

OFFICIAL STATEMENT DATED AUGUST 6, 2018



**NEW ISSUE  
BOOK-ENTRY-ONLY**

**RATING:** S&P Global Ratings “AAA/Stable”  
(See “OTHER INFORMATION - Rating” herein)

*In the opinion of Bond Counsel, under existing law, and assuming continuing compliance with certain covenants and the accuracy of certain representations, interest on the bonds is excludable from gross income for federal income tax purposes, subject to the matters described under “tax matters” herein and is NOT subject to THE ALTERNATIVE MINIMUM TAX on INDIVIDUALS and, except as described herein, on corporations.*

**THE BONDS HAVE NOT BEEN DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.**



**\$11,475,000**

**CITY OF BELLAIRE, TEXAS**

**GENERAL OBLIGATION BONDS, SERIES 2018**

(A political subdivision of the State of Texas located in Harris County, Texas)

**Dated Date:** September 1, 2018  
(Interest accrues from the date of delivery)

**Due:** February 15 — See inside cover page

The City of Bellaire, Texas (the “City”) is issuing its General Obligation Bonds, Series 2018 (the “Bonds”). The Bonds are being issued by the City pursuant to the applicable provisions of the Texas Constitution, the general laws of the State of Texas, including particularly Chapter 1331, Texas Government Code, as amended (“Chapter 1331”), an election held within the City November 8, 2016, the ordinance authorizing the issuance of the Bonds adopted by the City Council of the City (the “City Council”) (the “Bond Ordinance”), and the City’s Home Rule Charter.

Interest on the Bonds will accrue from the initial Date of Delivery (defined below) to the Initial Purchaser and is payable commencing on February 15, 2019, and each August 15 and February 15 thereafter, until the earlier of redemption or maturity. Interest will be computed on the basis of a 360-day year of twelve 30-day months. The Bonds are direct obligations of the City and are payable from and secured by a continuing direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property located within the City. See “THE BONDS – Sources of Payment” herein.

The Bonds will be issued in fully-registered form and, when issued, will be registered in the name of Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), as the registered owner, pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by ZB, National Association, dba Amegy Bank, Houston, Texas (the “Paying Agent/Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.

Proceeds from the sale of the Bonds will be used for (i) improvements to streets and drainage, (ii) sidewalks, (iii) water and wastewater improvements and, (iv) paying the costs of issuing the Bonds. See “THE BONDS - Purposes” herein.

**SEE INSIDE COVER FOR MATURITY SCHEDULE**

The Bonds are subject to optional and mandatory redemption prior to their scheduled maturities as described herein. See “THE BONDS – Optional Redemption” and “THE BONDS – Mandatory Sinking Fund Redemption” herein.

The principal amounts designated in the serial maturity schedule on the inside cover page hereof are combined to create one or more term Bonds (the “Term Bonds”), each such Term Bond shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year of the serial maturities combined to create such Term Bond. See “THE BONDS – Mandatory Sinking Fund Redemption” herein.

The Bonds are offered for delivery, when, as and if issued by the City and received by the Initial Purchaser listed below (the “Initial Purchaser”), subject to the approving opinion of the Attorney General of the State of Texas and Johnson Petrov LLP, Houston, Texas, Bond Counsel for the City. See “LEGAL MATTERS” herein and “Form of Opinion of Bond Counsel” attached hereto as Appendix D. It is expected that the Bonds will be available for delivery through the facilities of DTC on or about September 6, 2018 (the “Date of Delivery”).

**SAMCO CAPITAL MARKETS**

**MATURITY SCHEDULE**

**\$11,475,000**  
**CITY OF BELLAIRE, TEXAS**  
**GENERAL OBLIGATION BONDS, SERIES 2018**  
**CUSIP Prefix <sup>(c)</sup>: 078275**

**Serial Bonds**

<b>Due Feb. 15</b>	<b>Principal</b>	<b>Interest</b>	<b>Yield <sup>(b)</sup></b>	<b>CUSIP No. Suffix <sup>(c)</sup></b>
2020	\$ 285,000	5.000%	1.660%	5J9
2021	300,000	5.000%	1.830%	5K6
2022	315,000	5.000%	1.980%	5L4
2023	330,000	5.000%	2.110%	5M2
2024	350,000	5.000%	2.250%	5N0
2025	365,000	5.000%	2.360%	5P5
2026	385,000	5.000%	2.500%	5Q3
2027	(a) 405,000	5.000%	2.590%	5R1
2028	(a) 425,000	4.500%	2.600%	5S9
2029	(a) 440,000	3.000%	2.800%	5T7
2030	(a) 455,000	3.000%	2.950%	5U4
2031	(a) 465,000	3.000%	3.050%	5V2
2032	(a) 480,000	3.000%	3.150%	5W0
2033	(a) 495,000	3.000%	3.250%	5X8
2034	(a) 510,000	3.125%	3.350%	5Y6
2035	(a) 530,000	3.250%	3.450%	5Z3
2036	(a) 545,000	3.250%	3.500%	6A7
2037	(a) 565,000	3.375%	3.550%	6B5
2038	(a) 585,000	3.375%	3.600%	6C3
2039	(a) 605,000	3.500%	3.650%	6D1

**Term Bonds**

<b>Due Feb. 15</b>	<b>Principal</b>	<b>Interest Rate</b>	<b>Yield <sup>(b)</sup></b>	<b>CUSIP No. Suffix <sup>(c)</sup></b>
2043	\$ 2,640,000	3.500%	3.687%	6H2 (a)(d)(e)

(Interest accrues from date of delivery)

- (a) The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof on February 15, 2026, or any date thereafter at par plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Optional Redemption” herein. Additionally, principal amounts designated in the above schedule may be combined to create one or more term bond, with each such term bond being subject to mandatory sinking fund redemption. See “THE BONDS – Mandatory Sinking Fund Redemption” herein.
- (b) The initial reoffering prices or yields of the Bonds are furnished by the Initial Purchaser (as defined herein) and represent the initial offering prices or yields to the public, which may be changed by the Initial Purchaser at any time.
- (c) CUSIP numbers have been assigned to the Bonds by the CUSIP Global Services, managed by Standard & Poor’s Financial Services LLC on behalf of the American Bankers Association, and are included solely for the convenience of the purchasers of the Bonds. Neither the City nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (d) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Redemption.”
- (e) The yield is shown to the first optional call.

**CITY OFFICIALS, ADMINISTRATION AND CONSULTANTS**

The City of Bellaire, Texas (the “City”) was incorporated under the laws of the State of Texas (the “State”) in 1918. The City has operated under a “Home Rule Charter” which provides for a “Council Manager” form of government since January 15, 1949. The City Council is comprised of a Mayor and six council members, all of whom are elected at large. The Mayor is elected for regular terms of two years, and the council members are elected for regular terms of four years. The Mayor shall not serve more than four consecutive terms in that position and no councilmember shall serve more than two consecutive terms as a councilmember.

**Elected Officials**

<u>Council Members</u>	<u>Position</u>	<u>Term Expires</u>	<u>Occupation</u>
Andrew S. Friedberg	Mayor	2020	Attorney
Neil Verma	Council Member	2022	Attorney
Trisha S. Pollard	Council Member	2020	Attorney
Gus E. Pappas	Mayor Pro-Tem	2022	Attorney
Pat McLaughlan	Council Member	2020	Retired
Michael Fife	Council Member	2022	Retired
David E. Montague	Council Member	2020	Retired

**Appointed Positions**

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Paul A. Hofmann	City Manager	4 Years
Terrence Beaman	Chief Financial Officer	2 Year
Tracy L. Dutton	City Clerk	21 Years
Alan Petrov	City Attorney	22 Years

**Consultants**

Bond Counsel ..... Johnson Petrov LLP  
Houston, Texas

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

Financial Advisor ..... USCA Municipal Advisors, LLC  
Houston, Texas

**For Additional Information, Contact:**

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## USE OF INFORMATION IN OFFICIAL STATEMENT

No broker, dealer, sales representative or any other person has been authorized by the City, the Financial Advisor, or the Initial Purchaser to give any information or to make any representation other than as contained in this Official Statement in connection with the offering described in it and, if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy all securities other than those described on the inside cover page, nor shall there be an offer to sell, solicitation of an offer to buy or sale of such securities by any persons in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement is delivered in connection with the sale of securities referred to herein and may not be reproduced or used, in whole or in part, for any other purposes.

All the summaries of the statutes, ordinances, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the City.

Certain information set forth herein has been obtained from the City and other sources, which are believed to be reliable but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Initial Purchaser.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of the Bonds in any jurisdiction in which it is unlawful to make such offer, solicitation or sale. No dealer, salesperson or other person has been authorized by the City to give any information or to make any representation other than those contained herein, and, if given or made, such other information or representation must not be relied upon as having been authorized by the City, or any other person. The information and expressions of opinion 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 matters described herein since the date hereof.

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

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

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

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

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## OFFICIAL STATEMENT SUMMARY

This Official Statement Summary is subject in all respects to the more complete information contained therein. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this Official Statement Summary from the Official Statement or otherwise to use same without the entire Official Statement. Certain defined terms used in this Official Statement Summary are defined elsewhere in this Official Statement.

<b>The Issuer</b>	City of Bellaire, Texas.
<b>The Bonds</b>	\$11,475,000 City of Bellaire, Texas General Obligation Bonds, Series 2018 (the “Bonds”). The Bonds are being issued in the principal amounts, maturities, and at the rates per annum, set forth on the inside cover page hereof. The Bonds will be issued only in fully-registered form in integral multiples of \$5,000 principal amount.
<b>Interest</b>	The Bonds are dated September 1, 2018. Interest will accrue from the initial date of delivery of the Bonds to the Initial Purchaser at the rates indicated on the insider cover page hereof, with interest payable on February 15, 2019, and on each August 15 and February 15 thereafter until the earlier of redemption or maturity.
<b>Paying Agent/Registrar</b>	The initial Paying Agent/Registrar for the Bonds is ZB, National Association, dba Amegy Bank, Houston, Texas
<b>Authority for Issuance</b>	The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), including particularly Chapter 1331 of the Texas Government Code, as amended (“Chapter 1331”), an election held within the City on November 8, 2016, an ordinance adopted by the City Council of the City (the “City Council”) (the “Bond Ordinance”) and the City’s Home Rule Charter.
<b>Optional Redemption</b>	The City reserves the right, at its option, to redeem the Bonds having stated maturities on or after February 15, 2027, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026 or any day thereafter at par, plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – Optional Redemption.”
<b>Mandatory Redemption</b>	A portion of the Bonds have been designated as term Bonds maturing February 15, 2043 (the “Term Bonds”). The Term Bond is subject to mandatory sinking fund redemption as provided herein. See “THE BONDS – Mandatory Redemption.”
<b>Security for the Bonds</b>	Principal of and interest on the Bonds are payable from the receipts of a continuing, direct annual ad valorem tax levied, against all taxable property located within the City, within the limits prescribed by law. The Bonds are direct obligations of the City and not obligations of the State, Harris County or any other political subdivision. See “The BONDS – Sources of Payment” herein.
<b>Use of Proceeds</b>	Proceeds from the sale of the Bonds will be used for (i) improvements to streets, and drainage, (ii) sidewalks, (iii) water and wastewater improvements and, (iv) paying the costs of issuing the Bonds. See “THE BONDS - Purposes” herein.
<b>Book-Entry Only System</b>	The Bonds are initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the book-entry-only system. No physical delivery of the Bonds will be made to the beneficiary thereof. Principal of and interest on the Bonds will be paid to Cede & Co., which will distribute such payment to the participating members of DTC for remittance to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.
<b>Municipal Bond Rating</b>	S&P Global Ratings, a division of S&P Global Inc. has assigned its municipal bond rating of “AAA/Stable.” See “RATING” herein.

**Tax Exemption**

In the opinion of Bond Counsel, the interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law. The Bonds are not private activity bonds. See “TAX MATTERS – Tax Exemption” herein.

**Qualified Tax-Exempt Obligations**

The City has not designated the Bonds as “qualified tax-exempt obligations” for financial institutions.

**Delivery**

It is expected that the Bonds will be available for delivery through the facilities of DTC on or about September 6, 2018.

**Legality**

Delivery of the Bonds is subject to the approval by the Attorney General of the State of Texas and the rendering of an opinion as to legality by Johnson Petrov LLP, Bond Counsel, Houston, Texas.

**SELECTED FINANCIAL INFORMATION**

2017 Taxable Assessed Valuation <sup>(a)</sup>	\$ 4,894,809,224
2010 U.S. Census Population	16,855

<b>Outstanding Debt as of August 1, 2018</b>	<b>Par Amount</b>
Outstanding Bonds	\$ 113,375,000
Plus: The Bonds	11,475,000
Total General Obligation Debt	\$ 124,850,000

<b>Direct Debt Ratio <sup>(b)</sup></b>	<b>2010 US Census Per Capita</b>	<b>Percent of 2017 Taxable Assessed Valuation</b>
Direct Debt Ratio	\$ 7,407	2.55%

<b>Annual Requirements <sup>(b)</sup></b>	<b>Direct Debt</b>
Total Average Annual Debt Service	\$ 7,177,750
Total Maximum Annual Debt Service	\$ 9,682,990
Net Average Annual Debt Service <sup>(c)</sup>	\$ 5,625,535
Net Maximum Annual Debt Service <sup>(c)</sup>	\$ 7,699,641

<b>Fund Balances</b>	<b>9/30/2017</b>
General Fund	\$ 3,700,935
Debt Service Fund	\$ 470,766
Enterprise Fund - Total Net Position	\$ 49,206,401

<b>2017 Tax Rate</b>	
General Fund	\$ 0.2678
Debt Service Fund	0.1481
Total Tax Rate	\$ 0.4159

(a) Harris County Appraisal District as of August 25, 2017.

(b) Includes the Bonds.

(c) The Enterprise Fund transfers a discretionary amount to the Debt Service Fund to pay a portion of the principal and interest in general obligation debt used to finance capital improvements used for the enterprise activities.

Net Debt reflects such transfer.

**OFFICIAL STATEMENT**

**\$11,475,000  
CITY OF BELLAIRE, TEXAS  
GENERAL OBLIGATION BONDS, SERIES 2018**

(A political subdivision of the State of Texas located in Harris County, Texas)

**INTRODUCTORY STATEMENT**

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance by the City of Bellaire, Texas (the “City”) of its \$11,475,000\* General Obligation Bonds, Series 2018 (the “Bonds”).

Capitalized terms used in the Official Statement have the same meanings assigned in the Bond Ordinance adopted by the City Council of the City (the “City Council”), the governing body of the City, authorizing the issuance of the Bonds (the “Bond Ordinance”).

The Bonds are being issued by the City pursuant to the applicable provisions of the Texas Constitution, the general laws of the State of Texas (the “State”), including particularly Chapter 1331, Texas Government Code, as amended (“Chapter 1331”), an election held within the City on November 8, 2016, the Bond Ordinance and the City’s home rule charter.

The City’s audited general purpose financial statements for the fiscal year ended September 30, 2017, which are set forth in Appendix C attached hereto, present information on the general financial condition of the City at the dates and for the periods described therein.

The Bonds are issued for the purposes described below and are payable from the receipts of a continuing direct annual ad valorem tax levied by the City, within the limits prescribed by law.

**THE BONDS**

**Purposes**

Proceeds from the sale of the Bonds will be used for (i) improvements to streets, and drainage, (ii) sidewalks, (iii) water and wastewater improvements and, (iv) paying the costs of issuing the Bonds.

**Sources and Uses**

The following table sets forth the estimated sources and use of funds associated with the proceeds from the sale of the Bonds.

Sources of Funds:	
Par Amount	\$ 11,475,000.00
Premium	213,532.35
Total	<u>\$ 11,688,532.35</u>
Uses of Funds:	
Deposit to the Project Fund	\$ 11,500,000.00
Underwriter’s Discount	53,877.52
Issuance Costs (a)	134,654.83
Total	<u>\$ 11,688,532.35</u>

(a) Includes professional costs, rating agency fees, fees of the Paying Agent/Registrar, rounding amount and other costs of issuance.

## Description

The Bonds are dated September 1, 2018. Interest will accrue from the initial date of delivery to the Initial Purchaser and will bear interest from such date as indicated on the inside cover page hereof. Interest is payable on February 15, 2019, and on each August 15 and February 15 thereafter, until the earlier of redemption or maturity.

The Bonds will be issued in fully-registered form in integral multiples of \$5,000 of principal amount, for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the book-entry-only system, described herein. See “THE BONDS - Book Entry-Only System” herein. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by ZB, National Association dba Amegy Bank, Houston, Texas (the “Paying Agent/Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “THE BONDS – Book-Entry-Only System” herein.

## Authority for Issuance

The Bonds are being issued by the City pursuant to the applicable provisions of the Texas Constitution, the general laws of the State, including particularly Chapter 1331, elections held within the City on November 8, 2016, the Bond Ordinance and the City’s home rule charter.

## Sources of Payment

The Bonds are payable as to principal and interest from the proceeds of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City. See “TAX INFORMATION - Tax Rate Limitation” herein. Pursuant to the provisions of the Bond Ordinance, the City Council, as the governing body of the City, has levied and agreed to assess and collect an annual ad valorem tax sufficient together with other funds available for such purpose to pay principal and interest on the Bonds when due. Each year the City Council will make a determination of the taxes necessary to be collected to pay interest as it accrues and principal as it matures on the Bonds, and will formally assess and collect such tax for that year. The receipts from such tax levy are to be credited to a separate fund to be used solely for the payment of the principal of and interest on the Bonds.

## Optional Redemption

The City reserves the right, at its option, to redeem Bonds having stated maturities on, or after February 15, 2027, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2026, or any date thereafter at par, plus accrued interest from the most recent interest payment date to the date fixed for redemption. If less than all the Bonds of a stated maturity are to be redeemed, the Bonds, or portions thereof, within such maturity to be redeemed shall be selected by lot or other customary method.

## Mandatory Sinking Fund Redemption

The Term Bonds are subject to mandatory sinking fund redemption and shall be redeemed by the City prior to their stated maturities on February 15 in each of the years and in the amounts set forth below at a redemption price equal to the principal amount redeemed plus accrued interest to the mandatory redemption dates (the “Mandatory Redemption Date.”)

<u>\$2,640,000 Term Bonds Maturing on February 15, 2043</u>	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
February 15, 2040	\$ 625,000
February 15, 2041	\$ 650,000
February 15, 2042	\$ 670,000
February 15, 2043 (stated maturity)	\$ 695,000

The particular Term Bonds to be mandatorily redeemed shall be selected by lot or other customary random selection method. The principal amount of the Term Bonds to be mandatorily redeemed on such mandatory redemption date shall be reduced by the principal amount of such Term Bond which, by the 45th day prior to such mandatory

redemption date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the City to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

### **Notice of Redemption**

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each Owner of each Bond to be redeemed in whole or in part, at the address of the Owner appearing on the registration books maintained by the Paying Agent/Registrar. Such notice shall state, among other matters, the redemption date, the redemption price, the place at which Bonds are to be surrendered for payment and, if less than all the Bonds are to be redeemed, the numbers of the Bonds or portions thereof to be redeemed. Any notice of redemption so mailed shall be conclusively presumed to have been duly given whether or not the Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed. When Bonds have been called for redemption in whole or in part and due provision made to redeem the same, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of being paid solely from the funds so provided for redemption, and the rights of the Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

### **Book-Entry-Only System**

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York (“DTC”), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the book-entry-only system has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor and the Initial Purchaser believe the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities 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 certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, 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, 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 a 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 registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a Standard &

Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of notices be provided directly to them.

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

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

All payments on the Bonds will be made to 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 is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the City or the Paying Agent/Registrar. Disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bonds will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but neither the City, the Financial Advisor nor the Initial Purchaser take responsibility for the accuracy thereof.

#### *Use of Certain Terms in Other Sections of this Official Statement*

In reading this Official Statement it should be understood that while the Bonds are in the book-entry-only system, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry-only system, and (ii) except as described above, notices that are to be given to registered owners under the Bond Ordinance will be given only to DTC.

Information concerning DTC and the book-entry-only system has been obtained from DTC and is not guaranteed as to accuracy or completeness by and is not to be construed as a representation by the City or the Initial Purchaser.

#### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is ZB, National Association dba Amegy Bank, Houston, Texas. In the Bond Ordinance, the City retains the right to replace the Paying Agent/Registrar with respect to the Bonds. The Paying Agent/Registrar may be removed from its duties at any time, but no such removal is effective until a successor has accepted the duties of the Paying Agent/Registrar by written instrument. The City covenants to maintain and provide a Paying Agent/Registrar for the Bonds until the Bonds are duly paid. Any successor Paying Agent/Registrar shall be a bank, trust company, financial institution or other entity qualified and authorized to serve in such capacity and perform the duties and services of Paying Agent/Registrar.

Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner affected by the change, which notice shall give the address of the new Paying Agent/Registrar.

#### **Ownership**

The City, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bonds for the purposes of making payment of the principal thereof and the interest thereon and for all other purposes, whether or not such Bond is overdue. Neither the City nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary. All payments made to the registered owner of such Bond in accordance with the Bond Ordinance will be valid and effectual and will discharge the liability of the City and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

#### **Transfers and Exchanges**

In the event the book-entry-only system should be discontinued, the Bonds 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 Owners, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office or 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 Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner not more than three (3) business days after the receipt of the Bonds 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 Bonds 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 Bonds surrendered for exchange or transfer.

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

### **Record Date for Interest Payment**

The record date (“Record Date”) for the interest payable on the Bonds on any interest payment date means the close of business on the 15<sup>th</sup> 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 a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

### **Replacement Bonds**

If any Bond is mutilated, destroyed, stolen or lost, a new Bond in the same principal amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon presentation and surrender of such mutilated Bond to the Paying Agent/Registrar. The City or the Paying Agent/Registrar may require the owner to pay all expenses and charges in connection therewith. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen or lost, such new Bond will be delivered only once the owner (a) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Bond, (b) furnishes security or indemnity as may be required by the Paying Agent/Registrar and the City, (c) pays all expenses and charges in connection therewith and (d) satisfies any other reasonable requirements imposed by the City and the Paying Agent/Registrar.

### **Remedies In The Event of Default**

The Ordinance does not establish specific events of default with respect to the Bonds or any remedies to a registered owner if the City defaults on the payment of the principal of or interest on any Bonds. Further, the Ordinance does not provide for the appointment of a trustee to protect and enforce the interest of the registered owners upon the occurrence of such a default. If a registered owner of a Bonds does not receive payment of principal or interest when due, the registered owner may seek a writ of mandamus from a court of competent jurisdiction requiring the City to levy and collect taxes. The mandamus remedy, however, may be impractical and difficult to enforce. There is no provision for the acceleration of maturity of principal of a Bonds in the event of a default. A registered owner of a Bonds could file suit against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, a suit for monetary damages could be vulnerable to the defense of sovereign immunity as discussed below, and any judgment could not be satisfied by execution against any property of the City.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3rd 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in “clear and unambiguous” language. Because it is unclear whether the Texas legislature has effectively waived the City’s governmental immunity from a suit for money damages, registered owners may not be able to bring such a suit against the City for breach of the Bonds or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City’s property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) that governmental 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 *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether

a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

In addition, the enforcement of a claim for the payment of the Certificates would be subject to the applicable provisions of Federal bankruptcy laws and any other statutes affecting the rights of the creditors of political subdivisions and may be limited by general principles of equity.

### **Defeasance**

The Ordinance provides for the defeasance of the Bonds in any manner now or hereafter provided by law.

## **TAX INFORMATION**

### **General**

One of the City's primary sources of operational revenue and a principal source of funds for ad valorem tax debt service payments is ad valorem taxation.

### **Authority for Ad Valorem Taxation**

The appraisal of property within the City is the responsibility of the Harris County Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under Title 1 of the Texas Property Tax Code (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. The value placed upon property within the Appraisal District is subject to review by the appraisal review board of the Appraisal District (the "Appraisal Review Board"), consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require an annual review at its own expense and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant:

- (1) an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; and
- (2) an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$5,000.

The City granted an exemption to the market value of the residence homestead of persons 65 years of age or older of \$135,000; the disabled are granted an exemption of \$135,000. The City has granted, since tax year 1991, an exemption of 20% of the market value of residential homesteads with a minimum exemption of \$5,000. The City must grant a complete exemption for the residential homesteads of disabled veterans judged to be 100% disabled by the U.S. Department of Veterans Affairs.

In the case of residence homestead exemptions granted under Section 1-b, Article VIII, ad valorem taxes may continue to be levied against the value of homesteads exempted where ad valorem taxes have previously been pledged for the payment of debt if cessation of the levy would impair the obligation of the contract by which the debt was created. Ad valorem taxes are not levied by the City against the exempt value of residential homesteads for the payment of debt.

State law and Section 2, Article VIII, mandate an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified under both Section 1-d and 1-d-1. Nonbusiness vehicles, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation. The City does not tax nonbusiness vehicles.

Article VIII, Section 1-j of the Texas Constitution provides for “freeport property” to be exempted from *ad valorem* taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. The exemption became effective for the 1990-91 fiscal year and thereafter unless action to tax such property has been taken prior to April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. The City has taken no action to tax freeport property.

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

*Collections.* As of January 1 of each year, the City has a lien granted by statute for unpaid taxes on real property, which shall be levied for that tax year. A tax lien may not be enforced on personal property transferred to a bona fide Purchaser for value who does not have actual notice of the existence of the lien. In the event a taxpayer fails to make timely payment owing to the City on real property, a penalty of 6% of the unpaid taxes is incurred in the first month of delinquency and 1% is added monthly until July 1 when the penalty becomes 12%. In addition, interest on delinquent taxes accrues at the rate of 1% per month until paid. The City may file suit for the collection of delinquent taxes and may foreclose such lien in a foreclosure proceeding. The City may also impose an additional penalty to defray costs of collection by an attorney, not to exceed 20% of the total amount due. The property subject to the City’s lien may be sold, in whole or in part, pursuant to a court order to collect the amounts due. The ability of the City to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of the taxpayer’s debt.

In addition, the Texas Legislature amended Section 33.02 of the Property Tax Code effective September 1, 2013. Such amendment requires a taxing jurisdiction, such as the City, to allow delinquent taxpayers to enter into installment agreements of a least 12, but not more than 36 months for the payment of ad valorem taxes on a residential homestead. At this time, this legislation has not had an impact on the City’s property tax collections, however, the City cannot predict whether or not there will be any future impact.

*Taxation Procedures.* By September 30 or the 60<sup>th</sup> day after the certified appraisal is received by the City, the City Council must adopt a tax rate for the current year. Taxes are due October 1 and become delinquent after January 31 of the following year. No discount for early payment is offered by the City, though the City may authorize discounts for early payment under State law. Partial payments may be accepted if requested by the taxpayer and approved by the City. If the target tax rate, excluding taxes for bonds and other contracted obligations, for the current year, exceeds the rollback tax rate, 10% of qualified voters of the City may petition for an election to determine whether to limit the increase of the tax rate to no more than the rollback year. The City is required to hold two public hearings should the target rate exceed the effective tax rate.

Under Texas law, the Appraisal District is under an obligation to assess all property for taxation which has not been rendered for taxation by the owner and to present his assessments along with any objections to renditions to a nine-member Appraisal Review Board, each of whom has resided within the Appraisal District for two years, and has been appointed by the Appraisal District's Board of Directors. The Appraisal Review Board has the ultimate responsibility of equalizing the value of all comparable taxable property within the Appraisal District; however, any owner who has rendered his property may appeal the decision of the Appraisal Review Board by filing suit in state district court in Harris County within 45 days from the date the tax roll is approved. In the event of such suit, the value of the property is determined by the court, or by a jury if requested by the owner, which value as so determined is binding on the City for the tax year in question and the succeeding year, except for subsequent improvements.

A City, or other taxing unit, may challenge the appraisals of categories of property within its jurisdiction under certain limited circumstances. The City may also sue the Appraisal District to compel it to comply with the tax code. It is not expected that Appraisal District procedures will affect the ability of the City to levy and collect taxes sufficient to meet its payment of the Bonds.

### **Tax Rate Limitation**

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing, direct annual ad valorem tax levied, within the limits prescribed by law, against all property within the City, sufficient to provide for the payment of principal of and interest on all ad valorem tax debt of the City. 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 assessed valuation for all City purposes. The City operates under a Home Rule Charter, which adopts the constitutional provisions. While there is no direct funded debt limitation imposed on the City under current Texas law, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of general obligation debt payable from ad valorem taxes by a municipality, such as the City, if the issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% of collections. The issuance of the Bonds does not violate these limitations.

### **Effective Tax Rate and Rollback Tax Rate**

Under current law, the City Council is required to adopt the annual tax rate for the City before the later of September 30 or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the City. If the annual tax rate is not adopted by such required date, the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year.

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

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

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

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

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

### Municipal Sales Tax Collections

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. The proceeds are credited to the General Fund and are not pledged to the payment of the Bonds.

## SELECTED ISSUER INFORMATION

### Capital Improvement Plan

On November 8, 2005, voters approved two separate bond referenda for \$50 million and an additional pay-as-you-go of \$5 million to be spent over a ten-year period on infrastructure and facility improvements.

On November 5, 2013, the City voters authorized \$16.5 million of bonds for the purposes of providing funds for the reconstruction of new City facilities (city hall/civic center and police/municipal court buildings) and improvements to Evelyn's Park and Nature Discovery Center.

On November 8, 2016, the voters of the City approved three separate bond propositions collectively referred to as "Bonds for Better Bellaire 2016" totaling \$53.98 million. Of that, \$24 million was authorized for streets, drainage and sidewalk improvements, \$5.6 million was authorized for the construction of municipal buildings, including a city hall/civic center and police/courts building and \$24.38 million was authorized for water and wastewater improvements. This is the third installment and funds will be used for streets and drainage, sidewalk improvements and water and wastewater improvements.

<u>Rebuild Bellaire - voted 2005</u>	<u>Initially Authorized</u>	<u>Previously Issued</u>	<u>Authorized But Unissued</u>	<u>Proposed 2018</u>	<u>Remaining Authorization</u>
Street & Drainage Improvements	\$ 41,000,000	\$ 41,000,000	\$ -	\$ -	\$ -
Building and Facilities Improvements	9,000,000	9,000,000	-	-	-
Total Authorized but Unissued	\$ 50,000,000	\$ 50,000,000	\$ -	\$ -	\$ -

<u>Bellaire - voted 2013</u>	<u>Initially Authorized</u>	<u>Previously Issued</u>	<u>Authorized But Unissued</u>	<u>Proposed 2018</u>	<u>Remaining Authorization</u>
Buildings and Facilities Improvements	\$ 11,000,000	\$ 11,000,000	\$ -	\$ -	\$ -
Evelyn's Park	5,000,000	5,000,000	-	-	-
Nature Discovery Center	500,000	500,000	-	-	-
Total Authorized but Unissued	\$ 16,500,000	\$ 16,500,000	\$ -	\$ -	\$ -

<u>Bellaire - voted 2016</u>	<u>Initially Authorized</u>	<u>Previously Issued</u>	<u>Authorized But Unissued</u>	<u>Proposed 2018</u>	<u>Remaining Authorization</u>
Street & Drainage Improvements	\$ 20,000,000	\$ 7,000,000	\$ 13,000,000	\$ 7,000,000	\$ 6,000,000
Municipal Facilities	5,600,000	5,600,000	-	-	-
Sidewalk Repairs	4,000,000	3,000,000	1,000,000	1,000,000	-
Water and Sewer Improvements	24,380,000	16,880,000	7,500,000	3,500,000	4,000,000
	\$ 53,980,000	\$ 32,480,000	\$ 21,500,000	\$ 11,500,000	\$ 10,000,000

### Authorized but Unissued General Obligation Debt

The City will have \$10,000,000 million authorized but unissued general obligation debt remaining after the issuance of the Bonds.

### Anticipated Issuance of Additional Debt

The City anticipates the issuance of the remaining authorization of \$10 million in 2019.

## Other Obligations

The City entered into a twelve (12) year capital lease obligation with ZB, N.A. for a Cinder Custom Pumper Fire Truck. Under the terms of the lease semi-annual payments are due March 1 and September 1 of each year. Upon final payment in 2028 the truck becomes the property of the City.

<u>FYE</u> <u>9/30</u>	<u>Governmental</u> <u>Activities</u>
2018	\$ 77,604
2019	77,604
2020	77,604
2021	77,604
2022	77,604
2023-2027	388,019
2028	<u>75,635</u>
Total	\$ 851,674

## Employee Retirement System and OPEB Liability

*Employee Retirement System.* The City participates in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS provides retirement, disability, and death benefits and all eligible employees are required to participate. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. See “Selected Data from the Comprehensive Annual Financial Report, City of Bellaire, Texas, Fiscal Year Ended September 30, 2017, Note 9 – “Employee Retirement System.”

*Post-Employment Benefits.* The City administers a single-employer defined benefit other post-employment benefits (OPEB) plan that will allow the retiree to pay the premium for continuation of medical and dental insurance coverage. Retirees pay 100% of the premium, at the lower rate by participating in the City’s plan as opposed to individual purchased insurance. See “Selected Data from the Comprehensive Annual Financial Report, City of Bellaire, Texas, Fiscal Year Ended September 30, 2017, Note 10 “Other Post-Employment Benefits” attached hereto as Appendix C for a detailed discussion regarding the Employee Retirement System.

## Risk From Weather Events

All of the United States Gulf Coast, including the City, is subject to hurricanes, tropical storms and other weather events that can cause loss of life and damage to property through weather events that include strong winds, storm surges, flooding and heavy rains. In the event that weather events cause a substantial loss of taxable assessed valuation in the City for a prolonged period, the ability of the City to pay its debt obligations, including the Bonds, could be impacted.

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast before stalling over Houston-Galveston region (the “Region”) and producing significant flooding. Many residences and commercial properties in the Region sustained damage.

As a result of Hurricane Harvey, the City closed City Hall for a week to assess damage citywide and respond to Bellaire residents in need of assistance.

Total expenditures to the City as a result of Hurricane Harvey are approximately \$3.24 million. Debris removal in the amount of \$1.8 million is the largest expenditure as a result of the hurricane. The remaining cost related to the hurricane were damage to the waste water treatment plant, capital losses to flooded vehicles, emergency protective measures to respond to the event as it occurred, and personnel costs for staff time in responding to the disaster.

As of January 31, 2018, the City has received \$601,499 in reimbursement; \$301,588 from TML the City’s insurance provider. Although FEMA has reimbursed the City \$299,911, the City still anticipates over \$2 million of additional

reimbursements once the debris removal project is completed and emergency protective measure expenditures are approved by FEMA.

In addition, Hurricane Harvey inundated the City of Bellaire with flood waters causing extensive damage resulting in more than 29% of Bellaire homes experiencing structural flooding. As a result of Harvey, the City has issued over 1133 permits for flood repairs. 65 houses have had letter of substantial damage issued, of which more than 19 have been demolished, and 5 elevated into compliance. 12 homes have voluntarily also applied for permits to elevate into compliance. Since the storm, a total of 140 houses have been demolished. This fiscal year, 62 new home permits have been requested.

The Harris County Appraisal District (HCAD) has released the “certified estimates” as of April 30, 2018 and the amount certified for the City of Bellaire is \$4,910,555,043 which is a slight increase from the \$4,894,809,224 certified for tax year 2017. This number will change as Bellaire residents that have protested their assessed valuations will be resolved by the HCAD review board.

In September 2008, Hurricane Ike struck the Texas Gulf Coast, and the City incurred approximately \$2,000,000 worth of damage as a result. The City filed for reimbursement from federal agencies and Texas Municipal League Insurance and has been reimbursed for most of the damages. In May 2015, a significant rain event impacted Harris County including the City. The Harris County Flood Coastal District estimates that 160 homes in the City were flooded.

The damage caused by Hurricane Ike has not had significant impact on assessed valuations within the City and no assessment has been made of the May 2015 rain event. However, additional hurricanes or heavy rain events striking the area of the City in the future could result in negative impacts to the City.

### **Environmental Considerations**

*Air Quality Regulation.* Air quality measures required by the United States Environmental Protection Agency (“EPA”) and the Texas Commission on Environmental Quality (“TCEQ”) may impact new industrial, commercial and residential development in Houston and adjacent areas. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston area (“HGB area”) — Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties — was originally designated by the EPA as a moderate ozone nonattainment area for the “8-hour” ozone standard. Such areas are required to demonstrate progress in reducing ozone concentrations each year until the EPA’s “8-hour” ozone standards are met. To provide for reductions in ozone concentrations, the EPA and the TCEQ have imposed increasingly stringent limits on sources of air emissions and require any new source of significant air emissions to provide for a net reduction of air emissions. If the HGB area fails to demonstrate progress in reducing ozone concentrations or 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, as well as severe emissions offset requirements on new major sources of air emissions for which construction has not already commenced.

In order to comply with the EPA’s standards for the HGB area, the TCEQ has established a state implementation plan (“SIP”) setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB area. On June 15, 2007, the Governor of the State of Texas requested a voluntary reclassification of the HGB area to a severe ozone nonattainment area for the 8-hour ozone standard, with an attainment date of June 15, 2019. The EPA is required to approve a request for a voluntary reclassification. The severe classification would give the HGB area more time to reach attainment. It is possible that additional controls will be necessary to allow the HGB area to reach attainment by June 15, 2019. These additional controls could have a negative impact on the HGB area’s economic growth and development.

### **Area Topography and Land Subsidence**

The land surface in certain areas of the City has subsided several feet since 1943 and the subsidence is continuing. The principal causes of subsidence are considered to be the withdrawal of groundwater and, to a lesser extent, oil and gas production. Subsidence may impair development in certain areas and expose such areas to flooding and severe property damage in the event of storms and hurricanes, and thus may affect assessed valuations in those areas. In 1975, the Texas Legislature created the Harris Galveston Subsidence District (the “Subsidence District”) to provide

regulatory control over the withdrawal of groundwater in Harris and Galveston Counties in an effort to limit subsidence. This state agency, with no powers to levy taxes or incur debt, encompasses an area which includes the existing surface water supplies, provides an alternative source of water to meet many industrial and domestic water needs and, with the reduction of withdrawal of groundwater, the rate of subsidence has been reduced, but not eliminated.

## **Water Supply**

The City was required by the Subsidence District to convert to surface water for a significant portion of its water supply. The City adopted a Groundwater Reduction Plan of 50% surface water and 50% groundwater. It negotiated and entered into a long-term contract with the City of Houston to purchase sufficient potable water to meet the Subsidence District's conversion requirements. The surface water conversion project was completed in April 2003 at a cost of \$2.3 million paid for by funds on hand. In addition, the City has approximately 72 miles of water mains, 4 wells, 6 ground storage tanks and 2 elevated storage tanks.

## **Financial Policies**

*Basis of Accounting.* The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. Governmental resources are allocated and accounted for in the individual funds based upon the purposes for which they are utilized and the means by which spending activities are controlled. All proprietary funds are accounted for using the accrual basis of accounting. See "Selected Data from Comprehensive Annual Financial Report, City of Bellaire, Texas, Fiscal Year Ended September 30, 2016" attached hereto as Appendix C.

*General Fund Balance.* 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, permits and charges for services.

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

*Capital Projects Fund.* The capital projects funds are used to account for the expenditures of resources accumulated from tax revenues and the sale of Bonds and related interest earnings for the capital improvement projects. The capital projects funds include the capital improvement fund, which accounts for those projects funded by tax revenue; the bond fund, which includes those projects funded with bond proceeds; and the equipment replacement fund, which includes those projects funded with revenue from other governmental sources.

*Enterprise Fund.* The enterprise fund is used to account for the operations that provide water and wastewater collection, wastewater treatment operations and solid waste operations.

## **Deposits and Investments**

*Authorized 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 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 years, invest exclusively in obligations described in 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 years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

Under Texas law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

*Additional Provisions.* Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City’s entire portfolio and requires interpretation of subjective investment standards), and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (6) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (7) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (8) 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; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

*Current Investments.* As of April 1, 2018, the City had \$50,723,468 in cash and investments.

As of such date, the market value of such investments (as determined by the City by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the City are invested in derivative securities, *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

## **LEGAL MATTERS**

### **Legal Opinions**

The Bonds are offered when, as and if issued, subject to the approval by the Attorney General of the State and the rendering of an opinion as to legality by Johnson Petrov LLP, Houston, Texas, Bond Counsel for the City.

The City will furnish the Initial Purchaser with a complete transcript of proceedings held incident to the authorization and issuance of the Bonds, including the approving opinion of the Attorney General of the State of Texas as recorded in the Bond Register of the Comptroller of Public Accounts of the State, to the effect that the Bonds are valid and

legally binding Bonds of the City under the Constitution and laws of the State. The City will also furnish the approving legal opinion of Bond Counsel in substantially the form attached hereto as Appendix D.

In its capacity as Bond Counsel, Johnson Petrov LLP, Houston, Texas, has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. Bond Counsel's role in connection with the Official Statement was limited to reviewing the information describing the Bonds in the Official Statement to verify that such descriptions conform to the provisions of the Ordinance. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein.

The legal fee to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the book-entry-only system.

The legal opinion to be delivered concurrently with the delivery of the Bonds 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.

### **Litigation**

The City is exposed to various risks of losses related to torts, theft of, damage to and destruction of fixed assets; error and omissions; injuries to employees; and natural disasters. The City has obtained coverage for these risks through the Texas Municipal League's Intergovernmental Risk Pool (the "TMLIRP") and has provided various employee education and prevention programs. Various claims and lawsuits are pending against the City. In the opinion of City management, after consultation with legal counsel, the potential loss on all claims and lawsuits will not materially affect the City's financial position.

### **No-Litigation Certificate**

The City will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the Mayor and the City Secretary, to the effect that no litigation of any nature is then pending or threatened, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the issuance, execution, or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceeding for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds.

## **TAX MATTERS**

### **Tax Exemption**

In the opinion of Johnson Petrov LLP, Bond Counsel, under existing law (i) interest on the Bonds is excludable from gross income for federal income tax purposes and (ii) the Bonds are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Bonds is not subject to the alternative minimum tax on individuals.

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

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the exclusion from gross income of interest on the Bonds for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Initial Purchaser with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Initial

Purchaser, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

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

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

### **Additional Federal Income Tax Considerations**

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

**Tax Accounting Treatment of Original Issue Premium...**The issue price of a portion of the Bonds exceeds the stated redemption price payable at maturity of such Bonds. Such Bonds (the "Premium Bonds") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Bond.

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

**Tax Accounting Treatment of Original Issue Discount...**The issue price of a portion of the Bonds is less than the stated redemption price payable at maturity of such Bonds (the "Original Issue Discount Bonds"). In such case, the

difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “TAX MATTERS – Tax Exemption” and “TAX MATTERS – Additional Federal Income Tax Considerations – Collateral Tax Consequences” and “—Tax Legislative Changes” generally apply and should be considered in connection with the discussion in this portion of the Official Statement.

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

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

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

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

### **Tax Legislative Changes**

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

### **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Ordinance, the City has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually and timely notice of specified events to the Municipal Securities Rulemaking Board (“MSRB”).

## **Annual Reports**

The City will provide to the MSRB (1) within six (6) months after the end of each Fiscal Year of the City ending in or after 2018, financial information and operating data with respect to the City of the general type (and to the extent such financial information and operating data is provided by a third party, to the extent that such information is made available) and included in the City's Comprehensive Annual Financial Audit. Should the City elect not to provide a Comprehensive Annual Financial Audit, the City will provide operating data annually which is in this Official Statement under the Schedules in Appendix A of the Official Statement numbered 1, 5 7, 8 and 10 and including financial statements of the City if audited financial statements of the City are then available, and (2) if not provided as part such financial information and operating data, audited financial statements of the City, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles as the City may be required to employ, from time to time, by State law or regulation, and (ii) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The City may provide updated information in full text, or may incorporate by reference any publicly available documents, or in such other form consistent with the agreement, as permitted by Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and the audit is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements when and if they become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix C 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 U.S. Securities and Exchange Commission (the "SEC"). The City's current fiscal year end is September 30. Accordingly, it must provide updated information by the last day of March 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 to the MSRB notices of certain events on a timely basis no later than 10 business days after the event. The City will provide notice of any of the following events with respect to the Bonds: (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 Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City; (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 of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of the trustee, if material. (Neither the Bonds nor the Ordinance make any provision for a trustee.) The City will also provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports."

## **Availability of Information from EMMA**

All such information described above must be filed with the MSRB. Investors will be able to access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org). The City has agreed to provide the foregoing information only to the MSRB through EMMA.

## **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 any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds 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, as amended, would have permitted an underwriter to purchase or sell Bonds 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 Bonds 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 registered and beneficial owners of the Bonds. The City may also repeal or amend the provisions of this Section if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the City also may amend the provisions of this Section in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. 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**

On July 31, 2014, the City filed material event notices for various rating changes for CIFG, FGIC and MBIA which were not previously filed in a timely manner. Additionally, the City filed a notice of Failure to File Information as required by the Rule. On July 31, 2014, the City filed a material event notice for failure to file in a timely manner the rating withdrawal for AMBAC. The City had filed on August 22, 2011 the notice of the withdrawal; however, the filing was made more than 10 days after the event. Furthermore, on July 31, 2014, the City filed a material event notice for failure to file in a timely manner the rating withdrawal for MBIA. The City had filed on February 9, 2012 the notice of the downgrade; however, the filing was made more than 10 days after the event. On July 31, 2014, the City filed a material event notice for the ratings upgrade of Assured Guaranty Corp and an event notice for failure to file in a timely manner the rating upgrade.

Other than stated above, for the past five years, the City has complied in all material respects with its previous continuing disclosure agreements in accordance with the Rule.

## **OTHER INFORMATION**

### **Rating**

S&P Global Ratings, a division of S&P Global Inc. ("S&P") has assigned its municipal bond rating of "AAA/Stable" to this issue of Bonds. An explanation of the rating may be obtained from S&P. The rating reflects only the view of the rating organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

### **Financial Advisor**

USCA Municipal Advisors, LLC (the "Financial Advisor"), a subsidiary of U.S. Capital Investors, LLC, has been employed by the City to assist the City in connection with issuance of the Bonds. The Financial Advisor's fee for

services with respect to the Bonds is contingent upon the issuance and delivery of the Bonds. Although the Financial Advisor has assisted in the drafting of this Official Statement, the Financial Advisor has not independently verified any of the data contained in it nor conducted a detailed investigation of the affairs of the City to determine the accuracy or completeness of this Official Statement. No person should presume that the limited participation of such Financial Advisor means that such Financial Advisor assumes any responsibility for the accuracy or completeness of any of the information contained in this Official Statement.

### **Initial Purchaser**

After requesting competitive bids for the Bonds, the City has accepted a bid tendered by SAMCO Capital Markets (the “Initial Purchaser”) to purchase the Bonds at the rates shown on the inside cover page of this Official Statement at a price of \$11,634,654.83, which includes the par amount of \$11,475,000.00, plus a premium of \$213,532.35, less an underwriter discount of \$53,877.52. No assurance can be given that any trading market will be developed for the Bonds after their initial sale by the City to the Initial Purchaser. The City has no control over the prices at which the Bonds subsequently sold and the initial yields at which the Bonds will be priced and reoffered will be established by and the responsibility of the Initial Purchaser.

## **GENERAL CONSIDERATIONS**

### **Prices and Marketability**

The delivery of the Bonds is conditioned upon the receipt by the City of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds, stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. For this purpose, the term “public” shall not include any bondhouse, broker, dealer, or similar person acting in the capacity of Initial Purchaser or wholesaler. The City has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Initial Purchaser at the yields specified inside on the cover page. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

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

### **Legal Investments and Eligibility to Secure Public Funds in Texas**

Pursuant to the Texas Public Securities Act, Chapter 1201, Texas Government Code, as amended, the Bonds, whether rated or unrated, are legal and authorized investments for insurance companies, fiduciaries or trustees, and for municipalities and other political subdivisions or public agencies. Most political subdivisions in the State are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, and such political subdivisions may impose a requirement consistent with such act that the Bonds have a rating of not less than “A” or its equivalent to be legal investments of such entity’s funds. The “Public Funds Collateral Act,” Chapter 2257, Texas Government Code, provides that deposits of public funds, as defined in such chapter, must be secured by eligible security. “Eligible Security” is defined to include local government obligations (such as the Bonds) with a rating from a nationally recognized investment firm of “A” or its equivalent. See “RATING” herein.

**The City makes no representation that the Bonds will be acceptable to public entities to secure their deposits, or acceptable to any such entities or institutions for investment purposes. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states.**

### **Securities Laws**

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The City assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any

kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdictions.

### **Sources and Compilation of Information**

The information contained in this Official Statement has been obtained primarily from the City and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the City. This is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the statutes, resolutions and other related documents are included herein subject to all the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

### **Forward-Looking Statements**

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 in such forward-looking statements. The forward-looking statements 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 would prove to be accurate.

### **Approval of the Official Statement**

The Bond Ordinance approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized use in the re-offering of the Bonds by the Initial Purchaser. This Official Statement has been approved by the City Council for distribution in accordance with the provisions of the Rule.

### **Certification of the Official Statement**

At the time of payment for and delivery of the Bonds, the Initial Purchaser will be furnished a certificate, executed by the proper City officials, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement and any addenda, supplement or amendment thereto, for its Bonds on the date of such Official Statement, on the date of purchase of said Bonds, and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements, including financial data, of, or pertaining to, entities other than the City and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and that the City has no reason to believe that they are untrue in any material respect; (d) there has been no material adverse change in the financial condition of the City since September 30, 2016, the date of the last audited financial statements of the City; and (e) except as disclosed herein, no litigation of any nature has been filed or is pending, as of that date, of which the City has notice to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner question the validity of the Bonds.

## **Audited Financial Statements**

Whitley Penn LLP, the City's independent auditor, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Whitley Penn LLP relating to the City's financial statements for the fiscal year ended September 30, 2017 is included in this Official Statement in APPENDIX C; however, Whitley Penn LLP has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

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**APPENDIX A**

**GENERAL FINANCIAL INFORMATION AND DEBT INFORMATION**

The City has previously issued general obligation bonds (the “Outstanding Bonds”). The following table sets forth the principal amounts of the Outstanding Bonds and the Bonds.

**Schedule 1 – Outstanding Obligations**

<b><u>Outstanding General Obligation Debt As of August 1, 2018</u></b>	<b><u>Principal Outstanding</u></b>
General Obligation Bonds, Series 2009	\$ 3,625,000
General Obligation Refunding Bonds, Series 2009A	2,840,000
General Obligation Refunding Bonds, Series 2010	7,760,000
General Obligation Bonds, Series 2010A	720,000
General Obligation Bonds, Series 2011	5,520,000
General Obligation Refunding Bonds, Series 2011A	4,765,000
General Obligation Refunding Bonds, Series 2011B	6,415,000
General Obligation Refunding Bonds, Series 2012	8,025,000
General Obligation Bonds, Series 2013	4,815,000
General Obligation Bonds, Series 2014	9,200,000
General Obligation Bonds, Series 2015	6,210,000
General Obligation Refunding Bonds, Series 2016	9,425,000
General Obligation Bonds, Series 2017	32,550,000
General Obligation Bonds, Series 2017A	<u>11,505,000</u>
Total	\$ 113,375,000
Plus: The Bonds	<u>\$ 11,475,000</u>
Total	\$ 124,850,000

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**Schedule 2 – Debt Service Requirements**

FYE 9/30	Outstanding Debt Service	The Bonds				Total Debt Service	Less: Transfer of Utility Revenues <sup>(a)</sup>	Net Debt Service
		Principal	Interest Rate	Interest	Total			
2018	\$ 8,885,265	\$ -	-	\$ -	\$ -	\$ 8,885,265	\$ 1,739,682	\$ 7,145,583
2019	8,910,530	-	-	404,152	404,152	9,314,682	1,954,478	7,360,204
2020	8,929,461	285,000	5.000%	422,063	707,063	9,636,524	2,042,550	7,593,974
2021	8,914,394	300,000	5.000%	407,438	707,438	9,621,831	2,031,712	7,590,119
2022	8,959,942	315,000	5.000%	392,063	707,063	9,667,004	1,990,309	7,676,695
2023	8,958,020	330,000	5.000%	375,938	705,938	9,663,958	1,997,190	7,666,767
2024	8,956,326	350,000	5.000%	358,938	708,938	9,665,264	1,989,500	7,675,764
2025	8,976,928	365,000	5.000%	341,063	706,063	9,682,990	1,986,077	7,696,913
2026	8,970,169	385,000	5.000%	322,313	707,313	9,677,481	1,977,841	7,699,641
2027	8,619,118	405,000	5.000%	302,563	707,563	9,326,681	1,772,071	7,554,609
2028	7,758,296	425,000	4.500%	282,875	707,875	8,466,171	1,544,887	6,921,284
2029	7,273,090	440,000	3.000%	266,713	706,713	7,979,803	1,415,212	6,564,590
2030	6,739,038	455,000	3.000%	253,288	708,288	7,447,326	1,305,107	6,142,218
2031	6,041,299	465,000	3.000%	239,488	704,488	6,745,786	1,301,117	5,444,669
2032	5,569,926	480,000	3.000%	225,313	705,313	6,275,238	1,301,853	4,973,385
2033	5,305,891	495,000	3.000%	210,688	705,688	6,011,579	1,301,291	4,710,288
2034	5,303,671	510,000	3.125%	195,294	705,294	6,008,965	1,301,645	4,707,320
2035	4,833,797	530,000	3.250%	178,713	708,713	5,542,509	1,275,684	4,266,825
2036	4,509,288	545,000	3.250%	161,244	706,244	5,215,531	1,224,888	3,990,643
2037	4,070,022	565,000	3.375%	142,853	707,853	4,777,875	1,226,245	3,551,630
2038	4,068,588	585,000	3.375%	123,447	708,447	4,777,034	1,225,383	3,551,651
2039	3,724,256	605,000	3.500%	102,988	707,988	4,432,244	1,225,514	3,206,730
2040	3,099,419	625,000	3.500%	81,463	706,463	3,805,881	1,223,849	2,582,032
2041	2,700,313	650,000	3.500%	59,150	709,150	3,409,463	1,226,199	2,183,264
2042	2,700,619	670,000	3.500%	36,050	706,050	3,406,669	1,225,087	2,181,582
2043	-	695,000	3.500%	12,163	707,163	707,163	212,149	495,014
2044	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 162,777,664</b>	<b>\$ 11,475,000</b>		<b>\$ 5,898,252</b>	<b>\$17,373,252</b>	<b>\$ 180,150,916</b>	<b>\$ 39,017,520</b>	<b>\$ 141,133,395</b>

(a) The Enterprise Fund transfers a discretionary amount to the Debt Service Fund to pay a portion of the principal and interest on the general obligation debt used to finance capital improvements used in the enterprise activities.

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### Schedule 3 – Tax Adequacy for Estimated Debt Service

The calculations shown below assume, solely for the purpose of illustration, no change in assessed valuation over the 2017 taxable assessed valuation provided by the Appraisal District and use of tax rate adequate to service the City's total debt service requirements following the issuance of the Bonds. The potential use of surplus balances in the debt service fund, the capital projects fund, and the general fund are not reflected in the computations.

#### Total Debt Service <sup>(a)</sup>

Average annual debt service requirements on the City's total outstanding indebtedness including the Bonds .	\$ 7,177,750
\$ 0.1482 Tax rate on 2017 taxable assessed valuation at 99% collection produces:	\$ 7,181,566
Maximum annual debt service requirements on the City's total outstanding indebtedness including the Bonds .	\$ 9,682,990
\$ 0.1999 Tax rate on 2017 taxable assessed valuation at 99% collection produces:	\$ 9,686,876

(a) Includes the Bonds.

#### Net Debt Service <sup>(a)</sup>

Average annual debt service requirements on the City's net outstanding indebtedness including the Bonds .	\$ 5,625,535
\$ 0.1161 Tax rate on 2017 taxable assessed valuation at 99% collection produces:	\$ 5,626,045
Maximum annual debt service requirements on the City's net outstanding indebtedness including the Bonds	\$ 7,699,641
\$ 0.1589 Tax rate on 2017 taxable assessed valuation at 99% collection produces:	\$ 7,700,073

(a) Includes the Bonds.

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#### Schedule 4 - Estimated Overlapping Debt

Expenditures of the various taxing bodies within the territory of the City may be paid out of ad valorem taxes levied by these taxing bodies on property within the City. These political taxing bodies are independent of the City and may incur borrowings to finance their expenditures. The following information on overlapping jurisdictions 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 below may have issued additional bonds since the date stated in the table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds the amount of which cannot be determined.

<u>Taxing Jurisdictions</u>	<u>Gross Debt</u>		<u>Percent Overlapping</u>	<u>Amount</u>
	<u>Outstanding</u>	<u>As of</u>		
Harris County	\$ 2,208,674,361 <sup>(a)</sup>	5/31/2018	1.19%	\$ 26,283,225
Harris County Dept of Education	6,555,000 <sup>(a)</sup>	5/31/2018	1.19%	78,005
Harris County Flood Control District	83,075,000 <sup>(a)</sup>	5/31/2018	1.19%	988,593
Harris County Hospital District	59,490,000	5/31/2018	1.19%	707,931
Harris Co Toll Road	-	5/31/2018	1.19%	-
Houston Community College	580,635,000 <sup>(a)</sup>	5/31/2018	2.49%	14,457,812
Houston ISD	2,919,345,000 <sup>(a)</sup>	5/31/2018	3.01%	87,872,285
Port of Houston Authority	638,829,397 <sup>(a)</sup>	5/31/2018	1.19%	7,602,070
Total Overlapping	\$ 6,496,603,758			\$ 137,989,919
City of Bellaire <sup>(b)</sup>	\$ 124,850,000	8/1/2018	100%	\$ 124,850,000
Total	\$ 6,621,453,758			\$ 262,839,919

(a) Gross debt, Some debt may be supported by other revenues and thus be considered self-supporting.

(b) Includes the Bonds.

Source: Municipal Advisory Council of Texas.

#### Schedule 5 – Historical Analysis of Ad Valorem Taxation

The following table sets forth the City's historical taxable assessed valuation.

<u>Tax Year</u>	<u>Assessed</u>	<u>Tax Rate</u>	<u>Adjusted</u>	<u>Percent Collections</u>		<u>FYE</u>
	<u>Valuation</u> <sup>(a)</sup>		<u>Tax Levy</u>	<u>Current</u>	<u>Total</u>	
2013	\$ 3,629,418,407	\$ 0.3999	\$ 14,364,926	99.69%	99.70%	2014
2014	4,022,863,562	0.3936	15,743,170	99.70%	99.31%	2015
2015	4,492,435,794	0.3805	17,137,875	99.65%	99.40%	2016
2016	4,822,467,803	0.3874	18,682,240	98.36%	98.36%	2017
2017	4,894,809,224	0.4159	20,357,512	98.80%	99.80%	2018

(a) Source: City of Bellaire, Texas.

### Schedule 6 – Historical Analysis of the Assessed Valuation by Category

The following table sets forth the City’s assessed valuation by category.

<u>Fiscal Year</u>	<u>Tax Year</u>	<u>Real Property</u> <sup>(a)</sup>	<u>Personal Property</u> <sup>(a)</sup>	<u>Total</u> <sup>(a)</sup>
2014	2013	\$ 3,490,155,153	\$ 139,263,254	\$ 3,629,418,407
2015	2014	3,905,688,782	117,174,780	4,022,863,562
2016	2015	4,393,494,108	98,941,686	4,492,435,794
2017	2016	4,716,891,547	105,576,256	4,822,467,803
2018	2017	4,827,491,110	93,291,761	4,920,782,871

(a) Values may differ from those shown elsewhere in the document.  
Source: City of Bellaire.

### Schedule 7 – Top Ten Taxpayers

The table below reflects the City’s top ten taxpayers for 2017.

<u>Top Ten Taxpayers</u> <sup>(a)</sup>	<u>Type of Property</u>	<u>2017 Taxable Assessed Valuation</u> <sup>(a)</sup>	<u>Percent of 2017 Taxable Assessed Valuation</u>
Pin Oak North Parcel LL LLC	Real Estate	\$ 91,606,430	1.87%
Chevron Chemical Co.	Oil & Gas	81,900,770	1.67%
KBS Sor 6565 6575 West Loop	Real Estate	36,988,682	0.75%
BRI 1833 6330 LLC	Commerical	36,200,573	0.74%
Centerpoint Energy	Electric Utility	32,789,970	0.67%
SBC Communications	Telephone Utility	28,283,940	0.58%
CHP Houston Tx MOB Owner LLC	Real Estate	27,880,000	0.57%
CHP Houston Tx Hospital Land	Hospital	23,197,526	0.47%
Pin Oak South Parcel LL LLC	Real Estate	21,606,958	0.44%
SLS Properties	Real Estate	13,176,820	0.27%
		<u>\$ 393,631,669</u>	<u>8.02%</u>
2017 Taxable Assessed Valuation	\$	4,905,704,691	

(a) Source: Municipal Advisory Council of Texas and Harris County Appraisal District.

### Schedule 8 – Tax Rate Distribution

The following table sets forth the historical tax rates for the City.

<u>Tax Rate Distribution</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>
General Fund	\$ 0.2678	\$ 0.2551	\$ 0.2501	\$ 0.2532	\$ 0.2563
Debt Service Fund	0.1481	0.1323	0.1304	0.1404	0.1436
Total	\$ 0.4159	\$ 0.3874	\$ 0.3805	\$ 0.3936	\$ 0.3999

**Schedule 9 – Estimated Overlapping Taxes**

Property within the City is subject to taxation by several taxing authorities in addition to the City. Under Texas law, a tax lien attaches to property to secure the payment of all taxes, penalty, and interest for the year, on January 1 of that year. The tax lien on property in favor of the City is on parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the City and such other jurisdictions, certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

<u>Taxing Jurisdiction</u>	<u>Tax Year 2017 Rates</u>
Houston Independent School District	\$ 1.20670
Harris County	0.41801
Harris County Flood Control District	0.02831
Port of Houston Authority	0.01256
Harris County Hospital District	0.17110
Harris County Dept of Education	0.00520
Houston Community College District	0.10026
City of Bellaire	0.41590

Source: Harris County Appraisal District.

**Schedule 10 – Municipal Sales Tax History**

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City. The proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. State law allows the City to collect sales tax to assist in the promotion and development activities of the City.

<u>FYE 9/30</u>	<u>Sales Tax Revenues <sup>(a)</sup></u>
2014	\$ 2,310,083
2015	2,391,335
2016	2,420,809
2017	2,241,860
2018 <sup>(b)</sup>	1,578,113

(a) Source: City of Bellaire, Texas.  
 (b) Collections through May 31, 2018.

**Schedule 11 – Historical Operations of the Debt Service Fund**

The following statement sets forth in condensed form the historical operations of the City’s Debt Service Fund. Such information has been prepared based upon information obtained from the City’s audited financial statements and other information provided by the City.

	<b>Fiscal Year Ended September 30,</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Revenues</b>					
Property taxes	\$ 6,268,910	\$ 5,846,605	\$ 5,576,528	\$ 5,137,286	\$ 4,839,801
Investment income	4,164	6,081	3,591	2,107	2,094
<b>Total Revenues</b>	<b>6,273,074</b>	<b>5,852,686</b>	<b>5,580,119</b>	<b>5,139,393</b>	<b>4,841,895</b>
<b>Expenditures</b>					
General Government				-	-
Debt Service:					
Principal retirement	4,510,000	4,055,000	3,955,000	3,690,000	3,500,000
Interest & fiscal charges	3,059,476	2,772,676	2,623,526	2,341,311	2,256,878
Payment to bond escrow agent	-	-	-	-	-
Bond issuance costs	-	-	-	-	-
<b>Total Expenditures</b>	<b>7,569,476</b>	<b>6,827,676</b>	<b>6,578,526</b>	<b>6,031,311</b>	<b>5,756,878</b>
<b>Revenues Over (Under) Expenditures</b>	<b>(1,296,402)</b>	<b>(974,990)</b>	<b>(998,407)</b>	<b>(891,918)</b>	<b>(914,983)</b>
<b>Other Financing Sources (Uses)</b>					
Operating transfers in	1,264,655	950,000	950,000	950,000	950,000
Proceeds from issuance of general obligation refunding bonds	9,690,000	-	-	-	-
Bonds issued	-	-	-	-	-
Bond premium	265,613	-	-	-	-
Payment to bond escrow agent	(9,942,235)	-	-	-	-
Other	-	-	-	-	-
<b>Total Other Financing Sources(Uses)</b>	<b>1,278,033</b>	<b>950,000</b>	<b>950,000</b>	<b>950,000</b>	<b>950,000</b>
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<b>(18,369)</b>	<b>(24,990)</b>	<b>(48,407)</b>	<b>58,082</b>	<b>35,017</b>
<b>Fund balances - Beginning</b>	<b>489,135</b>	<b>514,125</b>	<b>562,532</b>	<b>504,450</b>	<b>469,433</b>
<b>Fund balances - Ending</b>	<b>\$ 470,766</b>	<b>\$ 489,135</b>	<b>\$ 514,125</b>	<b>\$ 562,532</b>	<b>\$ 504,450</b>

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## Schedule 12 – Historical Operations of the General Fund

The following statement sets forth in condensed form the historical operations of the City's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such information has been prepared based upon information obtained from the City's audited financial statements and other information provided by the City.

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
<b>Revenues</b>					
Property taxes	\$ 12,161,757	\$ 11,274,387	\$ 10,120,107	\$ 9,233,571	\$ 8,629,174
Sales taxes	2,241,860	2,420,809	2,391,335	2,310,083	2,590,958
Franchise fees	1,374,918	1,363,860	1,393,224	1,411,682	1,381,700
Licenses and permits	1,199,500	1,158,422	1,007,468	1,183,493	1,142,927
Charges for services	1,229,988	1,394,739	677,856	1,230,436	1,246,481
Fines and forfeitures	679,883	717,852	1,424,243	754,693	670,066
Investment income	47,017	46,454	37,373	21,967	17,121
Intergovernmental	202,324	2,325	99,511	3,455	90,362
Other	37,786	34,847	64,838	17,417	29,857
<b>Total Revenues</b>	<b>19,175,033</b>	<b>18,413,695</b>	<b>17,215,955</b>	<b>16,166,797</b>	<b>15,798,646</b>
<b>Expenditures</b>					
Current:					
General government	4,654,894	4,420,300	4,105,290	4,524,979	4,223,783
Public safety	8,967,042	8,014,114	7,680,331	7,025,015	6,922,293
Public works	1,054,450	1,056,541	1,100,198	1,048,380	1,038,170
Culture and recreation	4,217,423	4,030,077	3,700,341	2,643,166	2,549,648
Capital projects	-	-	-	-	-
<b>Total Expenditures</b>	<b>18,893,809</b>	<b>17,521,032</b>	<b>16,586,160</b>	<b>15,241,540</b>	<b>14,733,894</b>
<b>Revenues Over/(Under) Expenditures</b>	<b>281,224</b>	<b>892,663</b>	<b>629,795</b>	<b>925,257</b>	<b>1,064,752</b>
<b>Other Financing Sources/(Uses)</b>					
Sale of capital assets	37,184	817	1,000	12,437	21,174
Operating transfers in	624,000	624,000	500,000	500,000	500,000
Operating transfers out <sup>(a)</sup>	(2,057,000)	(2,306,000) <sup>(a)</sup>	(150,000)	(1,027,485)	(950,000)
<b>Other Financing Sources/(Uses)</b>	<b>(1,395,816)</b>	<b>(1,681,183)</b>	<b>351,000</b>	<b>(515,048)</b>	<b>(428,826)</b>
<b>Revenues &amp; Other Financing Sources Over(Under) Expenditures and Other Financing Sources/(Uses)</b>	<b>(1,114,592)</b>	<b>(788,520)</b>	<b>980,795</b>	<b>410,209</b>	<b>635,926</b>
<b>Fund balances - Beginning</b>	<b>4,815,527</b>	<b>5,604,047</b>	<b>4,623,252</b>	<b>4,213,043</b>	<b>3,577,117</b>
<b>Fund balances - Ending</b>	<b>\$ 3,700,935</b>	<b>\$ 4,815,527</b>	<b>\$ 5,604,047</b>	<b>\$ 4,623,252</b>	<b>\$ 4,213,043</b>

(a) The City transferred funds to the Capital Improvement Program ("CIP") and Vehicle, Equipment Technology ("VET") funds to reduce the unreserved and undesignated portion of the General Fund balance.

### Schedule 13 – Historical Operations of the Water and Sewer System

The following statement sets forth in condensed form the historical operations of the City’s Enterprise Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. System net revenues are not pledged to secure the Bonds though surplus revenues may be used for debt service at the discretion of the City Council. While transfers to the Debt Service Fund have been made in the past, and the City presently intends to continue such transfers, there is no guarantee that such transfers will not be reduced or curtailed in the future. Such information has been prepared based upon information obtained from the City’s audited financial statements and other information provided by the City.

	<b>Fiscal Year Ended September 30</b>				
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Operating Revenues</b>					
Water services	\$ 4,009,291	\$ 3,334,192	\$ 3,263,193	\$ 3,399,947	\$ 4,065,706
Sewer services	2,355,069	2,177,649	2,184,372	2,306,693	2,433,842
Solid waste	1,687,841	1,678,377	1,430,744	1,429,484	1,436,194
Other	58,856	66,043	144,517	86,560	92,712
<b>Total Operating Revenues</b>	<b>8,111,057</b>	<b>7,256,261</b>	<b>7,022,826</b>	<b>7,222,684</b>	<b>8,028,454</b>
<b>Operating Expenses</b>					
Water production	480,353	487,036	450,903	458,629	497,249
Water distribution	490,076	532,118	508,291	447,978	302,018
Wastewater collection	444,980	427,405	304,666	368,665	378,755
Wastewater treatment	748,821	877,170	835,956	1,064,433	842,307
Solid waste	1,342,498	1,322,405	1,197,899	1,318,922	1,274,696
Other	436,159	337,025	327,473	252,198	232,733
Surface water conversion	1,850,669	1,766,117	1,707,622	1,846,985	1,608,262
<b>Total Operating Expenses Before Depreciation</b>	<b>5,793,556</b>	<b>5,749,276</b>	<b>5,332,810</b>	<b>5,757,810</b>	<b>5,136,020</b>
Depreciation	2,493,630	2,485,690	2,370,722	2,316,047	2,011,446
<b>Total Operating Expenses</b>	<b>8,287,186</b>	<b>8,234,966</b>	<b>7,703,532</b>	<b>8,073,857</b>	<b>7,147,466</b>
Operating Income (Loss)	(176,129)	(978,705)	(680,706)	(851,173)	880,988
<b>Non-Operating Revenue</b>					
Investment income	936	1,112	3,982	5,914	6,075
Other	-	-	25,294	10,115	2,115
Loss on disposal of capital assets	(28,265)	-	-	-	-
Intergovernmental revenue	102,310	-	63,000	-	-
Capital contribution	-	-	-	-	-
<b>Total Non-Operating Revenues</b>	<b>74,981</b>	<b>1,112</b>	<b>92,276</b>	<b>16,029</b>	<b>8,190</b>
Income Before Transfers	(101,148)	(977,593)	(588,430)	(835,144)	889,178
Capital contribution	8,472,490	583,618	708,380	2,595,673	876,687
Transfers (in)	-	-	125,000	-	-
Transfers (out)	(2,746,000)	(2,646,000)	(2,310,000)	(4,197,000)	(2,194,600)
<b>Change in Net Assets</b>	<b>5,625,342</b>	<b>(3,039,975)</b>	<b>(1,476,620)</b>	<b>(2,436,471)</b>	<b>(428,735)</b>
Change in Net Position		-	(2,065,050)	-	
Beginning Net Position	43,581,059	46,621,034	48,686,084 <sup>(a)</sup>	52,041,422	52,470,157
<b>Ending Net Position</b>	<b>\$ 49,206,401</b>	<b>\$43,581,059</b>	<b>\$ 46,621,034</b>	<b>\$ 49,604,951 <sup>(a)</sup></b>	<b>\$ 52,041,422</b>

(a) Restated balance in accordance with GASB Statement No. 65.

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## APPENDIX B

### ECONOMIC AND DEMOGRAPHIC INFORMATION

#### Location and Size

The City of Bellaire, Texas (the “City”), incorporated in 1918, is a political subdivision located in Harris County, Texas (the “County”) operating as a home-rule city under the laws of the State of Texas and a charter approved by the voters. The City operates under the Council/Manager form of government where the mayor is elected to a two-year term and the six council members are elected for staggered four-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administrative officer. It is the duty of the City Manager to implement the policies and directives of the City Council.

The City is approximately 3.6 square miles in area and is located in the southwest quadrant of the County and is approximately seven miles southwest of the City of Houston’s central business district. The City is encircled by the cities of Houston, West University Place and Southside Place. The City of Bellaire is a mature community that is almost fully developed with a network of businesses to support its citizens. Residential and commercial redevelopment is ongoing. Within the City limits there are a number of private and public schools.

(Source: City of Bellaire).

#### Major Employers

The following are the major employers located within the City.

##### Principal Employers Fiscal Year 2017

<u>Employer</u>	<u>Total Employees</u>
Worley Parsons Ltd.	500-999
Bellaire High School	100-4999
Brighton Gardens of Bellaire	100-4999
Chevron Oronite Co. LLC	100-4999
Chevron Pipeline Co.	100-4999
First Street Hospital	100-4999
First Surgical Partners	100-4999
PFM, LLC	100-4999
Pin Oak Middle School	100-4999
Randall's	100-4999

#### Population

The City is part of the County, the most populous of the 254 counties in the State of Texas. According to the 2010 Census of Population, the City of Houston is the nation’s fourth most populous city. The City is completely contained within the City of Houston and the County. The City is a component of the six county Houston Standard Metropolitan Statistical Area (the “Houston SMSA”).

<u>Population</u>	<u>1980 Census</u>	<u>1990 Census</u>	<u>2000 Census</u>	<u>2010 Census</u>
Harris County, Texas	2,409,457	2,818,199	3,400,578	4,092,459
City of Bellaire, Texas	14,950	13,942	15,642	16,855

## Economy

The City's economy is an integral part of the Houston SMSA economy. The City's employment and economic activity are also heavily influenced by the general economic conditions of the Houston SMSA and by the Texas Medical Center, which is within four miles of Bellaire. The City's location provides easy access to the Houston central business district via U.S. Highway 59 (seven miles), the Texas Medical Center (four miles) and to the Galleria area along Loop 610 (three miles).

According to the Chamber of Commerce, the County and the City of Houston are headquarters for some of the nation's largest corporations. The City of Houston is a primary location for 45 of the world's 100 largest non-U.S. based companies.

## Education

The City is within the boundaries of the Houston Independent School District, which operates Bellaire High School, one middle school and three elementary schools all located within the city limits of the City. Additionally, there are four private schools in the City. Condit Elementary School was torn down and a new building was erected in the summer of 2016. A new building is planned for the Bellaire High School, the timing of which has been subject to developer delays.

There are several colleges within the Houston area including Rice University, the University of Houston, the University of St. Thomas, Houston Baptist University and Texas Southern University. Additionally, the City is within the boundaries of the Houston Community College District, which operates several junior college campuses in the area.

HEB will update and enlarge its Bellaire location more than doubling the size of the current store as well as expanding the adjacent parking with a two story parking structure.

Construction of residential homes in Alder Circle, a new subdivision is currently under construction and will add approximately \$6.5 million to the tax rolls.

(Source: City of Bellaire).

## Historical Construction Permits Within the City

Calendar Year	New Residential		Residential Remodeling		New Commercial		Commercial Remodeling		Total	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount	Number	Amount
2014	70	71,676,698	223	6,653,752	1	14,458,460	24	14,637,844	318	107,426,754
2015	95	50,686,940	370	7,259,025	2	22,115,719	74	10,471,883	541	90,533,567
2016	51	33,524,417	386	8,532,317	1	2,600,000	65	27,848,262	503	72,504,996
2017	85	52,875,027	570	10,990,792	4	32,000,000	69	14,357,913	728	110,223,732
2018 <sup>(a)</sup>	62	34,857,517	389	8,994,589	1	9,200,000	48	6,597,334	500	59,649,440

(a) As of May 31, 2018.

Source: City of Bellaire, Texas.

**APPENDIX C**

**SELECTED DATA FROM COMPREHENSIVE  
ANNUAL FINANCIAL REPORT,  
CITY OF BELLAIRE, TEXAS,  
FISCAL YEAR ENDED SEPTEMBER 30, 2016**

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# City of Bellaire, Texas



## Comprehensive Annual Financial Report

For Fiscal Year Ended September 30, 2017



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**COMPREHENSIVE ANNUAL  
FINANCIAL REPORT**

**CITY OF BELLAIRE, TEXAS**

**For the fiscal year ended  
September 30, 2017**

**Prepared by  
Finance Department**

**Terrence Beaman  
Chief Financial Officer**

**CITY OF BELLAIRE, TEXAS**  
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**  
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## **Introductory Section**

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CITY OF  
*Bellaire*

7008 South Rice Avenue • Bellaire, Texas 77401 • (p)713-662-8222 • (f)713-662-8212

March 19, 2018

To the Honorable Mayor, Members of the City Council,  
City Manager, and Citizens of the  
City of Bellaire, Texas:

We are pleased to submit the Comprehensive Annual Financial Report (CAFR) of the City of Bellaire, Texas (the “City”) for the year ended September 30, 2017. This report is published to provide the citizens, City Council, City staff, bondholders, and other interested parties detailed information concerning the financial condition of the City. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. We believe the data, as presented, is accurate in all material respects and that it is reported in a manner that fairly presents the financial position and results of operations of the City as measured by the financial activity of its various funds and account groups. All disclosures necessary to enable the reader to gain the maximum understanding of the City’s financial activities have been included.

### **THE REPORT**

In compliance with the Governmental Accounting Standards Board (GASB) Statement No. 34, this report includes a Management’s Discussion and Analysis (MD&A) which provides a narrative introduction, overview, and analysis to accompany the basic financial statements. The MD&A is located immediately following the Independent Auditors’ Report. This letter of transmittal is designed to complement MD&A and should be read in conjunction with it.

### **CITY PROFILE**

#### **Location**

The City, founded in 1908 and incorporated under the laws of the State of Texas in 1918, is located in southwest Harris County. The City is entirely surrounded by the City of Houston. The City encompasses about 3.6 square miles and has a population of 18,593 as of 2016 per the US Census Bureau estimate.

#### **Form of Government**

Since 1949, the City has operated under a “Home Rule Charter” which provides for a Council-Manager form of government. The City Council is comprised of a Mayor and six council members. The Mayor is elected for a regular term of two years and is limited to four consecutive terms in that position. Council members, all of whom are elected at-large, are elected for a regular term of four years. No council member may serve more than two consecutive terms in that position. The Mayor and three council members are elected at each regular election. The City Council appoints a City Manager to be responsible for the daily management of the City.

## **The Reporting Entity and Services Provided**

The basic financial statements of the City include police, fire and emergency medical services, parks and recreation, library services, street maintenance and repair, public improvements, water, sewer and solid waste systems, and general administrative services.

## **ECONOMIC CONDITION AND OUTLOOK**

### **Economic Condition**

As an enclave of Houston, the economy of the City is directly linked to the Houston metropolitan area. While a number of large employers, as well as retail and service type businesses, are located within the City, Bellaire is primarily a residential community. Many of the residents work minutes away in Houston's largest business areas, including the Houston Medical Center, regarded as one of the finest health care facilities in the world. Two major airports, William P. Hobby International Airport and George Bush Intercontinental Airport, are easily accessible to Bellaire residents and business travelers.

The Houston metropolitan area's economy is based on petrochemicals, shipping, refining, chemicals, space exploration, manufacturing, education, health care, and tourism. Beginning around April 2015, Houston has seen increased unemployment and an economic slowdown due to a decrease in oil prices. However, due to a petrochemical construction boom, health care, and a strong nationwide economy that supports the metropolitan area, Houston's economy is expected to continue its historical growth pattern but not at the pace experienced back in 2014. Most economic factors such as employment, oil prices, travel, and others are projected to either stabilize or grow as the Greater Houston area is still one of the most sought after markets to live and do business. Houston is the seat of Harris County, the most populous county in the State of Texas and the third most populous county in the nation. Houston's phenomenal growth has brought about rapid development throughout the region, but the necessary infrastructure to support such growth in the outlying areas has lagged behind. As a result, many residents of the region have sought to reduce their commute time on Houston's heavily congested transportation corridors by moving closer to the workplace. In addition to Bellaire being a safe city with high quality schools, Bellaire has become increasingly desirable due to its convenient location to Houston's downtown, uptown, and midtown business districts and Houston's medical center.

The City is a mature community that is almost fully developed residentially with a network of businesses to support its citizens. While there is little undeveloped commercial property, the commercial infrastructure is not nearly as developed or modernized as the residential sector. The City continues to focus on better utilization and growth of the central commercial district and commercial corridors within the City based on its comprehensive plan adopted in 2009 and updated in September 2015. Large mature oak trees cascade over most of the City's streets giving a "small town" feel to the area. Local government control through City Council gives Bellaire residents more influence over key government services such as police and fire protection.

### **Major Initiatives**

In November 2005, voters approved two separate bond referenda totaling \$50.00 million to be spent over a ten-year period on infrastructure and facility improvements. With an additional obligation of \$5.00 million in pay-as-you-go funding, the City's "Rebuild Bellaire" capital improvement program totaled \$55.00 million. The program provided for \$43.50 million in funding for major street and drainage improvements throughout the City and \$11.50 million for facilities replacement and renovation. The facilities included the new Bellaire Family Aquatic Center, Bellaire Fire Station, and renovations to the Bellaire Library and City Hall. The City issued this debt in stages including the final issuance of \$1.56 million in 2017 for facilities.

In November 2013, voters approved three bond referenda totaling \$16.50 million. \$11.00 million was approved for improvements to City Hall, Civic Center, Police Station, and Municipal Court facilities. An additional \$5.00 million was approved for capital improvements to Evelyn's Park and an additional \$0.50 million was approved for ground and facilities improvements to the Nature Discovery Center in Russ Pitman Park. The City issued \$5.50 million in 2014 for construction of Evelyn's Park and improvements to the Nature Discovery Center in Russ Pitman Park. The remaining authority of \$11.00 million for facilities was issued in 2017.

In November 2016, voters approved three separate bond propositions collectively referred to as “Bonds for Better Bellaire 2016” totaling \$53.98 million. Proposition 1 provides \$24.00 million for design and construction of streets and drainage systems and sidewalks. Proposition 2 provides \$5.60 million for new municipal buildings. These funds are in addition to the \$1.56 million approved in November 2005 and the \$11.00 million approved in November 2013 for a total project budget of \$18.16 million for construction of a new city hall/civic center and police/municipal court facility. Proposition 3 provides \$24.38 million for water and wastewater improvements, including \$11.00 million for design and construction of water lines, \$0.58 million for design and construction of wastewater lines, and \$12.80 million for new water meter installation and improvements to the wastewater treatment plant. The City is issuing this debt in stages, including two issuances totaling \$32.48 million in 2017 for (a) streets, drainage, and sidewalks (\$10.00 million), (b) municipal facilities (\$5.60 million), and (c) water and wastewater improvements (\$16.88 million). There remains authority of \$14.00 million for streets, drainage, and sidewalks, and \$7.50 million for water and wastewater improvements, which is projected to be issued in fiscal year 2018 and fiscal year 2019.

Evelyn’s Park opened on Earth Day, April 22, 2017. The 5-acre property broke ground in June 2015. Evelyn's Park is a tranquil and beautifully landscaped park plan with walking trails, a children's garden and play area, a butterfly garden, an all-day café with banquet room, and an event lawn.

With the support of City Council and its Planning and Zoning Commission, H-E-B has committed to re-invest in the community by building a newly designed grocery store at its current location, 5130 Cedar. City Council approved a release of right of way and easement to facilitate the replacement of the current H-E-B grocery store with a store that will more than double in size. Shoppers will enjoy expanded parking in the two-story garage. This project is reflective of the City’s efforts over the last several years to encourage commercial redevelopment through targeted changes in the zoning code, to attract new and renewed businesses that will improve Bellaire’s commercial areas and better serve the needs of residents. The original store opened in 1994. Construction began in 2017 with a grand opening of the new store expected in 2018.

Construction of residential homes began in a new residential subdivision, Alder Circle, which will add an estimated \$6.5 million to the tax rolls with an estimated completion date in 2018.

Bellaire High School and Condit Elementary School were included in the Houston Independent School District's (HISD) 2012 \$1.89 billion bond program approved by voters November 6, 2012. The old Condit Elementary school was torn down and a new building was erected in the summer of 2016. A new building for Bellaire High School is planned that will incorporate the recently completed science classroom and laboratory wing and add a parking garage. Bellaire High School is currently located on a 17-acre site in a residential area of Bellaire. The school has attendance in excess of 3,500 students and the parking is inadequate for a school of its size. As noted earlier, voters approved bonds in 2012 for HISD to rebuild the school and add a parking garage, but numerous delays have prevented the rebuilding. In September 2017, the Bellaire City Council approved a special use permit for HISD paving the way for the rebuilding in the near future.

In July 2016 Chevron, the City's top employer and property tax payer, announced it would be vacating its Bellaire facility and consolidating its operations into its downtown Houston offices. This opened up redevelopment possibilities for a contiguous, rectangular area of approximately 30 acres in the City. Long-established neighborhoods of single-family detached homes border the site to the North and South, and Interstate 610 borders the site to the East. The site presents a unique redevelopment opportunity that could accommodate a range of desirable potential uses. Since the 1940's the site has been zoned as a Technical Research Park, which corresponded to use as a business park in the Land Use and Character Map within the City's *Comprehensive Plan*. The *Comprehensive Plan* serves as a framework for guiding future development, redevelopment, and community enhancement. Sensing the opportunity for redevelopment of the Chevron property into something with more community benefit than a business park, the City amended its *Comprehensive Plan* in April 2017 identifying the area as the North Bellaire Special Development Area on the Future Land Use and Character Map within the *Comprehensive Plan*. This re-designation within the *Comprehensive Plan* indicates the City's openness to alternative uses for the site such as traditional single family homes, lifecycle housing, and non-residential and mixed-use development.

### **Long-Term Financial Planning**

The City's strategic planning process has multiple components. At the base, is the City's long-term *Comprehensive Plan* adopted in 2009, updated in 2015, and most recently revised in 2017. It has a 20-year planning horizon focusing on land use, infrastructure, and quality of life.

Elements of the *Comprehensive Plan* feed into the development of *City Council Priorities*. *City Council Priorities* have a 5-year planning horizon focusing on safety, infrastructure and facilities, residential and recreational, budget and finance, and commercial redevelopment.

Elements of *City Council Priorities* feed into the development of the *Capital Improvement Plan*. The *Capital Improvement Plan* has a 5-year planning horizon focusing on capital improvement projects.

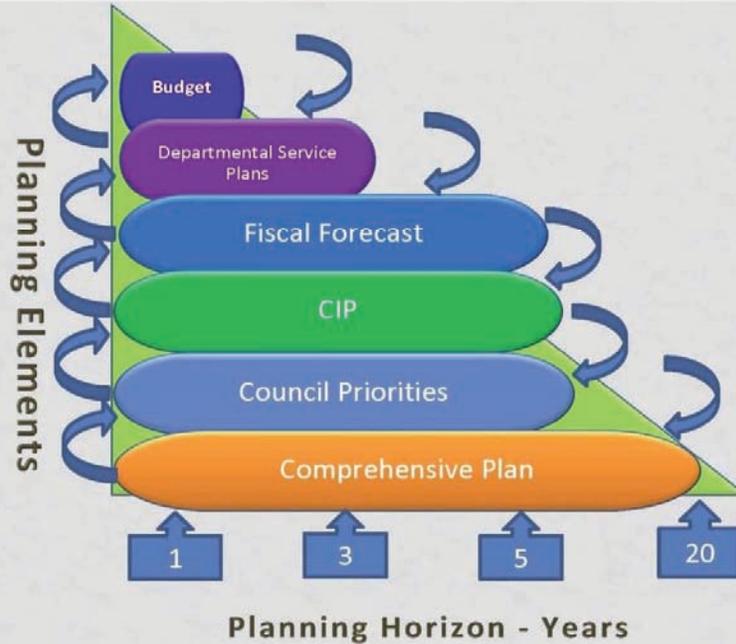
Elements of *City Council Priorities* and the *Capital Improvement Plan* feed into the development of the *Fiscal Forecast*. The *Fiscal Forecast* has a 5-year planning horizon focusing on major assumptions and overall forecasting of cash flows.

Elements of *City Council Priorities* and the *Fiscal Forecast* feed into the development of the department level *Service Plans*. Department level *Service Plans* have a 3-year planning horizon focusing on why the department exists, what the department is responsible for, what the department does, who the department serves, what service level the department provides, a high level analysis of the department budget and fiscal forecast, an analysis of the environment in which the department operates, consideration of available assets, identification of potential future service enhancements, and development of future strategic goals.

Elements of the *Fiscal Forecast* and the department level *Service Plans* feed into the development of the annual budget.

While the longer-term strategic planning elements generally drive the development of the shorter-term strategic planning elements, there can be components of the shorter term planning elements identified which in turn are used in the updating or revising of the longer term planning elements, making the development a two-way street.

# CITY OF BELLAIRE STRATEGIC PLANNING MODEL



Debt management is a major component of the strategic planning process that incorporates financing needs for infrastructure development that is consistent with the revenue stream, while at the same time measuring and assessing the cost and timing of each debt issuance. Debt service payments are budgeted expenditures. Moreover, during the annual budget adoption process, the City adopts a property tax rate via Truth and Taxation laws necessary to fund voter approved debt. The General rate produces revenues available in the general fund to satisfy expenditures, while the Debt Service rate produces revenues available in the debt service fund to service debt.

The City approved an increase of \$0.0285 in the total property tax rate for tax year 2017, fiscal year 2018. The increase was split with an increase of \$0.0127 from the General rate and an increase of \$0.0158 from the Debt Service rate. Tax rates for the past and most recent fiscal years were apportioned as follows:

<b>Fund</b>	<b>2015</b>	<b>Change</b>	<b>2016</b>	<b>Change</b>	<b>2017</b>
General	\$0.2532	\$(0.0031)	\$0.2501	\$0.0050	\$0.2551
Debt service	0.1404	(0.0100)	0.1304	0.0019	0.1323
<b>Total Tax Rate</b>	<b>\$0.3936</b>	<b>\$(0.0131)</b>	<b>\$0.3805</b>	<b>\$0.0069</b>	<b>\$0.3874</b>

The tax rate for tax year 2017, fiscal year 2018, was increased by \$0.0285, to \$0.4159.

Property tax revenues are the main source of resources available for debt service, however, in addition, the enterprise fund annually transfers \$950,000 to cover debt service requirements on bond proceeds used for enterprise infrastructure.

Payments for bond principal and interest, which include associated fees, totaled \$17,496,550 in fiscal year 2017, including \$9,942,234 for refunding bonds issued to achieve savings on interest costs. Payments for bond principal and interest are budgeted to be approximately \$8,730,841 in fiscal year 2018.

The City's Charter contains no limit on the amount of debt the City may incur. The amount of ad valorem tax-supported debt that the City may incur is limited by the Constitution of the State of Texas (the "State"). The State Constitution provides that the ad valorem taxes levied by the City for general purposes and for paying the principal and interest on the City's indebtedness must not exceed \$2.50 for each \$100 of assessed valuation of taxable property. There is no constitutional or statutory limitation with the \$2.50 rate for debt payments; however, the Texas Attorney General has adopted an administrative policy that prohibits the issuance of debt by a municipality, such as Bellaire, if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collections. The City's debt service tax rate for fiscal year 2017 of \$0.1323 and for fiscal year 2018 of \$0.1481 for each \$100 of assessed value is well below the aforementioned limit of \$1.50 for each \$100 of assessed value.

The City continues to update and monitor its five-year fiscal forecast and regularly re-visits all assumptions related to debt as economic indicators change.

### **Financial Information**

The City's accounting records for general government operations are maintained on a modified accrual basis with the revenues recorded when available and measurable and expenditures recorded when the goods or services are received and the liabilities incurred. Accounting records for the City's proprietary activities are maintained on the accrual basis.

Management of the City is responsible for establishing and maintaining internal controls designed to ensure that the assets of the City are protected from loss, theft, or misuse and to ensure that adequate accounting data is completed to allow for the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of controls should not exceed the benefits expected to be derived and (2) the evaluation of costs and benefits require estimates and judgments by management.

We believe the City's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented, or would be detected within a timely period, by employees in the normal course of performing their assigned functions.

Additionally, the City maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by City Council. Activities of each of the City's funds are included in the annual appropriated budget. The level of budgetary control (the level at which expenditures cannot legally exceed the appropriated amount) is the total approved budget for each department. As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet its responsibility for sound financial management.

## OTHER INFORMATION

### Independent Audit

The City Charter requires an annual audit of the books of accounts, financial records, and transactions of all administrative departments of the City by an independent certified public accountant. The independent auditors' report prepared by Whitley Penn, LLP is included in the financial section of this report.

### Audit Finance Board

The City Council has formally established an audit finance board (the "Board") to enhance the audit process by providing a direct link between the auditors and the City Council. The Board reviews the audit prior to submission to City Council and assists the auditors and City staff with the presentation of the audit. It also reviews and assists with the development of the City's financial policies.

### Awards

The Government Finance Officers' Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the year ended September 30, 2016. This was the eighteenth consecutive year that the City has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. This report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe the current CAFR continues to meet the Certificate of Achievement program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### Acknowledgements

The preparation of this report was accomplished with the efficient and dedicated services of the entire staff of the finance department and the cooperation of all other City departments. We would like to express our appreciation to all members of the finance department and all other City staff who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor, City Council, Audit Finance Board, and the City Manager for their continued interest and support in planning and conducting the financial operations of the City in a responsible and professional manner.

### Requests for Information

This financial report is designed to provide a general overview of the City's finances for interested parties. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Chief Financial Officer, City of Bellaire, 7008 South Rice Avenue, Bellaire, Texas 77401-4411.

Respectfully submitted,



Terrence Beaman  
Chief Financial Officer



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of Bellaire**  
**Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2016**

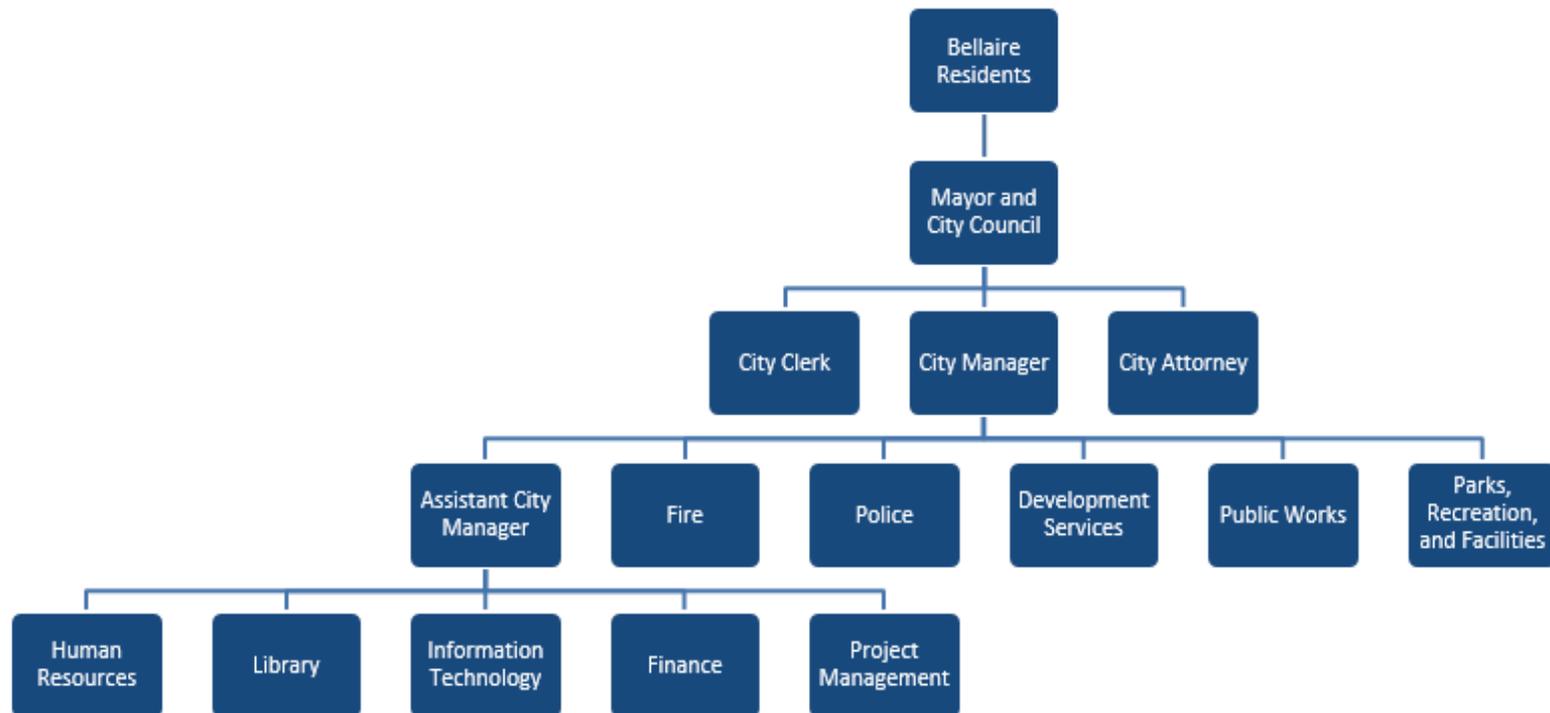
*Christopher P. Morill*

Executive Director/CEO



FY 2017

# City of Bellaire Organizational Chart



**CITY OF BELLAIRE, TEXAS**  
**PRINCIPAL CITY OFFICIALS**  
*September 30, 2017*

<b>City Officials</b>	<b>Elective Position</b>	<b>Term Expires</b>
Andrew S. Friedberg	Mayor	01/20
Neil Verma	Council Member - Position No. 1	01/22
Trisha S. Pollard	Council Member - Position No. 2	01/20
Gus E. Pappas	Council Member - Position No. 3	01/22
Pat McLaughlan	Council Member - Position No. 4	01/20
Michael Fife	Council Member - Position No. 5	01/22
David E. Montague	Council Member - Position No. 6	01/20

<b>Key Staff</b>	<b>Position</b>
Paul A. Hofmann	City Manager
Diane K. White	Assistant City Manager
Terrence Beaman	Chief Financial Officer
Tracy L. Dutton	City Clerk
Michael Leech	Director of Public Works
Byron Holloway	Police Chief
Darryl Anderson	Fire Chief
Karl Miller	Director of Parks, Recreation, and Facilities
Mary Cohrs	Library Director
ChaVonne Sampson	Director of Development Services
Yolanda Howze	Director of Human Resources
Patrice Baltuskonis	Director of Information Technology

## **Financial Section**

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## REPORT OF INDEPENDENT AUDITORS

To the Honorable Mayor and  
Members of the City Council  
City of Bellaire, Texas

### Report on Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 presentation of the financial statements.

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

### 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, each major fund, and the aggregate remaining fund information of the City, as of September 30, 2017, and the respective

To the Honorable Mayor and  
Members of the City Council  
City of Bellaire, Texas

changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, budgetary comparison information on pages 57 through 58, and pension system and other post-employment benefit supplementary information on pages 59 through 61 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, debt service fund budgetary comparison schedule and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund statements and debt service fund budgetary comparison schedule is the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining fund statements and debt service fund budgetary comparison schedule are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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



March 19, 2018  
Houston, Texas

## **CITY OF BELLAIRE, TEXAS**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

As management of the City of Bellaire, Texas (the "City"), we offer 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, 2017.

#### **Financial Highlights**

- The City's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by \$64.5 million (*net position*). Of this amount, \$0.6 million (*unrestricted net position*) may be used to meet the City's ongoing obligations to citizens and creditors.
- As of the close of the most recent fiscal year, the City's governmental funds reported combined ending fund balances of \$49.5 million, an increase of \$28.1 million over the prior year. A primary driver of this increase was due to the proceeds received from the issuance of capital-related debt. Approximately 7% of the City's combined governmental fund balances, \$3.7 million, is available for spending at the City's discretion (*unassigned fund balance*).
- At the end of the most recent fiscal year, unassigned fund balance for the general fund was 20% of total general fund expenditures.

#### **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 basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

#### **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.

The statement of activities presents information showing how the City'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, public safety, public works, and culture and recreation. The business-type activities of the City include water services, sewer services, and solid waste services.

**CITY OF BELLAIRE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)*

The government-wide financial statements can be found on pages 15 through 17 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, like other state and local governments, 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.

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 City'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 seven individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the general fund, debt service fund, and capital bond fund, all of which are considered to be major funds for reporting purposes. Data from the non-major 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 found on pages 64 through 67 of this report.

The City adopts an annual appropriated budget for all funds. Budgetary comparison schedules have been provided for the general fund and debt service fund to demonstrate compliance with their budgets.

The basic governmental fund financial statements can be found on pages 18 through 24 of this report.

**Proprietary Funds**

Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City maintains one type of proprietary fund. The City uses an enterprise fund to account for its water, sewer, and solid waste services.

Proprietary fund financial statements 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 water, sewer, and solid waste operations, and is considered to be a major fund of the City.

The basic proprietary fund financial statements can be found on pages 25 through 27 of this report.

**CITY OF BELLAIRE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)*

**Notes to the Basic Financial Statements**

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 28 through 54 of this report.

**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 and other post-employment benefits to its employees and general fund budgetary comparisons. Required supplementary information can be found on pages 57 through 61 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 assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows at the close of the most recent fiscal year by \$64.5 million (*net position*). At the close of the most recent fiscal year, the City is able to report positive balances in all three categories of net position, both for the government as a whole, as well as for its separate governmental and business-type activities.

By far, the largest portion of the City's net position (96%) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery and equipment), less any related debt used to acquire those assets that is still outstanding. 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.

An additional portion of the City's net position (3%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (1%) may be used to meet the City's ongoing obligations to citizens and creditors.

The City has historically issued and repaid debt in its governmental activities for which the proceeds were used to purchase capital assets for the business-type activities. With business-type activities carrying the capital assets and governmental activities carrying the debt, the result is governmental activities presenting negative unrestricted net position. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities in the amount of \$23,621,897 is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

**CITY OF BELLAIRE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Government-wide Financial Analysis (continued)**

The following table summarizes the financial position of the City as of September 30, 2017 and 2016.

	September 30, 2017			
	Governmental Activities	Business-type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 55,023,663	\$ 1,975,841	\$ -	\$ 56,999,504
Capital assets	96,643,061	48,987,489	-	145,630,550
<b>Total Assets</b>	<b>151,666,724</b>	<b>50,963,330</b>	<b>-</b>	<b>202,630,054</b>
Deferred charge on refunding	2,456,752	-	-	2,456,752
Deferred outflows - pensions	4,052,897	499,912	-	4,552,809
<b>Total Deferred Outflows of Resources</b>	<b>6,509,649</b>	<b>499,912</b>	<b>-</b>	<b>7,009,561</b>
Long-term liabilities	136,717,200	1,605,622	-	138,322,822
Other liabilities	5,482,314	570,728	-	6,053,042
<b>Total Liabilities</b>	<b>142,199,514</b>	<b>2,176,350</b>	<b>-</b>	<b>144,375,864</b>
<b>Deferred Inflows of Resources - Pensions</b>	<b>691,971</b>	<b>80,491</b>	<b>-</b>	<b>772,462</b>
Net investment in capital assets	36,737,254	48,987,489	(23,621,897)	62,102,846
Restricted	1,816,603	-	-	1,816,603
Unrestricted	(23,268,969)	218,912	23,621,897	571,840
<b>Total Net Position</b>	<b>\$ 15,284,888</b>	<b>\$ 49,206,401</b>	<b>\$ -</b>	<b>\$ 64,491,289</b>

	September 30, 2016			
	Governmental Activities	Business-type Activities	Reconciliation	Total Primary Government
Current and other assets	\$ 25,536,469	\$ 2,043,992	\$ -	\$ 27,580,461
Capital assets	87,352,743	43,105,844	-	130,458,587
<b>Total Assets</b>	<b>112,889,212</b>	<b>45,149,836</b>	<b>-</b>	<b>158,039,048</b>
Deferred charge on refunding	1,832,485	-	-	1,832,485
Deferred outflows - pensions	4,853,277	601,956	-	5,455,233
<b>Total Deferred Outflows of Resources</b>	<b>6,685,762</b>	<b>601,956</b>	<b>-</b>	<b>7,287,718</b>
Long-term liabilities	93,708,784	1,638,843	-	95,347,627
Other liabilities	4,250,811	443,755	-	4,694,566
<b>Total Liabilities</b>	<b>97,959,595</b>	<b>2,082,598</b>	<b>-</b>	<b>100,042,193</b>
<b>Total Deferred Inflows of Resources</b>	<b>778,614</b>	<b>88,135</b>	<b>-</b>	<b>866,749</b>
Net investment in capital assets	24,283,701	43,105,844	(7,640,602)	59,748,943
Restricted	2,926,117	-	-	2,926,117
Unrestricted	(6,373,053)	475,215	7,640,602	1,742,764
<b>Total Net Position</b>	<b>\$ 20,836,765</b>	<b>\$ 43,581,059</b>	<b>\$ -</b>	<b>\$ 64,417,824</b>

**CITY OF BELLAIRE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Government-wide Financial Analysis (continued)**

The City's net position increased by \$0.1 million during the most recent fiscal year, demonstrating the ability of the City's revenues to keep pace with annual expenses.

The following table summarizes the changes in net position for the City for the years ended September 30, 2017 and 2016.

**CONDENSED SCHEDULE OF CHANGES IN NET POSITION**

*For the Years Ended September 30, 2017 and 2016*

	Governmental Activities		Business-type Activities		Total Primary Government	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 3,397,063	\$ 3,351,864	\$ 8,052,201	\$ 7,190,218	\$ 11,449,264	\$ 10,542,082
Operating grants and contributions	1,600,306	1,678,882	102,310	-	1,702,616	1,678,882
Capital grants and contributions	-	-	-	583,618	-	583,618
General revenues:						
Property taxes	18,524,717	17,134,276	-	-	18,524,717	17,134,276
Other taxes	3,680,685	3,851,425	-	-	3,680,685	3,851,425
Other	461,603	116,984	59,792	67,155	521,395	184,139
<b>Total Revenues</b>	<b>27,664,374</b>	<b>26,133,431</b>	<b>8,214,303</b>	<b>7,840,991</b>	<b>35,878,677</b>	<b>33,974,422</b>
Expenses:						
General government	4,863,991	4,535,002	-	-	4,863,991	4,535,002
Public safety	9,717,944	9,099,845	-	-	9,717,944	9,099,845
Public works	1,568,448	3,458,191	-	-	1,568,448	3,458,191
Culture and recreation	6,957,959	4,934,103	-	-	6,957,959	4,934,103
Water system	-	-	5,779,152	5,607,986	5,779,152	5,607,986
Sewer system	-	-	1,193,801	1,304,575	1,193,801	1,304,575
Solid waste	-	-	1,342,498	1,322,405	1,342,498	1,322,405
Interest on long-term debt	4,323,982	2,746,662	-	-	4,323,982	2,746,662
<b>Total Expenses</b>	<b>27,432,324</b>	<b>24,773,803</b>	<b>8,315,451</b>	<b>8,234,966</b>	<b>35,747,775</b>	<b>33,008,769</b>
Change in net position before transfers	232,050	1,359,628	(101,148)	(393,975)	130,902	965,653
Transfers in (out)	(5,783,927)	2,646,000	5,726,490	(2,646,000)	(57,437.00)	-
Change in net position	(5,551,877)	4,005,628	5,625,342	(3,039,975)	73,465	965,653
<b>Total Net Position - Beginning</b>	<b>20,836,765</b>	<b>16,831,137</b>	<b>43,581,059</b>	<b>46,621,034</b>	<b>64,417,824</b>	<b>63,452,171</b>
<b>Total Net Position - Ending</b>	<b>\$ 15,284,888</b>	<b>\$ 20,836,765</b>	<b>\$ 49,206,401</b>	<b>\$ 43,581,059</b>	<b>\$ 64,491,289</b>	<b>\$ 64,417,824</b>

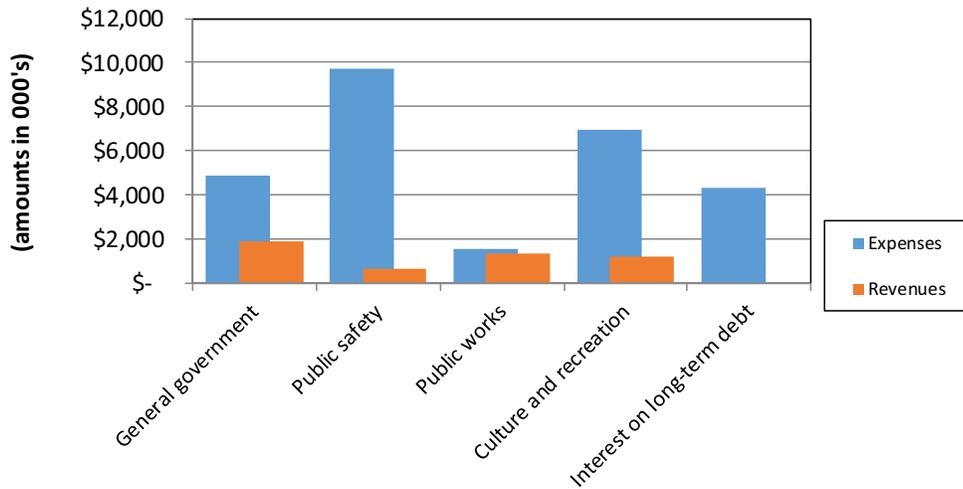
**CITY OF BELLAIRE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Governmental Activities**

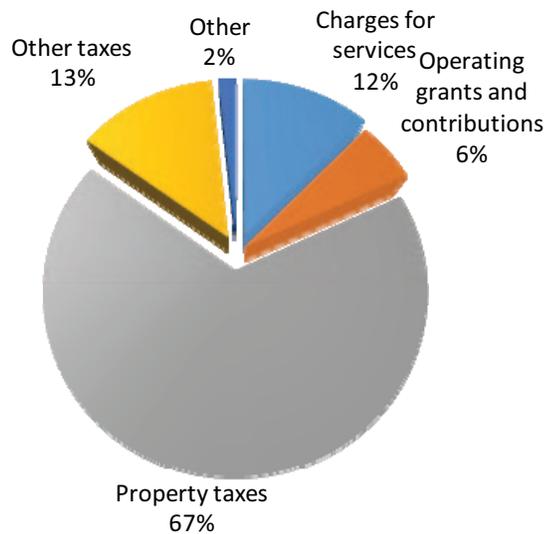
Governmental activities decreased the City's net position by approximately \$5.6 million or 27% of beginning net position. The key element of this decrease is as follows:

- \$8.5 million in capital improvements were financed by governmental activities and transferred to and capitalized by business-type activities.

A comparison of program expenses to program revenues for fiscal year 2017 follows:



Revenue sources for governmental activities were distributed as follows:

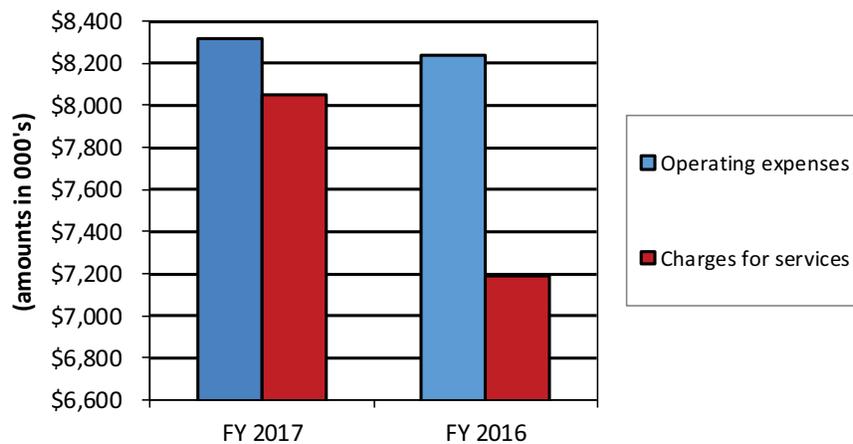


**CITY OF BELLAIRE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)*

**Business-type Activities**

Business-type activities increased the City's net position by \$5.6 million or 13% of beginning net position. For the year ended September 30, 2017, revenues for the water, sewer, and solid waste increased by \$0.4 million, an increase of 4.8% from the previous year. For the year ended September 30, 2017, expenses for water, sewer, and solid waste increased by \$80,485, an increase of 1.0% from the previous year.

A comparison between expenses relating to water, sewer, and solid waste operations and program revenues (charges for services) for fiscal years 2017 and 2016 follows:



**Financial Analysis of the City's Funds**

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental Funds**

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

As of the end of the most recent fiscal year, the City's governmental funds reported combined ending fund balances of \$49.5 million, an increase of 131% or \$28.1 million over the prior year. This increase is mainly attributable to \$28.8 million increase in fund balance in the Capital Bond Fund due to the issuance of capital-related debt. Approximately 7% of the combined ending fund balances, \$3.7 million, is available for spending at the City's discretion (unassigned fund balance).

The general fund is the chief operating fund of the City. At the end of the most recent fiscal year, the general fund reported an ending fund balance of \$3.7 million, a decrease of \$1.1 million from the prior year. While total revenues of \$19.2 million exceeded total expenditures of \$18.9 million, the general fund transferred \$2.1 million out to other funds causing the decrease in fund balance.

**CITY OF BELLAIRE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)*

**Governmental Funds (continued)**

These transfers were budgeted transfers for capital outlays, and the ending fund balance exceeded the City's budgeted ending fund balance of \$3.6 million. Unassigned fund balance of \$3.7 million represents 20% of total general fund expenditures.

The debt service fund has a total fund balance of \$0.5 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 \$18,369.

The City's capital improvement fund expended \$2.3 million on capital projects and received transfers in of \$1.7 million, resulting in an ending fund balance of \$5.0 million. The City's capital bond fund expended \$16.4 million on street, drainage, and park improvements, resulting in an ending fund balance of \$35.8 million. The City's METRO fund reported an ending fund balance of \$1.3 million, which was a decrease of \$0.9 million. This decrease is a result of the City spending more on street projects than the funds received from METRO. The City's vehicle and equipment replacement fund reported an ending fund balance of \$2.7 million, an increase of \$1.7 million. This increase is a result of a \$1.5 million transfers in offset by expending \$0.8 million on vehicles and equipment. These fund balances will be used for Council-approved improvements and projects.

**Proprietary Funds**

The City's proprietary fund provides the same type of information found in the government-wide financial statements.

The City's enterprise fund operating expenses exceeded operating revenues by \$0.2 million. Governmental funds contributed \$8.5 million in capital assets and the enterprise fund transferred \$2.7 million to the governmental funds to help finance previously issued debt and provide funds for future capital improvements. The unrestricted net position of the enterprise fund at the end of the year amounted to \$0.2 million or 2.6% of operating expenses for the fund.

**General Fund Budgetary Highlights**

Actual general fund revenues were less than original and amended budgeted revenues by \$0.5 million. General fund expenditures were less than the final budget by \$0.6 million primarily due to less than expected expenditures in public safety, public works, and culture and recreation. The general fund net decrease in fund balance was \$1.1 million, \$0.1 million less than budgeted, with an ending fund balance of \$3.7 million. The fund balance of \$3.7 million represents 20% of total general fund expenditures.

The City's fund balance policy is to strive to maintain a minimum general fund balance equal to sixty (60) days of normal operating expenditures, which would equate to the fund balance representing approximately 16.5% of total expenditures. The City's fiscal year 2017 general fund budget was structurally balanced with budgeted recurring revenues slightly exceeding budgeted recurring expenses. As the general fund was carrying a fund balance exceeding the sixty (60) day minimum at the end of fiscal year 2017, the fiscal year 2018 budget planned to use some of that fund balance as a resource to fund transfers to other funds for capital outlays. The actual ending fund balance at September 30, 2017 is \$0.1 million greater than budgeted.

**CITY OF BELLAIRE, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)**

**Capital Asset and Debt Administration**

The City's capital assets for its governmental and business-type activities as of September 30, 2017, amounted to \$145.6 million (net of accumulated depreciation). This investment in capital assets includes a variety of capital assets and infrastructure. Capital asset balances increased by approximately \$15.2 million from the prior year due to contributions and construction of infrastructure.

Major capital asset events during the most recent fiscal year included drainage projects, design and construction of new city hall/police/court facilities, new vehicles, Evelyn's Park, street and sidewalk improvements, Nature Discovery Center, and water and wastewater projects.

The following table shows the balances at September 30, 2017 and 2016 (in \$000's):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Capital assets not being depreciated:						
Land and intangibles	\$ 5,668	\$ 5,668	\$ 256	\$ 256	\$ 5,925	\$ 5,925
Construction in progress	11,806	17,122	7,272	162	19,078	17,284
Capital assets, net of depreciation:						
Infrastructure	71,535	57,284	34,165	34,609	105,700	91,894
Buildings and improvements	5,525	5,303	4,392	4,769	9,918	10,071
Vehicles and equipment	2,109	1,975	2,902	3,310	5,011	5,285
	<u>\$ 96,643</u>	<u>\$ 87,353</u>	<u>\$ 48,987</u>	<u>\$ 43,106</u>	<u>\$ 145,631</u>	<u>\$ 130,459</u>

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

**Long-term Liabilities**

At the end of the most recent fiscal year, the City had total bonded debt outstanding of \$118.3 million, all of which is general obligation debt. This is an increase from the prior year of \$41.0 million, due to the issuance of capital-related debt offset by scheduled principal payments made during the year. The entire amount of bonded debt is backed by the full faith and credit of the City.

A schedule of long-term liabilities at September 30, 2017 and 2016 follows (in \$000's):

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Bonds payable:						
General obligation bonds	\$ 118,295	\$ 77,310	\$ -	\$ -	\$ 118,295	\$ 77,310
Premiums	3,828	2,228	-	-	3,828	2,228
Other long-term liabilities:						
Capital lease	723	-	-	-	723	-
Compensated absences	700	689	39	36	739	725
Net OPEB obligation	263	237	30	27	293	264
Net pension liability	12,908	13,245	1,537	1,576	14,445	14,820
	<u>\$ 136,717</u>	<u>\$ 93,709</u>	<u>\$ 1,606</u>	<u>\$ 1,639</u>	<u>\$ 138,323</u>	<u>\$ 95,348</u>

The City maintains a "AAA" rating from Standard & Poor's Ratings Services for general obligation debt.

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

**CITY OF BELLAIRE, TEXAS**  
*MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)*

**Economic Factors and Next Year's Budget and Rates**

As an enclave of Houston, the economy of the City is directly linked to the greater Houston area. The unemployment rate for the greater Houston area at December 31, 2016 was 4.3% as compared to the United States' average unemployment rate of 4.1% per the U.S. Bureau of Labor Statistics. This represents a decrease over the greater Houston area's December 31, 2016 unemployment rate of 5.3%, while the national unemployment rate decreased during 2017 from 4.5% at December 31, 2016. The rising unemployment in the Houston area experienced in 2016 as a result of depressed oil and natural gas prices has abated during 2017 and the greater Houston area's unemployment rate has trended back toward the national average.

Each year the budget is prepared on key objectives and assumptions. The annual budget process is part of a broader long-term strategic planning process that includes at its foundation a comprehensive plan for the City and priorities established by City Council.

Hurricane Harvey, a category 4 major hurricane made landfall on August 26, 2017 in Rockport, Texas, approximately 150 miles southwest of the City. After landfall, its speed slowed dramatically to a crawl. For about two days, the storm stalled just inland, dropping very heavy rainfall and causing widespread flash flooding in the Houston area, including in Bellaire. Initial assessments indicate approximately 2,400 of the approximately 6,300 homes in Bellaire, or approximately 38%, had some level of water damage. The City had exceptionally large amounts of debris to remove from public right-of-ways, and the City suffered substantial damage to its wastewater treatment plant. The City will incur significant unbudgeted costs associated with recovery and repair. It is expected that most of our costs will be reimbursable through the City's flood insurance and the Federal Emergency Management Agency, however, not all costs will be reimbursed. Total expenditures to the City as a result of Hurricane Harvey are approximately \$3.24 million. As of January 31, 2018, the City has received \$601,499 in reimbursement; \$301,588 from Texas Municipal League's Intergovernmental Risk Pool, the City's insurance provider. Although the Federal Emergency Management Agency (FEMA) has reimbursed the City \$299,911, the City still anticipates over \$2 million of additional reimbursements once the debris removal project is completed and emergency protective measure expenditures are approved by FEMA.

The original draft of the fiscal year 2018 budget included a transfer of \$500,000 from the general fund to the capital improvement fund for the City's pavement management program. Due in part to the anticipated expenditures associated with Hurricane Harvey, the \$500,000 transfer was eliminated in the final budget approved by City Council and will remain as a contingency reserve with any unspent amounts added to fund balance.

The property tax rate for fiscal year 2017 (tax year 2016) increased by approximately 1.8% to \$0.3874 per \$100 of assessed value. The property tax rate increased by 7.4% to \$0.4159 per \$100 of assessed value for fiscal year 2018 (tax year 2017).

The enterprise fund water rates increased in fiscal year 2017 by approximately 13.5% and by approximately 17.5% in fiscal year 2018. These increases are necessary to catch up to increased costs of providing services.

**Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the City's finances. Questions concerning any of the information should be addressed to the Chief Financial Officer, City of Bellaire, 7008 South Rice Avenue, Bellaire, Texas 77401.

## **Basic Financial Statements**

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**CITY OF BELLAIRE, TEXAS**  
**STATEMENT OF NET POSITION**  
September 30, 2017

	<b>Primary Government</b>			
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Reconciliation</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 53,281,260	\$ 75,651	\$ -	\$ 53,356,911
Receivables, net of allowance	1,733,657	1,173,330	-	2,906,987
Interest receivable	7,115	45	-	7,160
Prepaid items	1,631	726,815	-	728,446
Nondepreciable capital assets	17,474,349	7,528,034	-	25,002,383
Depreciable capital assets, net of depreciation	79,168,712	41,459,455	-	120,628,167
<b>Total Capital Assets</b>	<u>96,643,061</u>	<u>48,987,489</u>	<u>-</u>	<u>145,630,550</u>
<b>Total Assets</b>	<u>151,666,724</u>	<u>50,963,330</u>	<u>-</u>	<u>202,630,054</u>
<b>Deferred Outflows of Resources</b>				
Deferred charge on refunding	2,456,752	-	-	2,456,752
Deferred outflows - pension	4,052,897	499,912	-	4,552,809
<b>Total Deferred Outflows of Resources</b>	<u>6,509,649</u>	<u>499,912</u>	<u>-</u>	<u>7,009,561</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	4,978,769	480,673	-	5,459,442
Customer deposits	-	90,055	-	90,055
Accrued interest payable	503,545	-	-	503,545
Long-term liabilities due within one year	5,359,248	32,664	-	5,391,912
Long-term liabilities due in more than one year	118,449,689	36,280	-	118,485,969
Net pension liability	12,908,263	1,536,678	-	14,444,941
<b>Total Liabilities</b>	<u>142,199,514</u>	<u>2,176,350</u>	<u>-</u>	<u>144,375,864</u>
<b>Deferred Inflows of Resources</b>				
Deferred inflows - pension	691,971	80,491	-	772,462
<b>Total Deferred Inflows of Resources</b>	<u>691,971</u>	<u>80,491</u>	<u>-</u>	<u>772,462</u>
<b>Net Position</b>				
Net investment in capital assets	36,737,254	48,987,489	(23,621,897)	62,102,846
Restricted for:				
Special revenue				
Communications from public education government fees	288,333	-	-	288,333
Police and fire department vehicles and equipment	30,802	-	-	30,802
Library supplies and equipment	14,357	-	-	14,357
Municipal court technology	103,813	-	-	103,813
Parks and recreation equipment	12,253	-	-	12,253
Debt service	59,629	-	-	59,629
Capital projects				
Metropolitan streets or METRO	1,293,130	-	-	1,293,130
Evelyn's Park improvement	14,286	-	-	14,286
Unrestricted	(23,268,969)	218,912	23,621,897	571,840
<b>Total Net Position</b>	<u>\$ 15,284,888</u>	<u>\$ 49,206,401</u>	<u>\$ -</u>	<u>\$ 64,491,289</u>

See Notes To Basic Financial Statements.

**CITY OF BELLAIRE, TEXAS**  
**STATEMENT OF ACTIVITIES**  
*For the Year Ended September 30, 2017*

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>
<b>Primary Government</b>			
Governmental Activities:			
General government	\$ 4,863,991	\$ 1,874,666	\$ -
Public safety	9,717,944	591,717	30,508
Public works	1,568,448	-	1,313,098
Culture and recreation	6,957,959	930,680	256,700
Interest on long-term debt	4,323,982	-	-
<b>Total Governmental Activities</b>	<u>27,432,324</u>	<u>3,397,063</u>	<u>1,600,306</u>
Business-type Activities:			
Water system	5,779,152	4,009,291	102,310
Sewer system	1,193,801	2,355,069	-
Solid waste	1,342,498	1,687,841	-
Total business-type activities	<u>8,315,451</u>	<u>8,052,201</u>	<u>102,310</u>
<b>Total Primary Government</b>	<u>\$ 35,747,775</u>	<u>\$ 11,449,264</u>	<u>\$ 1,702,616</u>

**General Revenues:**

Taxes:

Property taxes

Sales and use taxes

Franchise taxes

Investment income

Miscellaneous

Transfers

**Total General Revenues**

Change in net position

**Net Position - Beginning**

**Net Position - Ending**

*See Notes to Basic Financial Statements.*

<b>Net (Expense) Revenue and Changes in Net Position</b>		
<b>Primary Government</b>		
<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
\$ (2,989,325)	\$ -	\$ (2,989,325)
(9,095,719)	-	(9,095,719)
(255,350)	-	(255,350)
(5,770,579)	-	(5,770,579)
(4,323,982)	-	(4,323,982)
<u>(22,434,955)</u>	<u>-</u>	<u>(22,434,955)</u>
-	(1,667,551)	(1,667,551)
-	1,161,268	1,161,268
-	345,343	345,343
<u>-</u>	<u>(160,940)</u>	<u>(160,940)</u>
<u>(22,434,955)</u>	<u>(160,940)</u>	<u>(22,595,895)</u>
18,524,717	-	18,524,717
2,241,860	-	2,241,860
1,438,825	-	1,438,825
288,552	936	289,488
173,051	58,856	231,907
<u>(5,783,927)</u>	<u>5,726,490</u>	<u>(57,437.00)</u>
<u>16,883,078</u>	<u>5,786,282</u>	<u>22,669,360</u>
(5,551,877)	5,625,342	73,465
20,836,765	43,581,059	64,417,824
<u>\$ 15,284,888</u>	<u>\$ 49,206,401</u>	<u>\$ 64,491,289</u>

**CITY OF BELLAIRE, TEXAS**  
**BALANCE SHEET**  
**GOVERNMENTAL FUNDS**  
**September 30, 2017**

	<u>General</u>	<u>Debt Service</u>	<u>Capital Bond</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 3,966,954	\$ 470,499	\$ 39,133,289
Receivables, net of allowance	1,158,779	92,408	-
Interest receivable	6,848	267	-
Prepaid items	1,631	-	-
<b>Total Assets</b>	<u>\$ 5,134,212</u>	<u>\$ 563,174</u>	<u>\$ 39,133,289</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	\$ 965,546	\$ -	\$ 3,294,647
<b>Total Liabilities</b>	<u>965,546</u>	<u>-</u>	<u>3,294,647</u>
<b>Deferred Inflows of Resources</b>			
Unavailable revenues - other	289,551	-	-
Unavailable revenues - property taxes	178,180	92,408	-
<b>Total Deferred Inflows of Resources</b>	<u>467,731</u>	<u>92,408</u>	<u>-</u>
<b>Fund Balances</b>			
Nonspendable	1,631	-	-
Restricted:			
Public, educational, and governmental programming fees	-	-	-
Police and fire department vehicles and equipment	-	-	-
Library supplies and equipment	-	-	-
Municipal court technology	-	-	-
Parks and recreation equipment	-	-	-
Debt service	-	470,766	-
Metropolitan streets or METRO	-	-	-
Drainage and city facilities	-	-	35,838,642
Evelyn's Park improvement	-	-	-
Committed:			
City facilities and equipment	-	-	-
Unassigned	3,699,304	-	-
<b>Total Fund Balances</b>	<u>3,700,935</u>	<u>470,766</u>	<u>35,838,642</u>
<b>Total Liabilities, Deferred Inflows, and Fund Balances</b>	<u>\$ 5,134,212</u>	<u>\$ 563,174</u>	<u>\$ 39,133,289</u>

*See Notes to Basic Financial Statements.*

<b>Non-Major Governmental Funds</b>	<b>Total</b>
\$ 9,710,518	\$ 53,281,260
482,470	1,733,657
-	7,115
-	1,631
<u>\$ 10,192,988</u>	<u>\$ 55,023,663</u>
<u>\$ 718,574</u>	<u>\$ 4,978,767</u>
<u>718,574</u>	<u>4,978,767</u>
-	289,551
-	270,588
-	560,139
-	1,631
288,333	288,333
30,802	30,802
14,357	14,357
103,813	103,813
12,253	12,253
-	470,766
1,293,130	1,293,130
-	35,838,642
14,286	14,286
7,717,440	7,717,440
-	3,699,304
<u>9,474,414</u>	<u>49,484,757</u>
<u>\$ 10,192,988</u>	<u>\$ 55,023,663</u>

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**CITY OF BELLAIRE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
*September 30, 2017*

**Total fund balance of governmental funds in the Governmental Funds Balance Sheet**      \$    49,484,757

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.      96,643,061

Certain other unavailable assets are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position.  
     Unavailable revenue      560,139

Long-term liabilities are not due in the current period and, therefore, are not reported as liabilities in the fund financial statements, but are included in the governmental activities of the Statement of Net Position.

Bonds payable, at maturity	(118,295,000)
Premium/discount on bonds payable	(3,828,098)
Capital lease obligation	(722,889)
Other post-employment benefits (OPEB)	(262,848)
Accrued long-term interest	(503,545)
Compensated absences	(700,104)
Net pension liability	(12,908,263)
Deferred charge on refunding	2,456,752
Deferred outflows of resources relating to pension activities	4,052,897
Deferred inflows of resources relating to pension activities	<u>(691,971)</u>

**Net position of governmental activities in the Statement of Net Position**      \$    15,284,888

*See Notes to Basic Financial Statements.*

**CITY OF BELLAIRE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
*For the Year Ended September 30, 2017*

	<u>General Fund</u>	<u>Debt Service</u>	<u>Capital Bond</u>
<b>Revenues</b>			
Taxes:			
Property taxes	\$ 12,161,757	\$ 6,268,910	\$ -
Sales and use taxes	2,241,860	-	-
Franchise taxes	1,374,918	-	-
Fines and forfeitures	679,883	-	-
Licenses and permits	1,199,500	-	-
Charges for services	1,229,988	-	-
Investment earnings	47,017	4,164	219,843
Intergovernmental	202,324	-	-
Other	37,786	-	-
<b>Total Revenues</b>	<u>19,175,033</u>	<u>6,273,074</u>	<u>219,843</u>
<b>Expenditures</b>			
Current:			
General government	4,654,894	-	-
Public safety	8,967,042	-	-
Public works	1,054,450	-	-
Culture and recreation	4,217,423	-	-
Capital outlay	-	-	16,416,737
Debt service:			
Principal	-	4,510,000	-
Interest and other charges	-	3,059,476	-
Bond issuance costs and fees	-	-	935,310
<b>Total Expenditures</b>	<u>18,893,809</u>	<u>7,569,476</u>	<u>17,352,047</u>
Revenues over (under) expenditures	<u>281,224</u>	<u>(1,296,402)</u>	<u>(17,132,204)</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from issuance of general obligation refunding bonds	-	9,690,000	-
Proceeds from issuance of capital related debt	-	-	44,820,000
Proceeds from capital leases	-	-	-
Premium on issuance of bonds	-	265,613	1,469,314
Payment to bond refunding escrow agent	-	(9,942,235)	-
Transfers in	624,000	1,264,655	-
Transfers out	(2,057,000)	-	(314,655)
Sale of capital assets	37,184	-	-
<b>Total Other Financing Sources (Uses)</b>	<u>(1,395,816)</u>	<u>1,278,033</u>	<u>45,974,659</u>
Net changes in fund balances	(1,114,592)	(18,369)	28,842,455
<b>Fund Balances - Beginning</b>	<u>4,815,527</u>	<u>489,135</u>	<u>6,996,187</u>
<b>Fund Balances - Ending</b>	<u>\$ 3,700,935</u>	<u>\$ 470,766</u>	<u>\$35,838,642</u>

*See Notes to Basic Financial Statements.*

<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ 18,430,667
-	2,241,860
63,907	1,438,825
43,416	723,299
-	1,199,500
-	1,229,988
17,528	288,552
1,110,774	1,313,098
408,721	446,507
<u>1,644,346</u>	<u>27,312,296</u>
21,614	4,676,508
94,881	9,061,923
-	1,054,450
76,660	4,294,083
5,075,179	21,491,916
-	4,510,000
-	3,059,476
-	935,310
<u>5,268,334</u>	<u>49,083,666</u>
<u>(3,623,988)</u>	<u>(21,771,370)</u>
-	9,690,000
-	-
-	44,820,000
787,666	787,666
-	1,734,927
-	(9,942,235)
3,229,000	5,117,655
-	(2,371,655)
-	37,184
<u>4,016,666</u>	<u>49,873,542</u>
392,678	28,102,172
<u>9,081,736</u>	<u>21,382,585</u>
<u>\$ 9,474,414</u>	<u>\$ 49,484,757</u>

**CITY OF BELLAIRE, 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, 2017*

**Net changes in governmental fund balances in the Statement of Revenues, Expenditures and Changes in Fund Balances** \$ 28,102,172

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 (\$3,469,813) is exceeded by capital outlays (\$21,878,014) in the current period. 17,820,243

Capital improvements transferred to and capitalized by business-type activities but reported in the governmental funds as expenditures. (8,529,927)

Changes in the other post-employment benefit (OPEB) obligation are not due and payable in the current period and therefore, are not reported in the governmental funds. (25,761)

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. 314,894

Pension contributions made after the net pension liability date are reported as expenditures in the governmental funds and are reported as deferred outflows on the face of the statement of net position. 1,466,359

Governmental funds report the proceeds of bond sales as another financial source or an increase to fund balance. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities. (54,510,000)

Governmental funds report the proceeds from capital leases as another financial source or an increase to fund balance. In contrast, the Statement of Activities treats such proceeds as an increase in long-term liabilities. (787,666)

Governmental funds report repayment of bond principal and capital leases as an expenditure. In contrast, the Statement of Activities treats such repayments as a reduction in long-term liabilities. This is the amount of payments made on long-term debt. 13,589,777

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	(1,599,782)
Gain/loss on refunding	624,267

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	(161,373)
Changes in accrued compensated absences	(11,323)
Pension expense for the pension plan measurement year	<u>(1,843,757)</u>

**Change in net position of governmental activities in the Statement of Activities** \$ (5,551,877)

*See Notes to Basic Financial Statements.*

**CITY OF BELLAIRE, TEXAS**  
**STATEMENT OF NET POSITION**  
**PROPRIETARY FUND**  
*September 30, 2017*

	<b>Business-type Activities</b>
	<b>Enterprise</b>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 75,651
Accounts receivable, net	1,173,330
Interest receivable	45
Prepaid items	726,815
<b>Total Current Assets</b>	<b>1,975,841</b>
Non-current assets:	
Capital assets not being depreciated:	
Land	256,148
Construction in progress	7,271,886
Other capital assets, net of depreciation:	
Buildings and improvements	12,039,531
Infrastructure	82,627,490
Vehicles and equipment	4,909,163
Less: accumulated depreciation	(58,116,729)
<b>Total Non-current Assets</b>	<b>48,987,489</b>
<b>Total Assets</b>	<b>50,963,330</b>
<b>Deferred Outflows of Resources</b>	
Deferred outflows related to pension activities	499,912
<b>Total Deferred Outflows of Resources</b>	<b>499,912</b>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	480,673
Deposits	90,055
Long-term liabilities due in less than one year	32,664
<b>Total Current Liabilities</b>	<b>603,392</b>
Non-current liabilities:	
Net pension liability	1,536,678
Long-term liabilities due in more than one year	36,280
<b>Total Non-current Liabilities</b>	<b>1,572,958</b>
<b>Total Liabilities</b>	<b>2,176,350</b>
<b>Deferred Inflows of Resources</b>	
Deferred inflows related to pension activities	80,491
<b>Total Deferred Inflows of Resources</b>	<b>80,491</b>
<b>Net Position</b>	
Investment in capital assets	48,987,489
Unrestricted	218,912
<b>Total Net Position</b>	<b>\$ 49,206,401</b>

*See Notes to Basic Financial Statements.*

**CITY OF BELLAIRE, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUND**  
*For the Year Ended September 30, 2017*

	<b>Business-type Activities</b>
	<b>Enterprise</b>
<b>Operating Revenues</b>	
Water services	\$ 4,009,291
Sewer services	2,355,069
Solid waste services	1,687,841
Miscellaneous	58,856
<b>Total Operating Revenues</b>	<u>8,111,057</u>
<b>Operating Expenses</b>	
Personnel services	1,674,453
Supplies and materials	2,207,706
Contractual services	1,344,094
Repairs and maintenance	567,303
Depreciation	2,493,630
<b>Total Operating Expenses</b>	<u>8,287,186</u>
<b>Operating Loss</b>	<u>(176,129)</u>
<b>Non-operating Revenues (Expenses)</b>	
Interest income	936
Loss on disposal of capital assets	(28,265)
Intergovernmental revenue	102,310
<b>Total Non-operating Revenues</b>	<u>74,981</u>
<b>Loss Before Capital Contributions and Transfers</b>	(101,148)
Capital contributions	8,472,490
Transfers out	(2,746,000)
Change in net position	5,625,342
<b>Total Net Position - Beginning</b>	<u>43,581,059</u>
<b>Total Net Position - Ending</b>	<u>\$ 49,206,401</u>

*See Notes to Basic Financial Statements.*

**CITY OF BELLAIRE, TEXAS**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
*For the Year Ended September 30, 2017*

	<b>Business-type Activities</b>
	<b>Enterprise</b>
<b>Cash Flows From Operating Activities</b>	
Receipts from customers and users	\$ 7,877,369
Payments to suppliers	(3,981,682)
Payments to employees	(1,613,274)
<b>Net Cash Provided By Operating Activities</b>	<b>2,282,413</b>
<b>Cash Flows From Noncapital Financing Activities</b>	
Intergovernmental revenue	102,310
Transfers to other funds	(2,746,000)
<b>Net Cash Used By Noncapital Financing Activities</b>	<b>(2,643,690)</b>
<b>Cash Flows From Investing Activities</b>	
Interest income	891
<b>Net Cash Used By Investing Activities</b>	<b>891</b>
Net decrease in cash and cash equivalents	(360,386)
<b>Cash and Cash Equivalents - Beginning</b>	<b>436,037</b>
<b>Cash and Cash Equivalents - Ending</b>	<b>\$ 75,651</b>
<b>Reconciliation of Operating Loss to Net Cash Provided By Operating Activities</b>	
Operating loss	\$ (176,129)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	2,493,630
(Increase) decrease in accounts receivable	(231,594)
(Increase) decrease in prepaid expenses	5,854
(Increase) decrease in other assets	2,500
(Increase) decrease in deferred outflows relating to pension activities	102,044
(Increase) decrease in accounts payable	131,567
Increase (decrease) in accrued compensated absences	2,916
Increase (decrease) in other post-employment benefit liability	2,996
Increase (decrease) in customer deposits	(4,594)
Increase (decrease) in net pension liability	(39,133)
Increase (decrease) in deferred inflows relating to pension activities	(7,644)
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 2,282,413</b>
<b>Non-cash Transactions</b>	
Capital assets transferred to enterprise fund from governmental activities	<b>\$ 8,472,490</b>

*See Notes to Basic Financial Statements.*

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS**

**Note 1 - Summary of Significant Accounting Policies**

**A. Financial Reporting Entity**

The City of Bellaire, Texas (the "City") was incorporated under the laws of the State of Texas on June 24, 1918. The City operates under a "Home Rule Charter" which provides for a "Council-Manager" form of government.

The City Council is the governing body of the City. The City Manager is appointed by a majority vote of the City Council and is responsible to the Council for the administration of all the affairs of the City. The City Manager is responsible for appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

The City provides the following services: public safety to include police, fire, and emergency medical services; streets; sanitation; water and sewer services; recreation; public improvements; planning and zoning; and general administration.

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 generally accepted accounting principles, these basic financial statements have been prepared after considering the potential for inclusion of other entities, organizations, or functions as part of the City's financial reporting entity. 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 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.

**B. Government Wide 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. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

**C. Basis of Presentation – Government-Wide Financial Statements**

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

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**C. Basis of Presentation - Government-Wide Financial Statements (continued)**

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

**D. Basis of Presentation - Fund Financial Statements**

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

The City reports the following governmental funds:

The *general fund* is used to account for and report all financial resources not accounted for and reported in another fund. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, and culture and recreation. The general fund is always considered a major fund for reporting purposes.

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

The *capital projects funds* are 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 funds include the capital improvement fund, which accounts for those projects funded by tax revenue; the capital bond fund, which includes those projects funded with bond proceeds; the metro fund; and the vehicle and equipment replacement fund, which includes those projects funded with revenue from other governmental sources. The capital bond fund is considered a major governmental fund for reporting purposes. The capital improvement fund, the metro fund, and vehicle and equipment replacement fund are considered non-major funds for reporting purposes.

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The special revenue fund is considered a non-major fund for reporting purposes.

The City reports the following proprietary funds:

The *enterprise fund* is used to account for the operations that provide water and wastewater collection and wastewater treatment, as well as solid waste 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. The enterprise fund is considered a major fund for reporting purposes.

**CITY OF BELLAIRE, TEXAS**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**D. Basis of Presentation - Fund Financial Statements (continued)**

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

**E. Measurement Focus and Basis of Accounting**

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

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

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

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

**CITY OF BELLAIRE, TEXAS**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance**

**1. 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", "TexPool Prime", and "TexSTAR") 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 maturities of three months or less when purchased to be cash equivalents.

Cash balances from all funds are combined and invested in money market accounts, investment pools, and U.S. Government securities. Earnings from these investments are allocated to each fund based on month end equity balances in the investment pool.

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*.

**2. Investments**

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.

The City has adopted a written investment policy regarding the investment of its funds as defined in the Public Funds Investment Act, Chapter 2256, Texas Government Code. In summary, the City is authorized to invest in the following:

- Direct obligations of the U.S. Government
- Fully collateralized certificates of deposit
- Mutual funds of specific type
- Statewide investment pools

**3. Inventories and Prepaid Items**

The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method). Certain payments to vendors reflect costs applicable to future accounting periods (prepaid expenditures) are also recognized as expenditures when utilized.

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

**4. Capital Assets**

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the City as assets with an initial, individual cost of more than \$10,000 and an estimated useful life in excess of four years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are recorded at acquisition value. Major outlays for capital assets and improvements are capitalized as projects are constructed. The cost of a significant portion of the capital assets in the infrastructure category has been estimated based on management's estimated historical cost.

Interest costs incurred in connection with construction of enterprise fund capital assets are capitalized when the effect of capitalization materially impacts the financial statements.

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

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

<u>Asset</u>	<u>Estimated Useful Lives</u>
Infrastructure	10 to 40 years
Building and improvements	5 to 40 years
Vehicles and equipment	4 to 10 years

**5. 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 period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has two items that qualify for reporting in this category.

- 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.

**CITY OF BELLAIRE, TEXAS**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

**5. Deferred Outflows/Inflows of Resources (continued)**

- 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.

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 that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has two items that qualify 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, paving assessments and ambulance fees 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.

**6. Compensated Employee Absences**

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits and compensatory time, subject to certain limitations and caps. Amounts accumulated may be paid to employees upon termination of employment or during employment in accordance with the City's personnel policy. The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

**CITY OF BELLAIRE, TEXAS**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance  
(continued)**

**7. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method, if material. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with the interest earned in the debt service fund. Although a portion of the general obligation debt was directly related to the purchase of water and sewer infrastructure, the debt service expenditures are included in the governmental fund financial statements as they are expected to be paid from debt service tax revenues instead of water system revenues.

**8. Net Position Flow Assumption**

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

**9. Fund Balance Flow Assumptions**

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

**CITY OF BELLAIRE, TEXAS**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

**10. Fund Balance Policies**

Fund balances of governmental funds are reported in various categories based on the nature of any limitations requiring the use of resources for specific purposes. The City itself can establish limitations on the use of resources through either a commitment (committed fund balance) or an assignment (assigned fund balance). Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Limitations that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council may also assign fund balance as it does when appropriating fund balance to cover a gap between estimated revenue and appropriations in the subsequent year's appropriated budget. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

**11. Other Post-Employment Benefits**

The City allows retirees to continue participation in the City's health care plan through an opt-in provision. Employees separating employment with the City who have had at least five years of service with the City and who are eligible for Texas Municipal Retirement System retirement benefits at the date of separation may purchase retiree health insurance through the City. Other terminating employees may be eligible for continued medical coverage under applicable federal laws.

**12. 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 the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

**CITY OF BELLAIRE, TEXAS**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)*

**Note 1 - Summary of Significant Accounting Policies (continued)**

**F. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

**13. Pensions**

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

**G. Revenues and Expenditures/Expenses**

**1. Program Revenues**

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

**2. Property Taxes**

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. The penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action. A penalty of six percent and interest of one percent are added to delinquent taxes on February 1. The penalty amount increases to a maximum of 12 percent on July 1 of each year, with interest continuing to increase at one percent per month until the account is paid. An additional penalty of 15 percent is added in July for attorney costs. There are no discounts allowed on taxes.

**3. Proprietary Funds Operating and Non-operating Revenues and Expenses**

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

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**H. Stewardship, Compliance, and Accountability**

Annual budgets are adopted for all funds. The general fund, enterprise fund, and debt service fund are primarily funded through tax revenues and charges for services. Annual appropriations for these funds lapse at fiscal year-end.

The remaining five funds (special revenue fund, vehicle and equipment replacement fund, capital improvement fund, capital bond fund, and METRO fund) are primarily funded by (1) annually appropriated transfers from the general fund and enterprise fund, (2) proceeds from voter approved bond issuances, and (3) restricted revenue sources such as donations, grants, METRO Mobility funds, and municipal court fees. Appropriations for these funds do not lapse at fiscal year-end. Appropriations for the capital project funds are project-length while appropriations for the special revenue fund are based on the available restricted revenue sources mentioned above.

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

As of September 30, 2017, the City reported the following deposits (cash) and investments:

	<u>Fair Value</u>	<u>Weighted Average Maturities (Days)</u>	<u>Credit Rating</u>
Cash	\$ 4,889,507	1	
U.S. agencies:			
Federal National Mortgage Association	990,533	730	AA+
Federal Farm Credit Bank	995,193	729	AA+
Federal Home Loan Mortgage Corporation	997,315	545	AA+
External investment pools:			
TexPool	10,836,601	37	AAAm
TexPool Prime	32,305,912	51	AAAm
TexSTAR	2,341,850	27	AAAm
Total Fair Value	<u>\$ 53,356,911</u>		
Portfolio weighted average maturity (days)		77	

Investments' fair value measurements are as follows as of September 30, 2017:

<u>Investments</u>	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Level 3 Inputs</u>
U.S. agencies:				
Federal National Mortgage Association	\$ 990,533	\$ -	\$ 990,533	\$ -
Federal Farm Credit Bank	995,193	-	995,193	-
Federal Home Loan Mortgage Corporation	997,315	-	997,315	-
	<u>\$ 2,983,041</u>	<u>\$ -</u>	<u>\$ 2,983,041</u>	<u>\$ -</u>

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

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

*Credit risk.* State law and the City's investment policy limit investments to 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. Further, commercial paper must be rated not less than "A-1" or "P-1" or an equivalent rating by at least two nationally recognized credit rating agencies. As of September 30, 2017, the City's investments in TexPool, TexPool Prime, and TexSTAR were rated "AAAm" by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States government or the issuing U.S. agency.

*Custodial credit risk - deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities and FDIC insurance. As of September 30, 2017, fair values of pledged securities and FDIC insurance exceeded bank balances.

*Custodial credit risk - investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy requires that it will seek to safe keep securities at financial institutions, avoiding physical possession. Further, all trades, where applicable, are executed by delivery versus payment to ensure that securities are deposited in the City's safekeeping account prior to the release of funds.

**Local Government Investment Pools**

As of September 30, 2017, the City's investments included TexPool, TexPool Prime, and TexSTAR Investment Pools. The investment pools' investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk.

The TexPool portfolios are comprised of two investment alternatives: TexPool and TexPool Prime.

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.

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

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

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. Although TexSTAR is not registered with the SEC as an investment company, it operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. GASB Statement No. 79 allows external investment pools to use 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 3 - Receivables**

The following comprise receivable balances at year-end:

	<b>General</b>	<b>Debt Service</b>	<b>Non-Major Governmental Funds</b>	<b>Enterprise</b>	<b>Total</b>
Property taxes	\$ 178,180	\$ 92,408	\$ -	\$ -	\$ 270,588
Other taxes	518,837	-	15,154	-	533,991
Accounts	4,900,033	-	290,723	1,084,386	6,275,142
Assessments	-	-	-	2,790	2,790
Due from other governments	197,601	-	176,593	102,310	476,504
Less allowance	(4,635,872)	-	-	(16,156)	(4,652,028)
	<u>\$ 1,158,779</u>	<u>\$ 92,408</u>	<u>\$ 482,470</u>	<u>\$ 1,173,330</u>	<u>\$ 2,906,987</u>

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 4 - Capital Assets**

The following is a summary of changes in capital assets for governmental activities at fiscal year-end:

	<u>Balance 9/30/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2017</u>
<b>Governmental Activities</b>				
Capital assets, not being depreciated:				
Land and intangibles	\$ 5,668,439	\$ -	\$ -	\$ 5,668,439
Construction in progress	17,121,750	13,274,614	(18,590,454)	11,805,910
<b>Total capital assets, not being depreciated</b>	22,790,189	13,274,614	(18,590,454)	17,474,349
Capital assets being depreciated:				
Infrastructure	101,700,504	17,090,252	(6,453,950)	112,336,806
Buildings and improvements	15,592,986	500,000	-	16,092,986
Vehicles and equipment	5,988,448	625,920	(795,523)	5,818,845
<b>Total capital assets being depreciated</b>	123,281,938	18,216,172	(7,249,473)	134,248,637
Less accumulated depreciation for:				
Infrastructure	(44,416,042)	(2,839,802)	6,453,950	(40,801,894)
Buildings and improvements	(10,290,289)	(277,398)	-	(10,567,687)
Vehicles and equipment	(4,013,053)	(352,611)	655,320	(3,710,344)
<b>Total accumulated depreciation</b>	(58,719,384)	(3,469,811)	7,109,270	(55,079,925)
<b>Total capital assets being depreciated, net</b>	64,562,554	14,746,361	(140,203)	79,168,712
<b>Governmental Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 87,352,743</u>	<u>\$ 28,020,975</u>	<u>\$ (18,730,657)</u>	<u>\$ 96,643,061</u>
			Plus unspent proceeds	35,838,642
			Plus deferred charge on refunding	2,456,752
			Less associated debt and premiums	(98,201,201)
			Net investment in capital assets	<u>\$ 36,737,254</u>

Depreciation was charged to governmental functions as follows:

<b>Governmental Activities</b>	
General	\$ 57,251
Public safety	412,730
Public works	2,736,423
Culture and recreation	263,407
Total Governmental Activities	<u>3,469,811</u>
Depreciation Expense	<u>\$ 3,469,811</u>

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 4 - Capital Assets (continued)**

Construction in progress and remaining commitments under related construction for general government construction projects at September 30, 2017, are as follows:

<u>Project Description</u>	<u>Authorized Contract</u>	<u>Total in Progress</u>	<u>Remaining Commitment</u>
New city hall/police/court	\$ 17,136,607	\$ 3,068,224	\$ 14,068,383
Evelyn's Park improvement	6,759,836	6,694,163	65,673
Street striping	74,354	59,840	14,514
Street condition management program	1,558,038	1,381,522	176,516
Sidewalk projects	456,212	270,929	185,283
BBB2016 streets/drainage	1,747,250	163,966	1,583,284
Sidewalks	331,304	92,320	238,984
New fire truck	74,946	74,946	-
	<u>\$ 28,138,547</u>	<u>\$ 11,805,910</u>	<u>\$ 16,332,637</u>

The following is a summary of changes in capital assets for business-type activities at fiscal year-end:

	<u>Balance 9/30/2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 9/30/2017</u>
<b>Business-type Activities</b>				
Capital assets, not being depreciated:				
Land	\$ 256,148	\$ -	\$ -	\$ 256,148
Construction in progress	162,027	7,109,859	-	7,271,886
<b>Total capital assets, not being depreciated</b>	418,175	7,109,859	-	7,528,034
Capital assets being depreciated:				
Infrastructure	81,421,597	1,230,893	(25,000)	82,627,490
Buildings and improvements	12,039,531	-	-	12,039,531
Vehicles and equipment	5,521,234	131,737	(743,808)	4,909,163
<b>Total capital assets being depreciated</b>	98,982,362	1,362,630	(768,808)	99,576,184
Less accumulated depreciation for:				
Infrastructure	(46,812,408)	(1,675,288)	25,000	(48,462,696)
Buildings and improvements	(7,270,943)	(376,271)	-	(7,647,214)
Vehicles and equipment	(2,211,342)	(442,071)	646,594	(2,006,819)
<b>Total accumulated depreciation</b>	(56,294,693)	(2,493,630)	671,594	(58,116,729)
<b>Total capital assets being depreciated, net</b>	42,687,669	(1,131,000)	(97,214)	41,459,455
<b>Business-Type Activities</b>				
<b>Capital Assets, Net</b>	<u>\$ 43,105,844</u>	<u>\$ 5,978,859</u>	<u>\$ (97,214)</u>	<u>\$ 48,987,489</u>

Depreciation was charged to business-type functions as follows:

<b>Business-type Activities</b>	
Water system	\$ 1,108,949
Sewer system	1,246,273
Solid waste disposal	138,408
<b>Total Business-type Activities</b>	<u>2,493,630</u>
Depreciation Expense	<u>\$ 2,493,630</u>

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 4 - Capital Assets (continued)**

Construction in progress and remaining commitments under related construction contracts for enterprise fund construction projects at September 30, 2017, are as follows:

<b>Project Description</b>	<b>Authorized Contract</b>	<b>Total in Progress</b>	<b>Remaining Commitment</b>
City-wide scada system	\$ 121,840	\$ 121,840	\$ -
Wastewater system upgrades	123,193	120,875	2,318
Renwick tank rehabilitation	330,265	312,665	17,600
Water line improvements	340,000	241,884	98,116
Automated water meter installation	4,817,461	4,475,564	341,897
Waste water treatment plant upgrades	7,964,344	1,999,058	5,965,286
	\$ 13,697,103	\$ 7,271,886	\$ 6,425,217

**Note 5 - Long-term Liabilities**

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities of compensated absences, capital lease obligations, and other post-employment benefit obligations are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

On December 6, 2016, the City issued \$9,690,000 of General Obligation Refunding Bonds, Series 2016. The City used the proceeds to refund the following three bonds: (1) \$1,730,000 of General Obligation Bonds Series 2009, (2) \$3,145,000 of General Obligation Refunding Bonds Series 2010, and (3) \$4,140,000 of General Obligation Bonds Series 2010A. The City deposited a sufficient amount of the proceeds in escrow, when combined with future investment earning thereon, to fully repay the refunded obligations according to their payment terms. The transaction constituted defeasance of the refunded obligations pursuant to the terms of Chapter 1207, Texas Government Code. Because of such defeasance, the refunded obligations are outstanding only for the purpose of receiving payments from the escrow account and are no longer deemed outstanding obligations of the City. Interest rates range from 2.0% to 2.3%. The refunding generated a gross savings of \$1.49 million and a net present value savings of \$1.26 million. Annual savings of approximately \$66,828 is seen over 19 years.

On February 1, 2017, the City issued \$33,315,000 of General Obligation Bonds, Series 2017. Proceeds from the sale of bonds are used for improvements to streets, drainage and sidewalks, construction and improvement of City buildings, water and wastewater improvements, and paying the costs of issuing the bonds. Interest is payable on each February 15 and August 15 thereafter until the earlier of redemption or maturity. Interest rates range from 3% to 5%.

On September 1, 2017, the City issued \$11,505,000 of General Obligation Bonds, Series 2017A. Proceeds from the sale of bonds are used for improvements to streets, drainage, sidewalks, water and wastewater improvements, and for paying the costs of issuing the bonds. Interest is also payable on each February 15 and August 15 thereafter until the earlier of redemption or maturity. Interest rates range from 2% to 4%.

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 5 - Long-term Liabilities (continued)**

The following is a summary of changes in the City's total long-term liabilities for the year ended September 30, 2017. In general, the City uses the general and debt service funds to liquidate governmental long-term liabilities.

The following is a summary of changes in the City's total governmental long-term liabilities for the year ended September 30, 2017.

	<u>Beginning Balance</u>	<u>Issued and Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
<b>Governmental Activities</b>					
Bonds payable:					
General obligation bonds	\$ 77,310,000	\$ 54,510,000	\$ (13,525,000)	\$ 118,295,000 *	\$ 4,920,000
Premiums	2,228,316	1,734,927	(135,145)	3,828,098	-
Other liabilities:					
Capital lease	-	787,666	(64,777)	722,889	56,707
Compensated absences	688,781	382,240	(370,917)	700,104	382,541
Net OPEB obligation	237,085	25,761	-	262,846	-
<b>Total Governmental Activities</b>	<u>\$ 80,464,182</u>	<u>\$ 57,440,594</u>	<u>\$ (14,095,839)</u>	<u>\$ 123,808,937</u>	<u>\$ 5,359,248</u>
				<b>Long-term liabilities due in more than one year</b>	<u>\$ 118,449,689</u>
<b>Business-type Activities</b>					
Other liabilities:					
Compensated absences	\$ 35,870	\$ 36,920	\$ (34,004)	\$ 38,786	\$ 32,664
Net OPEB obligation	27,162	2,996	-	30,158	-
<b>Total Business-type Activities</b>	<u>\$ 63,032</u>	<u>\$ 39,916</u>	<u>\$ (34,004)</u>	<u>\$ 68,944</u>	<u>\$ 32,664</u>
				<b>Long-term liabilities due in more than one year</b>	<u>\$ 36,280</u>
				Bonds payable associated with governmental capital assets	\$ 94,373,103
				Bonds payable associated with business-type capital assets	<u>23,921,897</u>
				<b>Total long-term bonds payable associated with capital assets</b>	<u>\$ 118,295,000 *</u>

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 5 - Long-term Liabilities (continued)**

**Bonds Payable**

Long-term bonds payable at year end was comprised of the following issues:

<u>Description</u>	<u>Interest Rates</u>	<u>Balance</u>
<b>General Obligation Bonds</b>		
Series 2009	3.00-4.80%	\$ 3,855,000
Series 2009-A Ref	2.00-4.20%	3,195,000
Series 2010-Ref	2.00-4.00%	8,705,000
Series 2010-A	3.25-4.25%	905,000
Series 2011	2.00-4.00%	5,720,000
Series 2011-A Ref	2.00-4.00%	5,095,000
Series 2011-B Ref	2.00-4.00%	6,800,000
Series 2012-Ref	1.00-3.00%	8,510,000
Series 2013	3.00-4.25%	4,980,000
Series 2014	3.00-5.00%	9,480,000
Series 2015	2.50-4.00%	6,710,000
Series 2016-Ref	2.00-2.30%	9,520,000
Series 2017	3.00-5.00%	33,315,000
Series 2017A	2.00-4.00%	11,505,000
<b>Total Long-term Bonds Payable</b>		<u><u>\$ 118,295,000</u></u>

**Annual Debt Service Requirements**

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

<u>Years Ending September 30,</u>	<u>General Obligation Bonds</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 4,920,000	\$ 3,965,265	\$ 8,885,265
2019	5,085,000	3,825,530	8,910,530
2020	5,290,000	3,639,461	8,929,461
2021	5,470,000	3,444,394	8,914,394
2022	5,715,000	3,244,942	8,959,942
2023-2027	31,540,000	12,940,561	44,480,561
2028-2032	25,465,000	7,916,649	33,381,649
2033-2037	19,730,000	4,292,669	24,022,669
2038-2042	15,080,000	1,213,194	16,293,194
	<u><u>\$ 118,295,000</u></u>	<u><u>\$ 44,482,665</u></u>	<u><u>\$ 162,777,665</u></u>

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

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 5 - Long-term Liabilities (continued)**

**Federal Arbitrage**

The Tax Reform Act of 1986 instituted certain arbitrage restrictions consisting of complex regulations with respect to the issuance of tax-exempt bonds after August 31, 1986. Arbitrage regulations deal with the investment of tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not reported and paid to the Internal Revenue Service (IRS) at least every five years for applicable bond issues. Accordingly, there is the risk that if such calculations are not performed, or are not performed correctly, it could result in a substantial liability to the City. The City engages an arbitrage consultant to perform the calculations in accordance with IRS rules and regulations.

**Capital Lease Obligation**

On January 3, 2017, the City (lessee) entered into a capital lease agreement with ZB, N.A. (lessor). The City will lease a Cinder Custom Pumper Fire Truck. The lease term is 12 years and upon completion of the lease, the fire truck becomes the property of the City. Semi-annual lease payments of \$38,802 are due each March 1 and September 1, beginning March 1, 2017 and ending September 1, 2028. The principal amount of the lease was \$787,667. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of future minimum lease payments as of the inception date. The new fire truck will be placed in operation in fiscal year 2018.

The future minimum lease obligations and net present value of these minimum lease payments as of September 30, 2017, were as follows:

<u>Year Ending September 30</u>	<u>Governmental Activities</u>
2018	\$ 77,604
2019	77,604
2020	77,604
2021	77,604
2022	77,604
2023-2027	388,019
2028	75,635
Total minimum lease payments	851,674
Less: amount representing interest	<u>(128,785)</u>
Present value of minimum lease payments	<u>\$ 722,889</u>

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 6 - Interfund Transactions**

Transfers between funds during the year were as follows:

	<u>Transfers in</u>	<u>Transfers Out</u>
<b>Governmental Funds:</b>		
Individual major governmental funds:		
General	\$ 624,000	\$ 2,057,000
Debt service	1,264,655	-
Capital bond	-	314,655
Individual non-major governmental funds:		
Capital improvement	1,529,000	-
Vehicle and equipment replacement	1,700,000	-
<b>Total Governmental Funds</b>	<u>5,117,655</u>	<u>2,371,655</u>
<b>Enterprise Fund:</b>		
Individual major enterprise fund:		
Water, sewer, and solid waste	-	2,746,000
<b>Total Enterprise Fund</b>	<u>-</u>	<u>2,746,000</u>
<b>Total Transfers</b>	<u>\$ 5,117,655</u>	<u>\$ 5,117,655</u>

The enterprise fund transferred funds to the debt service fund to pay a portion of the principal and interest on general obligation debt used to finance capital improvements used in enterprise activities. The enterprise fund transferred funds to the general fund to cover administrative costs performed for the enterprise fund by the general fund. The general fund and the enterprise fund transferred funds to the vehicle and equipment replacement fund for vehicle and equipment replacements. The general fund and the enterprise fund transferred funds to the capital improvement fund to fund capital improvement projects. The capital bond fund transferred the capitalized interest portion of bond proceeds to the debt service fund.

**Note 7 - Risk Management**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with several other entities in the Texas Municipal League's Intergovernmental Risk Pool (the "Pool"). The Pool purchases commercial insurance at group rates for participants in the Pool. The City has no additional risk or responsibility to the Pool outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three fiscal years.

**Note 8 - Contingent Liabilities**

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

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 8 - Contingent Liabilities (continued)**

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

**Note 9 - Employee Retirement System**

*Texas Municipal Retirement System*

**Plan Description and Provisions**

The City participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the "TMRS Act") as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS 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](http://www.tmrs.com).

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

**Benefits Provided**

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. 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

**CITY OF BELLAIRE, TEXAS**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)*

**Note 9 - Employee Retirement System (continued)**

**Benefits Provided (continued)**

At the December 31, 2016 valuation and measurement date (the most current available), the following employees were covered by the benefit terms:

Retirees or beneficiaries currently receiving benefits	125
Inactive employees entitled to but not receiving benefits	98
Active employees	<u>156</u>
	<u>379</u>

**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. Of these available options, the City has adopted a 7% contribution rate for employees and a 200% City matching percentage. 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 2017, the City made contributions of 21.20% for the months in 2016 and 20.87% for the months in 2017.

**Net Pension Liability**

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

**Actuarial Assumptions**

The TPL in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation:	2.75%
Overall payroll growth	3.50% to 10.50% 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 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. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table is used, with slight adjustments.

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 9 - Employee Retirement System (continued)**

**Actuarial Assumptions (continued)**

These actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, the System adopted the Entry Age Normal actuarial cost method and a one-time change to the amortization policy. Assumptions are reviewed annually. No additional changes were made for the 2016 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.

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:

<u>Asset Class</u>	<u>Target Allocation</u>
U.S. equities	17.5%
International equities	17.5%
Core fixed income	10.0%
Non-core fixed income	20.0%
Real estate	10.0%
Real return	10.0%
Absolute return	10.0%
Private equity	5.0%
Total	<u>100.0%</u>

**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 contributions will remain at the current 7% 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 plan members. 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.

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 9 - Employee Retirement System (continued)**

**Changes in the Net Pension Liability**

	<b>Increase (Decrease)</b>		<b>Net Pension Liability (A) - (B)</b>
	<b>Total Pension Liability (A)</b>	<b>Plan Fiduciary Net Position (B)</b>	
Changes for the plan year:			
Service cost	\$ 1,811,004	\$ -	\$ 1,811,004
Interest	4,929,569	-	4,929,569
Difference between expected and actual experience	(378,183)	-	(378,183)
Changes of assumptions	-	-	-
Contributions - employer	-	2,097,990	(2,097,990)
Contributions - employee	-	692,734	(692,734)
Net investment income	-	3,994,703	(3,994,703)
Benefit payments, including refunds of employee contributions	(3,654,340)	(3,654,340)	-
Administrative expense	-	(45,133)	45,133
Other changes	-	(2,432)	2,432
<b>Net Changes</b>	<b>2,708,050</b>	<b>3,083,522</b>	<b>(375,472)</b>
Balance at December 31, 2015	73,952,324	59,131,911	14,820,413
<b>Balance at December 31, 2016</b>	<b>\$ 76,660,374</b>	<b>\$ 62,215,433</b>	<b>\$ 14,444,941</b>

**Sensitivity of the NPL to Changes in the Discount Rate**

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 one percentage point lower (5.75%) or one percentage point higher (7.75%) than the current rate:

	<b>1% Decrease to 5.75%</b>	<b>Current Single Rate Assumption 6.75%</b>	<b>1% Increase to 7.75%</b>
	City's net pension liability	<u>\$ 24,655,923</u>	<u>\$ 14,444,941</u>

**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.tmr.com](http://www.tmr.com).

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

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$1,843,757.

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 9 - Employee Retirement System (continued)**

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

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Difference in expected and actual experience	\$ 3,030	\$ 772,462
Difference in projected and actual earnings on pension plan investments	2,764,092	-
Difference in assumption changes	148,717	-
Contributions subsequent to the measurement date	1,636,970	-
<b>Total</b>	<b>\$ 4,552,809</b>	<b>\$ 772,462</b>

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$1,636,970 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2017 (i.e. recognized in the City's fiscal year 2018 financial statements). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Plan Year</b>	<b>Net Deferred Outflows (Inflows) of Resources</b>
2017	\$ 574,290
2018	828,728
2019	741,020
2020	(661)
	<b>\$ 2,143,377</b>

**Note 10 - Other Post-Employment Benefits**

**A. City of Bellaire Retiree Health Care Plan**

**Plan Description**

In order to recognize and reward long-term employees, as well as to provide an incentive for those remaining in the City's employment, the City administers a single-employer defined benefit other post-employment benefits (OPEB) plan that will allow the retiree to pay their premium for continuation of the medical and dental insurance coverage. Retirees pay 100% of the premium, afforded a lower rate by participating in the City's plan as opposed to individual purchased insurance; the plan is known as the City Retiree Health Care Plan (the "Plan").

In order to be eligible for this benefit, the retiree must separate from service with at least five years of service with the City and be a current recipient of retirement benefits from Texas Municipal Retirement System (TMRS). The health care benefit of the Plan is available to the spouse and any dependent(s) if they were on the Plan at the beginning of the Plan year in which the employee retires. Furthermore, a dependent is eligible for coverage if they have not reached age 25. Eligibility for coverage for the spouse ends when Medicare coverage begins.

**CITY OF BELLAIRE, TEXAS**  
**NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)**

**Note 10 - Other Post-Employment Benefits (continued)**

**A. City of Bellaire Retiree Health Care Plan (continued)**

**Funding Policy**

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

**Annual OPEB Cost**

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

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

Annual Required Contribution (ARC)	\$ 84,569
Interest on OPEB obligation	10,570
Adjustment to ARC	<u>(10,297)</u>
End of year annual OPEB cost	84,842
Net estimated employer contributions	<u>(56,085)</u>
Increase in net OPEB obligation	28,757
Beginning of year net OPEB obligation	<u>264,247</u>
End of year net OPEB obligation	<u><u>\$ 293,004</u></u>

A separately audited post-employment benefit plan report is not available.

The City's annual OPEB cost, the amount contributed by the employer, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year ending September 30, 2017 and the preceding two fiscal years were as follows:

<u>Fiscal Year</u>	<u>Annual OPEB Cost</u>	<u>Annual OPEB Contribution</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>	
				<u>Beginning</u>	<u>Ending</u>
2015	\$ 66,460	\$ 45,980	69.18%	\$ 229,782	\$ 250,262
2016	68,499	54,514	79.58%	250,262	264,247
2017	84,842	56,085	66.11%	264,247	293,004

**Funded Status and Funding Progress**

As of December 31, 2016, the most recent actuarial valuation date, the plan was 0% funded. Funding is provided on a pay-as-you-go basis. The actuarial accrued liability for benefits was \$1,004,711, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$1,004,711. The annual covered payroll used for the December 31, 2016 actuarial valuation was \$9,896,194 and the UAAL as a percentage of covered payroll was 10.2%.

**CITY OF BELLAIRE, TEXAS**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)*

**Note 10 - Other Post-Employment Benefits (continued)**

**A. City of Bellaire Retiree Health Care Plan (continued)**

**Actuarial Methods and Assumptions**

The Individual Entry Age Normal Cost Method is used to calculate the GASB ARC for the City's retiree health care plan. Using the plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial cost method then provides for a systematic funding for these anticipated payments. The yearly ARC is computed to cover the cost of benefits being earned by covered members as well as to amortize a portion of the unfunded accrued liability.

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

Significant methods and assumptions were as follows:

Inflation rate	2.50% per annum
Investment rate of return	4.00% per annum, net of expenses
Actuarial cost method	Individual entry age normal cost method
Amortization method	Level as a percentage of employee payroll
Amortization period	30-year open amortization
Payroll growth	3.00% per annum
Medical trend	Initial rate of 7.30% declining to an ultimate rate of 4.25% after 14 years

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the annual required contributions of the City's retiree health care plan are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The required schedule of funding progress presented as required supplementary information provides multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**B. TMRS Supplemental Death Benefit Fund**

**Description**

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings for the 12-month period preceding the month of death); retired employees are insured for \$7,500 each; this coverage is an OPEB. The obligations of this plan are payable only from the SDBF and are not an obligation of, or a claim against, the TMRS Pension Trust Fund.

**CITY OF BELLAIRE, TEXAS**  
*NOTES TO THE BASIC FINANCIAL STATEMENTS (continued)*

**Note 10 - Other Post-Employment Benefits (continued)**

**B. TMRS Supplemental Death Benefit Fund (continued)**

**Contributions**

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

The City's contributions to the TMRS SDBF for the years ended September 30 2017, 2016, and 2015 were \$23,075, \$22,635, and \$22,302, respectively, which equaled the required contributions each year.

The City's contribution rates for the retiree portion for the past three years are shown below:

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Annual required contribution (rate)	0.06%	0.06%	0.06%
Actual contribution made	0.06%	0.06%	0.06%
Percentage of ARC contributed	100.00%	100.00%	100.00%

**Note 11 – Subsequent Event**

On August 25, 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast before stalling over Houston-Galveston region (the “Region”) and producing significant flooding. Many residences and commercial properties in the Region sustained damage.

As a result of Hurricane Harvey, the City closed City Hall for a week to assess damage citywide and respond to Bellaire residents in need of assistance.

Total expenditures of the City as a result of Hurricane Harvey are approximately \$3.24 million. Debris removal in the amount of approximately \$1.8 million is the largest expenditure as a result of the hurricane. The remaining cost related to the hurricane were damage to the waste water treatment plant, capital losses to flooded vehicles, emergency protective measures to respond to the event as it occurred, and personnel costs for staff time in responding to the disaster.

As of January 31, 2018, the City has received \$601,499 in reimbursement; \$301,588 from Texas Municipal League's Intergovernmental Risk Pool, the City's insurance provider. Although the Federal Emergency Management Agency (FEMA) has reimbursed the City \$299,911, the City still anticipates over \$2 million of additional reimbursements once the debris removal project is completed and emergency protective measure expenditures are approved by FEMA.

**Required Supplementary Information**

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**CITY OF BELLAIRE, TEXAS**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET AND ACTUAL (BUDGETARY BASIS)**  
**For the Year Ended September 30, 2017**  
**with comparative actual totals for the year ended September 30, 2016**

	2017			2016	
	Original Budget	Final Budget	Actual	Variance from Final Budget	Actual
<b>Revenues</b>					
Taxes:					
Property taxes	\$ 12,331,714	\$ 12,331,714	\$ 12,161,757	\$ (169,957)	\$ 11,274,387
Sales and use taxes	2,545,300	2,545,300	2,241,860	(303,440)	2,420,809
Franchise taxes	1,410,000	1,410,000	1,374,918	(35,082)	1,363,860
Fines and forfeitures	739,200	739,200	679,883	(59,317)	717,852
Licenses and permits	1,338,432	1,338,432	1,199,500	(138,932)	1,158,422
Charges for services	1,238,200	1,238,200	1,229,988	(8,212)	1,394,739
Investment earnings	35,000	35,000	47,017	12,017	46,454
Intergovernmental	2,800	2,800	202,324	199,524	2,325
Miscellaneous	31,800	31,800	37,786	5,986	34,847
<b>Total Revenues</b>	<u>19,672,446</u>	<u>19,672,446</u>	<u>19,175,033</u>	<u>(497,413)</u>	<u>18,413,695</u>
<b>Expenditures</b>					
<b>Current:</b>					
<b>General government:</b>					
Administration and finance	3,751,476	3,751,476	3,653,267	98,209	3,398,693
Legal	100,000	100,000	107,664	(7,664)	96,176
Development services	892,834	892,834	784,466	108,368	763,878
<b>Total General Government</b>	<u>4,744,310</u>	<u>4,744,310</u>	<u>4,545,397</u>	<u>198,913</u>	<u>4,258,747</u>
<b>Public safety:</b>					
Police	6,167,369	6,167,369	5,983,928	183,441	5,348,932
Fire	3,041,250	3,041,250	2,983,114	58,136	2,665,182
<b>Total Public Safety</b>	<u>9,208,619</u>	<u>9,208,619</u>	<u>8,967,042</u>	<u>241,577</u>	<u>8,014,114</u>
<b>Public works:</b>	<u>1,199,142</u>	<u>1,199,142</u>	<u>1,054,450</u>	<u>144,692</u>	<u>1,056,541</u>
<b>Culture and recreation:</b>					
Library	696,822	696,822	654,090	42,732	619,632
Parks, recreation, and facilities	3,717,857	3,717,857	3,563,333	154,524	3,410,445
<b>Total Culture and Recreation</b>	<u>4,414,679</u>	<u>4,414,679</u>	<u>4,217,423</u>	<u>197,256</u>	<u>4,030,077</u>
<b>Non-departmental:</b>	<u>(100,000)</u>	<u>(100,000)</u>	<u>109,497</u>	<u>(209,497)</u>	<u>161,553</u>
<b>Total Expenditures</b>	<u>19,466,750</u>	<u>19,466,750</u>	<u>18,893,809</u>	<u>572,941</u>	<u>17,521,032</u>
<b>Excess of Revenues Over Expenditures</b>	<u>205,696</u>	<u>205,696</u>	<u>281,224</u>	<u>75,528</u>	<u>892,663</u>
<b>Other Financing Sources (Uses)</b>					
Transfers in	624,000	624,000	624,000	-	624,000
Transfers out	(2,057,000)	(2,057,000)	(2,057,000)	-	(2,306,000)
Sale of capital assets	10,000	10,000	37,184	27,184	817
<b>Total Other Financing Sources (Uses)</b>	<u>(1,423,000)</u>	<u>(1,423,000)</u>	<u>(1,395,816)</u>	<u>27,184</u>	<u>(1,681,183)</u>
Changes in fund balance	(1,217,304)	(1,217,304)	(1,114,592)	102,712	(788,520)
<b>Fund Balances - Beginning</b>	<u>4,815,527</u>	<u>4,815,527</u>	<u>4,815,527</u>	<u>-</u>	<u>5,604,047</u>
<b>Fund Balances - Ending</b>	<u>\$ 3,598,223</u>	<u>\$ 3,598,223</u>	<u>\$ 3,700,935</u>	<u>\$ 102,712</u>	<u>\$ 4,815,527</u>

## **CITY OF BELLAIRE, TEXAS**

### ***NOTES TO REQUIRED SUPPLEMENTARY BUDGET INFORMATION***

*Year ended September 30, 2017*

#### **Budgetary Compliance**

The annual budget must specify appropriations for capital expenditures and for expenditures directed by Council for services and for the operation of city departments, offices and agencies. It must comply with fund requirements of bond covenants.

The City Manager shall submit a proposed annual budget to the Council in sufficient time to permit Council to review and revise it. Said budget shall be prepared by the City Manager and filed with the City Clerk not less than thirty (30) days prior to the time the City Council adopts said budget.

A public hearing shall be held not less than fifteen (15) days subsequent to the time the budget is filed, but prior to the time the City Council adopts said budget and sets the tax levy. Notice of the date, time and place of such public hearing shall be published in a newspaper of general circulation not less than fifteen (15) days prior to the date of the hearing.

Before taxes are levied, but after a public hearing or hearings, Council shall adopt the annual budget. Council may amend the proposed budget but shall not delete or decrease appropriations required for debt service, or by law, and shall not authorize expenditures in excess of the total of estimated income plus funds available from earlier years.

The budget, at the fund level, can be amended at any time with the approval of the City Manager and City Council action. The City Manager can approve department requests for reallocation of funding, within a departmental budget of a respective fund as long as the net difference of the respective fund is zero (\$0). Council can authorize all changes to the budget at departmental and/or fund level.

All appropriations shall lapse at the end of the budget year to the extent that they shall not have been expended or lawfully encumbered, except appropriations in the special revenue fund and the capital project funds which have project/program length appropriations which do not lapse at fiscal year-end.

#### **Excess of Expenditures Over Appropriations**

For the year ended September 30, 2017, expenditures exceeded appropriations in the legal department (the legal level of budgetary control) within the general government function of the general fund by \$7,664.

**CITY OF BELLAIRE, TEXAS**  
**REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION**  
**September 30, 2017**

**TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)**  
**Schedule of Changes in Net Pension Liability and Related Ratios**

	<b>Measurement Year 2016</b>	<b>Measurement Year 2015</b>
<b>Total Pension Liability:</b>		
Service cost	\$ 1,811,004	\$ 1,741,147
Interest (on the total pension liability)	4,929,569	4,884,753
Changes of benefit terms		
Difference between expected and actual experience	(378,183)	6,060
Change in assumptions	-	297,433
Benefit payments, including refunds of employee contributions	<u>(3,654,340)</u>	<u>(3,777,366)</u>
Net change in total pension liability	2,708,050	3,152,027
Total pension liability - beginning	<u>73,952,324</u>	<u>70,800,297</u>
Total pension liability - ending (a)	<u>\$ 76,660,374</u>	<u>\$ 73,952,324</u>
<b>Plan Fiduciary Net Position:</b>		
Contributions - employer	\$ 2,097,990	\$ 2,114,994
Contributions - employee	692,734	664,198
Net investment income	3,994,703	88,677
Benefit payments, including refunds of employee contributions	(3,654,340)	(3,777,366)
Administrative expense	(45,133)	(54,014)
Other	<u>(2,432)</u>	<u>(2,668)</u>
Net change in plan fiduciary net position	3,083,522	(966,179)
Plan fiduciary net position - beginning	<u>59,131,911</u>	<u>60,098,090</u>
Plan fiduciary net position - ending (b)	<u>62,215,433</u>	<u>59,131,911</u>
<b>Net Pension Liability - Ending (a) - (b)</b>	<u>\$ 14,444,941</u>	<u>\$ 14,820,413</u>
<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>	81.16%	79.96%
<b>Covered Employee Payroll</b>	\$ 9,896,194	\$ 9,488,542
<b>Net Pension Liability as a Percentage of Covered Employee Payroll</b>	145.96%	156.19%

The amounts presented are for each measurement year, which end the preceding December 31 of the City's fiscal year end. Net pension liability is calculated using a new methodology and will be presented prospectively in accordance with GASB 68. Ten years of data should be presented in this schedule but data was unavailable prior to 2014.

**CITY OF BELLAIRE, TEXAS**  
**REQUIRED PENSION SYSTEM SUPPLEMENTARY INFORMATION**  
*September 30, 2017*

**TEXAS MUNICIPAL RETIREMENT SYSTEM (UNAUDITED)**

**Schedule of Contributions**  
*Last Three Fiscal Years*

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>
Actuarially determined contribution	\$ 2,245,626	\$ 2,066,791	\$ 2,007,691
Contribution in relation of the actuarially determined contribution	2,245,626	2,066,791	2,007,691
Contribution deficiency (excess)	-	-	-
Covered employee payroll	10,726,161	9,615,818	9,005,248
Contributions as a percentage of covered employee payroll	20.94%	21.49%	22.29%

\* Only three years of information are currently available. The City will build this schedule over the next seven-year period.

**Notes to Required Supplementary Information:**

Valuation Date: Actuarial determined contribution rates are calculated as of December 31 and become effective in January, 12 months and a day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method:	Entry Age Normal
Amortization Method:	Level Percentage of Payroll, Closed
Remaining Amortization Period:	29 years
Asset Valuation Method:	10 Year smoothed market; 15% soft corridor
Inflation:	2.75%
Salary Increases:	3.50% to 10.5% including inflation
Investment Rate of Return:	6.75%
Retirement Age:	Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2015 valuation pursuant to an experience study of the period 2010 – 2014.
Mortality:	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projected on a fully generational basis with scale BB.
Other Information:	There were no benefit changes during the year.

**CITY OF BELLAIRE, TEXAS**  
**REQUIRED OTHER POST-EMPLOYMENT BENEFITS SUPPLEMENTARY INFORMATION**  
*September 30, 2017*

*Other Post Employment Benefits*  
**Schedule of Funding Progress (Unaudited)**

<b>Actuarial Valuation Date December 31,</b>	<b>Actuarial Value of Assets (a)</b>	<b>Actuarial Accrued Liability (AAL) (b)</b>	<b>Unfunded AAL (UAAL) (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as a % of Covered Payroll (b-a)/c</b>
2008	\$ -	\$ 530,101	\$ 530,101	0.0%	\$ 8,421,545	6.3%
2010	-	606,586	606,586	0.0%	8,573,923	7.1%
2013	-	691,207	691,207	0.0%	8,603,608	8.0%
2016	-	1,004,711	1,004,711	0.0%	9,896,194	10.2%

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**APPENDIX D**

**FORM OF OPINION OF BOND COUNSEL**

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\_\_\_\_\_, 2018

Ladies and Gentlemen:

WE HAVE ACTED as Bond Counsel for the City of Bellaire, Texas (the "City"), in connection with the issuance of the following described bonds (the "Bonds"):

"City of Bellaire, Texas General Obligation Bonds, Series 2018, dated September 1, 2018, in the aggregate principal amount of \$11,475,000.

The Bonds mature, bear interest, and may be transferred and exchanged as set out in the Bonds and in the ordinance of the City Council of the City authorizing the Bonds, dated August 6, 2018 (the "Bond Ordinance"). The Bonds are fully registered and are issued in multiples of \$5,000. The Bonds with a Stated Maturity on or after February 15, 2027 may be redeemed at the option of the City, in whole or in part, in integral multiples of \$5,000 principal or any other authorized denomination any time after February 15, 2026.

WE HAVE EXAMINED the Constitution and laws of the State of Texas, the Charter of the City, a transcript of original and certified proceedings of the City of Council of the City, including, without limitation, the Bond Ordinance and customary certificates of officers, agents and representatives of the City and other certificates related to the authorization and issuance of the Bonds and the expected use and investment of proceeds of the Bonds and certain other funds of the City and to certain other facts within the knowledge and control of the City. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such certificates. We have also examined a specimen bond of said series and find same to be in due form and properly executed.

WE ARE OF THE OPINION, based on the foregoing, that the proceedings authorizing the issuance of the Bonds show lawful authority for such issuance under the Constitution and laws of the State of Texas.

WE ARE OF THE OPINION that the Bonds constitute legal, valid and binding obligations of the City, except to the extent that the enforcement of the rights and remedies of any bondholder may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City, that the Bonds are payable from the levy of a direct annual ad valorem tax, within the limit prescribed by law, as provided in the Bond Ordinance.

WE ARE OF THE OPINION, based upon the foregoing that, pursuant to the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance by the City after the date hereof with the provisions of the Bond Ordinance relating to sections 141

through 150 of the Code, interest on the Bonds is excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code, and the Bonds are not "private activity bonds" within the meaning of the Code.

WE CALL TO YOUR ATTENTION TO THE FACT THAT the Bonds have not been designated as "qualified tax-exempt obligations" for financial institutions as that term is defined by Section 265 of the Code.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, "S" corporations with "subchapter C" earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations, 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 Bonds.

The Bond Ordinance provides that the City reserves the right to issue additional bonds, including additional parity bonds, and, when issued and sold, said additional parity bonds will be in all respects on a parity with the Bonds.

The Bonds are obligations solely of the City and are not obligations of the State of Texas, Harris County or any other entity.

WE ASSUME NO DUTY TO update or supplement our opinions to reflect any facts or circumstances that may come to our attention after the issuance of the Bonds or to reflect any changes in any law that may become effective after the issuance of the Bonds. The opinions expressed herein should not be construed as a guarantee or result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of the transcript of proceedings relating to the issuance of the Bonds, certain other materials, and existing law that we, in our sole discretion, deemed relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours,



**USCA MUNICIPAL ADVISORS, LLC**

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*Financial Advisor to the City*



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