential flooding sources are located within the City limits. The Brazos River is located to the South of the City, while Oyster Creek crosses the City from northwest to southeast on the north side of Highway 6.

Within the City limits, there are nine (9) LIDs, which own and operate several important drainage channels and detention ponds. The LIDs also own and operate the levees and pump stations that protect the southern section of the City from flooding mainly from the Brazos River. The North section of the City is not protected by levees, but the majority of the neighborhoods are outside the special flood hazard areas.

Due to its location, the City is affected by rain events, tropical storms and hurricanes, such as Hurricane Harvey. Certain areas of the City are subject to periodic flooding as a result of severe storm events. Some neighborhoods within the City have experienced severe street ponding during severe tropical storms.

The City of Sugar Land participates in the National Flood Insurance Program administered by the Federal Emergency Management Agency ("FEMA"). Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood-prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to property owners located in the participating communities.

Given the increased development and urbanization within Fort Bend County and the City of Sugar Land, FEMA periodically updates and revises its maps designating the areas of the County that are subject to special flood hazards. Areas of the City protected by levees are considered to be outside the flood-prone area.

MUNICIPAL UTILITY DISTRICTS WITHIN THE CITY

The City has entered into utility agreements with six municipal utility districts which are within the City's boundaries: Burney Road Municipal Utility District, Fort Bend County Municipal Utility District Nos. 136, 137, 138 and 139 in Telfair and Fort Bend Municipal Utility District No. 10 in Lake Pointe. Pursuant to the agreements, the districts are to acquire and construct water, sanitary sewer, and drainage facilities to serve the area within the districts and may issue bonds to finance such facilities. Such agreements provide the following:

(1) As water, sanitary sewer, and drainage facilities are acquired and constructed, the districts will transfer the facilities to the City, reserving a security interest therein for the purpose of securing performance of the City under the agreements. At such time as the bonds of the districts are discharged, the districts will release the security interest and the City will own the improvements.

(2) The water and wastewater rates charged by the City will be equal and uniform to those charged other similar users within the City, with all revenues belonging exclusively to the City.

(3) The City has agreed to pay the districts a tax rebate of the ad valorem taxes collected on land and improvements within the districts. The rebates for the year ended September 30, 2019 were $3,589,503. Estimated payments for the period ending September 30, 2020 budget are $4,218,962.

The City has entered into agreements with various municipal utility districts, Fort Bend County and the City's extraterritorial jurisdiction to provide fire services within the developments of Greatwood, Tara, New Territory, and Riverstone subdivisions. The districts pay a fee for these services. In addition, Fort Bend County reimburses the City for calls made into the unincorporated areas of the county. The City estimated to have received $1,057,068 from the participating municipal utility districts and Fort Bend County in the year ending September 30, 2019 in connection with these agreements.

ANNEXATION POLICY

The City has expanded its geographic boundaries and its tax base through the annexation of contiguous unincorporated areas within the extraterritorial jurisdiction of the City. Upon annexation of a utility district by the City, Texas law generally requires that the City (1) take over all properties and assets of the district, (2) assume all debts, liabilities and obligations of the district, and (3) perform all functions and services of the district. When the City assumes district bonds or other obligations payable in whole or in part from ad valorem taxes, Texas law requires the City to levy and collect ad valorem taxes on all taxable property within the City in amounts sufficient to pay the principal of and interest on such assumed bonds and obligations. Under existing law, neither the annexation of districts nor the assumption of their outstanding bonds or other obligations requires voter authorization.

The City has adopted an annexation policy to consider general issues which may impact the City prior to the annexation of any area. The annexation policy requires a detailed financial analysis to be prepared for review by the City Council. Public information is provided to both the citizens of the City as well as the citizens of the areas proposed for annexation, and opportunity is provided for public input. The City's annexation plan must adhere to the overall goals of the City and must maintain the quality of life in the annexed areas as well as the City.

The city annexed and dissolved nine municipal utility districts in the City's extraterritorial jurisdiction, effective at 12:01 am on December 12, 2017. The city assumed all assets and liabilities of the districts and began providing full city services.

TAX MATTERS

TAX EXEMPTION

Delivery of the Bonds is subject to the opinion of Hunton Andrews Kurth LLP, Houston, Texas, Bond Counsel, that interest on the Obligations (1) is excludable from gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986, (the "Code"), (2) and is not an item of tax preference for purposes of the federal minimum tax.

The foregoing opinions of Bond Counsel are based on the Code and the regulations, rulings and court decisions thereunder in existence on the date of issue of the Obligations. Such authorities are subject to change and any such change could prospectively or retroactively result in the inclusion of the interest on the Obligations in gross income of the owners thereof or change the treatment of such interest for purposes of computing alternative minimum taxable income.

In rendering its opinions, Bond Counsel has assumed continuing compliance by the City with certain covenants contained in Ordinances and has relied on representations by the City with respect to matters solely within the knowledge of the City, which Bond Counsel has not independently verified. The covenants and representations relate to, among other things, the use of Obligation proceeds and any facilities financed therewith, the source of repayment of the Obligations, the investment of Obligation proceeds and certain other amounts prior to expenditure, and requirements that excess arbitrage earned on the investment of Obligation proceeds and certain other amounts be paid periodically to the United States and that the City file an information report with the Internal Revenue Service (the "Service"). If the City should fail to comply with the covenants in the Ordinances, or if its representations relating to the Obligations that are contained in the Ordinances should be determined to be inaccurate or incomplete, interest on the Obligations could become taxable from the date of delivery of the Obligations, regardless of the date on which the event causing such taxability occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the ownership of, receipt or accrual of interest on or acquisition or disposition of the Obligations.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Service with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the Service. The Service has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Obligations is commenced, under current procedures the Service is likely to treat the City as the "taxpayer," and the owners of the Obligations may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Obligations, the City may have different or conflicting interests from the owners of the Obligations. Public awareness of any future audit of the Obligations could adversely affect the value and liquidity of the Obligations during the pendency of the audit, regardless of its ultimate outcome.

Under the Code, taxpayers are required to provide information on their returns regarding the amount of tax-exempt interest, such as interest on the Obligations, received or accrued during the year.

Prospective purchasers of the Obligations should be aware that the ownership of tax-exempt obligations, such as the Obligations, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax- exempt obligations, and individuals otherwise eligible for the earned income tax credit. Such prospective purchasers should consult their tax advisors as to the consequences of investing in the Obligations.

Tax legislation, administrative action taken by tax authorities, and court decisions may cause interest on the Obligations to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Obligations from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Obligations. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Obligations. Prospective purchasers of the ding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

PROPOSED TAX LEGISLATION

Tax legislation, administrative actions taken by tax authorities, and court decisions may cause interest on the Obligations to be subject, directly or indirectly, to federal income taxation or state income taxation, or otherwise prevent the beneficial owners of the Obligations from realizing the full current benefit of the tax status of such interest. For example, future legislation to resolve certain federal budgetary issues may significantly reduce the benefit of, or otherwise affect, the exclusion from gross income for federal income tax purposes of interest on all state and local obligations, including the Obligations. In addition, such legislation or actions (whether currently proposed, proposed in the future or enacted) could affect the market price or marketability of the Obligations. Prospective purchasers of the Obligations should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, and its impact on their individual situations, as to which Bond Counsel expresses no opinion.

DISCOUNT OBLIGATIONS

Some of the Obligations may be offered at an initial offering price which is less than the stated redemption price payable at maturity of such Obligations. If a substantial amount of any maturity of the Obligations is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, an initial owner who purchases the Obligations of that maturity (the "Discount Obligations") will be considered to have "original issue discount" for federal income tax purposes equal to the difference between (a) the stated redemption price payable at the maturity of such Discount Obligation and (b) the initial offering price to the public of such Discount Obligation. Under existing law, such original issue discount will be treated for federal income tax purposes as additional interest on an Obligation and such initial owner will be entitled to exclude from gross income for federal income tax purposes that portion of such original issue discount deemed to be earned (as discussed below) during the period while such Discount Obligation continues to be owned by such initial owner. Except as otherwise provided herein, the discussion regarding interest on the Obligations under the caption "TAX MATTERS – TAX EXEMPTION" generally applies to original issue discount deemed to be earned on a Discount Obligation while held by an owner who has purchased such Obligation at the initial offering price in the initial public offering of the Obligations and that discussion should be considered in connection with this portion of the Official Statement.

In the event of a redemption, sale, or other taxable disposition of a Discount Obligation prior to its stated maturity, however, any amount realized by such initial owner in excess of the basis of such Discount Obligation in the hands of such owner (increased to reflect the portion of the original issue discount deemed to have been earned while such Discount Obligation continues to be held by such initial owner) will be includable in gross income for federal income tax purposes.

Because original issue discount on a Discount Obligation will be treated for federal income tax purposes as interest on an Obligation, such original issue discount must be taken into account for certain federal income tax purposes as it is deemed to be earned even though there will not be a corresponding cash payment. Corporations that purchase Discount Obligations must take into account original issue discount as it is deemed to be earned for purposes of determining alternative minimum tax. Other owners of a Discount Obligation may be required to take into account such original issue discount as it is deemed to be earned for purposes of determining certain collateral federal tax consequences of owning an Obligation. See "TAX MATTERS – TAX EXEMPTION" for a discussion regarding the alternative minimum taxable income consequences for corporations and for a reference to collateral federal tax consequences for certain other owners.

The characterization of original issue discount as interest is for federal income tax purposes only and does not otherwise affect the rights or obligations of the owner of a Discount Obligation or of the City. The portion of the principal of a Discount Obligation representing original issue discount is payable upon the maturity or earlier redemption of such Obligation to the registered owner of the Discount Obligation at that time.

Under special tax accounting rules prescribed by existing law, a portion of the original issue discount on each Discount Obligation is deemed to be earned each day. The portion of the original issue discount deemed to be earned each day is determined under an actuarial method of accrual, using the yield to maturity as the constant interest rate and semi-annual compounding.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Discount Obligations by an owner that did not purchase such Obligations in the initial public offering and at the initial offering price may be determined according to rules which differ from those described above. All prospective purchasers of Discount Obligations should consult their tax advisors with respect to the determination for federal, state and local income tax purposes of interest and original issue discount accrued upon redemption, sale or other disposition of such Discount Obligations and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Discount Obligations.

PREMIUM OBLIGATIONS

Some of the Obligations may be offered at an initial offering price which exceeds the stated redemption price payable at the maturity of such Obligations. If a substantial amount of any maturity of the Obligations is sold to members of the public (which for this purpose excludes bond houses, brokers and similar persons or entities acting in the capacity of wholesalers or underwriters) at such initial offering price, each of the Obligations of such maturity ("Premium Obligations") will be considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis for federal income tax purposes of a Premium Obligation in the hands of an initial purchaser who purchases such Obligation in the initial offering must be reduced each year and upon the sale or other taxable disposition of the Obligation by the amount of amortizable bond premium. This reduction in basis will increase the amount of any gain (or decrease the amount of any loss) recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Obligation by the initial purchaser. Generally, no corresponding deduction is allowed for federal income tax purposes, for the reduction in basis resulting from amortizable bond premium with respect to a Premium Obligation. The amount of bond premium on a Premium Obligation which is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Obligation) is determined under special tax accounting rules which use a constant yield throughout the term of the Premium Obligation based on the initial purchaser's original basis in such Obligation.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition by an owner of Obligations that are not purchased in the initial offering or which are purchased at an amount representing a price other than the initial offering price for the Obligations of the same maturity may be determined according to rules which differ from those described above. Moreover, all prospective tax advisors with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of Premium Obligations.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. 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"). This information will be available free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org.

ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings "TAX DATA" (except for the information under the subcaption "ESTIMATED OVERLAPPING BOND DEBT PAYABLE FROM AD VALOREM TAXES"), "FINANCIAL INFORMATION," "DEBT INFORMATION," "THE MUNICIPAL AIRPORT SYSTEM," "WATERWORKS AND SEWER SYSTEM," "OTHER OBLIGATIONS" and in APPENDIX B. The City will update and provide this information within six (6) months after the end of each fiscal year ending on and after September 30, 2018; however, if audited financial statements are not available when the information is provided, the City will provide audited financial statements when and if they become available and unaudited financial statements within twelve (12) months after each fiscal year end, unless audited financial statements are sooner provided. Financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation. The City may provide updated information in full text or may incorporate by reference documents available on EMMA or filed with the United States Securities and Exchange Commission (the "SEC").

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

EVENT NOTICES

The City will also provide timely notices of certain events to the MSRB. The City will provide notice in a timely manner not in excess of ten (10) business days after the occurrence of the event of any of the following events with respect to the Obligations, (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (7) modifications to rights of holders of the Obligations, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Obligations, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor Trustee or change in the name of the Trustee, if material, (15) incurrence of a financial obligation of the 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. As used above, the phrase "bankruptcy, insolvency, receivership or similar event" means 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 of governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the Board and officials or officers of the City 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. (Neither the Obligations nor the Ordinances make any provision for liquidity enhancement or credit enhancement, merger, consolidation, or acquisition). As used in this section, the term “financial obligation” means a (i) debt obligation, (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or (iii) guarantee of a debt obligation or any such derivative instrument, provided that “financial obligation” shall not include municipal securities as to which a final official statement (as defined in 15c2-12 Rule) has been provided to the MSRB consistent with Rule 15c2-12. The City intends the words used in the above clauses (15) and (16) and in the definition of financial obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

AVAILABILITY OF INFORMATION

The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

LIMITATIONS AND AMENDMENTS

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from a breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, would have permitted an underwriter to purchase or sell Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the the Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of the the Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS

For the past five (5) years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule 15c2-12.

OTHER INFORMATION

RATINGS

The Obligations and presently outstanding revenue debt of the City are rated, "AAA" by S&P and "AAA" by Fitch, 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, 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 Obligations.

LITIGATION

It is the opinion of the City Attorney 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 OBLIGATIONS FOR SALE

The sale of the Obligations has not been registered under the Federal Securities Act of 1933, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations 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 Obligations 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 Obligations 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 Obligations 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 Obligations are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Obligations 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 Obligations are legal investments for various institutions in those states.

LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinion of the Attorney General of Texas approving the Obligations and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinions of Bond Counsel in substantially the forms attached hereto as APPENDIX C. The various legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction. The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Obligations is contingent on the sale and delivery of the Obligations. The legal opinion will accompany the Obligations deposited with DTC or will be printed on the Obligations in the event of the discontinuance of the Book-Entry-Only System.

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

FINANCIAL ADVISOR

Hilltop Securities, Inc. is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor's fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. Hilltop Securities, Inc. has agreed, in its Financial Advisory contract, not to bid for the Obligations, either independently or as a member of a syndicate organized to submit a bid for the Obligations. Hilltop Securities, Inc., in its capacity as Financial Advisor, does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

INITIAL PURCHASER - BONDS

The Initial Purchaser has agreed, subject to certain conditions, to purchase the Bonds from the City at a price of $_________, (representing the principal amount of the Bonds, plus a [net] original issue premium of $_________, less 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.

INITIAL PURCHASER - CERTIFICATES

The Initial Purchaser has agreed, subject to certain conditions, to purchase the Certificates from the City at a price of $_________, (representing the principal amount of the Certificates, plus a [net] original issue premium of $_________, less an underwriting discount of $______________). The Initial Purchaser will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Initial Purchaser and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Initial Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT

At the time of payment for and delivery of the Obligations, the City will furnish to the Initial Purchasers a certificate, executed by a proper City officer, acting in such officer's official capacity, to the effect that to the best of such officer's knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in the Official Statement, and any addenda, supplement, or amendment thereto, on the date of the Official Statement, on the date of sale of the Obligations, and the acceptance of the best bids 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, the 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 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 the 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.

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.

ENVIRONMENTAL REGULATIONS

The City is subject to the environmental regulations of the State and the United States. These regulations are subject to change, and the City may be required to expend substantial funds to meet the requirements of such regulatory authorities.

AIR QUALITY

Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality ("TCEQ") may adversely affect new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act Amendments of 1990, the eight county Houston-Galveston-Brazoria Area ("HGB Area") has been designated by the EPA as a non-attainment area under the EPA's ozone standards. Such areas are required to demonstrate progress in reducing ozone concentrations each year until compliance with EPA's standards are achieved. To provide for annual reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limitations on emissions of volatile organic compounds and nitrogen oxides (chemical precursors of ground level ozone) from existing stationary sources of air emissions. In addition, any significant new source of those types of emissions, such as a new industrial plant, must provide for a net reduction of those air emissions by arranging or paying for reductions of emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Even though existing air emissions controls are quite stringent, studies have indicated that even more stringent air emissions controls will be necessary in order for the HGB Area to achieve compliance with ozone standards. Due to the magnitude of air emissions reductions required as well as shortage of economically reasonable control options, the development of a successful air quality compliance plan has been and continues to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community. More stringent controls on sources of air emissions in the HGB Area could make the Houston area a less attractive location to businesses in comparison to other areas of the country that are not subject to similarly stringent air emissions controls. Although air quality data indicates steady improvements in the HGB Area, if it fails to meet EPA's standards, EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects. The EPA may also impose more stringent emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Clean Air Act by plaintiffs seeking to require emission reduction measures that are even more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in new restrictions on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of even more stringent air emission controls that could threaten continued growth and development in the HGB Area.

MISCELLANEOUS

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.

The Ordinances also approves the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorizes its further use in the reoffering of the Obligations by the Initial Purchaser.

____
Mayor
City of Sugar Land, Texas

ATTEST:

____
City Secretary
City of Sugar Land, Texas

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Schedule I

SCHEDULE OF REFUNDED BONDS*

Unlimited Tax Refunding Bonds, Series 2009

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
12/1/2009	9/1/2020	4.000%	$ 225,000	$ 225,000	346775DU0
	9/1/2021	4.125%	235,000	235,000	346775DV8
			$ 460,000	$ 460,000	

The 2020 – 2021 maturities will be redeemed prior to original maturity on November 19, 2019 at par.

Unlimited Tax Refunding Bonds, Series 2011

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
10/1/2011	11/1/2020	4.000%	$ 515,000	$ 515,000	34680ADV2
	11/1/2021	4.000%	545,000	545,000	34680ADW0
	11/1/2022	4.000%	570,000	570,000	34680ADX8
	11/1/2023	4.000%	595,000	595,000	34680ADY6
	11/1/2024	4.000%	315,000	315,000	34680ADZ3
			$ 2,540,000	$ 2,540,000	

The 2020 – 2024 maturities will be redeemed prior to original maturity on November 19, 2019 at par.

Unlimited Tax Refunding Bonds, Series 2012

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
1/1/2012	9/1/2020	4.000%	$ 565,000	$ 565,000	346916FL8
	9/1/2021	4.000%	590,000	590,000	346916FM6
	9/1/2022	4.000%	570,000	570,000	346916FN4
	9/1/2023	4.000%	580,000	580,000	346916FP9
			$ 2,305,000	$ 2,305,000	

The 2020 – 2023 maturities will be redeemed prior to original maturity on November 19, 2019 at par.

Unlimited Tax Refunding Bonds, Series 2012

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
3/1/2012	9/1/2020	3.000%	$ 645,000	$ 645,000	34681PEW5
	9/1/2021	4.000%	665,000	665,000	34681PEX3
	9/1/2022	4.000%	685,000	685,000	34681PEY1
	9/1/2023	4.000%	715,000	715,000	34681PEZ8
	9/1/2024	4.000%	750,000	750,000	34681PFA2
	9/1/2025	4.000%	780,000	780,000	34681PFB0
	9/1/2026	4.000%	1,645,000	1,645,000	34681PFC8
			$ 5,885,000	$ 5,885,000	

The 2020 – 2026 maturities will be redeemed prior to original maturity on November 19, 2019 at par.

Unlimited Tax Refunding Bonds, Series 2012

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
6/1/2012	9/1/2020	3.000%	$ 1,045,000	$ 1,045,000	346775EC9
	9/1/2021	3.500%	1,085,000	1,085,000	346775ED7
			$ 2,130,000	$ 2,130,000	

The 2020 – 2021 maturities will be redeemed prior to original maturity on November 19, 2019 at par.

General Obligation Refunding Bonds, Series 2012

Original Dated Date	Maturity Date	Interest Rate	Principal Amount Outstanding	Principal Amount Refunded	CUSIP
12/15/2011	2/15/2020	3.000%	$ 145,000	$ 145,000	864855U33
	2/15/2021	3.000%	155,000	155,000	864855U41
			$ 300,000	$ 300,000	

The 2020 – 2021 maturities will be redeemed prior to original maturity on November 19, 2019 at par.

* Preliminary, subject to change.

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

POPULATION ESTIMATES

City of Sugar Land

Fiscal Year	Population	Annual % Growth
2009	79,573	2.04%
2010	80,787	1.53%
2011	81,835	1.30%
2012	82,999	1.42%
2013	84,134	1.37%
2014	86,495	2.81%
2015	86,972	0.55%
2016	87,504	0.61%
2017	87,730	0.26%
2018	117,869 (1)	34.35%
2019	118,023	0.13%
2020	118,118	0.08%

Source: City of Sugar Land.
(1) Population growth primarily due to annexations.

TOP EMPLOYERS

City of Sugar Land

Employer (1)	Number of Employees
Houston Methodist Sugar Land Hospital	2,400
Fluor Enterprises, Inc.	1,980
Schlumberger	1,900
Nalco Champion, an Ecolab Company	1,216
Memorial Hermann Sugar Land	800
ABM	Confidential
St. Luke's Hospital Sugar Land	473
Accredo Packaging, Inc	425
Baker Hughes	422
Applied Optoelectronics, Inc.	396

Source: City of Sugar Land.

LABOR FORCE AND UNEMPLOYMENT RATE

City of Sugar Land

Year	Civilian Labor Force	Total Employment	Unemployment	Rate
2015	45,109	43,506	1,603	3.6%
2016	45,137	42,994	2,143	4.7%
2017	44,928	42,989	1,939	4.3%
2018	45,606	43,993	1,613	3.5%
2019 (1)	46,295	44,601	1,694	3.7%

Fort Bend County

Year	Civilian Labor Force	Total Employment	Unemployment	Rate
2015	356,151	341,000	15,151	4.3%
2016	367,057	348,745	18,312	5.0%
2017	376,029	358,547	17,482	4.6%
2018	382,102	366,922	15,180	4.0%
2019 (1)	386,814	373,279	13,535	3.5%

Source: Texas Workforce Commission.

NEW BUILDING CONSTRUCTION PERMITS

Fiscal Year	New Commercial Construction Value	New Residential Construction Value
2009	$ 102,791,856	$ 113,585,151
2010	29,715,891	129,032,162
2011	105,824,224	119,575,384
2012	24,673,274	116,979,515
2013	126,070,763	56,672,750
2014	144,089,602	63,705,608
2015	233,942,795	73,569,722
2016	93,021,183	67,562,184
2017	103,410,115	72,736,817
2018	163,554,817	70,378,761
2019 (1)	79,850,549	60,753,363

Source: City of Sugar Land.
(1) Through August 2019

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APPENDIX B

EXCERPTS FROM THE

CITY OF SUGAR LAND, TEXAS

ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2018

The information contained in this Appendix consists of excerpts from the City of Sugar Land, 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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3737 Buffalo Speedway
Suite 1600
Houston, Texas 77098
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whitleypenn.com

REPORT OF INDEPENDENT AUDITORS

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

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

To the Honorable Mayor and Members
of the City Council
City of Sugar Land, 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 and Note 16 to the financial statements, the City adopted the provisions of Government Accounting Standards Board ("GASB") Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* for the fiscal year ended September 30, 2018. Our opinions are not modified with respect to this matter.

As described in Note 1 and 16 to the financial statements, on December 12, 2017, the City completed the annexation of the Greatwood and New Territory communities with the dissolution of nine Municipal Utility Districts (MUDs). The annexation was accounted for as a government merger in accordance with GASB Statement No. 69 *Government Combinations and Disposals of Government Operations.* Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 18, budgetary comparison information, pension system supplementary information, and other post-employment benefit supplementary information on pages 91 to 96 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 other supplementary information, as described in the accompanying table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary information, as described in the accompanying table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the

To the Honorable Mayor and Members
of the City Council
City of Sugar Land, Texas

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 other supplementary information, as described in the accompanying table of contents, is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 18, 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.

Whitley Penn LLP

Houston, Texas
February 18, 2019

The management of the City of Sugar Land offers readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2018.

Financial Highlights

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $711.9 million *(net position).* Of this amount, $71.3 million *(unrestricted net position)* may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $67.7 million, a decrease of $10 million over the prior year. Approximately 50% of this total amount, $34.0 million, is *available for spending* at the government's discretion *(unassigned fund balance).*
- The City's Financial Management Policy requires the City to maintain the General fund's unassigned fund balance equivalent to three months of recurring budgeted operating costs, which is approximately $22.4million for fiscal year 2018.
- The City's total long-term liabilities increased by $0.4 million due to the issuance of new debt and the debt recognized related to the Annexation.
- The City implemented Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Post-Employment Benefits Other Than Pensions* ("GASB No. 75") and as a result reported a prior period adjustment to decrease net position in the governmental activities by $2,488,199 and to decrease net position in the business-type activities by $588,057.
- The City implemented GASB Statement No. 69, *Government Combinations and Disposals of Government Operations* ("GASB No. 69") as a result of the annexation of nine municipal utility districts located in the Greatwood and New Territory communities, as a result, the City reported a prior period adjustment to increase net position in the governmental activities by $14,469,315 and to increase net position in the business-type activities by $25,863,945.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between the four reported as *net position.* Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Government-wide Financial Statements (continued)

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal 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.* Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues *(governmental activities)* from other functions that are intended to recover all or a significant portion of their costs through user fees and charges *(business-type activities).* The governmental activities of the City include general government, administrative services, public safety, public works, parks and recreation, community development, and environmental and neighborhood services. The business-type activities of the City include utility system, including surface water operations, and solid waste operations as well as the operations of a regional airport facility.

The government-wide financial statements include not only the City itself (known as *the primary government),* but also legally separate entities for which the City is financially accountable. Financial information for these *discretely presented component units* is reported separately from the financial information presented for the primary government itself. The City's four discretely presented component units consist of the following:

- Sugar Land 4B Corporation (4B Corporation)
- Sugar Land Town Square Tax Increment Reinvestment Zone No. 1 (T1RZ 1)
- Sugar Land Reinvestment Zone No. 3 (TIRZ 3)
- Sugar Land Reinvestment Zone No. 4 (TIRZ 4)

The following component unit is a blended component unit, meaning its financial information is included with that of the primary government:

- Sugar Land Development Corporation

The government-wide financial statements can be found on pages 21 through 23 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

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 fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Fund Financial Statements (continued)

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 12 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, Debt Service, and Capital Projects, all of which are considered to be major funds. Data from the other nine 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* elsewhere in the comprehensive annual financial report on pages 101 through 106. Four funds relating to debt reduction have been combined into one fund.

The basic governmental fund financial statements can be found on pages 24 through 27 of this report.

Proprietary Funds - The City maintains two different 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 utility system, surface water plant, and solid waste operations as well as the operations of a regional airport facility. The City uses internal service funds to report activities that provide supplies and services for the City's other programs and activities. The Employee Benefits Fund, Fleet Replacement Fund and High-Technology Replacement Fund are the City's internal service funds. Their purpose is to provide for the accumulation of money for employee benefits, as well as, vehicle and equipment replacement used in City operations. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the utility system, including the surface water treatment plant, and solid waste operations as well as the operations of the regional airport facility. The utility system and airport funds are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in the comprehensive annual financial report.

The basic proprietary fund financial statements can be found on pages 28 through 31 of this report.

Combining Component Unit Financial Statements

The City's four discretely presented component units shown in aggregate on the face of the government-wide financial statements have individual information presented in the form of combining statements immediately following the fund financial statements of the primary government.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data presented in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 34 through 87.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City's progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees. The City adopts an annual appropriated budget for its general, debt service and certain special revenue funds. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 91 through 96 of this report.

Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $711.9 million at the close of the most recent fiscal year.

By far the largest portion of the City's net position, 86% or $611.3 million, reflects its net investment in capital assets (e.g., land, buildings, and infrastructure), less any related 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 as of September 30, 2018. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

COMPARATIVE SCHEDULE OF NET POSITION
September 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Totals	
Amounts in (000's)	2018	2017	2018	2017	2018	2017
Current and other assets	$ 87,940	$ 100,715	$ 85,421	$ 96,879	$ 173,361	$ 197,594
Capital assets	633,460	591,948	443,105	411,812	1,076,565	1,003,760
Total Assets	721,400	692,663	528,526	508,691	1,249,926	1,201,354
Total Deferred Outflows of Resources	10,127	16,603	3,864	2,659	13,991	19,262
Other liabilities	11,187	16,163	8,652	10,071	19,839	26,234
Long-term liabilities	312,441	306,896	212,262	218,186	524,703	525,082
Total Liabilities	323,628	323,059	220,914	228,257	544,542	551,316
Total Deferred Inflows of Resources	6,596	1,673	915	225	7,511	1,898
Net Position						
Net invesment in capital assets	358,639	340,298	252,642	228,369	611,281	568,667
Restricted	19,535	21,152	9,770	9,116	29,305	30,268
Unrestricted	23,129	23,084	48,149	45,383	71,278	68,467
Total Net Position	$ 401,303	$ 384,534	$ 310,561	$ 282,868	$ 711,864	$ 667,402

An additional portion of the City's net position, 4.1% or $29.3 million, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net position* of 10.0% or $71.3 million, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City is able to report positive balances in all three categories of net position, for the government as a whole, as well as for its separate governmental and business-type activities. The same situation held true for the prior fiscal year.

Government-wide Financial Analysis (continued)

COMPARATIVE SCHEDULE OF CHANGES IN NET POSITION
For the Years Ended September 30, 2018 and 2017

	Governmental Activities		Business-type Activities		Totals	
Amounts in (000's)	**2018**	**2017**	**2018**	**2017**	**2018**	**2017**
Revenues						
Program revenues:						
Charges for services	$ 19,157	$ 18,057	$ 73,954	$ 62,474	$ 93,111	$ 80,531
Operating grants and contributions	2,215	1,825	195	50	2,410	1,875
Capital grants and contributions	15,379	29,997	11,539	6,675	26,918	36,672
General revenues:						
Property taxes	44,092	39,052			44,092	39,052
Sales tax	47,038	41,330			47,038	41,330
Franchise and other taxes	9,197	8,535			9,197	8,535
Other	3,751	3,474	1,122	644	4,873	4,118
Total Revenues	140,829	142,270	86,810	69,843	227,640	212,113
Expenses						
General government	19,828	23,395			19,828	23,395
Administrative services	5,877	5,514			5,877	5,514
Public safety - Police	26,692	26,138			26,692	26,138
Public safety - Fire	14,517	14,197			14,517	14,197
Public safety - EMS	2,110	1,803			2,110	1,803
Public works	37,700	27,075			37,700	27,075
Parks and recreation	10,892	7,870			10,892	7,870
Community development	5,571	5,564			5,571	5,564
Environmental and neighborhood services	6,138	6,065			6,138	6,065
Interest on long-term debt	9,810	9,393			9,810	9,393
Utility			39,997	29,342	39,997	29,342
Regional Airport			16,240	14,346	16,240	14,346
Surface Water			19,858	16,812	19,858	16,812
Solid Waste Management			7,980	6,197	7,980	6,197
Total Expenses	139,135	127,014	84,074	66,697	223,210	193,711
Increase (decrease) in net position before transfers and special item	1,694	15,256	2,736	3,146	4,430	18,402
Transfers	3,094	2,243	(3,094)	(2,243)		
Special item			(2,410)		(2,410)	
Increase (decrease) in net position	4,788	17,499	(2,768)	903	2,020	18,402
Net position - beginning	384,534	367,035	282,868	281,965	667,402	649,000
Prior period adjustment - see Note 16	11,981		30,461		42,442	
Net position - ending	$ 401,303	$ 384,534	$ 310,561	$ 282,868	$ 711,864	$ 667,402

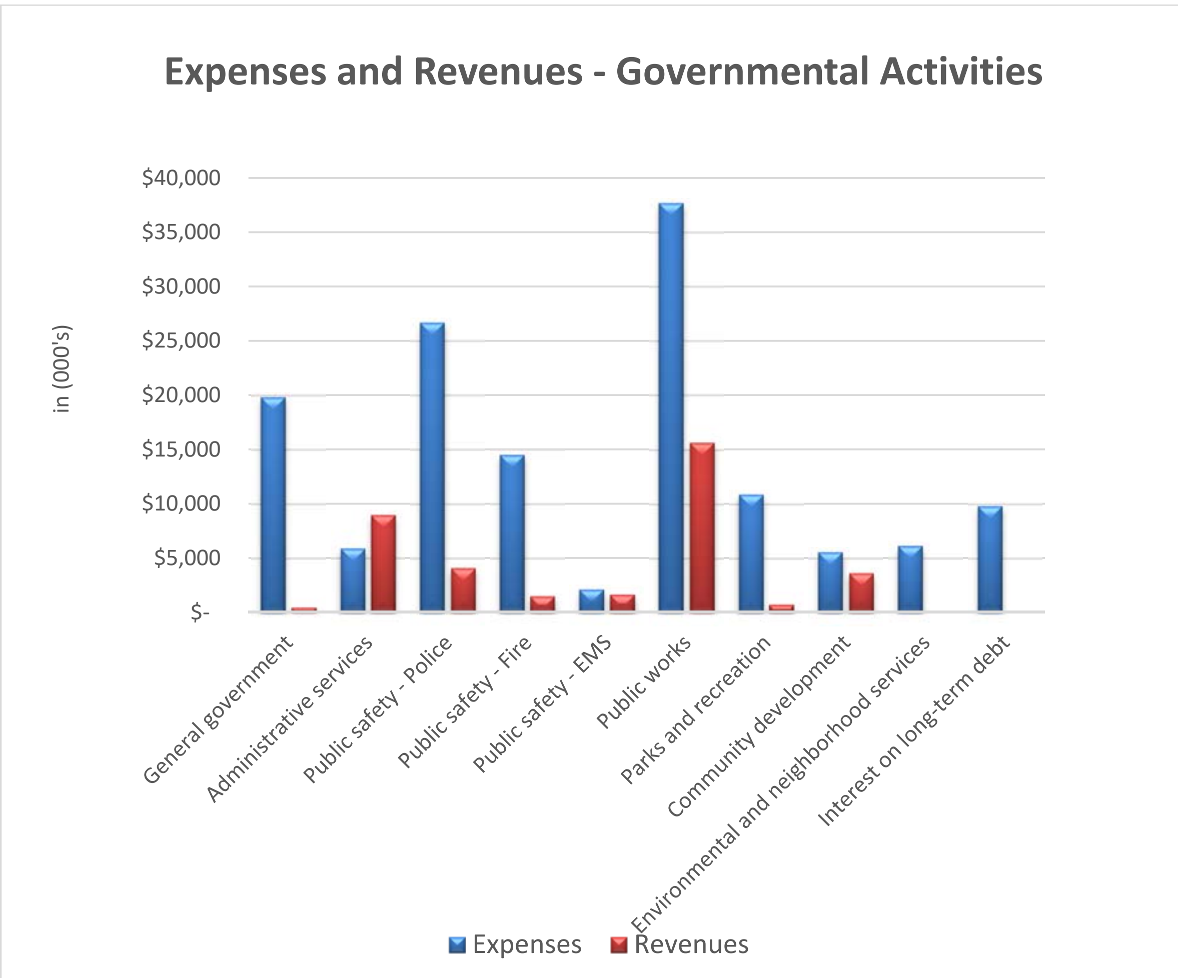
The City's net position increased by approximately $2.0 million, which was the result primarily of an increase in governmental activities net position. The increase in the net position of governmental activities was the result of capital contributions of $15.4 million and an increase in various sources of revenues, including property tax and operating grants and contributions. The decrease in the net position of business-type activities was primarily attributed to a contribution of cash balances in the operating funds by the governing bodies of certain dissolved Municipal Utility Districts prior to the dissolution process reported as a special item (see note 17 to the basic financial statements).

Governmental Activities

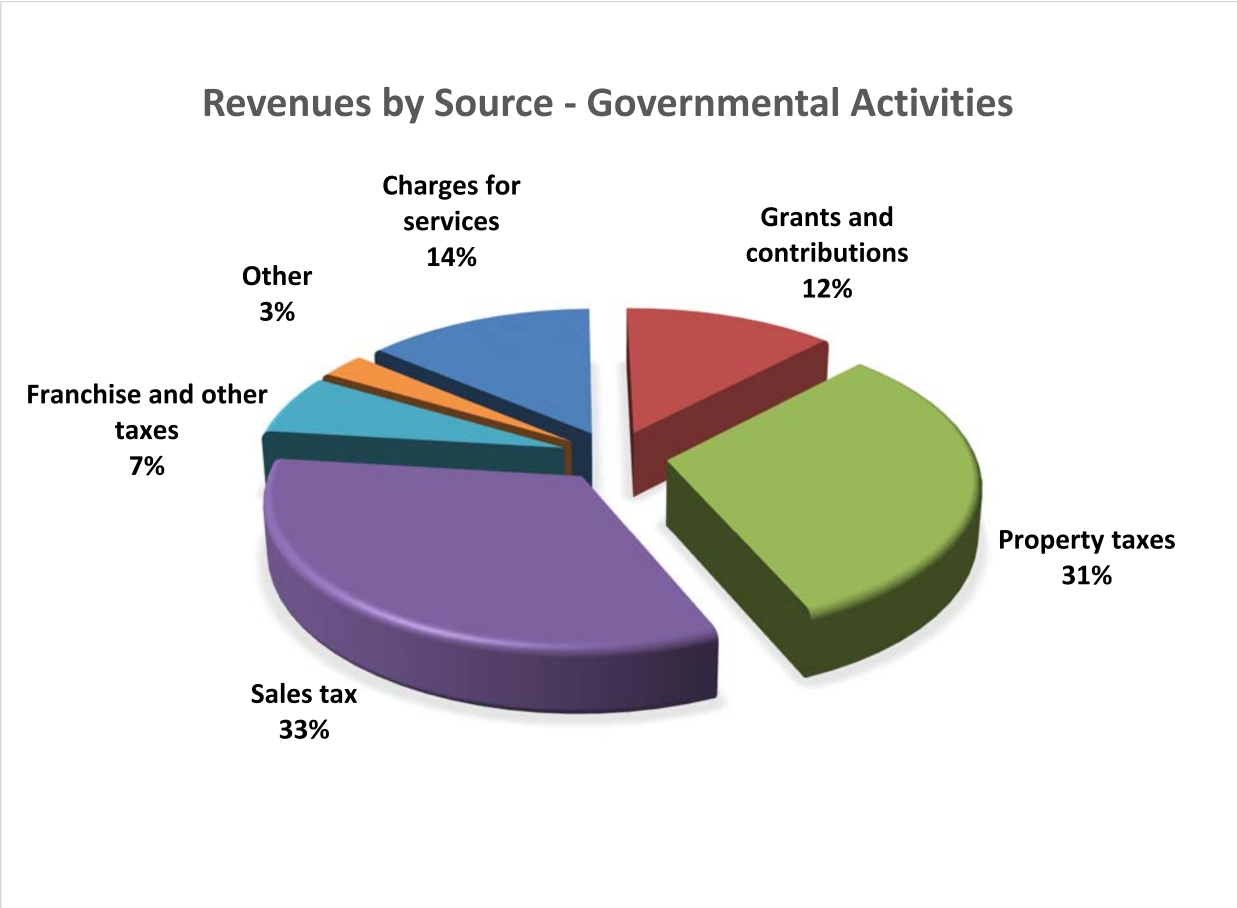
Governmental activities increased the City's net position by $4.8 million. Key elements of this increase are as follows:

- An increase in property tax revenues by $5.0 million is due to taxes levied by Municipal Utility Districts for 2017 prior to annexation and dissolution by the City.

- Capital grants and contributions of $15 million includes: $9.2 million developer assets in Riverstone and Imperial subdivisions, $1.3 million from Fort Bend County for South Hwy 6 (SH6) Improvement project, $2.5 million from Texas Department of Transportation for SH6 Improvement project, $152K from City of Stafford for Sugar Creek Drainage Improvement project and $230.5K from ACE Sugar Land LLC for Smart Financial Centre Capital Repairs Fund.



Governmental Activities (continued)

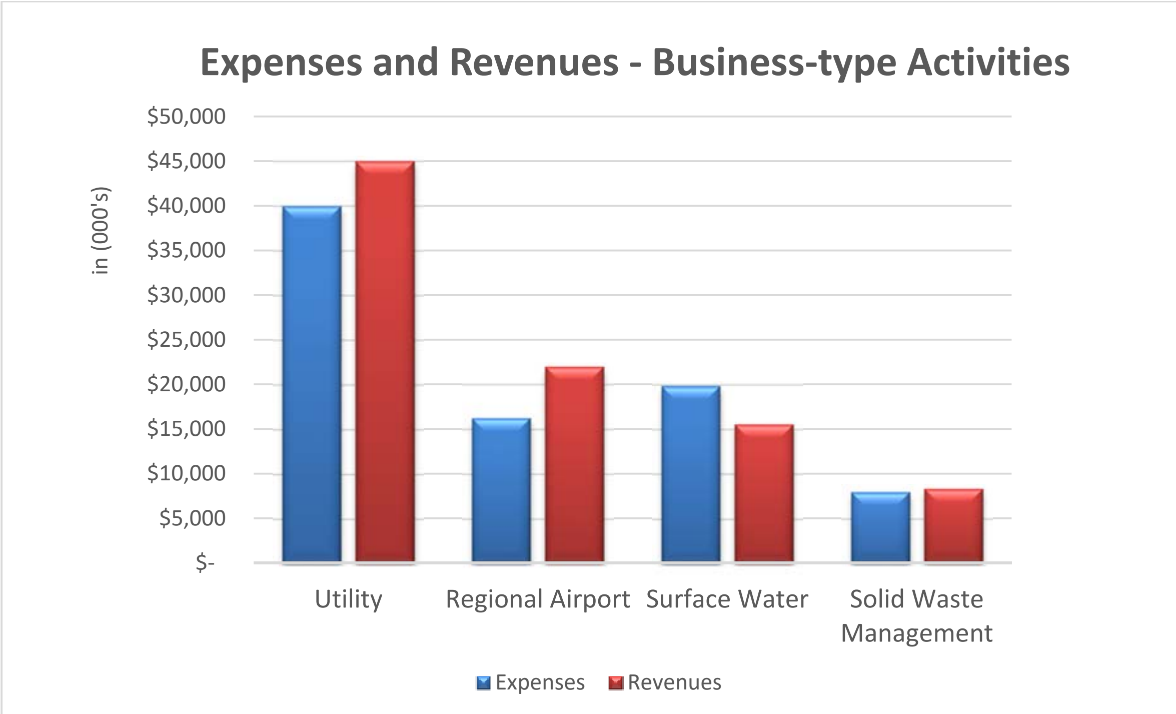


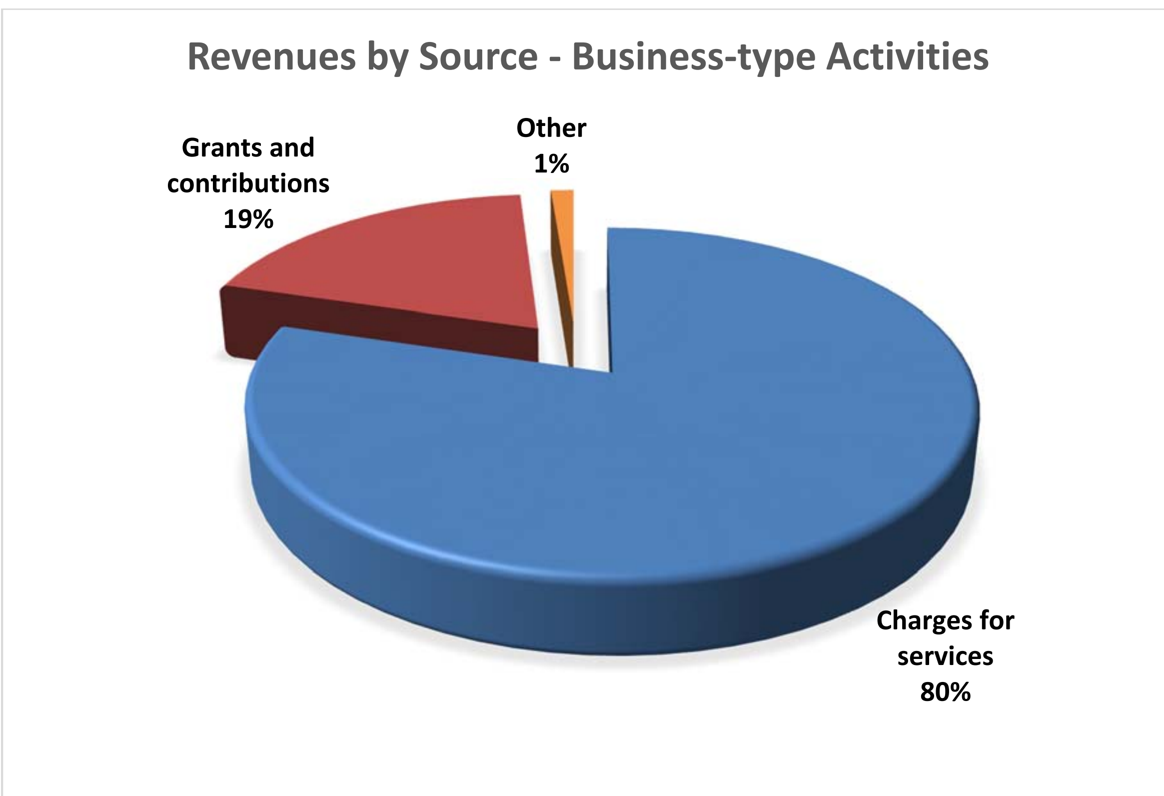
Business-type Activities

Business-type activities increased the City's net position by $2.8 million. Key elements of this increase are as follows:

The net position of Airport Fund increased by $5.9 million mainly due to capital contribution of $6.4 million from the Texas Department of Transportation for the Parallel Taxiway Relocation project. The increase in net position of Airport Fund is offset by the decrease in net position of Surface Water Fund by $4 million respectively.

Business-type Activities (continued)





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 of 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 fiscal year.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of $67.7 million, a decrease of $10 million from the prior year. Approximately 50% of the combined ending fund balances, $34.0 million, is *available for spending* at the government's discretion *(unassigned fund balance).*

The most significant change in fund balance was in the Capital Projects Fund with decreases of $14.4 million. This decrease is primarily due to capital outlay related to construction projects including various improvements to street, parks and facilities.

Fund balance in the General Fund increased from prior year, by $6.0 million, resulting in an ending fund balance of $35.1 million at year end. The unassigned fund balance of $34.0 million represents 39% of total fund expenditures.

The Debt Service Fund has a total fund balance of $6.3 million at year end, all of which is restricted for the payment of debt service. The net decrease in fund balance during the current year in the Debt Service Fund was $0.7 million.

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

The Utility Fund has unrestricted net position at fiscal year-end of $28.1 million. The Surface Water Fund has approximately $14.8 million in unrestricted net position, and the Airport Fund's unrestricted net position amounted to approximately $3.4 million. Other factors concerning the finances of the City's Proprietary Funds have already been addressed in the discussion of the City's business-type activities.

General Fund Budgetary Highlights

Budget estimates for operating revenues between the original and final amended budget changed by $2.3 million due to the reclassification of transfers into sales tax.

During the year there were increases between the original and final amended budget expenditure appropriations of $0.7 million due to appropriations of carry-over from the prior year.

There were no significant differences between final amended expenditures and actual expenditures in fiscal year 2018. The review of the final amended budget versus the actual for the general fund, reflected a positive budget variance in the amount of $3.9 million.

Capital Assets and Debt Administration

Capital Assets

At the end of the current fiscal year 2018, the City's governmental activities and business-type activities had invested $633.5 million and $443.1 million, respectively, in a variety of capital assets and infrastructure, as reflected in the following schedule. This represents a net increase of $41.5 million or 7.0% over the end of last fiscal year for governmental activities and a change of $31.3 million or 7.6% for business-type activities.

	Governmental Activities		Business-Type Activities		Totals	
Amounts in (000's)	2018	2017	2018	2017	2018	2017
Land and intangibles	$ 107,233	$ 89,682	$ 26,350	$ 25,736	$ 133,583	$ 115,419
Construction in progress	32,045	60,241	43,868	48,912	75,913	109,153
Infrastructure	268,853	219,695	352,079	316,184	620,932	535,879
Buildings and improvements	202,108	199,103	16,676	16,510	218,784	215,613
Equipment and furniture	23,222	23,227	4,131	4,470	27,353	27,696
Total Capital Assets	$ 633,460	$ 591,948	$ 443,105	$ 411,812	$ 1,076,565	$ 1,003,759

The overall increase in capital assets for governmental activities and for the business-type activities is due to the assumption of capital assets as a result of the annexation of nine municipal utility districts.

Additional information on the City's capital assets can be found in Note 4 to the financial statements.

Long-Term Debt

At the end of the current fiscal year, the City had total bonds, certificates of obligation, and other obligations outstanding of $524.2 million. Of this amount, $113.2 million was general obligation debt (including $1.8 million of dissolved utility district bonds), and $152.2 million represents bonds secured solely by specified revenue sources (i.e. revenue bonds). Certificates of obligation and tax notes account for $204.6 million and $3.2 million, respectively. The City's net pension liability as of September 30, 2018 is $21.2 million.

	Governmental Activities		Business-Type Activities		Totals	
Amounts in (000's)	2018	2017	2018	2017	2018	2017
General obligation bonds	$ 106,155	$ 83,880	$ 7,030	$ 7,030	$ 113,185	$ 90,910
Revenue bonds	47,020	48,865	105,220	105,220	152,240	154,085
Certificates of obligation	111,255	118,058	93,322	93,322	204,577	211,380
Tax note	3,247	3,193			3,247	3,193
Premiums or discounts	17,507	17,513	8,229	8,229	25,736	25,742
Net pension liability	18,614	29,961	2,582	4,027	21,196	33,988
Other obligations	3,664	5,427	375	358	4,039	5,785
	$ 307,462	$ 306,896	$ 216,759	$ 218,186	$ 524,221	$ 525,082

The net increase in debt for the year was $0.9 million or 0.2%. This was primarily due to the issuance of new debt and the assumption of long-term liabilities as a result of the annexation of nine municipal utility districts.

Capital Assets and Debt Administration (continued)

Long-Term Debt (continued)

The most recent ratings on debt issues are as follows:

	Standard and Poor's	Fitch Investors Service
General obligation bonds	AAA	AAA
Revenue bonds	AA+	AA+

Both the Sugar Land Development Corporation (SLDC) and the Sugar Land 4B (SL4B) Corporation, component units of the City, have issued debt. SLDC bonds are rated "A1" and "A+" from Moody's and Standard & Poor's, respectively. SL4B bonds are rated "Aa3" and "A+" from Moody's and Standard & Poor's, respectively.

Additional information on the City's long-term debt can be found in Note 5 to the financial statements.

Imperial Redevelopment Agreement

On May 3, 2016, the City Council approved the third amendment to the Imperial Redevelopment Agreement. This agreement defines the conditions for the Imperial Redevelopment District's participation in the extension of a roadway and bridge from US 90A at University Boulevard N to the terminus of Stadium Drive, including a bridge across Oyster Creek and the Union Pacific Railroad Spur at Nalco Champion. The Imperial Redevelopment District (IRD) issued Unlimited Tax Road Bonds Series 2016 of $12,135,000 and Tax Increment Contract Revenue Bonds Series 2016 of $4,980,000 to fund their share of the roadway project and bridge. Funding in the amount of $10,650,000, representing the District's share of the roadway and bridge, was received by the City on October 14, 2016. On August 16, 2016, the City approved a Tri-Party Funding Agreement between the City, Tax Increment Reinvestment Zone #3 (TIRZ #3) and the IRD to transfer the Tax Increments in the Tax Increment Fund, less certain deductions, to the IRD to support repayment of the Tax Increment Contract Revenue Bonds to be issued to finance certain components of the TIRZ plan. The City was responsible for a portion of the roadway, the UPRR crossing and the intersection and signal at US90A. Fort Bend County contributed $1.3 million toward the roadway project as well.

Economic Factors and Next Year's Budgets and Rates

The City had yet another successful year financially- ending FY18 in a positive financial position and with continued recognition as a state and national leader in financial stewardship. Highlights of FY18 include incorporation of the budgetary reductions driven by sales tax declines in late 2017, as well as a successful annexation of historic proportions.

The FY2019 adopted budget addresses the City's top priorities, which include drainage, Fire and EMS needs, City facilities, and modernizing systems to enhance efficiency & accountability. City services for residents and visitors to Sugar Land continue to remain both robust and innovatively constrained. The adopted budget ensures continued financial strength and resiliency by meeting all fund balance requirements, including the structural balance of the General Fund.

One of the major accomplishments for the City is the recently completed annexation of nine Municipal Utility Districts (MUDs) located in the Greatwood and New Territory communities, which is among the largest and most successful in state history. The annexation added approximately 30,000 new residents to the City along with utility assets and infrastructure. The City built its annexation planning around three guiding principles. These principles included providing the same level of service to the newly annexed areas, ensuring there was no decrease in existing services as a result of annexation, and that the annexation would generate sufficient revenues to pay for services within the areas so that existing taxpayers did not experience any increased costs. These annexed districts have now been fully integrated into the City's budget, with property owners in these areas paying City property taxes in FY19 to support services in these areas and the significant positive financial benefits providing additional capacity for capital projects.

Over the last few years, the uncertainty in the regional economy has caused the City to revisit its financial strategy to ensure that it is strong and resilient. This introspective review and evaluation has led to the City's development of resiliency initiatives and its focus on innovative constraint. These ongoing resiliency initiatives and the focus on innovative constraint, formalized in the Financial Management Policy Statements and then incorporated into financial plans, are allowing the City to exceed its financial expectations in the current fiscal year and have positioned the City for success in the future. These initiatives include a conservative approach to sales tax forecasting, implementing and maintaining belt-tightening cuts to recurring expenditures, and ensuring recurring rehabilitation is funded from more diverse and reliable revenue streams and then supplementing with one-time funding if revenues exceed budgeted levels. To ensure the most efficient use of resources, the City has evaluated innovations in Fire and EMS staffing and training and several improvements are funded in the budget.

It's because of the resiliency initiatives that the City has undertaken that have allowed for the consistent delivery of high quality services, with one of the lowest tax rates for cities over 60,000 in population, as Fiscal Year 2018 has been a challenging year for the City. The year began with the continued downturn in the oil and gas industry, as well as the lingering impacts associated with the devastation inflicted by Hurricane Harvey, which imposed additional stress on the greater Houston regional economy. As the year progressed, the City began to see a return to normalcy in the economy, which is reflected in the increased collections the City has seen in its sales tax revenue. The regional economy is highly influenced by the oil and gas industry, which has begun to rebound in the last few months. While the strength of the recovery is yet to be determined, there are positive signs that momentum is being gained. Despite these challenging swings in the economy, the City has been able to maintain its core service levels and complete major projects in this fiscal year.

With that said, in years with high volatility, the importance of resiliency initiatives becomes more apparent, as they allow the organization to withstand and maintain strength, despite challenging economic conditions. The resiliency initiatives that began in FY18 were designed to further strengthen the financial position of the City by lessening the impact of economic swings associated with sales tax - a major revenue stream for the City, but one that is highly volatile and difficult to forecast. These changes include conservative sales tax estimates, based on actual recurring collections, as well as predefined growth assumptions. The methodology has worked well this year. In fact, sales tax has shown signs of a return to reasonable growth, which are consistent with the new methodology. Through the fourth quarter, which ended in September, sales tax continued to outperform recurring estimates and has shown stability through the end of the fiscal year. Total collections ended the year $3.7 million higher than the original budget and $0.84 million higher than the revised budget, with a total of $2.4 million in one-time collections received. Recurring sales tax for in FY18 ended at $49.78 million, which is 3.1% higher than the prior year. Since revenue estimates become the base of the next fiscal year's budget, it is critical that they not be over-estimated; any additional revenue that might come in will be set aside for one-time expenditures in the future.

The FY19 budget development process focused on the fundamental assumptions that drive the budget. Traditionally, Council meets in the spring with staff and management to identify priorities for the upcoming year's budget and to receive an update on the City's financial condition. This year, a series of workshops was held to review changes to the Financial Management Policy Statements (FMPS) as part of the biennial review and update.

The Financial Management Policy Statements is the City Council's guiding document relative to the management of the City's finances. Through this year's review and revision process, City Council formalized a conservative approach to forecasting sales tax, and affirmed policy direction on budgeting property tax revenues at the effective tax rate plus 3%, as economic conditions permit. The effective tax rate plus 3% funds the base budget and a merit pool of 3%, consistent with Council's previous direction on compensation for employees, and permits for meaningful merit to employees based on performance.

One of the major changes included as part of the revisions to the Financial Management Policy Statements was the addition of language that clearly defines the methodology for managing sales tax growth, particularly in the long-range forecast. Sales tax is now divided into two components: recurring and one-time revenue. Recurring revenue is an important component of balancing the budget, because recurring revenue streams should cover recurring expenditures. The FY18 projected sales tax is $49.8 million in recurring collections, of which $37.35 million supports the general operating budget. No recurring increases are built into the budget; and one-time revenues received in FY18 are available to support one-time needs in FY19. This change in policy was important because sales tax is one of the most volatile revenue streams and is highly sensitive to changes in the economy. Sales tax also comprises a significant portion of the total revenues in the general fund and supports 43% of the expenditures. This is one of the primary reasons that it is important to be conservative when preparing revenue estimates, particularly with sales tax.

Staff reviewed the City's financial position with City Council during a workshop in June and highlighted the organization's priorities for the coming year, which include Fire and EMS needs, replacement of the Enterprise Resource Planning (ERP) system, facilities, and drainage projects. In the General Fund, other than base adjustments, which are primarily limited to contractual increases, there are only a small number of additions to the budget, and there are no additional programs or personnel included. Out of $1.6 million in recurring budget reductions in fiscal year 2018, the fiscal year 2019 budget reinstates funding of only about $230,000, as the other reductions have been absorbed and service levels adjusted.

The operating budget reflects the City's focus on maintaining financial resiliency, particularly with infrastructure rehabilitation, and reinvestment in infrastructure. Funding for infrastructure - such as streets, sidewalks, parks and municipal facilities, is a critical part of the operating budget, as it ensures that the City's assets are maintained properly. The City is continuing to budget recurring rehabilitation in the General Fund using a more diverse set of revenue streams as a funding source, rather than relying on sales tax to fund through the capital improvement program. The FY19 budget increases recurring rehabilitation funding by $300,000 through a ¼ cent shift in the tax rate from debt service to maintenance & operations, consistent with the planned rehabilitation increases over five years, plus a $600,000 one-time enhancement in FY19 from sales tax revenue received in FY18.

Consistent with the FMPS, the budget was developed on a revenue stream from the effective tax rate plus 3%. The adopted tax rate is $0.31762 per $100 of value. There are no changes to the homestead exemption, which will remain at 10% for 2018, along with the optional exemption of $70,000 for over 65 and disabled persons.

Based on the priorities addressed identified and discussed above, the FY19 adopted budget totals $247 million. Of the total, $219 million is for operations and $28 million is for capital projects.

The City's championship workforce understands that public service is still a noble calling, and our employees' commitment to making life sweeter and more refined for businesses, residents and visitors, is simply known as "The Sugar Land Way". As a personnel driven public safety and service provider, a main driver in the City's budget is employee compensation and benefits approximately 75% of General Fund expenditures are directly tied to employee compensation. The City recognizes pay for performance as a guiding principle in the City Council adopted Compensation Philosophy, and a merit pool equal to 3% of budgeted salaries is included in the adopted budget. This funding allows management to develop a merit matrix that provides an incentive for high and outstanding performance from employees only slightly greater than the 2018 CPI increase of 2.6%. The City's TMRS contribution rate for 2019 is 14.93%, a decline from the 2018 contribution rate of 15.27%, and resulting in overall savings to the City. The City also has a competitive health benefits program available for employees and their dependents. Based on 2018 claim trends, the City anticipates an overall 7% increase is needed to both the City's and employees' insurance contributions for 2019.

In the Utility Fund there are no changes for water, wastewater, or surface water rates in FY19. This is consistent with the five-year forecast that was shared with City Council for the last several years. In fact, the City has not adjusted water or wastewater rates since 2011, minimizing the impact to customers while the surface water rates were being implemented. The budget consolidates the Water Utility Fund and the Surface Water Fund into a combined Utility Enterprise Fund that covers the operations and maintenance of all water and wastewater systems, including the Surface Water Treatment Plant and cost related to the Groundwater Reduction Plan. It's important to note that the Surface Water Treatment Plant expansion to meet the 60% groundwater reduction mandate is not included in the proposed CIP or the five year forecast. The plant expansion and design will be driven by the Integrated Water Resource Master Plan (IWRP) that is scheduled to be completed in the fall. After the results and analysis of this plan, changes to the rate structure will likely be necessary to fund the expansion of this unfunded mandate. Solid Waste includes a 2.5% increase to residential rates, based on the City's contracts with Republic Services and Best Trash. Solid Waste rates will increase from $18.45 to $18.91 per month in January 2019, with no changes to service levels.

The FMPS contains guidance on evaluating user fees for an annual CPI adjustment and for calculation of new fees. In FY19, an increase of 2.6% is incorporated into certain fees, based on changes in the CPI between 2017 and 2018. Fee adjustments are effective January 1, 2019. Additionally, the City is working toward setting parks fees to ensure that General Fund dollars are not supporting non-resident use of City facilities and recreational programs, with the first round of changes included in the proposed budget and fee ordinance and more to follow mid-year after completing a process of stakeholder engagement.

Requests for Information

This financial report is designed to provide a general overview of the City of Sugar Land's finances for all those with an interest in the City's finances. Questions concerning this report or requests for additional financial information should be directed to Alka B. Shah, Controller, City Hall, 2700 Town Center Boulevard North, Sugar Land, TX 77479, telephone (281) 275-2745 or for general City information, visit the City's website at www.sugarlandtx.gov.

BASIC FINANCIAL STATEMENTS

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CITY OF SUGAR LAND, TEXAS

STATEMENT OF NET POSITION

September 30, 2018

	Governmental Activities	Business-type Activities	Total	Component Units
Assets				
Current assets:				
Cash and cash equivalents	$ 13,518,185	$ 6,948,706	$ 20,466,891	$ 5,624,322
Investments	27,523,679	36,930,461	64,454,140	2,714,862
Accounts receivable, net of allowance for doubtful accounts	15,213,880	5,539,167	20,753,047	1,152,792
Interest receivable	228,870	359,580	588,450	33,925
Internal balances	(7,517,531)	7,517,531		
Due from other governments	4,314,324	60,686	4,375,010	
Inventories	224,954	301,789	526,743	
Prepaid items	81,797	9,116	90,913	5,935
Restricted cash and cash equivalents	15,989,515	16,102,172	32,091,687	1,991,688
Restricted investments	18,362,481	11,651,711	30,014,192	1,489,654
Total current assets	87,940,154	85,420,919	173,361,073	13,013,178
Non-current assets:				
Capital assets not being depreciated	138,900,458	69,728,121	208,628,579	
Capital assets net of depreciation	494,560,001	373,376,814	867,936,815	
Total non-current assets	633,460,459	443,104,935	1,076,565,394	
Total Assets	721,400,613	528,525,854	1,249,926,467	13,013,178
Deferred Outflows of Resources				
Deferred charge on refunding	1,663,032	2,689,360	4,352,392	87,770
Deferred outflows relating to pension activities	8,144,796	1,129,920	9,274,716	
Deferred outflows relating to OPEB activities	319,637	44,343	363,980	
Total Deferred Outflows of Resources	10,127,465	3,863,623	13,991,088	87,770
Liabilities				
Current liabilities:				
Accounts payable and accrued expenses	9,403,336	4,824,802	14,228,138	496,015
Accrued interest	1,641,950	974,345	2,616,295	172,974
Customer deposits	139,528	2,837,822	2,977,350	
Unearned revenue	2,607	14,100	16,707	
Total current liabilities	11,187,421	8,651,069	19,838,490	668,989
Non-current liabilities:				
Due within one year	21,184,822	9,195,000	30,379,822	2,059,598
Due in more than one year	291,256,528	203,067,154	494,323,682	28,126,980
Total non-current liabilities	312,441,350	212,262,154	524,703,504	30,186,578
Total Liabilities	323,628,771	220,913,223	544,541,994	30,855,567
Deferred Inflows of Resources				
Deferred inflows relating to pension activities	6,592,465	914,567	7,507,032	
Deferred inflows relating to OPEB activities	3,503	486	3,989	
Total Deferred Inflows of Resources	6,595,968	915,053	7,511,021	
Net Position				
Net investment in capital assets	358,639,283	252,642,346	611,281,629	
Restricted:				
Debt service	7,870,633	9,769,394	17,640,027	3,277,923
Economic development activities	9,608,501		9,608,501	2,363,529
Public safety	269,111		269,111	
Tourism & marketing	1,786,346		1,786,346	
Unrestricted	23,129,465	48,149,461	71,278,926	(23,396,071)
Total Net Position	$ 401,303,339	$ 310,561,201	$ 711,864,540	$ (17,754,619)

See Notes to the Basic Financial Statements.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

		Program Revenue		
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**
Primary government				
Governmental Activities:				
General government	$ 19,825,982	$ 380,597	$ 55,866	$ 36,827
Administrative services	5,877,451	7,532,287	1,431,155	
Public safety - Police	26,691,650	3,942,821	161,809	
Public safety - Fire	14,516,604	1,390,232	124,574	
Public safety - EMS	2,109,566	1,634,675		
Public works	37,700,186	296,048	128,466	15,257,300
Parks and recreation	10,891,960	591,699	65,603	84,517
Community development	5,570,870	3,388,539	247,261	
Environmental and neighborhood services	6,138,127		529	
Interest on long-term debt	9,810,360			
Total governmental activities	139,132,756	19,156,898	2,215,263	15,378,644
Business-type activities:				
Utility	39,996,537	35,868,034		5,083,198
Regional Airport	16,239,202	15,449,972	72,500	6,455,531
Surface Water	19,857,855	14,661,214		
Solid Waste Management	7,980,124	7,974,887	122,938	
Total business-type activities	84,073,718	73,954,107	195,438	11,538,729
Total primary government	$ 223,206,474	$ 93,111,005	$ 2,410,701	$ 26,917,373
Component Units				
Sugar Land 4B Corporation	$ 4,229,123	$	$ 156,156	$
Sugar Land Town Square Tax Increment Reinvestment Zone No. 1	1,531,653			
Sugar Land Reinvestment Zone No. 3	650,168			
Sugar Land Reinvestment Zone No. 4	50,500			
Total component units	$ 6,461,444	$	$ 156,156	$

See Notes to the Basic Financial Statements.

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

	Net (Expense) Revenue and Changes in Net Position			
	Primary Government			
Functions/Programs	**Governmental Activities**	**Business-type Activities**	**Total**	**Component Units**
Primary government				
Governmental Activities:				
General government	$ (19,352,692)	$	$ (19,352,692)	
Administrative services	3,085,991		3,085,991	
Public safety - Police	(22,587,020)		(22,587,020)	
Public safety - Fire	(13,001,798)		(13,001,798)	
Public safety - EMS	(474,891)		(474,891)	
Public works	(22,018,372)		(22,018,372)	
Parks and recreation	(10,150,141)		(10,150,141)	
Community development	(1,935,070)		(1,935,070)	
Environmental and neighborhood services	(6,137,598)		(6,137,598)	
Interest on long-term debt	(9,810,360)		(9,810,360)	
Total governmental activities	(102,381,951)		(102,381,951)	
Business-type activities:				
Utility		954,695	954,695	
Regional Airport		5,738,801	5,738,801	
Surface Water		(5,196,641)	(5,196,641)	
Solid Waste Management		117,701	117,701	
Total business-type activities		1,614,556	1,614,556	
Total primary government	$ (102,381,951)	$ 1,614,556	$ (100,767,395)	
Component Units				
Sugar Land 4B Corporation				$ (4,072,967)
Sugar Land Town Square Tax Increment Reinvestment Zone No. 1				(1,531,653)
Sugar Land Reinvestment Zone No. 3				(650,168)
Sugar Land Reinvestment Zone No. 4				(50,500)
Total component units				(6,305,288)
General revenues:				
Property taxes	44,092,389		44,092,389	2,869,072
Sales tax	47,038,175		47,038,175	6,719,740
Franchise and other taxes	9,196,843		9,196,843	
Investment earnings	1,106,332	1,077,401	2,183,733	177,025
Miscellaneous	2,642,416	44,386	2,686,802	80,000
Transfers	3,093,659	(3,093,659)		
Special item		(2,410,372)	(2,410,372)	
Total general revenues, transfers and special item	107,169,814	(4,382,244)	102,787,570	9,845,837
Change in net position	4,787,863	(2,767,688)	2,020,175	3,540,549
Net position - beginning	384,534,360	282,867,726	667,402,086	(21,295,168)
Prior period adjustment - see Note 16	11,981,116	30,461,163	42,442,279	
Net position - ending	$ 401,303,339	$ 310,561,201	$ 711,864,540	$ (17,754,619)

See Notes to the Basic Financial Statements.

CITY OF SUGAR LAND, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Assets					
Cash and cash equivalents	$ 8,898,111	$ 1,016,603	$ 714,466	$ 3,488,457	$ 14,117,637
Investments	23,321,423	5,214,714	740,790	3,477,710	32,754,637
Receivables, net of allowance for uncollectibles	9,085,291	269,893		5,462,116	14,817,300
Interest receivable	107,547	32,447	30,401	37,333	207,728
Due from other governments	82,144		4,096,550	135,630	4,314,324
Inventories	217,019			7,935	224,954
Prepaid items	54,161			7,036	61,197
Restricted cash and cash equivalents			7,703,637	3,780,818	11,484,455
Restricted investments			6,205,276	3,464,781	9,670,057
Total Assets	$ 41,765,696	$ 6,533,657	$ 19,491,120	$ 19,861,816	$ 87,652,289
Liabilities					
Accounts payable	$ 3,870,742	$ 52	$ 1,693,414	$ 1,456,546	$ 7,020,754
Accrued expenditures	1,287,652			6,720	1,294,372
Customer deposits	139,528				139,528
Due to other funds			6,100,000		6,100,000
Unearned revenue	2,607				2,607
Total Liabilities	5,300,529	52	7,793,414	1,463,266	14,557,261
Deferred Inflows of Resources					
Unavailable revenue	1,400,283	269,893		3,734,822	5,404,998
Total Deferred Inflows of Resources	1,400,283	269,893		3,734,822	5,404,998
Fund Balance					
Nonspendable:					
Inventories	217,019			7,935	224,954
Prepaid items	54,161			7,036	61,197
Restricted:					
Debt service		6,263,712		2,978,978	9,242,690
Capital projects			8,700,056		8,700,056
Economic development activities				9,608,501	9,608,501
Public safety				278,116	278,116
Tourism & marketing				1,786,346	1,786,346
Committed	341,202		2,997,650		3,338,852
Assigned	409,335				409,335
Unassigned	34,043,167			(3,184)	34,039,983
Total Fund Balance	35,064,884	6,263,712	11,697,706	14,663,728	67,690,030
Total Liabilities, Deferred Inflows of Resources, and Fund Balance	$ 41,765,696	$ 6,533,657	$ 19,491,120	$ 19,861,816	$ 87,652,289

See Notes to the Basic Financial Statements.

CITY OF SUGAR LAND, TEXAS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION

September 30, 2018

Total fund balance, governmental funds		$ 67,690,030
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 this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. The cost of the assets is $1,008,005,479 and the accumulated depreciation is $378,724,308.		629,281,171
Other long-term assets are not available to pay for current period expenditures and, therefore, are reported as unavailable revenue in the funds.		5,404,998
Deferred charge on refunding amortized over the shorter of the life of the refunded or refunding debt, therefore, are not reported in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		1,663,032
Long-term liabilities, including bonds payable, compensated absences, and sales tax payable are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements. Liabilities at year end related to bonds payable, compensated absences, and sales tax payable consists of:		
Bonds payable, at maturity	$ (267,677,426)	
Accrued interest on the bonds	(1,641,950)	
Premium/discount of bonds payable	(17,506,838)	
Compensated absences	(3,195,822)	
Sales tax obligation	(468,060)	
Net pension liability	(18,613,769)	
Net OPEB liability	(4,979,435)	
		(314,083,300)
Deferred outflows and deferred inflows relating to pension activities are amortized over the expected remaining service lives of all employees that are provided with pensions through the pension plan, therefore, are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		1,552,331
Deferred outflows and deferred inflows relating to OPEB activities are amortized over the expected remaining service lives of all employees that are provided with OPEB through the OPEB plan, therefore, are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		316,134
The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the governmental activities of the Statement of Net Position.		9,478,943
Net Position of Governmental Activities in the Statement of Net Position		$ 401,303,339

See Notes to the Basic Financial Statements.

CITY OF SUGAR LAND, TEXAS

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	General Fund	Debt Service Fund	Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues					
Taxes:					
Property taxes	$ 22,659,218	$ 21,265,277	$	$	$ 43,924,495
Sales tax	40,120,678			6,686,780	46,807,458
Franchise and other taxes	6,351,623			2,845,220	9,196,843
Licenses and permits	3,392,020				3,392,020
Fines and forfeitures	1,724,783			2,957,088	4,681,871
Charges for services	9,572,254		231,700		9,803,954
Investment earnings	351,270	104,509	322,886	270,881	1,049,546
Intergovernmental	631,101	3,651,210	2,641,567	1,545,535	8,469,413
Other	771,951	1,601,308	756,635	612,773	3,742,667
Total Revenues	85,574,898	26,622,304	3,952,788	14,918,277	131,068,267
Expenditures					
Current:					
General government	16,286,471			2,542,212	18,828,683
Administrative services	4,325,775	1,647,389	212,500	92,159	6,277,823
Public safety - Police	23,929,656		25	1,952,131	25,881,812
Public safety - Fire	13,767,947		106,806		13,874,753
Public safety - EMS	2,014,075		2,736		2,016,811
Public works	10,747,689		6,956,479		17,704,168
Parks and recreation	4,718,182		1,241,944		5,960,126
Community development	5,269,134				5,269,134
Environmental and neighborhood services	5,143,190				5,143,190
Debt Service:					
Principal		19,498,344		1,845,000	21,343,344
Interest and other charges		8,794,998	20,575	2,307,046	11,122,619
Capital Outlay			10,723,460	166,946	10,890,406
Total Expenditures	86,202,119	29,940,731	19,264,525	8,905,494	144,312,869
Excess (deficiency) of revenues over expenditures	(627,221)	(3,318,427)	(15,311,737)	6,012,783	(13,244,602)
Other Financing Sources (Uses)					
Tax Note			840,000		840,000
Sale of capital assets	36,569				36,569
Transfers in	7,407,889	4,077,656	671,577	22,993	12,180,115
Transfers (out)	(848,801)	(44,530)	(616,372)	(8,362,912)	(9,872,615)
Total Other Financing Sources and Uses	6,595,657	4,033,126	895,205	(8,339,919)	3,184,069
Net change in fund balance	5,968,436	714,699	(14,416,532)	(2,327,136)	(10,060,533)
Fund balance - beginning	29,096,448	5,549,013	26,114,238	16,990,864	77,750,563
Fund balance - ending	$ 35,064,884	$ 6,263,712	$ 11,697,706	$ 14,663,728	$ 67,690,030

See Notes to the Basic Financial Statements.

CITY OF SUGAR LAND, TEXAS

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Net change in fund balances - total governmental funds:		$ (10,060,533)
Amounts reported for Governmental Activities in the Statement of Activities are different because:		
Governmental funds report outlays for capital assets as expenditures because such outlays use current financial resources. In contrast, the Statement of Activities reports only a portion of the outlay as expense. The outlay is allocated over the assets' estimated useful lives as depreciation expense for the period. This is the amount by which depreciation ($26,173,963) is exceeded by capital outlays ($9,327,417) in the current period.		(16,846,546)
Donated infrastructure does not represent current assets, and therefore is not recognized as revenue in governmental fund financials. The total amount is, however, reflected in the government wide financial statements as program revenue.		8,425,106
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 or 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.		(135,864)
Governmental funds do not present revenues that are not available to pay current obligations. In contrast, such revenues are reported in the Statement of Activities when earned.		1,246,286
Pension contributions made after the net pension liability measurement date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position		5,250,222
OPEB contributions made after the net OPEB liability measurement date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position		76,542
Governmental funds report proceeds from new debt as a current financial resources. In contrast, the Statement of Activities treats such issuance of debt as a liability. Governmental funds report repayment of principal as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount by which repayments exceed proceeds.		
Proceeds from the issuance of long term debt, plus premiums and interest, less issuance costs	(840,000)	
Repayment of long term debt principal	21,361,426	
		20,521,426
Bond issuance costs, deferred charges on bond refunding, and other debt charges which are treated as expenditures or other sources/uses in the fund basis financial statements are set up as assets and amortized in the Statement of Net Position. The net change for each represents an increase/(decrease) in net position.		
Bond premiums/discounts	1,479,694	
Gain/loss on refunding	(141,894)	
		1,337,800
Some expenses reported in the Statement of Activities do not require the use of current financial resources and these are not reported as expenditures in governmental funds.		
Changes in accrued interest	(45,389)	
Changes in accrued compensated absences	(291,673)	
Pension expense for the pension plan measurement year	(5,768,128)	
OPEB expense for the OPEB plan measurement year	(445,734)	
		(6,550,924)
Internal service funds are used by management to charge the costs of certain activities, such as fleet maintenance and information technology, to individual funds. The net revenue (expense) of certain internal service funds is reported with governmental activities.		1,524,348
Change in net position of governmental activities		$ 4,787,863

See Notes to the Basic Financial Statements.

CITY OF SUGAR LAND, TEXAS
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
September 30, 2018

	Business-type Activities - Enterprise Funds					Governmental Activities
	Major Enterprise Funds			NonMajor Enterprise Fund		
	Utility Fund	Airport Fund	Surface Water Fund	Solid Waste Fund	Total	Internal Service Funds
Assets						
Current assets:						
Cash and cash equivalents	$ 2,630,675	$ 991,953	$ 3,130,234	$ 195,844	$ 6,948,706	$ 3,317,608
Cash with fiscal agent						588,000
Investments	21,566,160	4,699,328	10,664,973		36,930,461	3,461,466
Accounts receivable, net of allowance for doubtful accounts	4,036,630	236,174	284,447	981,916	5,539,167	397,894
Interest receivable	260,564	23,061	75,762	193	359,580	19,828
Due from other funds	5,600,000		1,500,000		7,100,000	
Receivables from other governments				60,686	60,686	
Inventories	137,847	163,942			301,789	
Prepaid items	5,946	1,665		1,505	9,116	20,600
Restricted cash and cash equivalents	10,659,107	107,245	5,335,820		16,102,172	
Restricted investments	6,959,598	993,753	3,698,360		11,651,711	
Total current assets	51,856,527	7,217,121	24,689,596	1,240,144	85,003,388	7,805,396
Non-current assets:						
Capital assets not being depreciated:						
Land	2,445,161	20,140,022	804,373		23,389,556	
Construction in progress	5,879,718	20,258,226	17,730,526		43,868,470	
Intangibles	2,230,125		239,970		2,470,095	
Capital assets being depreciated:						
Infrastructure	449,632,176	46,113,408	105,931,300		601,676,884	
Buildings and improvements	6,501,279	17,999,696	435,721		24,936,696	
Equipment and furniture	4,652,733	5,190,014	256,086	84,202	10,183,035	12,580,847
Intangibles	127,704		891,308		1,019,012	30,354
Less accumulated depreciation	(206,354,424)	(29,938,625)	(28,125,782)	(19,982)	(264,438,813)	(8,431,913)
Total non-current assets	265,114,472	79,762,741	98,163,502	64,220	443,104,935	4,179,288
Total Assets	316,970,999	86,979,862	122,853,098	1,304,364	528,108,323	11,984,684
Deferred Outflows of Resources						
Deferred charge on refunding	293,339	270,217	2,125,804		2,689,360	
Deferred outflows relating to pension activities	616,368	353,548	125,909	34,095	1,129,920	
Deferred outflows relating to OPEB activities	24,190	13,875	4,941	1,337	44,343	
Total Deferred Outflows of Resources	933,897	637,640	2,256,654	35,432	3,863,623	
Liabilities						
Current liabilities:						
Accounts payable and accrued expenses	2,742,087	646,194	732,074	704,447	4,824,802	604,534
Accrued interest	372,487	52,647	549,211		974,345	
Due to other funds		1,000,000			1,000,000	
Customer deposits	2,735,668	102,154			2,837,822	
Unearned revenue		14,100			14,100	
Claims and judgments						483,676
Total current liabilities	5,850,242	1,815,095	1,281,285	704,447	9,651,069	1,088,210
Non-current liabilities:						
Due within one year	5,107,346	863,533	3,223,911	210	9,195,000	
Due in more than one year	78,018,984	10,625,256	111,141,825	8,025	199,794,090	
Net pension liability	1,408,622	807,983	287,747	77,920	2,582,272	
Net OPEB liability	376,825	216,146	76,976	20,845	690,792	
Total non-current liabilities	84,911,777	12,512,918	114,730,459	107,000	212,262,154	
Total Liabilities	90,762,019	14,328,013	116,011,744	811,447	221,913,223	1,088,210
Deferred Inflows of Resources						
Deferred inflows relating to pension activities	498,893	286,165	101,912	27,597	914,567	
Deferred inflows relating to OPEB activities	265	152	54	15	486	
Total Deferred Inflows of Resources	499,158	286,317	101,966	27,612	915,053	
Net Position						
Net investment in capital assets	191,557,013	68,658,831	(7,637,718)	64,220	252,642,346	4,179,288
Restricted:						
Debt service	6,997,283	949,187	1,822,924		9,769,394	
Unrestricted	28,089,423	3,395,154	14,810,836	436,517	46,731,930	6,717,186
Total Net Position	$ 226,643,719	$ 73,003,172	$ 8,996,042	$ 500,737	309,143,670	$ 10,896,474

The assets and liabilities of certain internal service funds are not included in the fund financial statement, but are included in the Business Activities of the Statement of Net Position.	1,417,531
Total Net Position per Government-Wide financial statements	$ 310,561,201

See Notes to the Basic Financial Statements.

CITY OF SUGAR LAND, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION

PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Business-type Activities - Enterprise Funds					Governmental Activities
	Major Enterprise Funds			NonMajor Enterprise Fund		
	Utility Fund	Airport Fund	Surface Water Fund	Solid Waste Fund	Total	Internal Service Funds
Revenues						
Charges for services	$ 35,201,203	$ 15,449,972	$ 14,661,214	$ 7,974,887	$ 73,287,276	$ 15,198,437
Total Operating Revenues	35,201,203	15,449,972	14,661,214	7,974,887	73,287,276	15,198,437
Operating Expenses						
Personnel services	4,950,203	2,840,581	899,642	279,871	8,970,297	24,220
Supplies and materials	226,374	8,111,779	90,509	31,533	8,460,195	320,170
Contractual services	8,826,732	1,576,892	3,646,155	7,618,313	21,668,092	171,914
Repairs and maintenance	7,114,690	683,223	1,683,554	5,917	9,487,384	34,443
Other expenses	1,243,637	379,933	309,686	34,610	1,967,866	12,892,819
Depreciation	14,999,576	2,256,634	6,192,851	9,880	23,458,941	1,136,862
Total Operating Expenses	37,361,212	15,849,042	12,822,397	7,980,124	74,012,775	14,580,428
Operating income (loss)	(2,160,009)	(399,070)	1,838,817	(5,237)	(725,499)	618,009
Non-Operating Revenues (Expenses)						
Interest and investment revenue	594,395	94,619	385,764	2,623	1,077,401	56,786
Miscellaneous revenue	15,665	17,228		2,854	35,747	
Intergovernmental		72,500		122,938	195,438	
Gain (loss) on disposal of capital assets	8,536	103			8,639	152,353
Interest expense	(2,715,325)	(382,160)	(7,079,458)		(10,176,943)	
Total Non-operating Revenue (Expenses)	(2,096,729)	(197,710)	(6,693,694)	128,415	(8,859,718)	209,139
Income (loss) before contributions, transfers and special item	(4,256,738)	(596,780)	(4,854,877)	123,178	(9,585,217)	827,148
Capital contributions	5,750,029	6,455,531		27,041	12,232,601	
Transfers in		131,260			131,260	813,200
Transfers out	(2,886,116)	(49,068)	(13,394)	(303,382)	(3,251,960)	
Special item	(2,410,372)				(2,410,372)	
Change in net position	(3,803,197)	5,940,943	(4,868,271)	(153,163)	(2,883,688)	1,640,348
Total net position - beginning	200,865,094	67,255,354	13,032,709	413,038	281,566,195	7,450,217
Prior period adjustment - see Note 16	29,581,822	(193,125)	831,604	240,862	30,461,163	1,805,909
Total net position - ending	$ 226,643,719	$ 73,003,172	$ 8,996,042	$ 500,737	$ 309,143,670	$ 10,896,474

Change in net position per above	$ (2,883,688)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of certain internal service funds is reported with Business Activities.	116,000
Change in Business-Type Activities in Net Position per Government-Wide Financial Statements	$ (2,767,688)

See Notes to the Basic Financial Statements.

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CITY OF SUGAR LAND, TEXAS
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended September 30, 2018

	Business-type Activities - Enterprise Funds					Governmental Activities
	Major Enterprise Funds			NonMajor Enterprise Fund		
	Utility Fund	Airport Fund	Surface Water Fund	Solid Waste Fund	Total	Internal Service Funds
Cash Flows from Operating Activities:						
Receipts from customers and users	$ 34,226,689	$ 15,447,024	$ 14,962,306	$ 7,721,486	$ 72,357,505	$
Receipts from interfund charges for services						15,031,073
Disbursed for personnel services	(4,494,801)	(2,595,315)	(868,456)	(243,042)	(8,201,614)	(24,220)
Disbursed for goods and services	(17,451,141)	(10,933,427)	(6,785,572)	(7,557,133)	(42,727,273)	(12,899,566)
Net cash provided (used) by operating activities	12,280,747	1,918,282	7,308,278	(78,689)	21,428,618	2,107,287
Cash Flows from Non-Capital Financing Activities:						
Transfers from other funds		131,260			131,260	813,200
Transfers to other funds	(2,886,116)	(49,068)	(13,394)	(303,382)	(3,251,960)	
Payment to fiscal agent						(100,000)
Operating grants and contributions		120,700		306,160	426,860	
Net cash provided (used) by noncapital financing activities	(2,886,116)	202,892	(13,394)	2,778	(2,693,840)	713,200
Cash Flows from Capital and Related Financing Activities:						
Proceeds from the sale of equipment	8,536	103			8,639	159,313
Proceeds from the sale of bonds			86,456,778		86,456,778	
Interest payments on debt	(2,739,071)	(406,568)	(7,157,506)		(10,303,145)	
Principal payments on debt	(3,845,000)	(2,607,362)	(3,255,036)		(9,707,398)	
Payments to bond escrow agent			(87,137,402)		(87,137,402)	
Acquisition and construction of capital assets	(6,248,811)	(119,341)	(8,266,907)		(14,635,059)	(1,360,387)
Net cash provided (used) by capital and related financing activities	(12,824,346)	(3,133,168)	(19,360,073)		(35,317,587)	(1,201,074)
Cash Flows from Investing Activities						
Purchase of investments						(92,764)
Sale of investments	8,345,856	1,414,475	19,316,273		29,076,604	512,233
Interest received	508,569	89,935	409,963	2,430	1,010,897	46,667
Net cash provided (used) by investing activities	8,854,425	1,504,410	19,726,236	2,430	30,087,501	466,136
Net increase (decrease) in cash and equivalents	5,424,710	492,416	7,661,047	(73,481)	13,504,692	2,085,549
Cash and equivalents, beginning of year	7,865,072	606,782	805,007	269,325	9,546,186	1,232,059
Cash and equivalents, at end of year	$ 13,289,782	$ 1,099,198	$ 8,466,054	$ 195,844	$ 23,050,878	$ 3,317,608
Unrestricted cash and equivalents	2,630,675	991,953	3,130,234	195,844	6,948,706	$ 3,317,608
Restricted cash and equivalents	10,659,107	107,245	5,335,820		16,102,172	
	$ 13,289,782	$ 1,099,198	$ 8,466,054	$ 195,844	$ 23,050,878	$ 3,317,608
Reconciliation of operating income (loss) to net cash provided by operating activities:						
Operating income (loss)	(2,160,009)	(399,070)	1,838,817	(5,237)	(725,499)	$ 618,009
Adjustments to reconcile operating income (loss) to cash provided (used) by operating activities:						
Depreciation	14,999,576	2,256,634	6,192,851	9,880	23,458,941	1,136,862
(Increase) decrease in accounts receivable	(783,602)	(22,100)	301,092	(253,401)	(758,011)	(3,839)
(Increase) decrease in inventory	(6,462)	11,593			5,131	
(Increase) decrease in prepaid items	(4,676)	4,973		(1,505)	(1,208)	60,305
(Increase) decrease in deferred outflows relating to pension activities	437,048	296,297	148,531	16,499	898,375	
(Increase) decrease in deferred outflows relating to OPEB activities	(24,190)	(13,875)	(4,941)	(1,337)	(44,343)	
Increase (decrease) in accounts payable	(28,570)	(198,166)	(1,055,668)	134,745	(1,147,659)	459,475
Increase (decrease) in salaries payable	(33,806)	14,655	(3,791)	1,350	(21,592)	
Increase (decrease) in customer deposits	(190,912)	19,152			(171,760)	
Increase (decrease) in claims and judgments						(163,525)
Increase (decrease) in net pension liabiliity	(682,833)	(482,221)	(257,126)	(22,530)	(1,444,710)	
Increase (decrease) in net OPEB liabiliity	376,825	216,146	76,976	20,845	690,792	
Increase (decrease) in deferred inflows relating to pension activities	382,093	214,112	71,483	21,987	689,675	
Increase (decrease) in deferred inflows relating to OPEB activities	265	152	54	15	486	
Net cash provided (used) by operating activities	$ 12,280,747	$ 1,918,282	$ 7,308,278	$ (78,689)	$ 21,428,618	$ 2,107,287
Non-cash Transactions:						
Capital assets contributed to City	$ 5,750,029	$ 6,455,531	$	$ 27,041	$ 12,232,601	

See Notes to the Basic Financial Statements.

CITY OF SUGAR LAND, TEXAS

DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES

COMBINING STATEMENT OF NET POSITION

September 30, 2018

	Sugar Land 4B Corporation	Sugar Land Town Square Tax Increment Reinvestment Zone No. 1	Sugar Land Reinvestment Zone No. 3	Sugar Land Reinvestment Zone No. 4	Total Component Units
Assets					
Current assets:					
Cash and cash equivalents	$ 3,290,751	$ 40,478	$ 20,073	$ 2,273,020	$ 5,624,322
Investments	2,714,862				2,714,862
Accounts receivable, net of allowance for doubtful accounts	1,144,311	2,251	2,217	4,013	1,152,792
Interest receivable	30,551	19	23	3,332	33,925
Prepaid items	5,935				5,935
Restricted cash and cash equivalents	1,961,243		30,445		1,991,688
Restricted investments	1,489,654				1,489,654
Total Assets	10,637,307	42,748	52,758	2,280,365	13,013,178
Deferred Outflows of Resources					
Deferred charge on refunding	87,770				87,770
Total Deferred Outflows of Resources	87,770				87,770
Liabilities					
Current liabilities:					
Accounts payable and accrued expenses	483,673		12,342		496,015
Accrued interest	172,974				172,974
Total current liabilities	656,647		12,342		668,989
Non-current liabilities:					
Due within one year	2,059,598				2,059,598
Due in more than one year	28,126,980				28,126,980
Total non-current liabilities	30,186,578				30,186,578
Total Liabilities	30,843,225		12,342		30,855,567
Net Position					
Restricted:					
Debt service	3,277,923				3,277,923
Economic development activities		42,748	40,416	2,280,365	2,363,529
Unrestricted	(23,396,071)				(23,396,071)
Total Net Position	$ (20,118,148)	$ 42,748	$ 40,416	$ 2,280,365	$ (17,754,619)

See Notes to the Basic Financial Statements.

CITY OF SUGAR LAND, TEXAS

DISCRETELY PRESENTED COMPONENT UNITS - GOVERNMENTAL ACTIVITIES

COMBINING STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

		Program Revenues	Net (Expense) Revenue and Changes in Net Position				
Functions/Programs	**Expenses**	**Operating Grants and Contributions**	**Sugar Land 4B Corporation**	**Sugar Land Town Square Tax Increment Reinvestment Zone No. 1**	**Sugar Land Reinvestment Zone No. 3**	**Sugar Land Reinvestment Zone No. 4**	**Totals**
Component Unit:							
Sugar Land 4B Corporation	$ 4,229,123	$ 156,156	$ (4,072,967)	$	$	$	$ (4,072,967)
Sugar Land Town Square Tax Increment Reinvestment Zone No. 1	1,531,653			(1,531,653)			(1,531,653)
Sugar Land Reinvestment Zone No. 3	650,168				(650,168)		(650,168)
Sugar Land Reinvestment Zone No. 4	50,500					(50,500)	(50,500)
	$ 6,461,444	$ 156,156	(4,072,967)	(1,531,653)	(650,168)	(50,500)	(6,305,288)
General revenues							
Taxes:							
Property taxes				1,546,935	624,568	697,569	2,869,072
Sales tax			6,719,740				6,719,740
Miscellaneous			80,000				80,000
Unrestricted investment earnings			140,334	6,680	289	29,722	177,025
Total general revenues			6,940,074	1,553,615	624,857	727,291	9,845,837
Change in net position			2,867,107	21,962	(25,311)	676,791	3,540,549
Net position - beginning			(22,985,255)	20,786	65,727	1,603,574	(21,295,168)
Net position - ending			$ (20,118,148)	$ 42,748	$ 40,416	$ 2,280,365	$ (17,754,619)

See Notes to the Basic Financial Statements.

Note 1 – Summary of Significant Accounting Policies

The City of Sugar Land, Texas, (the "City") was incorporated in 1959 and adopted a "Home Rule Charter" in November 1980. The Charter, as amended, provides for a Council-Manager form of government. The Council is composed of a Mayor and six Council Members, two of which are elected at large and four of which are elected by District, each serving two-year terms. The Mayor and Council Members can serve no more than four consecutive regular two-year terms.

The Mayor presides at Council meetings and is entitled to vote on all matters considered by Council. All powers of the City are vested in the Council. Such powers include: appointment of the City Manager, boards, and commissions; adoption of the budget; authorization of bond issues; and adoption of ordinances and resolutions as deemed necessary, desirable, and beneficial to the City.

A. Financial Reporting Entity

The City is an independent political subdivision of the State of Texas governed by an elected council and a mayor and is considered a primary government. As required by accounting principles generally accepted in the United States of America, these financial statements have been prepared based on considerations regarding the potential for inclusion of component units, which are other legal entities or organizations that are financially accountable to the City. Blended component units, although legally separate entities, are, in substance, part of the government's operations, and as a result, data from these units are combined with data of the primary government. Based on these considerations, the City's financial statements include the Sugar Land Development Corporation as a blended component unit. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide statements to emphasize that they are legally separate from the primary government. Based on these considerations, the City's financial statements include the following discretely presented component units: the Sugar Land 4B Corporation, the Sugar Land Town Square TIRZ 1, the Sugar Land TIRZ 3, and the Sugar Land TIRZ 4. No other entities have been included in the City's reporting entity. Additionally, as the City is considered a 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 prescribed criteria considered in determining that the City's financial reporting entity status is that of a 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 under generally accepted accounting principles include; considerations pertaining to organizations for which the primary government is financially accountable; and considerations pertaining to other 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. The component units discussed below are included in the City's reporting entity because of the significance of their operational or financial relationships with the City.

Note 1 – Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Blended Component Unit:

Sugar Land Development Corporation

The Sugar Land Development Corporation (the "Corporation") has been included in the reporting entity as a blended component unit. In 1993, the Corporation was created by the City under the Texas Development Corporation Act of 1979 for the purpose of promoting, assisting, and enhancing economic and development activities on behalf of the City. Effective October 1, 2005, the Board of Directors consists of members of the City Council. In the event of dissolution, net position of the Corporation shall be conveyed to the City. The Corporation is blended rather than discretely presented because the Corporation's governing body is the same as the City's and the management of the City has operational responsibility for the Corporation.

Discretely Presented Component Units:

Sugar Land 4B Corporation

In 1995, the City of Sugar Land formed the Sugar Land 4B Corporation (the "4B Corporation"), which was created by voters approving an additional sales tax. State law allows the City to collect sales tax to assist in the promotion and development activities of the City. The 4B Corporation has been included as a discretely presented component unit in the City's financial statements. The Board of Directors is appointed by and serves at the discretion of the City Council. City Council approval is required for annual budgets and bonded debt issuance. In the event of dissolution, net position of the 4B Corporation shall be conveyed to the City.

Sugar Land Town Square Tax Increment Reinvestment Zone No. 1

In 2000, the City of Sugar Land formed the Sugar Land Town Square Tax Increment Reinvestment Zone No. 1 (TIRZ 1), which was created under the authority of Tax Increment Financing Act, as codified as Chapter 311 of the Texas Tax Code. TIRZ 1 is a financing and management tool for the City in providing public facilities and infrastructure for a 32-acre multi-use development. TIRZ 1 has been presented as a discretely presented component unit in the City's financial statements. The participants include Fort Bend County, First Colony LID #2 and the City at 100% of incremental value. The Board of Directors consists of nine members. Fort Bend County appoints one position, the State Senator appoints one position and the State Representative of the area included within the zone appoints one position. The remaining six members are appointed by City Council. City Council has the authority to approve or disapprove TIRZ 1 projects.

Sugar Land Reinvestment Zone No. 3

In 2007, the City of Sugar Land formed the Sugar Land Reinvestment Zone No. 3 (TIRZ 3), which was created under the provisions of the Chapter 311 of the Texas Tax Code for the purposes of promoting and development and redevelopment of a contiguous area within the City. TIRZ 3 is a financial tool with resources from property taxes to be utilized in providing public improvements in TIRZ 3. The City participates at 50% of increment over the 2007 base value plus 50% of sales taxes within the historic district. Fort Bend County General Fund participates at 50% based on an increment over the 2013 tax base. Fort Bend County Drainage District does not participate. TIRZ 3 has been presented as a discretely presented component unit in the City's financial statements. The Board of Directors consists of five members of which the City Council appoints four members and Fort Bend County has the authority to appoint one member. City Council has the authority to approve or disapprove TIRZ 3 projects.

Note 1 – Summary of Significant Accounting Policies (continued)

A. Financial Reporting Entity (continued)

Sugar Land Reinvestment Zone No. 4

In 2009, the City of Sugar Land formed Reinvestment Zone Number Four (TIRZ 4) through Ordinance 1768 under the provisions of Chapter 311 of the Texas Tax Code. The purpose of the Zone is to use tax increment revenue to finance public improvements and facilities necessary to support the development of a high-quality mixed use center with retail, office and entertainment uses. The City participates at a rate of 50 percent of their ad valorem tax rate above the 2009 tax base over the 30 year life of the Zone. Fort Bend County Municipal Utility District Nos. 138 and 139 have also agreed to contribute at a rate of 50 percent of the City's tax rate via participation agreements in 2011, while Fort Bend County Municipal Utility District No. 137 has yet to formalize a participation agreement. Participation agreements were formalized with Fort Bend County and the Fort Bend County Drainage District in January 2014 with a 2013 tax base. These agreements provide for 50 percent participation Years 2014 through 2029, 30 percent Years 2030 through 2034, and 20 percent Years 2035 through 2039; however, revenues were not captured until Tax Year 2014 (Fiscal Year 2015). The Board of Directors for TIRZ 4 consists of nine members, with four members appointed by the City, and one member appointed by each of the remaining taxing entities. Board members representing taxing entities that have yet to participate in the Zone have not been officially accepted as full recommending and voting members. The City Council has the final authority to approve or disapprove the TIRZ 4 Final Project Plan. TIRZ 4, which has one fund, has been presented as a discretely presented component unit in the City's financial statements.

Separately issued audited financial statements are not issued for the discretely presented component units. Information on the discretely presented component units is presented as separate combining statements within the basic financial statements of the City (following the basic financial statements for the funds). Unaudited financial statements may be obtained from the City's Finance Department.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information about the City as a whole. These statements include all activities of the primary government and its component units. For the most part, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this general rule are charges between the City's business-type and governmental funds and interfund loans. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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 that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported as general revenues.

Note 1 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements and all proprietary funds are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets, deferred outflows of resources, and all liabilities associated with the operations of these activities are included on the statements of net position. Proprietary fund-type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. All capital assets in the Proprietary Fund Types are valued at cost.

The governmental fund financial statements are presented on a *current financial resources measurement focus* and *modified accrual basis of accounting*. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Measurable means that the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Revenues susceptible to accrual include sales and use taxes, franchise taxes, charges for services and interest on temporary investments. Property tax levies collected after the fiscal year-end, which would be available to finance current operations, are immaterial and remain deferred. Other receipts become measurable and available when cash is received by the government and are recognized as revenue at that time.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on general long-term debt, which is recognized when due. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund-based financial statements with the governmental column of the government-wide presentation.

In the fund financial statements, the accounts of the City are organized on the basis of funds, 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, deferred inflows of resources, fund equity, revenues, and expenditures or expenses, as appropriate. Following is a description of the various funds:

Governmental funds are those funds through which most governmental functions are typically financed. The City reports the following major 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, administrative services, public works, parks and recreation, community development, and public safety.

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 principal source of revenue for debt service is local property taxes. The Debt Service Fund is considered a major fund for reporting purposes.

The *Capital Projects Fund* is used to account for the expenditures of resources accumulated from the sale of bonds and related interest earnings for capital improvement projects. The Capital Projects Fund is considered a major fund for reporting purposes.

Note 1 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

The City's Business type activities consist of the following major proprietary funds:

The *Utility Fund* is used to account for the City's water and wastewater services. The primary source of revenue is charges for service and the expenditures relate to operating expenses and capital expenditures for purchases and improvements.

The *Airport Fund* is used to account for the City's airport services. The primary source of revenue is charges for service and the expenditures relate to operating expenses and capital expenditures for purchases and improvements.

The *Surface Water Fund* is used to account for the City's surface water services. The primary source of revenue is charges for service and the expenditures relate to operating expenses and capital expenditures for purchases and improvements.

In addition, the City's Business type activities includes the following nonmajor proprietary fund:

The *Solid Waste Fund* is used to account for the City's solid waste services. The primary source of revenue is charges for service and the expenditures relate to operating expenses.

The *Enterprise Funds* are used to account for the operations that provide water and wastewater utility services to the public, solid waste disposal operations, and general aviation services. 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 (expenses including depreciation) of providing goods or services to the general public on a continuing basis will be financed or recovered primarily through user charges.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

Additionally, the City maintains *Internal Service Funds* used to account for the financing of goods or services provided by one department or program to other departments or programs of the City on a cost-reimbursement basis. These funds are presented, in summary form, as part of the proprietary fund financial statements. Since the principal users of the internal services are the City's governmental activities, financial activities of the internal service funds are presented in the governmental activities column when presented at the government-wide level. The costs of these services are allocated to the appropriate function/program (general government, public safety, public works, etc.) in the statement of activities. Goods and services provided by the Internal Service Funds include employee health benefits, fleet replacement and high technology replacement.

The City uses the following classifications to describe the relative spending constraints on the various categories of fund balance. These clearly defined fund balance categories make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

Note 1 – Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)

Non-spendable fund balance – amounts that are not in spendable form or are legally or contractually required to be maintained intact.

Restricted fund balance – amounts that are subject to external restrictions from creditors, grantors, contributors, or laws of other governments.

Committed fund balance – amounts constrained for specific purposes as determined by the City itself, using its highest level of decision-making authority (i.e. City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution. City Council will approve obligations of funds, such as multi-year contracts, prior to the end of the fiscal year.

Assigned fund balance – amounts the City intends to use for a specific purpose that is neither restricted or committed and includes the remaining positive fund balance of all governmental funds except for the General Fund. Balances for encumbrances, other than those committed by City Council, fall into this category. Intent can be established by City Council or delegated to the City Manager. City Council has by Resolution 14-24 authorized the City Manager to assign fund balance.

Unassigned fund balance – amounts that are available for any purpose. Positive amounts are reported only in the General Fund.

The City will typically use restricted fund balances first, followed by committed resources, and then assigned resources, as appropriate opportunities arise, but reserves the right to selectively spend unassigned resources first to defer the use of these other classified funds.

The City will maintain the General Fund unassigned fund balance equivalent to three months of normal recurring operating costs, based on current year budgeted expenditures. If the fund balance exceeds this amount, the amount in excess of policy requirements may be utilized to fund one-time expenditures in the next fiscal year’s budget.

D. Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Open encumbrances are reported as committed or assigned fund balances since they do not constitute expenditures or liabilities. Encumbrances outstanding at year-end are appropriately provided for in the subsequent year's budget.

As of September 30, 2018, outstanding purchase orders totaled $750,537; these were the result of normal operations. Encumbrances are liquidated with existing resources, City Council has committed $341,202 and the City Manager has assigned $409,335 in the General Fund to liquidate outstanding purchase orders as of September 30, 2018.

Note 1 – Summary of Significant Accounting Policies (continued)

E. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, balances in privately managed public funds investment pools ("TexPool" and "TexSTAR"), balances in a governmental money market mutual fund 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 pools cash resources of its various funds to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing securities and disclosed as part of the City's investments.

The City pools excess cash of the various individual funds to purchase these investments. These pooled investments are reported in the combined balance sheet as Investments in each fund based on each fund's share of the pooled investments. Interest income is allocated to each respective individual fund, monthly, based on their respective share of investments in the pooled investments. The City's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*.

F. Investments

Investments consist of United States (U.S.) Government and Agency securities and certificates of deposits. The City reports all investments at fair value based on quoted market prices at year-end date.

The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; level 3 inputs are significant unobservable inputs.

G. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Estimated unbilled revenues from the Utility System Fund are recognized at the end of each fiscal year on a pro rata basis. The estimated amount is based on billings during the month following the close of the fiscal year.

H. Internal Balances

The effect of interfund activity has been removed from the financial statements, with the exception of amounts between governmental and business-type activities, which are presented as internal balances. Goods and services provided by the City's internal service funds are charged as direct costs to the enterprise funds that received those goods and services.

Note 1 – Summary of Significant Accounting Policies (continued)

I. Inventories and Prepaid Items

Inventories of the General and Enterprise Funds are valued at weighted moving average, except for airport fuel which is valued at market value. Inventories for all funds consist of expendable supplies held for consumption, and the cost thereof is recorded as an expense/expenditure at the time the inventory items are issued (consumption 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.

J. Restricted Assets

The Enterprise Funds have restricted certain cash and investments for customer deposits, reserve and emergency expenditures, cash restricted for other purposes, and revenue bond debt service. Because of certain bond covenants, the Enterprise Fund is required to maintain prescribed amounts of resources that can be used only to service outstanding debt. The proceeds from debt are restricted for use on capital projects. Additionally, the Sugar Land Development Corporation and the Sugar Land 4B Corporation have restricted certain cash and investments for revenue bond debt service, and because of certain bond covenants, they are required to maintain prescribed amounts of resources that can be used only to service outstanding debt.

K. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial 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 reporting period and thus, will not be recognized as an outflow of resources (expense) until that time. The City has three items that qualify for reporting in this category.

- *Deferred outflows of resources for refunding* - Reported in the government-wide statement of net position, this 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.

- *Deferred outflows of resources for pension activities* - Reported in the government wide financial statement of net position, this deferred outflow results from pension plan contributions made after the measurement date of the net pension liability and the results of 1) differences between projected and actual earnings on pension plan investments; 2) changes in actuarial assumptions; and 3) differences between expected and actual actuarial experiences. The deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the next fiscal year. The deferred outflows resulting from differences between projected and actual earnings on pension plan investments will be amortized over a closed five year period. The remaining pension related deferred outflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

Note 1 – Summary of Significant Accounting Policies (continued)

K. Deferred Outflows/Inflows of Resources (continued)

- *Deferred outflows of resources for other post-employment benefits (OPEB)* – Reported in the government wide financial statement of net position, these deferred outflows result from OPEB plan contributions made after the measurement date of the net OPEB liability and the results of changes in assumptions and other inputs. The deferred outflows of resources resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability in the next fiscal year. The other OPEB related outflow will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with OPEB benefits, which is currently between 5.75 and 10.12 years, depending on the plan.

In addition to liabilities, the statement of financial position 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 reporting period and thus, will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualifies for reporting in this category.

- *Deferred inflows of resources for unavailable revenues* - Reported only in the governmental funds balance sheet, unavailable revenues from property taxes, photographic traffic enforcement and EMS services arise under the modified accrual basis of accounting. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

- *Deferred inflows of resources for pension activities* - Reported in the government wide financial statement of net position, these deferred inflows result primarily from 1) changes in actuarial assumptions and 2) differences between expected and actual actuarial experiences. These pension related deferred inflows will be amortized over the expected remaining service lives of all employees (active and inactive employees) that are provided with pensions through the pension plan.

- *Deferred inflows of resources for other post-employment benefits (OPEB)* – Reported in the government wide financial statement of net position, these deferred inflows result primarily from differences between expected and actual experience. These amounts will be amortized over the expected remaining service lives of all employees (active and inactive employees) who are provided with OPEB, which is currently 10.12 years.

Note 1 – Summary of Significant Accounting Policies (continued)

L. Capital Assets

Capital assets used in governmental fund types of the government are recorded as expenditures of the General, Special Revenue and Capital Projects Funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Depreciation is recorded on capital assets on a government-wide basis. Property, Plant, and Equipment in the Proprietary Funds of the government are recorded at cost or at the estimated fair value at the date of donation if donated to the City. Property, Plant, and Equipment acquired from Municipal Utility Districts (MUDs) are recorded at the book value of the MUD at the date of dissolution. Major outlays for capital assets and improvements are capitalized in Proprietary Funds as projects are constructed and subsequently depreciated over their estimated useful lives on a straight-line basis at both the proprietary fund and government-wide levels. All capital assets are valued at historical cost or estimated historical cost if actual cost was not available. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' original estimated useful lives are charged to operations when incurred. Expenditures that materially change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation, if applicable, are eliminated from the respective accounts and resulting gain or loss is included in the results of operations.

Depreciation has been provided for plant and equipment with estimated useful lives of three or more years and individual cost in excess of $5,000 using the straight-line method over the following estimated useful life for the type of assets as follows:

Asset Description	Estimated Useful Life
Vehicles	3 to 7 years
Office furniture and equipment	3 to 20 years
Machinery and equipment	6 to 15 years
Water and wastewater system	10 to 50 years
Airport facilities and improvements	20 to 45 years
Buildings, facilities and land improvements	15 to 45 years
Infrastructure	20 to 50 years
Organizational cost of acquired MUDs	40 years

M. Compensated Absences

Employees earn vacation based on years of service with the City. Employees are paid unused vacation time to a maximum of 160 hours upon termination, depending on longevity, but may not otherwise elect to be paid in lieu of vacation.

Sick leave credit accrues at the rate of one day for each month of service. Full-time employees are, upon voluntary termination and in good standing or retirement, paid for unused sick leave to a maximum of 40 or 80 hours of such pay, depending on years of service. The General Fund has typically been used to liquidate governmental activity compensated absences in prior years.

Note 1 – Summary of Significant Accounting Policies (continued)

N. Pensions

For purposes of measuring the net pension liability, pension related deferred outflows and inflows of resources, and pension expense, City specific information about its Fiduciary Net Position in the Texas Municipal Retirement System (TMRS) and additions to/deductions from the City'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 Total Pension Liability is obtained from TMRS through a report prepared for the City by TMRS consulting actuary, Gabriel Roeder Smith & Company, in compliance with Governmental Accounting Standards Board (GASB) Statements No. 68 and No. 71.

O. 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 and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

P. Deficit Equity

The Sugar Land 4B Corporation had deficit net position of $20 million as of September 30, 2018. The deficit results from the component unit issuing debt and constructing or purchasing capital assets which are then conveyed to the primary government.

The Photographic Traffic Enforcement Fund had a deficit fund balance of $3,184 as of September 30, 2018. The deficit results primarily from a transfer of 50% of net revenues for traffic safety calculated on a cash basis as described in Note 7. The minimal deficit position is expected to be self-correcting in fiscal year 2019.

Q. Budgets

Annual appropriated budgets are adopted for the General, Special Revenue, and Debt Service Funds, using the same cash basis of accounting.

Note 1 - Summary of Significant Accounting Policies (continued)

R. New Accounting Standards

In the current fiscal year, the City implemented the following new standards. The applicable provisions of these new standards are summarized here. Implementation is reflected in the financial statements and the notes to the financial statements.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, establishes accounting and financial reporting standards related to government combinations and disposals of government operations. This Statement requires measurements of assets acquired and liabilities assumed generally to be based upon their acquisition values.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB).* This Statement replaces the requirements of Statement 45 and requires governments to report a liability on the face of the financial statements for the OPEB that they provide. Statement 75 requires governments in all types of OPEB plans to present more extensive note disclosures and required supplementary information (RSI) about their OPEB liabilities. Among the new note disclosures is a description of the effect on the reported OPEB liability of using a discount rate and a healthcare cost trend rate that are one percentage point higher and one percentage point lower than assumed by the government. The new RSI includes a schedule showing the causes of increases and decreases in the OPEB liability and a schedule comparing a government's actual OPEB contributions to its contribution requirements.

GASB Statement No. 85, *Omnibus 2017.* This Statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits).

Note 2 - Deposits (Cash) and Investments

Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City.

In accordance with applicable statutes, the City has a depository contract with an area bank (depository) providing for interest rates to be earned on deposited funds and for banking charges the City incurs for banking services received. The City may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. City policy requires the collateralization level to be at least 102% of market value of principal and accrued interest.

Note 2 - Deposits (Cash) and Investments (continued)

Deposit and Investment Amounts

The Council has adopted a written investment policy regarding the investment of City funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). The investments of the City are in compliance with the City's investment policy. The City's investment policy is more restrictive than the PFIA requires. It is the City's policy to restrict its direct investments to obligations of the U.S. Government or U.S. Government Agencies, fully FDIC insured certificates of deposit, banker's acceptances, mutual funds, repurchase agreements and local government investment pools. The maximum maturity allowed is three years from date of purchase.

The City's investment policy does not allow investments in commercial paper, collateralized mortgage obligations, floating rate investments or swaps.

The City's cash and investments are classified as: Cash and cash equivalents, investments, restricted cash and cash equivalents, and restricted investments. The investments which have maturities at purchase greater than three months consist mainly of U.S. Government treasury bills, treasury notes, and other U.S. Government obligations. The restricted cash and investments are assets restricted for specific use and include the same investment vehicles as the unrestricted categories. For better management of cash, the City pools the cash, based on the City's needs, into either deposits in the bank accounts, in short-term investments with TexPool, TexSTAR, and a governmental security money market mutual fund or in longer-term investments in U.S. Government Securities. However, each fund's balance of cash and investments is maintained separately in the records of the City.

The following schedule shows the City's recorded cash and investments at year-end:

	Total Fair Value	
	Primary Government	Discretely Presented Component Units
Cash Deposits	$ 985,633	$ 366,355
Governmental Mutual Fund	32,528,004	6,826,701
Certificates of Deposit	5,933,191	1,483,776
Temporary Investments:		
Government securities:		
FHLB	29,772,823	1,972,230
FHLMC	25,795,082	
FFCB	19,125,322	748,510
FNMA	11,851,350	
FAMCA	1,990,562	
Public Funds Investment Pools:		
TexPool	6,456,457	422,954
TexSTAR	12,588,487	
	$ 147,026,910	$ 11,820,526

Note 2 - Deposits (Cash) and Investments (continued)

Deposit and Investment Amounts (continued)

The City's total cash deposits, including certificates of deposit at September 30, 2018 were entirely covered by collateralized securities held in the City's name or by federal deposit insurance.

At September 30, 2018, the City invested in a governmental money market mutual fund (Wells Fargo Government Money Market Fund) as part of its investment strategy. This investment is accomplished through daily sweeps of excess cash by the City's custodial bank into a bank-sponsored short-term investment fund. This fund is a custodial bank-sponsored commingled fund that is invested in short-term U.S. government agency and treasury debt and repurchase agreements.

At year-end the Fund was rated AAAm by Standard & Poor's

Investments' fair value measurements are as follows at September 30, 2018:

		Fair Value Measurements Using		
Investments	**Fair Value**	**Level 1 Inputs**	**Level 2 Inputs**	**Level 3 Inputs**
Certificates of Deposit	$ 7,416,967	$ 7,416,967	$	$
Government securities:				
FHLB	31,745,052		31,745,052	
FHLMC	25,795,082		25,795,082	
FFCB	19,873,832		19,873,832	
FNMA	11,851,350		11,851,350	
FAMCA	1,990,562		1,990,562	
Total	$ 98,672,845	$ 7,416,967	$ 91,255,878	$

Note 2 - Deposits (Cash) and Investments (continued)

Deposit and Investment Amounts (continued)

Quoted market prices are the basis of the fair value for U.S. Agency securities. The amount of increase or decrease in the fair value of investments during the current year is included in the City's investment income as follows:

	Primary Government	Discretely Presented Component Units
Interest income	$ 2,497,860	$ 150,834
temporary investments	(314,127)	26,191
Investment earnings	$ 2,183,733	$ 177,025

Interest Rate Risk

At year-end, the City had the following investments subject to interest rate risk disclosure, under U.S. generally accepted accounting principles:

	Fair Value		
	Primary Government	Discretely Presented Component Units	Weighted Average Maturity (days)
Cash Deposits	$ 985,633	$ 366,355	1
Governmental Mutual Fund	32,528,004	6,826,701	27
Certificate of Deposits	5,933,191	1,483,776	349
Temporary Investments:			
Government securities:			
U.S. Agency Securities	88,535,139	2,720,740	344
Public Funds Investment Pools:			
TexPool	6,456,457	422,954	28
TexSTAR	12,588,487		30
	$ 147,026,910	$ 11,820,526	
Portfolio weighted average maturity (days)	231	124	

The City measures interest rate risk using the weighted average maturity method for the portfolio. The City's investment policy specifies a maximum weighted average maturity of 90 days for public fund investment pools and 1,095 days for securities. The targeted maximum weighted average maturity allowed, based on the stated maturity date, for the portfolio is 548 days or 18 months.

To the extent possible, the City attempts to match investments with anticipated cash flow requirements. The settlement date is considered the date of purchase.

Note 2 - Deposits (Cash) and Investments (continued)

Local Government Investment Pools

As of September 30, 2018, the City's investments included TexPool and TexSTAR Investment Pools. The investment pool's investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

TexPool policies require that local government deposits be used to purchase investments authorized by the Public Funds Investment Act (PFIA) of 1987, as amended. The Texas State Comptroller of Public Accounts has oversight responsibility for TexPool. TexPool is a public funds investment pool created by the Texas Treasury Safekeeping Trust Company (Trust Company) to provide a safe environment for the placement of local government funds in authorized short-term, fully collateralized investments, including direct obligations of, or obligations guaranteed by, the United States or State of Texas or their agencies; federally insured certificates of deposit issued by Texas banks or savings and loans; and fully collateralized direct repurchase agreements secured by United States Government agency securities and placed through a primary government securities dealer.

The Trust Company was incorporated by the State Treasurer by authority of the Texas Legislature as a special purpose trust company with direct access to the services of the Federal Reserve Bank to manage, disburse, transfer, safe keep, and invest public funds and securities more efficiently and economically. 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. TexPool uses amortized cost rather than fair value to report net position to compute share prices. The fair value of the position in TexPool is the same as the value of TexPool shares. Accordingly, the City's investments in TexPool are stated at cost, which approximates fair value. TexPool is currently rated AAAm by Standard and Poor's. This rating indicates excellent safety and a superior capacity to maintain principal value and limit exposure to loss.

TexSTAR is administered by First Southwest Asset Management, Inc. and JPMorgan Chase. TexSTAR is a local government investment cooperative created under the Interlocal Cooperation Act specifically tailored to meet state and local government investment objectives of preservation of principal, daily liquidity and competitive yield. The fund maintains a maturity of 60 days or less, with a maximum of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of Texas PFIA for local government investment pools.

TexSTAR is overseen by a five member governing board made up of three participants and one of each of the program's professional administrators. The responsibility of the board includes the ability to influence operations, designation of management, and accountability for fiscal matters. In addition, the pool has a Participant Advisory Board which provides input and feedback on the operations and direction of the program and Standard and Poor's reviews the pool on a weekly basis to ensure the pool's compliance with its rating requirements. TexSTAR uses amortized cost (which excludes unrealized gains and losses) rather than fair value to report net assets to compute share price. The fair value of the City's position in TexSTAR is the same as the value of TexSTAR shares.

In accordance with GASB Statement No. 79, *Certain External Investment Pools and Pool Participants,* the Local Government Investment Pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

Note 2 - Deposits (Cash) and Investments (continued)

Concentration of Credit Risk

The City's investment policy allows investments by type based on the following diversification requirements:

Investment Type	Maximum Investment %
Repurchase Agreements	up to 50%
Certificates of Deposit	up to 50%
U.S. Treasury Bills/Notes	up to 100%
Other U.S. Government Securities	up to 75%
Authorized Investment Pools	up to 75% total
Bankers' Acceptances	up to 25%
No Load Money Market Mutual Funds	up to 50%
No Load Mutual Funds	up to 10% total

The City had investments in U.S. Agency securities that exceeded five percent of the total investment portfolio at year-end. The City investment policy allows these investment levels for the portfolio.

Investment Type	Fair Value	Percentage of Total Portfolio
Cash Deposits	$ 595,849	0.4%
Money Market Mutual Fund	40,110,843	25.3%
Certificates of Deposit	7,416,967	4.7%
Temporary Investments:		
Government securities:		
FHLB	31,745,053	20.0%
FHLMC	25,795,082	16.2%
FFCB	19,873,832	12.5%
FNMA	11,851,350	7.5%
FAMCA	1,990,562	1.3%
Total government securities	91,255,879	57.4%
Public Funds Investment Pools:		
TexPool	6,879,411	4.3%
TexSTAR	12,588,487	7.9%
	$ 158,847,436	100.0%

Credit Risk

At year-end balances in TexPool and TexSTAR, privately managed public funds investment pools, were rated AAAm by Standard & Poor's.

Securities from Federal Home Loan Banks (FHLB), Federal Home Loan Mortgage Corporation (FHLMC), Federal Farm Credit Banks (FFCB), Federal National Mortgage Association (FNMA), and Federal Agricultural Mortgage Corporation (FAMCA) were all rated AA+ by Standard & Poor's, AAA by Fitch Ratings, and Aaa by Moody's Investors Service.

Note 2 - Deposits (Cash) and Investments (continued)

Credit Risk (continued)

All credit ratings meet acceptable levels required by guidelines prescribed by both the PFIA and the City's investment policy. A public fund investment pool must be continuously rated no lower than AAA or AAAm or no lower than investment grade by at least one nationally recognized rating service and have a weighted average maturity no greater than 90 days. Investments with minimum required ratings do not qualify as authorized investments during the period the investment does not have the minimum rating.

Restricted Assets

The Enterprise Funds have restricted certain cash and cash equivalents and investments for reserve and emergency expenditures, revenue bond debt service, and other purposes. Because of certain bond covenants, the Enterprise Fund is required to maintain prescribed amounts of resources that can be used only to service outstanding debt. Some of the proceeds from debt or from funds received from acquisition of Municipal Utility Districts are restricted for use on capital projects.

The amounts of the restricted cash and cash equivalents and investments and their respective purpose in the Enterprise Funds are as follows:

Restricted Purpose	Cash and Cash Equivalents	Investments
Restricted for Capital Projects	$ 9,085,947	$ 7,924,197
Restricted for Debt Service	7,016,225	3,727,514
Total	$ 16,102,172	$ 11,651,711

The Sugar Land 4B Corporation has restricted certain cash and investments for revenue bond debt service. This is done to comply with certain bond covenants that require funds to be reserved and used only to service outstanding debt.

Restricted cash, cash equivalents and investments are also reported in governmental funds and are restricted for the specific purposes of those particular funds.

Note 3 - Receivables

Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The Central Appraisal District ("CAD") of Fort Bend County, Texas, establishes appraised values, and performs billing and collection of the City's tax levies. Taxes are levied by the City Council based on the appraised values and in accordance with the adopted budget.

Note 3 – Receivables (continued)

Receivables at September 30, 2018, consist of the following:

Governmental Funds:

	General Fund	Debt Service Fund	Capital Projects Fund	Non -Major Governmental Funds	Total
Property taxes, including penalties and interest	$ 741,525	$ 269,893	$	$	$ 1,011,418
Sales and other taxes	7,414,839				7,414,839
Fines and forfeitures	1,895,598			8,089,961	9,985,559
Interest	107,547	32,447	30,401	37,333	207,728
Other	1,016,608			582,900	1,599,508
Due from other governments	82,144		4,096,550	135,630	4,314,324
Allowance for uncollectibles	(1,983,279)			(3,210,745)	(5,194,024)
Total	$9,274,982	$ 302,340	$ 4,126,951	$ 5,635,079	$ 19,339,352

Proprietary Funds:

	Utilities Fund	Airport Fund	Surface Water Fund	Solid Waste Fund	Internal Service Funds	Total
Customer accounts	$4,242,628	$ 253,530	$ 305,207	$ 837,170	$	$ 5,638,535
Interest	260,564	23,061	75,762	193	19,828	379,408
Other				226,141	397,894	624,035
Allowance for uncollectibles	(205,998)	(17,356)	(20,760)	(20,709)		(264,823)
Total	$4,297,194	$ 259,235	$ 360,209	$ 1,042,795	$ 417,722	$ 6,377,155

Component Units:

	Sugar Land 4B Corporation	Sugar Land Town Square TIRZ #1	Sugar Land TIRZ #3	Sugar Land TIRZ #4	Total
Sales and other taxes	$ 1,144,311	$ 2,251	$ 2,217	$ 4,013	$ 1,152,792
Interest	30,551	19	23	3,332	33,925
Total	$ 1,174,862	$ 2,270	$ 2,240	$ 7,345	$ 1,186,717

Note 4 - Capital Assets

During the current fiscal year, upon the dissolution of nine Municipal Utility Districts as described in Note 16, the City's governmental activities assumed $86,270,976 capital assets and $36,435,170 related accumulated depreciation, and the City's business-type activities assumed $58,857,687 capital assets and $32,993,741 related accumulated depreciation. In accordance with *GASB Statement No. 69* as described in Notes 1 and 16 to the financial statements, the capital assets are recognized and measured at the beginning of the current fiscal year, as such, the beginning balances have been restated.

Note 4 - Capital Assets

A summary of changes in the primary government's capital assets for the year ended September 30, 2018, follows:

	Restated Balance September 30, 2017 (see Note 16)	Increases	(Decreases)	Balance September 30, 2018
Governmental Activities:				
Capital assets not being depreciated:				
Land	$ 101,549,264	$ 934,432	$	102,483,696
Construction in progress	60,241,100	12,610,048	(40,806,345)	32,044,803
Intangibles	3,670,890	704,077	(3,008)	4,371,959
Total capital assets not being depreciated	165,461,254	14,248,557	(40,809,353)	138,900,458
Other capital assets:				
Infrastructure	540,331,977	31,014,938		571,346,915
Buildings and improvements	244,443,940	11,121,724	(1,005,329)	254,560,335
Equipment and furniture	52,591,012	3,616,933	(1,152,723)	55,055,222
Intangibles	753,750			753,750
Total other capital assets	838,120,679	45,753,595	(2,158,052)	881,716,222
Less accumulated depreciation for:				
Infrastructure	(286,796,213)	(15,697,562)		(302,493,775)
Buildings and improvements	(45,341,432)	(7,945,515)	834,460	(52,452,487)
Equipment and furniture	(29,364,346)	(3,587,593)	1,118,726	(31,833,213)
Intangibles	(296,591)	(80,155)		(376,746)
Total accumulated depreciation	(361,798,582)	(27,310,825)	1,953,186	(387,156,221)
Other capital assets, net	476,322,097	18,442,770	(204,866)	494,560,001
Totals	$ 641,783,351	$ 32,691,327	$ (41,014,219)	$ 633,460,459

	Restated Balance September 30, 2017 (see Note 16)	Increases	(Decreases)	Balance September 30, 2018
Business-type Activities:				
Capital assets not being depreciated:				
Land	23,389,556	$	$	23,389,556
Construction in progress	48,911,789	23,328,604	(28,371,923)	43,868,470
Intangibles	1,835,917	634,178		2,470,095
Total capital assets not being depreciated	74,137,262	23,962,782	(28,371,923)	69,728,121
Other capital assets:				
Infrastructure	569,471,279	32,205,605		601,676,884
Buildings and improvements	23,991,353	945,343		24,936,696
Equipment and furniture	10,081,163	148,186	(46,314)	10,183,035
Intangibles	1,019,012			1,019,012
Total other capital assets	604,562,807	33,299,134	(46,314)	637,815,627
Less accumulated depreciation for:				
Infrastructure	(227,547,308)	(22,048,888)		(249,596,196)
Buildings and improvements	(7,480,980)	(779,330)		(8,260,310)
Equipment and furniture	(5,611,343)	(487,039)	44,510	(6,053,872)
Intangibles	(384,751)	(143,684)		(528,435)
Total accumulated depreciation	(241,024,382)	(23,458,941)	44,510	(264,438,813)
Other capital assets, net	363,538,425	9,840,193	(1,804)	373,376,814
Totals	$ 437,675,687	$ 33,802,975	$ (28,373,727)	$ 443,104,935

Note 4 - Capital Assets (continued)

Depreciation was charged to programs as follows:

General government	$	646,323
Administrative services		1,111,633
Public works		19,027,740
Parks and recreation		2,839,642
Environmental and neighborhood services		1,014,662
Community development		72,516
Public safety-Police		473,977
Public safety-Fire		987,470
In addition, depreciation on capital assets held by the City's internal service funds is charged to various functions based on their usage of the assets		1,136,862
Total Governmental Activities	$	27,310,825

Water and wastewater	$	14,999,576
Airport		2,256,634
Surface Water		6,192,851
Solid Waste		9,880
Total Business-Type Activities	$	23,458,941

The City has active construction projects as of September 30, 2018. The projects include various improvements to streets, parks and facilities as well as airport and utility improvements. At year-end, the City's contractual commitments on projects were as follows:

Project Description		Total In Progress		Remaining Commitment
Drainage improvement	$	1,513,545		1,864,097
Park improvement		225,293		47,663
Municipal improvements		2,131,968		627,257
Street improvement		25,342,220		6,119,689
Traffic improvement		2,831,777		704,601
GW Annexation				39,372
Water and wastewater improvements		5,879,718		5,546,162
Airport improvement		20,258,226		8,023
Surface Water		17,730,526		1,840,663
Totals	$	75,913,273	$	16,797,527

Note 5 - Long-Term Debt

A. Governmental Activity Debt

The City issues general obligation bonds and certificates of obligation and upon dissolution of Municipal Utility Districts, assumes unlimited tax and revenue obligations. The assumed obligations were used to acquire and construct major capital facilities. General obligation bonds, certificates of obligation, and assumed obligations from dissolved areas are for both governmental and business-type activities. The bonds are reported in the Proprietary Funds only if they are expected to be repaid from proprietary revenues. The general long-term bonds, certificates of obligation and assumed obligations are paid through the Debt Service Fund from tax revenues and transfers from the Utility fund.

During the current fiscal year, upon the dissolution of nine Municipal Utility Districts as described in Note 16, the City assumed $34,185,000 unlimited tax and revenue obligations, $1,513,332 related issuance premium and $331,841 related deferred charge on refunding. In accordance with *GASB Statement No. 69* as described in Notes 1 and 16 to the financial statements, the long-term liabilities are recognized and measured at the beginning of the current fiscal year, as such, the beginning balances have been restated.

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2018. In general, the City uses the General and Debt Service funds to liquidate governmental long-term liabilities. Sales tax revenue bonds are serviced through sales tax revenues reported in the Sugar Land Development Corporation special revenue fund. Compensated absences are typically liquidated by the General Fund.

	Restated Balance September 30, 2017 (see Note 16)	Increases	(Decreases)	Balance September 30, 2018	Amounts Due Within One Year
Bonds payable:					
General obligation bonds	$ 82,095,000	$	$ (7,345,000)	$ 74,750,000	$ 6,825,000
Annexed utility district bonds	35,970,000		(4,565,000)	31,405,000	5,410,000
Certificates of obligation	118,057,601		(6,802,601)	111,255,000	5,660,000
Sales tax revenue bonds	48,865,000		(1,845,000)	47,020,000	1,900,000
Tax note	3,193,169	840,000	(785,743)	3,247,426	1,066,024
Issuance premiums/discounts	19,025,845		(1,519,007)	17,506,838	
	307,206,615	840,000	(22,862,351)	285,184,264	20,861,024
Other non-current liabilities:					
Net pension liability	29,960,937		(11,347,167)	18,613,769	
Other Post-Employment Benefit Obligation (OPEB)	4,294,108	685,327		4,979,435	
Obligation to State	716,858		(248,798)	468,060	248,798
Compensated absences	2,904,149	4,387,242	(4,095,569)	3,195,822	75,000
Total Governmental Activities	$ 345,082,667	$ 5,912,569	$ (38,553,885)	$ 312,441,350	$ 21,184,822

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

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. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The full amount estimated to be required for debt service on general obligation debt is provided by:

1. the debt service portion of the tax levy;
2. interest earned in the Debt Service Fund; and
3. transfers from the Utility Enterprise and Tourism Funds. Transfers from the Enterprise Funds are approved at the discretion of City Council and are not intended to service a specific bond series.

A summary of the terms of general obligation bonds and certificates of obligation, as of September 30, 2018, follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
General Obligation Bonds				
Series 2010 General Obligation & Refundimg Bonds	$ 22,290,000	2026	2.0-5.0	8,245,000
Series 2010 General Obligation Bonds	2,435,000	2030	3.0-4.125	650,000
Series 2012 General Obligation & Refundimg Bonds	9,440,000	2021	2.0-4.0	445,000
Series 2012A General Obligation Refundimg Bonds	4,295,000	2025	2.0-4.0	2,535,000
Series 2014 General Obligation Refundimg Bonds	21,565,000	2026	2.0-5.0	12,420,000
Series 2015 General Obligation Bonds	13,010,000	2035	2.125-4.0	11,620,000
Series 2015 General Obligation Refundimg Bonds	9,375,000	2028	2.0-5.0	9,275,000
Series 2015 General Obligation Refundimg Bonds	22,745,000	2029	4.0-5.0	22,745,000
Series 2016 General Obligation Bonds	7,570,000	2036	2.0-4.0	6,815,000
Total General Obligation Bonds				$ 74,750,000
Certificates of Obligation				
Series 2010 Tax and Revenue Certificates of Obligation	23,405,000	2030	2.5-4.0	7,340,000
Series 2013 Tax and Revenue Certificates of Obligation	24,440,000	2033	2.5-4.0	19,275,000
Series 2014 Tax and Revenue Certificates of Obligation	9,980,000	2040	3.25-6.0	9,200,000
Series 2014A Tax and Revenue Certificates of Obligation - Taxable	27,130,000	2046	3.125-4.50	26,640,000
Series 2015 Tax and Revenue Certificates of Obligation	15,005,000	2035	3.0-4.0	13,425,000
Series 2016 Tax and Revenue Certificates of Obligation	19,190,000	2036	2.0-4.0	17,270,000
Series 2017 Tax and Revenue Certificates of Obligation	19,060,000	2037	3.0-5.0	18,105,000
Total Certificates of Obligation				$ 111,255,000
Series 2014 Tax Note	5,700,000	2021	1.81	$ 3,247,426
Sales Tax Revenue Bonds				
Series 2013 Sales Tax Revenue Bonds	7,200,000	2038	4.25-4.375	$ 6,220,000
Series 2014 Sales Tax Revenue Refunding Bonds	7,375,000	2025	2.0-5.0	5,415,000
Series 2014 Sales Tax Revenue Bonds	38,265,000	2040	3.75-6.75	35,385,000
Total Sales Tax Revenue Bonds				$ 47,020,000

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Annexed Utility District Bonds				
Fort Bend County Municipal Utility District No. 21				
Series 2012 Unlimited Tax Refunding	4,045,000	2021	2.0-3.0	1,250,000
Fort Bend County Municipal Utility District No. 106				
Series 2009 Unlimited Tax Refunding	4,780,000	2021	4.0-5.0	820,000
Series 2012 Unlimited Tax Refunding	5,740,000	2021	3.0-3.50	2,975,000
Fort Bend County Municipal Utility District No. 109				
Series 2012 Unlimited Tax Refunding	4,805,000	2023	4.0	2,850,000
Series 2015 Unlimited Tax Refunding	4,960,000	2025	2.0-4.0	3,840,000
Fort Bend County Municipal Utility District No. 117				
Series 2012 Unlimited Tax Refunding	7,575,000	2026	3.0-4.0	6,510,000
Series 2016 Unlimited Tax Refunding	7,645,000	2025	2.0-3.0	6,695,000
Fort Bend County Municipal Utility District No. 111				
Series 1997 Unlimited Tax Revenue	4,200,000	2023	4.50	990,000
Series 2009 Unlimited Tax Refunding	7,475,000	2021	4.0-4.50	1,970,000
Fort Bend County Municipal Utility District No. 112				
Series 2011 Unlimited Tax Refunding	5,640,000	2025	4.0	3,505,000
Total Annexed Utility District Bonds				$ 31,405,000

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

The annual requirements to amortize governmental activity general obligation bonds and certificates of obligation outstanding at September 30, 2018, are as follows:

	Governmental Activities			
	General Obligation Bonds		Certificates of Obligation	
Year Ending Sept. 30	Principal	Interest	Principal	Interest
2019	$ 6,825,000	$ 2,953,006	$ 5,660,000	$ 4,131,424
2020	6,765,000	2,676,206	5,790,000	3,912,549
2021	8,015,000	2,345,481	4,770,000	3,710,699
2022	8,350,000	2,014,231	4,865,000	3,522,186
2023	8,180,000	1,678,431	4,970,000	3,328,499
2024	8,120,000	1,312,531	4,775,000	3,133,611
2025	6,560,000	990,606	4,845,000	2,939,818
2026	5,190,000	729,997	4,915,000	2,745,202
2027	4,265,000	518,963	4,985,000	2,557,508
2028	2,775,000	361,963	6,690,000	2,345,450
2029	2,005,000	269,838	6,855,000	2,093,307
2030	1,325,000	214,344	7,005,000	1,831,908
2031	1,155,000	176,075	5,260,000	1,604,696
2032	1,175,000	141,125	5,340,000	1,413,237
2033	1,200,000	105,500	5,415,000	1,225,593
2034	1,225,000	68,594	4,275,000	1,061,193
2035	1,245,000	30,469	4,350,000	916,606
2036	375,000	5,625	3,395,000	783,199
2037			2,505,000	675,331
2038			1,630,000	593,705
2039			1,700,000	523,895
2040			1,780,000	450,950
2041			1,190,000	388,055
2042			1,240,000	335,810
2043			1,295,000	281,308
2044			1,350,000	224,440
2045			1,405,000	165,208
2046			1,465,000	102,038
2047			1,535,000	34,538
	$ 74,750,000	$ 16,592,985	$ 111,255,000	$ 47,031,963

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

The annual requirements to amortize governmental activity dissolved utility district bonds and the tax note outstanding at September 30, 2018, are as follows:

	Governmental Activities			
	Annexed Utility District Bonds		Tax Note	
Year Ending Sept. 30	Principal	Interest	Principal	Interest
2019	$ 5,410,000	$ 1,077,006	$ 1,066,024	$ 53,976
2020	5,405,000	897,906	1,085,406	34,594
2021	5,270,000	726,494	1,095,996	16,671
2022	3,455,000	554,425		
2023	3,590,000	426,875		
2024	3,400,000	298,700		
2025	3,230,000	178,350		
2026	1,645,000	65,800		
	$ 31,405,000	$ 4,225,556	$ 3,247,426	$ 105,242

Sales Tax Revenue Bonds

The annual requirements to amortize governmental activity sales tax revenue bonds outstanding payable from sales tax receipts collected by the SLDC at September 30, 2018, are as follows:

	Sugar Land Development Corporation Blended Component Unit	
	Sales Tax Revenue Bonds	
Year Ending Sept. 30	Principal	Interest
2019	$ 1,900,000	$ 2,210,621
2020	1,980,000	2,108,984
2021	2,055,000	1,998,721
2022	2,140,000	1,884,090
2023	2,225,000	1,768,821
2024	2,315,000	1,644,571
2025	2,420,000	1,512,268
2026	1,610,000	1,402,659
2027	1,675,000	1,311,318
2028	1,740,000	1,216,346
2029	1,815,000	1,122,215
2030	1,885,000	1,028,808
2031	1,965,000	933,456
2032	2,045,000	835,944
2033	2,135,000	734,106
2034	2,225,000	639,431
2035	2,330,000	552,075
2036	2,450,000	457,600
2037	2,575,000	355,478
2038	2,705,000	248,172
2039	2,355,000	146,100
2040	2,475,000	49,500
	$ 47,020,000	$ 24,161,285

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

Obligations to State - Refund of Sales Tax

During the 1999 fiscal year, the Texas State Comptroller of Public Accounts notified the City of Sugar Land, the Sugar Land Development Corporation, and the Sugar Land 4B Corporation, that the State had remitted $591,620 in sales tax receipts to the City which were not collected within the City. The State requested the amount be returned to the State. The City had allocated the sales tax to the Corporations in accordance with the proper sales tax rates. The City settled with the State to repay the State in annual installments of $19,721 starting October 1, 1999, over a 30-year period without interest.

During the fiscal year 2017, the City was informed of an overpayment of sales tax in the amount of $725,100 in error. At the City's request, the Comptroller's office agreed to deduct $21,973 from March 2017 through October 2019 followed by one final payment of $21,964.

Tax Note

In October 2014, the City issued a $5.7 million tax note to fund the purchase of ambulances and fire trucks. The note was issued for seven years at the rate of 1.81%. The principal and interest payments are calculated based on the following draw schedule:

Date	Draw Amount
10/9/2014	$ 2,760,000
8/15/2015	750,000
8/15/2016	1,350,000
8/15/2018	840,000
	$ 5,700,000

Defeased Debt

In current and prior years, the City legally defeased certain bonds and certificates of obligation by placing cash and/or proceeds of refunding bonds issues in an irrevocable trust to provide for all future debt services payments on the refunded debt. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City’s report.

Note 5 - Long-Term Debt (continued)

A. Governmental Activity Debt (continued)

Defeased Debt (continued)

A summary of previously defeased debt still outstanding as of September 30, 2018 follows:

Description	Call Date	Amount Considered Defeased
Combination Tax & Revenue Certification of Obligation, Series 2010	2/15/2019	$ 9,475,000
General Obligation Bonds, Series 2010	2/15/2019	1,095,000
General Obligation Refunding Bonds, Series 2010	2/15/2019	3,610,000
Combination Tax & Revenue Certification of Obligation, Series 2011	2/15/2020	80,935,000
		$ 95,115,000

B. Business Type Activity Debt

The City issued $78,195,000 of General Obligation Refunding Bonds, Series 2017 on December 15, 2017 to partially refund outstanding Combination Tax and Revenue Certificates of Obligation, Series 2011 prior to their scheduled maturities. This issuance is reported in business-type activities. Proceeds from the sale of the bonds, including a premium of $8,258,538, will be used (i) to advance refund a portion of the outstanding ad valorem tax-supported obligations of the City and (ii) to pay the costs associated with the issuance of the Bonds. The refunding resulted in an economic gain of $10.5 million

The following is a summary of changes in the City's total business-type long-term liabilities for the year ended September 30, 2018:

	Restated Balance September 30, 2017 (see Note 16)	Increases	(Decreases)	Balance September 30, 2018	Amounts Due Within One Year
Bonds payable:					
Water and wastewater revenue bonds	$ 105,220,000	$	$ (6,710,000)	$ 98,510,000	$ 6,075,000
General obligation bonds	7,030,000	78,195,000	(645,000)	84,580,000	690,000
Certificates of obligation	93,322,398		(83,287,398)	10,035,000	2,420,000
Issuance premiums/discounts	8,228,825	8,258,538	(998,684)	15,488,679	
	213,801,223	86,453,538	(91,641,082)	208,613,679	9,185,000
Other liabilities:					
Net Pension Liability	4,026,983		(1,444,711)	2,582,272	
Other Post-Employment Benefit Obligation (OPEB)	588,057	102,735		690,792	
Compensated absences	357,638	547,812	(530,039)	375,411	10,000
Total Business-type Activities	$ 218,773,901	$ 87,104,085	$ (93,615,832)	$ 212,262,154	$ 9,195,000

Note 5 - Long-Term Debt (continued)

B. Business Type Activity Debt (continued)

A summary of the terms of certificates of obligation and revenue bonds recorded in the Enterprise Funds as of September 30, 2018 follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Utility and Surface Water Funds				
Series 2011 Combination Tax and Revenue Certificates of Obligation	$ 98,810,000	2041	2.0-5.0	$ 4,465,000
Series 2012 Waterworks and Sewer System Revenue Bonds	21,925,000	2031	1.5-3.25	16,855,000
Series 2012A Waterworks and Sewer System Revenue Refunding Bonds	9,025,000	2030	2.0-4.0	4,940,000
Series 2013 Waterworks and Sewer System Revenue Bonds	15,765,000	2033	2.5-4.0	12,630,000
Series 2015 Waterworks and Sewer System Revenue Refunding Bonds	15,750,000	2035	3.0-5.0	13,665,000
Series 2016 Waterworks and Sewer System Revenue Refunding Bonds	31,710,000	2036	2.0-5.0	31,280,000
Series 2016 Tax and Revenue Certificates of Obligation	1,620,000	2036	2.0-4.0	1,515,000
Series 2017 Waterworks and Sewer System Revenue Bonds	19,780,000	2037	3.0-5.0	19,140,000
Series 2017 G.O. Refunding Bonds	78,195,000	2041	3.0-5.0	78,195,000
Total Utility and Surface Water Funds Debt				$ 182,685,000
Airport Fund				
Series 2012A General Obligation Refunding	5,610,000	2025	2.0-4.0	3,730,000
Series 2013 Tax and Revenue Certificates of Obligation	730,000	2033	2.5-4.0	570,000
Series 2015 Tax and Revenue Certificates of Obligation	1,670,000	2035	3.0-4.0	1,495,000
Series 2015 General Obligation Refunding	2,820,000	2028	2.0-5.0	2,430,000
Series 2016 General Obligation Refunding	225,000	2029	4.0-5.0	225,000
Series 2017 Tax and Revenue Certificates of Obligation	2,055,000	2037	3.0-5.0	1,990,000
Total Airport Fund Debt				$ 10,440,000
Total Enterprise Funds Long-Term Debt				$ 193,125,000

Note 5 - Long-Term Debt (continued)

B. Business Type Activity Debt (continued)

The annual requirements to amortize business-type activity revenue bonds, certificates of obligation, and general obligation bonds outstanding at September 30, 2018, are as follows:

	Business-Type Activities					
	Revenue Bonds		Certificates of Obligation		General Obligation Bonds	
Year Ending Sept. 30	Principal	Interest	Principal	Interest	Principal	Interest
2019	$ 6,075,000	$ 3,764,669	$ 2,420,000	$ 297,373	$ 690,000	$ 3,515,819
2020	6,280,000	3,550,069	2,520,000	220,860	710,000	3,492,269
2021	6,200,000	3,335,669	255,000	176,629	2,970,000	3,429,644
2022	6,440,000	3,108,769	265,000	166,016	3,105,000	3,308,869
2023	6,370,000	2,859,069	270,000	155,023	3,270,000	3,158,519
2024	6,655,000	2,581,319	275,000	143,698	3,445,000	2,996,344
2025	6,950,000	2,315,294	285,000	131,973	3,615,000	2,825,769
2026	7,260,000	2,010,806	295,000	119,776	3,180,000	2,658,869
2027	7,225,000	1,690,381	305,000	107,913	3,340,000	2,495,869
2028	7,525,000	1,398,856	315,000	96,910	3,500,000	2,324,969
2029	6,640,000	1,103,144	325,000	85,538	3,355,000	2,153,794
2030	4,980,000	850,894	340,000	73,723	3,500,000	1,982,519
2031	4,915,000	691,894	350,000	61,918	3,670,000	1,803,269
2032	3,355,000	527,944	360,000	50,344	3,850,000	1,634,519
2033	3,475,000	409,156	365,000	39,053	4,010,000	1,477,319
2034	2,480,000	285,044	340,000	28,169	4,170,000	1,313,719
2035	2,565,000	199,725	355,000	17,603	4,340,000	1,143,519
2036	1,765,000	111,475	250,000	8,369	4,515,000	966,419
2037	1,355,000	47,425	145,000	2,266	4,705,000	782,019
2038					4,905,000	589,819
2039					5,080,000	412,344
2040					5,245,000	251,016
2041					5,410,000	84,531
	$ 98,510,000	$ 30,841,600	$ 10,035,000	$ 1,983,150	$ 84,580,000	$ 44,801,741

C. Component Unit Long-Term Debt

The following is a summary of the long-term debt transactions of the Sugar Land 4B Corporation for the year ended September 30, 2018:

	Balance September 30, 2017	Increases	(Decreases)	Balance September 30, 2018	Amounts Due Within One Year
Bonds payable:					
Sales tax revenue bonds	$ 32,100,000		$ (1,960,000)	$ 30,140,000	$ 2,025,000
Issuance premiums/discounts	(12,382)		2,477	(9,905)	
Other liabilities:					
Obligation to State	91,080		(34,597)	56,483	34,598
	$ 32,178,698	$	$ (1,992,120)	$ 30,186,578	$ 2,059,598

Note 5 - Long-Term Debt (continued)

C. Component Unit Long-Term Debt (continued)

A summary of the terms of the revenue bonds recorded as long-term liabilities in the Sugar Land 4B Corporation as of September 30, 2018 follows:

Series	Original Issue	Matures	Interest Rate (%)	Debt Outstanding
Series 2005 Sales Tax Revenue Bonds	$ 5,530,000	2025	4.0-6.0	$ 1,760,000
Series 2010 Sales Tax Revenue Refunding Bonds	9,195,000	2022	2.0-3.7	3,440,000
Series 2011 Sales Tax Revenue Bonds	30,145,000	2036	4.0-5.0	24,940,000
Total Component Unit Long-Term Debt				$ 30,140,000

The annual requirements to amortize component unit revenue bonds outstanding at September 30, 2018, are as follows:

	Sugar Land 4B Corporation Revenue Bonds	
Year Ending Sept. 30	Principal	Interest
2019	$ 2,025,000	1,316,344
2020	2,115,000	1,239,175
2021	2,195,000	1,156,850
2022	1,900,000	1,076,631
2023	1,330,000	1,011,694
2024	1,390,000	953,169
2025	1,460,000	888,863
2026	1,225,000	828,269
2027	1,290,000	771,681
2028	1,355,000	712,169
2029	1,425,000	648,728
2030	1,500,000	580,150
2031	1,580,000	506,013
2032	1,670,000	425,750
2033	1,765,000	339,875
2034	1,865,000	249,125
2035	1,970,000	153,250
2036	2,080,000	52,000
	$ 30,140,000	$ 12,909,736

D. Legal Compliance

Long-term debt assumed by the City upon dissolution of municipal utility districts in the current and previous years has been recorded as part of the City's long-term debt. A portion of the assumed debt is related to assets recorded in the Utility Fund. Even though the debt is related to assets recorded in the Utility Fund, the debt is considered general obligation debt based on Texas law. The dissolved area debt will be retired with tax revenue and operating transfers from the Utility Fund. The transfers from the Utility Fund to the Debt Service Fund are not intended to service specific general obligation debt. During the year, at the discretion of City Council, the Utility Fund made a transfer to the Debt Service Fund as indicated on the transfer schedule of $2 million.

Note 6 - Fund Balance/Net Position

The City records fund balance restrictions at the fund level to indicate that a portion of the fund balance is legally restricted for a specific future use or to indicate that a portion of the fund balance is not available for expenditures.

Fund balance restrictions for capital projects, economic development and tourism & marketing, for the year ended September 30, 2018 is as follows:

Restricted Fund Balance		Amount	Purpose
Debt Service	$	6,263,712	Debt Service activities
Capital projects	$	8,700,056	Construction & acquisition of capital assets
Non-major governmental funds	$	2,978,978	Debt Service activities
		9,608,501	Economic development activities
		269,111	Public safety
		1,786,346	Tourism & marketing
	$	14,642,936	

The committed and assigned fund balances reported in the General Fund column of the Governmental Funds Balance Sheet are for various operating activities encumbered but not completed at year-end and have been approved by City Council and management respectively. The committed fund balance in the Capital Projects Fund represents amounts identified by City Council for various construction projects.

The Sugar Land 4B Corporation, a discretely presented component unit of the City, had a negative unrestricted net position balance at year-end of approximately $20 million. This deficit balance is caused by the Corporation issuing bonds for economic development related construction projects and transferring the capital assets to the primary government while retaining the related debt. As noted in Note 5, the debt is expected to be retired with future dedicated sales tax revenues.

Note 7 - Interfund Transactions

A summary of interfund transfers, the purpose of which is to cover operational expenses/expenditures, for the year ended September 30, 2018 is as follows:

Transfer In	Transfer Out	Amount	Purpose
General Fund	Utility Fund	$ 750,000	Annexation related expenditures
General Fund	Solid Waste Fund	300,000	Rehab projects
General Fund	GW Debt Reduction Fund	2,695,636	Annexation related expenditures
General Fund	NT Debt Reduction Fund	2,695,636	Annexation related expenditures
General Fund	Photographic Traffic Enforcement Fund	966,617	50% of net revenues for traffic safety
		7,407,889	
Debt Service Fund	Tourism Fund	1,406,064	Reimbursement for Conference Center, Smart Financial Centre & Plaza debt
Debt Service Fund	Utility Fund	2,055,220	Reimbursement for Annexed MUD debt
Debt Service Fund	Capital Projects	472,500	Developer Fees to cover the University Blvd. debt
Debt Service Fund	Capital Projects	143,872	Bond proceeds to support the debt issued for Parks Projects
		4,077,656	
Capital Project Fund	SLDC Fund	520,577	To repay interfund loan to Surface Water Fund
Capital Project Fund	Tourism Fund	25,000	PAYG CIP
Capital Project Fund	General Fund	126,000	Traffic Safety projects
		671,577	
Enclave at River Park PID - Special Revenue Fund	Debt Service Fund	9,117	50% of property tax in PID collected during the year
Enclave at River Park PID - Special Revenue Fund	General Fund	13,876	50% of property tax in PID collected during the year
		22,993	
Internal Service Fund - Medical	General Fund	663,078	Medical Insurance
Internal Service Fund - Medical	Tourism Fund	3,382	Medical Insurance
Internal Service Fund - Medical	Airport Fund	49,068	Medical Insurance
Internal Service Fund - Medical	Surface Water Fund	13,394	Medical Insurance
Internal Service Fund - Medical	Utility Fund	80,896	Medical Insurance
Internal Service Fund - Medical	Solid Waste Fund	3,382	Medical Insurance
		813,200	
Airport Fund	General Fund	45,847	Property tax collected during the year on Airport value
Airport Fund	Debt Service Fund	35,413	Property tax collected during the year on Airport value
Airport Fund	SLDC Fund	50,000	International Marketing
		131,260	
		$ 13,124,575	

Note 7 - Interfund Transactions (continued)

On May 3, 2016 the City Council approved an inter-fund loan of $5.6 million from the connection fees to the Capital Projects fund for the University Blvd. North extension project. The Utility fund is accumulating funds to support debt service for capital projects driven by new development and is not expected to need the funds through fiscal year 2020. The funds were transferred on May 3, 2016. A portion of this loan, $1,322,211, together with accrued interest will be reimbursed by the Sugar Land Development Corporation in 2019 and the remaining balance of $4,277,789 and accrued interest will be reimbursed by the developer no later than September 30, 2020. The interest on the loan will be accrued at 1.00% annually and will be paid with the principal amount in 2019 and 2020. The annual requirements to amortize this interfund loan are as follows:

	Principal	Interest	Balance
9/30/2018	$	$ 56,000	$ 5,600,000
9/30/2019	1,322,211	56,000	4,277,789
9/30/2020	4,277,789	42,778	
	$ 5,600,000	$ 154,778	

On May 17, 2016 the City Council approved an inter-fund loan of $2 million from the Surface Water fund to the Airport fund and $1 million from the Surface Water fund to the Capital Projects fund to support the Westside Land Acquisition project. The funds were transferred on September 9, 2016. A portion of the loan, $2 million, will be reimbursed to the City by Federal Aviation Administration and the Airport Fund; the remaining portion will be reimbursed by the Sugar Land Development Corporation. Interest on the loan will be accrued at 1 percent annually and paid with the principal in 2018 and 2019. The first installment of $1.5 million in principal and $61,726 in interest was made on September 30, 2018 with the remaining balance of $1.5 million in principal and $15,000 in interest due and payable on September 30, 2019.

The annual requirements to amortize this interfund loan are as follows:

	Principal	Interest	Balance
9/30/2019	$ 1,500,000	$ 15,000	$ 1,500,000
	$ 1,500,000	$ 15,000	

Note 8 - Deferred Compensation Plan

The City maintains for its employees a tax-deferred compensation plan meeting the requirements of Internal Revenue Code Section 457. The plan was established in the 1995 fiscal year by City Ordinance and Nationwide Retirement Solutions, SBC Retirement Corporation and ICMA were appointed as plan administrators. The deferred compensation is not available to employees until termination, retirement, or death. However, while employed, deferred compensation may be available to employees in an unforeseen emergency or under certain loan provisions. The plan's trust arrangements are established to protect deferred compensation amounts of employees under the plan from any other use other than intended under the plan (eventual payment to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under plan provisions are disbursed bi-weekly by the City to selected third-party administrators. The third-party administrators handle all funds in the plan and makes investment decisions and disburse funds to employees in accordance with plan provisions.

Note 9 - Employee Retirement System

Texas Municipal Retirement System

Plan Description and Provisions

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.tmrs.com.

All eligible employees of the City are required to participate in TMRS. The City does not participate in Social Security.

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 actuarially equivalent 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.

On the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

A summary of plan provisions for the City are as follows:

Employee deposit rate:	7%
Matching ratio (City to employee):	2 to 1
Years required for vesting:	5
Service retirement eligibility:	20 years at any age, 5 years at age 60 and above
Updated Service Credit:	100% Repeating Transfers
Annuity Increase to retirees:	70% of CPI Repeating
Supplemental death benefit – active employees and retirees	Yes

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

Retirees or beneficiaries currently receiving benefits	206
Inactive employees entitled to but not yet receiving benefits	274
Active employees	757
	1,237

Note 9 - Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

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 consulting 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. For fiscal year 2018, the City made contributions of 14.85% for the months in 2017 and 15.13% for the months in 2018.

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 Net Pension Liability 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%
Overall payroll growth:	3.5% to 10.5% including inflation
Investment Rate of Return:	6.75%

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% and projected on a fully generational basis with scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

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, first used in the December 31, 2015 valuation. 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. No additional changes were made for the 2017 valuation.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. 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.

Note 9 - Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

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. The target allocation for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
U.S. equities	17.5%	4.55%
International equities	17.5%	6.10%
Core fixed income	10.0%	1.00%
Non-core fixed income	20.0%	3.65%
Real estate	10.0%	4.03%
Real return	10.0%	5.00%
Absolute return	10.0%	4.00%
Private equity	5.0%	8.00%
Total	100.0%	

Discount Rate

The discount rate used to measure the Total Pension Liability 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 Total Pension Liability.

Changes in the Net Pension Liability

		Increase (Decrease)	
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2016	$ 217,064,642	$ 183,076,724	$ 33,987,918
Changes for the year:			
Service cost	9,074,683		9,074,683
Interest	14,773,403		14,773,403
Difference between expected and actual experience	(451,230)		(451,230)
Contributions - employer		7,432,931	(7,432,931)
Contributions - employee		3,503,739	(3,503,739)
Net investment income		25,390,226	(25,390,226)
Benefit payments, including refunds, of employee contributions	(5,473,504)	(5,473,504)	
Administrative expense		(131,498)	131,498
Other charges		(6,665)	6,665
Net changes	17,923,352	30,715,229	(12,791,877)
Balance at 12/31/2017	$ 234,987,994	$ 213,791,953	$ 21,196,041

Note 9 - Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

Sensitivity of the Net Pension Liability

The following presents the net pension liability 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 to 5.75%	Current Single Rate Assumption 6.75%	1% Increase to 7.75%
City's net pension liability	$ 58,340,026	$ 21,196,041	$ (8,971,284)

Pension Plan Fiduciary Net Position

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

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 expense of $5,768,128.

At September 30, 2018, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between actuarial assumptions and actual experience	$	$ 693,410
Changes in actuarial assumptions used	3,284,257	1,135,927
Differences between projected and actual investment earnings		5,677,695
Contributions subsequent to the measurement date	5,990,459	
Total	$ 9,274,716	$ 7,507,032

Note 9 - Employee Retirement System (continued)

Texas Municipal Retirement System (continued)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of $5,990,459 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2018 (i.e. recognized in the City's fiscal year 2019 financial statements). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year	Net deferred outflows (inflows) of resources
2018	$ 292,350
2019	(81,297)
2020	(2,229,348)
2021	(2,239,981)
2022	54,929
Thereafter	(19,428)
Total	$ (4,222,775)

Note 10 - Postemployment Benefits Other Than Pensions (OPEB)

TMRS Supplemental Death Benefits Fund

Benefit Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an other postemployment benefit (OPEB). As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

Membership in the plan as of the measurement date of December 31, 2017 was as follows:

Inactive plan members or beneficiaries currently receiving benefits	159
Inactive plan members entitled to but not yet receiving benefits	96
Active employees	757
Total plan members	1,012

Note 10 - Postemployment Benefits Other Than Pensions (OPEB) (continued)

TMRS Supplemental Death Benefits Fund (continued)

Contributions

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 (currently 0.17% of covered payroll). 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 intent is not to prefund retiree term life insurance during employees' entire careers. As such, contributions are utilized to fund active member deaths on a pay-as-you-go basis; any excess contributions and investment income over payments then become net position available for benefits.

Discount Rate

The TMRS SDBF program is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB No. 75, the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASB No.75 also requires that the Total OPEB Liability as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index as of the prior fiscal year end. The actuary has estimated the total OPEB liability as of December 31, 2016 using a discount rate of 3.78% as of December 31, 2016.

Actuarial Assumptions

The City's Total OPEB Liability was measured at December 31, 2017 and was determined by an actuarial valuation as of that date using the following actuarial assumptions:

Valuation Date: December 31, 2017

Methods and Assumptions:

Inflation:	2.50%
Salary Increases:	3.50% to 10.50%, including inflation
Discount rate:	3.31%. The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.
Retirees' share of benefit related costs:	$0
Administrative expenses:	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates – service retirees:	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.

Note 10 - Postemployment Benefits Other Than Pensions (OPEB) (continued)

TMRS Supplemental Death Benefits Fund (continued)

Actuarial Assumptions (continued)

Mortality rates – disabled retirees: 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.

Other Information:

Notes: The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Changes in the Total OPEB Liability

Total OPEB Liability		
Service cost	$	75,080
Interest		45,918
Changes of assumptions		128,880
Benefit payments		(5,005)
Net change in total OPEB liability		244,873
Total OPEB liability - beginning		1,179,728
Total OPEB liability - ending	$	1,424,601
Covered payroll	$	50,053,408
Total OPEB liability as a percentage of covered payroll		2.85%

Sensitivity Analysis

The following presents the Total OPEB Liability of the employer, 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. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

1% Decrease to 2.31%	Current Discount Rate Assumption 3.31%	1% Increase to 4.31%
$ 1,759,791	$ 1,424,601	$ 1,168,228

Note 10 - Postemployment Benefits Other Than Pensions (OPEB) (continued)

TMRS Supplemental Death Benefits Fund (continued)

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

For the year ended September 30, 2018, the City recognized OPEB expense of $137,889 relating to the SBFD plan.

As of September 30, 2018, the City reported deferred outflows of resources related to OPEBs from the following sources:

	Deferred Outflows of Resources
Changes assumptions	$ 111,989
Contributions subsequent to the measurement date	3,959
Total	$ 115,948

The $3,959 reported as deferred outflows of resources related to OPEB resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the OPEB liability in the year ending September 30, 2019.

Amounts currently reported as deferred outflows of resources related to OPEBs, excluding contributions subsequent to the measurement date, will be recognized in OPEB expense as follows:

Fiscal Year	Net deferred outflows (inflows) of resources
2018	$ 16,891
2019	16,891
2020	16,891
2021	16,891
2022	16,891
Thereafter	27,534
Total	$ 111,989

Retiree Health Care Plan (RHCP)

Plan Description

The City's defined benefit OPEB plan, City of Sugar Land Retiree Health Care Plan (RHCP), provides OPEB through an implicit healthcare premium for retirees for all permanent full-time employees of the City. RHCP is a single employer defined benefit OPEB plan administered by the City. At this time, no assets are accumulated in a trust to fund the future requirements of the RHCP.

Note 10 - Postemployment Benefits Other Than Pensions (OPEB) (continued)

Retiree Health Care Plan (RHCP) (continued)

Benefits provided

RHCP provides access to post retirement employees by offering a "blended premium" structure, that is, the overall health care premiums for active employees and non-Medicare retirees, are stated in terms of a single "blended premium". The difference between the underlying retiree claims and the blended overall health care premium is referred to as an "implicit" subsidy. Because the underlying claims costs for a non-Medicare retiree are on average higher than the blended premium, there is a positive implicit subsidy for the non-Medicare retirees.

Employees covered by benefit terms. At September 30, 2018, the following employees were covered by the benefit terms:

Inactive plan members or beneficiaries currently receiving benefits	11
Inactive plan members entitled to but not yet receiving benefits	0
Active employees	705
Total plan members	716

Total OPEB Liability

The City's total OPEB liability of $4,245,626 was measured as of December 31, 2017, and was determined by an actuarial valuation as of December 31, 2016.

Actuarial assumptions and methods

The total OPEB liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Valuation Date:	December 31, 2016
Methods and Assumptions:	
Actuarial Cost Method:	Individual Entry-Age
Discount Rate:	3.31% as of December 31, 2017
Inflation:	2.50%
Salary Increases:	3.50% to 10.50%, including inflation
Demographic Assumptions:	Based on the experience study covering the four year period ending December 31, 2014 as conducted for the Texas Municipal Retirement System (TMRS)
Mortality:	For healthy retirees, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements.
Health Care Trend Rates:	Initial rate of 7.50% declining to an ultimate rate of 4.25% after 15 years

Note 10 - Postemployment Benefits Other Than Pensions (OPEB) (continued)

Retiree Health Care Plan (RHCP) (continued)

Actuarial assumptions and methods (continued)

Participation Rates:

Age at Retirement	Participation Assumption
Less than 50	0%
Between 50 and 54	15%
Between 55 and 59	20%
Between 60 and 64	30%
65 and over	0%

Other Information:

Notes: The discount rate changed from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

Discount Rate

Because the RHCP is unfunded or pay-as-you go, the discount rate is based on 20-year tax-exempt AA or higher Municipal Bonds or 3.31% as of the measurement date of December 31, 2017 based on the 20 Year Bond GO Index published by bondbuyer.com.

Changes in the Total OPEB Liability

Total OPEB Liability		
Service cost	$	226,834
Interest		146,451
Difference between expected and actual experience of the total OPEB liability		(4,427)
Changes of assumptions		194,701
Benefit payments		(96,770)
Net change in total OPEB liability		466,789
Total OPEB liability - beginning		3,778,837
Total OPEB liability - ending	$	4,245,626
Covered payroll	$	50,053,408
Total OPEB liability as a percentage of covered payroll		8.48%

Changes of assumptions reflect a change in the discount rate from 3.81% as of December 31, 2016 to 3.31% as of December 31, 2017.

Note 10 - Postemployment Benefits Other Than Pensions (OPEB) (continued)

Retiree Health Care Plan (RHCP) (continued)

Sensitivity of the total OPEB liability to changes in the discount rate

The following presents the plan's total OPEB liability, calculated using a discount rate of 3.31%, as well as what the plan's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or one percent higher:

1% Decrease to 2.31%	Current Discount Rate Assumption 3.31%	1% Increase to 4.31%
$ 4,661,043	$ 4,245,626	$ 3,865,354

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates

The following presents the plan's total OPEB liability, calculated using the assumed trend rates as well as what the plan's total OPEB liability would be if it were calculated using a trend rate that is one percent lower or one percent higher:

1% Decrease	Current Healthcare Cost Trend Rate Assumption	1% Increase
$ 3,700,122	$ 4,245,626	$ 4,895,796

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 $392,093. 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
Differences between expected and actual experience	$	$ 3,989
Changes assumptions	175,455	
Contributions subsequent to the measurement date	72,583	
Total	$ 248,038	$ 3,989

Note 10 - Postemployment Benefits Other Than Pensions (OPEB) (continued)

Retiree Health Care Plan (RHCP) (continued)

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (continued)

City contributions made subsequent to the measurement date of the total OPEB liability (December 31, 2017) and prior to year-end (September 30, 2018) will be recognized in the following fiscal year. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year	Net deferred outflows (inflows) of resources	
2018	$	18,808
2019		18,808
2020		18,808
2021		18,808
2022		18,808
Thereafter		77,426
Total	$	171,466

Note 11 - Contracts with Special Districts

Agreements with Utility Districts

The City has entered into utility agreements with six Municipal Utility Districts (Fort Bend MUDs No. 10, 136, 137, 138, 139 and Burney Road MUD) (the "Districts"), which are within the City's boundaries. The Districts are to acquire and construct water, wastewater, and drainage facilities to serve the area within the Districts and may issue bonds to finance such facilities. These utility agreements provide the following:

As water, wastewater and drainage facilities are acquired and constructed the Districts will transfer the facilities to the City, reserving a security interest therein for the purpose of securing performance of the City under the agreements. At such time as the bonds of the Districts are discharged, the Districts will release the security interest, and the City will own the improvements.

The water and wastewater rates charged by the City will be equal and uniform to those charged other similar users within the City, with all revenues belonging exclusively to the City.

The City has agreed to pay the Districts a tax rebate of the ad valorem taxes collected on land and improvements within the Districts. The rebates for the year ended September 30, 2018, were approximately $3.8 million. Estimated payment for the year ending September 30, 2019 budget are $4.3 million.

The City has entered into agreements with various Municipal Utility Districts (MUDs), Fort Bend County and the City’s extraterritorial jurisdiction (ETJ) to provide fire services within the developments of Greatwood, Tara, New Territory, and Riverstone subdivisions. The districts pay a fee for these services. In addition, Fort Bend County reimburses the City for calls made into the unincorporated areas of the County. The City estimates to have received $1,401,327 from the participating MUDs and Fort Bend County in the year ended September 30, 2018, in connection with these agreements.

Note 12 - Lease Agreements

Sugar Land Hotel Associates, L.P.

In 2002, the Sugar Land Town Square Development Authority (the "Authority") entered into a ninety-nine year lease agreement with Sugar Land Hotel Associates, L.P. (the "Tenant") for the rental of the Sugar Land Conference Center and Parking Garage (the "Property"), owned by the Authority. The Tenant has the right to use the Property and has agreed to operate the Property in a "first class manner," as defined in the lease agreement, paying the Authority a base rent of $1 per lease year, plus an incentive rent, as determined by the lease agreement, within 15 days after the Authority's receipt of an annual statement that presents the net cash flow and any net sale proceeds for the preceding lease year.

Sugar Land Baseball, LLC

In 2010, the City of Sugar Land entered into a twenty-five year lease agreement with Sugar Land Baseball, LLC for the rental of the Constellation Field (baseball stadium). Sugar Land Baseball, LLC owns “Skeeters” a minor league baseball team. The base annual rent of $80,000 is due to the City January 1st each lease year. In addition to the base rent, the City will receive participation rent equal to 40% of all gross revenues in excess of $2.6 million. In 2018 the City received $0 in addition to the base rent.

Smart Financial Centre at Sugar Land

The Smart Financial Centre at Sugar Land reached substantial completion December 9, 2016 and the lease with ACE SL, LLC began December 14, 2016 under the terms of the first amendment to the development agreement and execution of lease agreement approved by City Council on October 28, 2014. The lease of the facility is for a term of 30 years from lease commencement date with lease payments due monthly in arrears. The lease agreement defines base rent, additional base rent, parking fees and participation rent and how each is calculated and when due to the City. ACE SL, LLC has provided City a letter of credit equal to the last three years’ annual debt service requirements that will be reduced as additional base rent payments are set aside to build a three-year debt service reserve. ACE SL, LLC is responsible for all operations and maintenance of the Smart Financial Centre at Sugar Land during the term of the lease.

The lease payments are based on the following calculation: Base Rent: 1/12 of the annual debt service requirement for the Series 2014A Taxable Certificates of Obligation issued by the City to fund a portion of the project construction. Base rent is payable in arrears on the first day of the following month without demand. Rent payment resets each January 1 for the term of the lease. Beginning in the third year of the lease, and until a debt service reserve equal to the last three years debt service payments, the base rent increases to 125% of the annual debt service requirement. Under the lease agreement, the City is entitled to participation rent and a share of parking fees as well. The City received $105,044 in participation rent during the fiscal year ended September 30, 2018.

Note 13 - Commitments and Contingencies

Litigation and Other Contingencies

The City was involved in various lawsuits and arbitration proceedings at September 30, 2018. The City and its legal counsel believe that any amounts which the City might ultimately be required to pay will not exceed underlying insurance coverage.

Federally Assisted Programs - Compliance Audits

The City receives various grants, which are subject to audit by the respective agencies. Subsequent audits may disallow expenditures financed by government grants. It is the opinion of management that any disallowed expenditures, based on prior audit experience, will not be material in relation to the City's financial statements as of September 30, 2018.

Arbitrage Rebate

In accordance with the provisions of the Internal Revenue Code, sections 103, 103A, and 148, as amended, a governmental debt issuance must qualify and maintain tax-exempt status by satisfying certain arbitrage requirements contained in these provisions. As part of the requirements, certain amounts earned on the non-purpose investment of debt issuance proceeds, in excess of the yield on an issue, earned as arbitrage, will be required to be paid to the U.S. Treasury. As part of this process, the City annually determines potential arbitrage liabilities on its debt issues, on component unit debt issues and on debt issues assumed by the City from various Municipal Utility Districts.

Economic Development Grant Commitments

The Sugar Land Development Corporation has committed economic development grants or incentives to various companies in targeted industries to be paid in the future on the condition that certain agreed upon criteria are met. The amounts currently committed are as follows:

Fiscal Year	Grant Commitments
2019	$ 1,101,000
2020	1,685,000
2021	885,000
2022	920,000
2023	920,000
2024	610,000
2025	580,000
2026	580,000
2027	315,000
2028	270,000
2029	270,000
Totals	$ 8,136,000

Note 13 - Commitments and Contingencies (continued)

Brooks Lake Diversion Weir Agreement

The AMIL Gates structure was constructed in the early to mid-1970's as a flood control structure to work in conjunction with the dam system along Oyster Creek. The gates are a hydraulically activated structure that opens from the bottom to maintain a maximum flood elevation for Oyster Creek and the Brooks Lake area during high water events. The gates were designed and have operated in this fashion over 35 years.

The gates operate at a high efficiency as it relates to flooding but they naturally release flow due to the design and type of construction. The gates were never envisioned to be a watertight structure; however, the flow over time has become a large concern for the City and Gulf Coast Water Authority (GCWA). The gates were rehabilitated over five years ago to address normal wear and tear on the gate structure but these improvements did not address the release of flow. The gates have lived their useful life and are not in production any longer. The study performed by Klotz Associates recommends replacement of the AMIL Gates with the proposed Brooks Lake Diversion Weir (BLDW).

The City has teamed with the GCWA on this project and has drafted the Brooks Lakes Diversion Weir Agreement to identify the parties' obligations. Terms of this agreement are as follows:

- City pays for engineering and construction costs as per the PER
- GCWA will credit half of the costs of engineering and construction plus any interests on debt against GCWA Raw Water Agreement (payment schedule of 10 years)
- The costs owed by GCWA will go through a "true-up" process at the completion of the project to include total project costs and interest
- GCWA has the option to pay their portion of the debt ahead of the schedule but will true-up upon final completion of the project
- GCWA my review design and be present for construction meetings, but City retains right to make all decisions regarding final design criteria
- City solicits competitive bids, selects contractor, manages construction
- City owns, operates and maintains project
- If GCWA wants to monitor flow from the weir, they can install flow monitoring devices but at its own cost

On January 19, 2017 the GCWA's board of directors unanimously approved the agreement to pay $2,193,995, which is 50% of estimated project cost of $4,387,990 over period of 10 years.

As of September 30, 2018, the City received a payment of $250,000.

Note 14 - 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; pollution; injuries to employees; and natural disasters. The City's risk management program mainly encompasses obtaining property and liability insurance through Texas Municipal League's Intergovernmental Risk-Pool (TML-IRP), and through commercial insurance carriers. The participation of the City in TML-IRP is limited to payment of premiums. The City has not had any significant reduction in insurance coverage, and the amounts of insurance settlements have not exceeded insurance coverage for any of the last three years. The City also provides Workers' Compensation insurance on its employees and volunteers through TML-Workers' Compensation Fund. Workers' Compensation premiums are subject to change when audited by TML-Workers' Compensation Fund. At September 30, 2018, the City believed the amounts paid on Workers' Compensation would not change significantly from the amounts recorded.

Employee Benefits Fund

Beginning January 1, 2012, the City started providing health benefits to its employees and dependents through a self-funded employee health benefit plan which is accounted for in the Employee Benefits Fund - Internal Service Fund. This fund is principally supported by contributions from the City and the employees. The City makes contributions to cover the majority of the premiums for employees, and the employees are required to make contributions to cover the remaining employee and dependent costs. The Internal Service Fund charges the City’s General Fund and enterprise funds for the City’s contributions. Payments of premiums and administrative fees are paid out of this fund. A third party administrator acting on behalf of the City processes health claim payments.

The City has obtained excess loss insurance which limits the City’s aggregate claims responsibility at 120% of expected claims and sets a deductible of $175,000 annually for any individual, with the exception of one known catastrophic claimant which was issued a “laser” deductible of $600,000 for the plan year.

Settled claims did not exceed insurance coverages in fiscal year 2018. Estimates of claims payable and of claims incurred, but not reported at September 30, 2018, are reflected as accrued expenses and claims payable of the Employee Benefits Fund - Internal Service Fund. The liabilities include an amount for claims that have been incurred but were not reported until after September 30, 2018. The liability reported in the fund is one of the requirements of Governmental Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred as of the date of the financial statements, and the amount of the loss can be reasonable estimated. Because actual claims liabilities depend on such complex factors as inflation, changes in legal requirements, and damage awards, the process used in computing claims liability is an estimate based on historical claims.

Note 15 - Tax Abatements

In May 2018, the Sugar Land City Council approved Resolution No. 18-16, as required by Chapter 312 of the Texas Tax Code, to strengthen minimum guidelines and criteria governing tax abatement agreements in the City of Sugar Land. The City has an ad valorem tax abatement program that abates property taxes on new value created as a result of the proposed project, with possible abatements available from the City, Fort Bend County, and, as applicable, other taxing jurisdictions.

To be eligible to receive a tax abatement the guidelines stipulate that the company must add, at minimum, a value of $4 million to the tax rolls, with the exact abatement percentage determined by a tiered structure related to the cumulative value of improvements and personal property. The city's maximum abatement duration is 10 years with abatement percentages ranging from 35% to 100%. To receive their abatement each year, companies must submit compliance documentation to the City as outlined in their respective Tax Abatement Agreements. Compliance criteria may typically include, but are not limited to, the following requirements: minimum employee count, minimum average annual salary, minimum real, personal, and / or inventory value on tax roll, construction material / improvement receipts, minimum taxable sales, occupancy / lease requirements, and LEED certifications. Additionally, each company is required to submit their tax abatement application to the Fort Bend Central Appraisal District (FBCAD) by April 30th of each year to receive their abatement. The FBCAD will apply the abatement after confirming with the City that no deductions need to occur, which would only happen if a company did not meet a certain requirement of their Tax Abatement Agreement. Each agreement outlines how deductions will be calculated, if the noncompliance does not automatically result in a default for that year. The City typically includes a recapture clause in Tax Abatement Agreements that requires the company to return all property taxes abated under the agreement with interest and penalties to the City should the City have to terminate the agreement due to noncompliance issues. The Office of Economic Development performs an annual assessment of the compliance performance for companies receiving tax abatements.

Currently, the City has 8 active tax abatement agreements under contract for tax year 2017. These companies comprise of approximately $187 million in real and personal property values. They also provide roughly $10.7 million in inventory values not subject to tax abatement exemptions. In tax year 2017, the City abated $108,510,743 in improvement and personal property value, and the revenue received for real and personal property for companies was $249,908 for tax year 2017.

Note 16 - Prior Period Adjustments – New Accounting Pronouncements

GASB Statement No. 75 - Other Post-Employment Benefits

In the current fiscal year, the City implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. As a result, the beginning net position of the City's governmental activities has been restated on the Statement of Activities to reflect the net OPEB liability and deferred outflow of resources relating to OPEB contributions made after the prior measurement date of the plan.

GASB Statement No. 69 - Annexation of Municipal Utility Districts (MUDs)

On December 12, 2017, the City annexed and dissolved nine municipal utility districts (MUDs) in the City's extraterritorial jurisdiction under Strategic Partnership Agreements entered into in 2007. The City assumed all assets and liabilities of the districts at the time of dissolution.

Note 16 – Prior Period Adjustments – New Accounting Pronouncements (continued)

In accordance with GASB Statement No. 69 *Government Combinations and Disposals of Government Operations* (GASB No. 69), the annexed MUDs' assets, deferred outflows, liabilities, deferred inflows and results of operations, will be reflected on the financial statements of the City as though the MUDs had been combined at the beginning of City's fiscal year (i.e. October 1, 2017). This annexation is defined as a *government merger*; per GASB No. 69, a government merger is a government combination of legally separate entities in which no significant consideration is exchanged and one legally separate governmental entity (the MUDs) ceases to exit and its operations are absorbed into one continuing government (the City).

Summary

The net effect of the implementation of the new accounting pronouncements is summarized as follows:

	Government-wide Statement of Activities	
	Governmental Activities	**Business-type Activities**
Net position at September 30, 2017, as previously reported	$ 384,534,360	$ 282,867,726
Prior Period Adjustments:		
GASB No. 75 - Recording of net OPEB liability and related deferrals for contributions as of September 30, 2017	(2,488,199)	(588,057)
Annexation of Greatwood and New Territory neighborhoods	14,469,315	31,049,220
Total prior period adjustment	11,981,116	30,461,163
Net position at September 30, 2017, as restated	$ 396,515,476	$ 313,328,889

	Fund Level — Statement of Revenues, Expenses and Changes in Net Position - Proprietary Funds				
	Major Enterprise Funds			NonMajor Enterprise Fund	Internal Service fund
	Utility Fund	**Airport Fund**	**Surface Water Fund**	**Solid Waste Fund**	**Employee Benefit Funds**
Net position at September 30, 2017, as previously reported	$ 200,865,094	$ 67,255,354	$ 13,032,709	$ 413,038	$ (704,834)
Prior Period Adjustment:					
GASB No. 75 - Recording of net OPEB liability and related deferrals for contributions as of September 30, 2017	(337,546)	(193,125)	(53,063)	(4,323)	1,805,909
Annexation of Greatwood and New Territory neighborhoods	29,919,368		884,667	245,185	
Total prior period adjustment	29,581,822	(193,125)	831,604	240,862	1,805,909
Net position at September 30, 2017, as restated	$ 230,446,916	$ 67,062,229	$ 13,864,313	$ 653,900	$ 1,101,075

Note 17 - Special Item

As described in Note 16, as a result of the annexation, the City accounted for all transactions pertaining to the annexed communities that occurred from October 1, 2017 (start of the City's fiscal year) to the date of annexation, December 12, 2017. Prior to the annexation, some MUDs made contributions for a total amount of $2,410,372. These contributions are reported as a special item in the Proprietary Funds statement of revenues, expenses, and changes in fund net position.

The contributions are summarized as follows:

Contributing entity	Receiving entity	Contribution Amount		Purpose
MUD 67	New Territory Residential Community Association, Inc. (NTRCA)	$	579,898	Fund the costs related to the design, construction, installation, repair and rehabilitation of several amenities within the New Territory community
MUD 69	NTRCA		410,200	Fund the costs related to the design, construction, installation, repair and rehabilitation of several amenities within the New Territory community
MUD 111	NTRCA		215,000	Amenities
MUD 111	Sartatia Middle School		20,000	Amenities
MUD 112	NTRCA		568,467	Amenities
MUD 68	NTRCA		140,000	Amenities
	Total New Territory Community Contributions	$	1,933,565	
MUD 106	Fort Bend County Levee Improvement District		333,353	Levee improvements
MUD 109	Fort Bend County Levee Improvement District		135,000	Levee improvements
MUD 106	Miscellaneous		8,454	Miscellaneous
	Total Greatwood Community Contributions	$	476,807	
Total Contributions		$	2,410,372	

Note 18 - Subsequent Events

Issuance of Bonds

On December 1, 2018 the City issued General Obligation (G.O.) Refunding Bonds, Series 2019, in the par amount of $13,715,000; Certification of Obligation (C.O.) Bonds, Series 2019, in the amount of $20,760,000 and Waterworks & Sewer System Revenue Bonds, Series 2019 in the amount of $13,660,000. All bonds closed on January 9, 2019.

Projects funded from the C.O.s include Street improvements, Drainage & flood control improvements, Traffic improvements and building improvements. Projects funded from the Revenue Bonds include improvements to water wells, distribution system, groundwater storage tanks, groundwater plants, lift stations, wastewater treatment plant and easement acquisition.

The G.O. Refunding Bonds refunded $14,535,000 par amount in total consisting of $990,000 par amount of Unlimited Tax Revenue Bonds, Series 1997; $6,290,000 par amount of C.O. Bonds, Series 2010; $540,000 par amount of G.O. Bonds, Series 2010 and $6,715,000 par amount of G.O. Refunding Bonds, Series 2010. The refunding transaction yielded net present value savings of 6.93% of the refunded bonds.

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APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS

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____________, 2019

WE HAVE ACTED as Bond Counsel for the City of Sugar Land, Texas (the "City") in connection with an issue of bonds (the "Bonds") described as follows:

CITY OF SUGAR LAND, TEXAS, GENERAL OBLIGATION REFUNDING AND IMPROVEMENT BONDS, SERIES 2019A, dated November 1, 2019, in the aggregate principal amount of $____________.

The Bonds 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 (the "Ordinance") adopted by the City Council of the City authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole 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 exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the obligations being refunded (the "Refunded Bonds") with a portion of the proceeds of the Bonds, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City; the certificate (the "Certificate") of Hilltop Securities Inc., in its capacity as financial advisor to the District, which verifies the sufficiency of the deposits made with the Paying Agent for the Refunded Bonds for the defeasance of the Refunded Bonds; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds. We have also examined executed Bond No. I-1.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Bonds. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

(1) 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 in effect; the Bonds constitute valid and legally binding obligations of

the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with law; and

(2) The Bonds are payable, both as to principal and interest, from the receipts of an annual ad valorem tax levied, within the limits prescribed by law, upon taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds.

(3) The deposit with the Paying Agent for the Refunded Bonds pursuant to the Ordinance and the order authorizing the issuance of the Refunded Bonds (the "Refunded Bond Ordinance") constitutes the discharge and final payment of the Refunded Bonds; in reliance upon the representations contained in the Certificate, the Refunded Bonds, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes as set forth in the Refunded Bond Ordinance will be appropriately and legally defeased; the holders of the Refunded Bonds may obtain payment of the principal of, redemption premium, if any, and interest on the Refunded Bonds only out of the funds provided therefor now held by the Paying Agent for the Refunded Bonds; and therefore the Refunded Bonds are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor.

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is further our opinion that, subject to the restrictions hereinafter described, interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum income tax. The opinion set forth in the first sentence of this paragraph is subject to the condition that the District comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The District has covenanted in the Ordinance to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations, such as the Bonds, may result in collateral federal income tax consequences to, among others, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Bonds.

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

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____________, 2019

WE HAVE ACTED as Bond Counsel for the City of Sugar Land, Texas, (the "City") in connection with an issue of certificates of obligation (the "Certificates") described as follows:

> CITY OF SUGAR LAND, TEXAS COMBINATION TAX AND REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019A, dated November 1, 2019, in the aggregate principal amount of $______________.
>
> The Certificates bear interest, are subject to redemption prior to maturity and may be transferred and exchanged as set out in the Certificates and in the ordinance (the "Ordinance") adopted by the City Council of the City authorizing their issuance.

WE HAVE ACTED as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Certificates from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas and a transcript of certain certified proceedings pertaining to the issuance of the Certificates, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City, certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely, and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates. We have also examined executed Certificate No. I-1 of this issue.

WE HAVE NOT BEEN REQUESTED to examine, and have not investigated or verified, any original proceedings, records, data or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Our role in connection with the City's Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

BASED ON SUCH EXAMINATION, it is our opinion as follows:

> (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently in effect; the Certificates constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Certificates may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization,

moratorium or other similar laws affecting the rights of creditors of political subdivisions and the exercise of judicial discretion in appropriate cases; and the Certificates have been authorized and delivered in accordance with law; and

(2) The Certificates are payable, both as to principal and interest, from, and secured by, the proceeds of a continuing, direct annual ad valorem tax, levied within the limits prescribed by law, against taxable property within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Certificates; and

(3) The Certificates are further secured by a limited and subordinate pledge of the net revenues, in an amount not to exceed $10,000, of the waterworks and sanitary sewer system of the City.

THE REVENUES TO BE derived from the operation of both the City's waterworks and sanitary sewer system after the payment of all operation and maintenance expenses thereof (the "Net Revenues"), in an amount not to exceed $10,000, are pledged to the payment of the principal of and interest on the Certificates, to the extent that ad valorem taxes may ever be insufficient or unavailable for said purpose; provided, however, that such pledge is junior and subordinate in all respects to the pledge of Net Revenues to the payment of any obligation of the City, whether authorized heretofore or hereafter, which the City designates as having a pledge senior to the pledge of Net Revenues to the payment of the Certificates.

THE CITY HAS RESERVED THE RIGHT to issue, for any lawful purpose at any time, in one or more installments, bonds, certificates of obligation and other obligations of any kind secured by a pledge of the Net Revenues that may be prior and superior in right to, on a parity with, or junior and subordinate to the pledge of Net Revenues securing the Certificates.

BASED ON OUR EXAMINATION AS DESCRIBED ABOVE, it is further our opinion that, subject to the restrictions hereinafter described, interest on the Certificates is excludable from gross income of the owners thereof for federal income tax purposes under existing law and is not an item of tax preference for purposes of the federal alternative minimum income tax. The opinion set forth in the first sentence of this paragraph is subject to the condition that the City comply with all requirements of the Internal Revenue Code of 1986, as amended (the "Code"), that must be satisfied subsequent to the issuance of the Certificates in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The City has covenanted in the Order to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Certificates in gross income for federal income tax purposes to be retroactive to the date of issuance of the Certificates. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinions of Bond Counsel are based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Certificates in gross income of the owners thereof for federal income tax purposes.

EXCEPT AS DESCRIBED ABOVE, we express no opinion as to any federal, state or local tax consequences under present law, or future legislation, resulting from the ownership of, receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations, such as the Certificates, may result in collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who are deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Certificates.

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

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