

**OFFICIAL STATEMENT**  
**July 10, 2018**

*In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Issuer (defined below) after the date of initial delivery of the Certificates (defined below) with certain covenants contained in the Ordinance (defined below) and subject to the matters described under "TAX MATTERS" herein, interest on the Certificates under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof for federal income tax purposes under Section 103 of the Internal Revenue Code, as amended to the date of initial delivery of the Certificates and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. (See "TAX MATTERS" herein.)*

**\$10,440,000****CITY OF SCHERTZ, TEXAS****(A political subdivision of the State of Texas located in Guadalupe, Comal and Bexar Counties, Texas)**  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018****Dated Date: July 1, 2018****Due: February 1, as shown on inside cover**

The \$10,440,000 City of Schertz, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City of Schertz, Texas (the "City" or the "Issuer") on July 10, 2018, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the *System*), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinance authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)

Interest on the Certificates will accrue from July 1, 2018 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2019, until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by UMB Bank, N.A., Dallas, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (2) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City's utility system; (3) designing, constructing, renovating, improving, and equipping various facilities located in the City's Municipal Complex, (4) designing, renovating, repairing, and improving the security locks in all of the City's buildings; (5) designing, constructing, renovating, repairing, and improvement a new fleet building; (6) designing, constructing, renovating, improving, and equipping the city's parks and recreational facilities, including repairs to the City's Pickrell park community swimming pool and Recreation Center bathroom reconstruction; (7) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the Issuers' public safety facilities and equipment; (8) the purchase of materials, public safety equipment, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (9) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

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**SEE FOLLOWING PAGE FOR STATED MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES,  
INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE CERTIFICATES**

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*The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" as "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about August 8, 2018.*

**\$10,440,000**  
**CITY OF SCHERTZ, TEXAS**  
(A political subdivision of the State of Texas located in Guadalupe, Comal and Bexar Counties, Texas)  
**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018**

**MATURITY SCHEDULE**  
**(Due February 1)**

CUSIP Prefix No. 806645<sup>(1)</sup>

Stated		CUSIP			Stated		CUSIP		
Maturity	Principal	Interest	Intital	No.	Maturity	Principal	Interest	Intital	No.
<u>2/1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix</u> <sup>(1)</sup>	<u>2/1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix</u> <sup>(1)</sup>
2019	\$ 385,000	5.000%	1.550%	XF9	2029	\$ 505,000	5.000%	2.680% <sup>(2)</sup>	XR3
2020	405,000	5.000%	1.750%	XG7	2030	525,000	4.000%	2.850% <sup>(2)</sup>	XS1
2021	430,000	5.000%	1.900%	XH5	2031	545,000	3.000%	3.150%	XT9
2022	450,000	5.000%	2.020%	XJ1	2032	560,000	3.000%	3.250%	XU6
2023	475,000	5.000%	2.130%	XK8	2033	580,000	3.125%	3.300%	XV4
2024	495,000	5.000%	2.240%	XL6	2034	595,000	3.250%	3.350%	XW2
2025	520,000	5.000%	2.380%	XM4	2035	620,000	3.250%	3.400%	XX0
2026	435,000	5.000%	2.500%	XN2	2036	640,000	3.375%	3.452%	XY8
2027	455,000	5.000%	2.590%	XP7	2037	660,000	3.375%	3.486%	XZ5
2028	480,000	5.000%	2.640%	XQ5	2038	680,000	3.500%	3.500%	YA9

**(Interest to accrue from Dated Date)**

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

<sup>(1)</sup> CUSIP numbers are included solely for the convenience of the owner of the Certificates. CUSIP is a registered trademark of The American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the City, the Financial Advisor, or the Purchaser is responsible for the selection or correctness of the CUSIP numbers set forth herein.

<sup>(2)</sup> Yield calculated is based on the assumption that the Certificates denoted and sold at premium will be redeemed on February 1, 2028, the first optional call date for the Certificates, at a redemption price of par plus accrued interest to the date of redemption.

*[The remainder of this page intentionally left blank]*

**CITY OF SCHERTZ TEXAS**

**1400 Schertz Parkway  
Schertz, Texas 78154  
Telephone: (210) 619-1000**

**ELECTED OFFICIALS**

Name	Years Served	Term Expires (November)	Occupation
Michael Carpenter Mayor	13	2019	Sales Manager
David L. Scagliola Mayor Pro-Tem, Place 5	6 months	2020	Adjunct Professor
Mark Davis Councilmember, Place 1	1	2019	Operations Analyst
Ralph Gutierrez Councilmember, Place 2	1	2019	Retired
Scott Larson Councilmember, Place 3	1	2020	Insurance Rater
Cedric Edwards Councilmember, Place 4	8	2020	Investment Advisor
Angelina Kiser Councilmember, Place 6	1	2018	University Management Professor
Bert Crawford Councilmember, Place 7	1	2018	Retired

**ADMINISTRATION**

Name	Position	Length of Service (Years)
Brian James	Acting City Manager	4 months*
Dudley Wait	Executive Director of Operations	18
James Walters	Director of Finance	8
Brenda Dennis	City Secretary	11
Charlie Zech	City Attorney	5

\*Prior to be appointed Acting City Manager, Mr. James served 6 years as Executive Director of Development Services.

**CONSULTANTS AND ADVISORS**

**Bond Counsel** .....Norton Rose Fullbright US LLP  
San Antonio, Texas

**Certified Public Accountants** .....Armstrong, Vaughan & Associates, P.C.  
San Antonio, Texas

**Financial Advisor** .....SAMCO Capital Markets, Inc.  
San Antonio, Texas

*For Additional Information Please Contact:*

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Director of Finance  
**City of Schertz**  
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Schertz, Texas 78154  
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jwalters@schertz.com

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Mr. Andrew T. Friedman  
**SAMCO Capital Markets, Inc.**  
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San Antonio, Texas 78209  
Telephone: (210) 832-9760  
mmcliney@samcocapital.com  
afriedman@samcocapital.com

## USE OF INFORMATION IN THE OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized to give any information, or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the Issuer. This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation. Any information or expression of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of the Issuer or other matters described herein since the date hereof.

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

THE CERTIFICATES ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE CERTIFICATES IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THE CERTIFICATES HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

None of the City, the Financial Advisors or the Purchaser makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company (“DTC”) or its Book-Entry-Only System as such information is provided by DTC respectively.

The agreements of the City and others related to the Certificates are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Certificates is to be construed as constituting an agreement with the Purchaser of the Certificates. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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*The cover page, subsequent pages hereof, and appendices attached hereto, are part of this Official Statement.*

## SELECTED DATA FROM THE OFFICIAL STATEMENT

*The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Certificates to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement.*

### **The Issuer**

The City of Schertz, Texas (the "Issuer" or the "City"), is located between the cities of San Antonio, Texas and New Braunfels, Texas, on Interstate 35 and FM 78 and on Interstate 10 between the cities of San Antonio, Texas and Seguin, Texas and in the area between IH-35 and IH-10. The corporate limits extend into the counties of Bexar, Guadalupe and Comal, with the largest portion of the City being located within Guadalupe County. The City was incorporated in December 1958 and is a home rule municipality operating under its own Home Rule Charter since 1974. The Home-Rule Charter was most recently amended November 3, 2015. The City operates under the Council/Manager form of government pursuant to the Constitution and the general laws of the State of Texas. The City Manager, appointed by the Mayor and the seven-member elected City Council (the "City Council"), is the chief administrative officer of the City. (SEE "APPENDIX B –General Information Regarding the City of Schertz, Texas and Guadalupe, Comal, and Bexar Counties, Texas" herein)

### **The Certificates**

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City, on July 10, 2018 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas.

### **Security**

The Certificates constitute direct and general obligations of the Issuer payable primarily from the proceeds of an annual ad valorem tax levied upon all taxable property within the City, within the limitations prescribed by law, and are further payable from and secured by a lien on and pledge of the Pledged Revenues (identified and defined in the Ordinance), being a limited amount of the Net Revenues derived from the operation of the City's combined utility system (the "System"), not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the City. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (identified and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise (See "THE CERTIFICATES - Security for Payment" and "TAX RATE LIMITATIONS" herein.)

### **Redemption Provisions of the Certificates**

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

### **Tax Matters**

In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS", including the alternative tax on corporations. (See "TAX MATTERS" and, "APPENDIX C - Form of Opinion of Bond Counsel" herein.)

**Use of Certificate Proceeds**

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (2) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City's utility system; (3) designing, constructing, renovating, improving, and equipping various facilities located in the City's Municipal Complex, (4) designing, renovating, repairing, and improving the security locks in all of the City's buildings; (5) designing, constructing, renovating, repairing, and improvement a new fleet building; (6) designing, constructing, renovating, improving, and equipping the city's parks and recreational facilities, including repairs to the City's Pickrell park community swimming pool and Recreation Center bathroom reconstruction; (7) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the Issuers' public safety facilities and equipment; (8) the purchase of materials, public safety equipment, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (9) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

**Rating**

S&P Global Ratings ("S&P") has assigned an underlying, unenhanced rating of "AA+" to the Certificates. (See "OTHER PERTINENT INFORMATION - Rating" herein.)

**Payment Record**

The City has never defaulted on the payment of its general obligation or revenue indebtedness.

**Future Debt Issues**

The issuer anticipates issuing General Obligation and Refunding Bonds before the end of the calendar year 2018 for the purposes of achieving debt service savings and funding \$600,000 of previously authorized bond projects for a road construction project with Texas Department of Transportation.

**Delivery**

When issued, anticipated on or about August 8, 2018.

**Legality**

Delivery of the Certificates is subject to the approval by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel.

*(The remainder of this page intentionally left blank.)*

## OFFICIAL STATEMENT

relating to

**\$10,440,000**

**CITY OF SCHERTZ, TEXAS**

**(A political subdivision of the State of Texas located in Guadalupe, Comal and Bexar Counties, Texas)  
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018**

### INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Schertz, Texas (the "City" or the "Issuer") of its \$10,440,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (the "Certificates") identified on the cover page.

The Issuer is a political subdivision of the State of Texas (the "State") and a municipal corporation organized and existing under the Constitution and laws of the State of Texas and its Home Rule Charter. Unless otherwise indicated, capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance. Included in this Official Statement are descriptions of the Certificates and certain information about the Issuer and its finances. ***ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT.*** Copies of such documents may be obtained upon request from the Issuer or its Financial Advisor, SAMCO Capital Markets, Inc., 1020 NE Loop 410, Suite 640, San Antonio, Texas 78209, via electronic mail or upon payment of reasonable copying, handling, and delivery charges.

All financial and other information presented in this Official Statement has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, including tables of receipts from taxes and other sources, is intended to show recent historic information, and is not intended to indicate future or continuing trends in financial position or other affairs of the City. No representation is made that past experience, as is shown by financial and other information, will necessarily continue or be repeated in the future.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Final Official Statement pertaining to the Certificates will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system. See "CONTINUING DISCLOSURE OF INFORMATION" herein for a description of the City's undertaking to provide certain information on a continuing basis.

### THE CERTIFICATES

#### General Description of the Certificates

The Certificates are dated July 1, 2018 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2019, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by UMB Bank, N.A., Dallas, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of or interest on the Certificates is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

#### Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") adopted by the City Council of the City (the "City Council") on July 10, 2018, and the City's Home Rule Charter.

#### Security for Payment

*Limited Pledge of Ad Valorem Taxes.* The Certificates are general obligations of the City, payable from its collection of an ad valorem tax levied annually, within the legal limitations imposed by law, upon all taxable property located in the City. (See "AD VALOREM TAX PROCEDURES" and "TAX RATE LIMITATIONS" herein.)

*Limited Revenue Pledge Benefiting the Certificates.* Solely to comply with Texas law allowing the Certificates to be sold for cash, the Certificates are further secured by a lien on and pledge of the Pledged Revenues (being a limited amount of the Net Revenues derived from

the operation of the Issuer's combined utility system (the "System") not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues securing the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereinafter issued by the Issuer. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the City reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations (all as identified and defined in the Ordinance), while the Certificates are Outstanding, without limitation as to principal amount but subject to any terms, conditions or restrictions as may be applicable thereto under law or otherwise.

### **Redemption Provisions of the Certificates**

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after February 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

### **Notice of Redemption**

At least 30 days prior to the date fixed for any redemption of any Certificates or portions thereof prior to stated maturity, the Issuer shall cause notice of such redemption to be sent by United States mail, first-class postage prepaid, to the registered owner of each Certificate or a portion thereof to be redeemed at its address as it appeared on the registration books of the Paying Agent/Registrar on the day such notice of redemption is mailed. By the date fixed for any such redemption, due provision shall be made with the Paying Agent/Registrar for the payment of the required redemption price for the Certificates or portions thereof which are to be so redeemed. If such notice of redemption is given and if due provision for such payment is made, all as provided above, the Certificates or portions thereof which are to be so redeemed thereby automatically shall be treated as redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the registered owner to receive the redemption price from the Paying Agent/Registrar out of the funds provided for such payment.

ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER RECEIVED BY THE CERTIFICATEHOLDER, AND, PROVIDED THAT PROVISION FOR PAYMENT OF THE REDEMPTION PRICE IS MADE AND ANY OTHER CONDITIONS TO REDEMPTION ARE SATISFIED, INTEREST ON THE REDEEMED CERTIFICATES SHALL CEASE TO ACCRUE FROM AND AFTER SUCH REDEMPTION DATE NOTWITHSTANDING THAT A CERTIFICATE HAS NOT BEEN PRESENTED FOR PAYMENT.

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with

DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

### **Selection of Certificates to be Redeemed**

The Certificates of a denomination larger than \$5,000 may be redeemed in part (in increments of \$5,000 or any integral multiple thereof). The Certificates to be partially redeemed must be surrendered in exchange for one or more new Certificates for the unredeemed portion of the principal. If less than all of the Certificates are to be redeemed, the Issuer will determine the amounts to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Certificates are in Book-Entry-Only form) to select, at random and by lot, the particular Certificates, or portion thereof, to be redeemed. If a Certificate (or any portion of the principal sum thereof) will have been called for redemption and notice or such redemption will have been given, such Certificate (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

### **Use of Certificate Proceeds**

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage incidental thereto; (2) designing, constructing, acquiring, purchasing, renovating, equipping, enlarging, and improving the City's utility system; (3) designing, constructing, renovating, improving, and equipping various facilities located in the City's Municipal Complex, (4) designing, renovating, repairing, and improving the security locks in all of the City's buildings; (5) designing, constructing, renovating, repairing, and improvement a new fleet building; (6) designing, constructing, renovating, improving, and equipping the city's parks and recreational facilities, including repairs to



the City's Pickrell park community swimming pool and Recreation Center bathroom reconstruction; (7) designing, constructing, acquiring, purchasing, renovating, enlarging, and improving the Issuers' public safety facilities and equipment; (8) the purchase of materials, public safety equipment, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (9) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects.

**Sources and Uses**

Sources	
Par Amount of the Certificates	\$ 10,440,000.00
Accrued Interest on the Certificates	44,316.49
Net Reoffering Premium	<u>640,170.55</u>
Total Sources of Funds	<u>\$ 11,124,487.04</u>
Uses	
Construction Fund Deposit	\$ 10,890,000.00
Purchaser's Discount	88,959.07
Certificate Fund Deposit	44,316.49
Costs of Issuance	<u>101,211.48</u>
Total Uses	<u>\$ 11,124,487.04</u>

**Payment Record**

The Issuer has never defaulted on the payment of its ad valorem tax-backed indebtedness.

**Amendments**

The Issuer may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the Issuer may, with the written consent of the holders of a majority in aggregate principal amount of the Certificates then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Certificates affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Certificate is due and payable, reduce the principal amount thereof, or the rate of interest thereon, change the redemption price or amounts, change the place or places at or the coin or currency in which any Certificate or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Certificates, (2) give any preference to any Certificate over any other Certificate, (3) extend any waiver of default to subsequent defaults, or (4) reduce the aggregate principal amount of Certificates required for consent to any amendment, change, modification, or waiver.

**Defeasance**

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State law as eligible for use to accomplish the discharge of obligations such as the Certificates. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, the City has the option, to be exercised at the time of the defeasance of the Certificates, to call for redemption at an earlier date those Certificates which have been defeased to their maturity date, if the City (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption, (ii) gives notice of the reservation of that right to

the owners of the Certificates immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

### **Default and Remedies**

If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates, if there is no other available remedy at law to compel performance of the Certificates or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language.

Furthermore, *Tooke*, and subsequent jurisprudence, held that a municipality is not immune from suit for torts committed in the performance of its proprietary functions, as it is for torts committed in the performance of its governmental functions (the "Proprietary-Governmental Dichotomy"). Governmental functions are those that are enjoined on a municipality by law and are given by the State as a part of the State's sovereignty, to be exercised by the municipality in the interest of the general public, while proprietary functions are those that a municipality may, in its discretion, perform in the interest of the inhabitants of municipality.

In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("Wasson") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between government and proprietary functions is not clear, the Wasson opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

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 Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion creditors and general principals of equity that permit the exercise of judicial discretion.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is UMB Bank, N.A., Dallas, Texas. In the Ordinance, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission.

Upon a change in the Paying Agent/Registrar for the Certificates, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates affected by the change by United States mail, first-class, postage prepaid.

The Certificates will be issued in fully registered form in multiples of \$5,000 for any one stated maturity, and principal and semiannual interest will be paid by the Paying Agent/Registrar. Interest will be paid by check or draft mailed on each interest payment date by the Paying Agent/Registrar to the registered owner at the last known address as it appears on the Paying Agent/Registrar's books or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner. Principal will be paid to the registered owner at stated maturity or prior redemption upon presentation to the Paying Agent/Registrar; provided however, that so long as DTC's Book-Entry-Only System is used, all payments will be made as described under "BOOK-ENTRY-ONLY SYSTEM" herein. If the date for the payment of the principal or interest on the Certificates shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/ Registrar is located are authorized to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

#### **Record Date**

The record date ("Record Date") for determining the party to whom interest is payable on a Certificate on any interest payment date means the fifteenth (15<sup>th</sup>) day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar. (See "REGISTRATION, TRANSFER, AND EXCHANGE - Special Record Date for Interest Payment" herein.)

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

In the event of a non-payment of interest on a scheduled payment date, and for 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 Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

#### **Future Registration**

In the event the Certificates are not in the Book-Entry-Only System, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer 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 Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Certificate or Certificates surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Certificates.)

#### **Limitation on Transfer of Certificates**

Neither the Issuer nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Certificate or any portion thereof called for redemption prior to maturity, within 45 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Certificate redeemed in part.

#### **Replacement Certificates**

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Certificates upon surrender of the mutilated Certificates to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement. The person requesting the authentication of and delivery of a replacement Certificate must comply with such other reasonable regulations as the Paying Agent/Registrar may prescribe and pay such expenses as the Paying Agent/Registrar may incur in connection therewith.

## BOOK-ENTRY-ONLY SYSTEM

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

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Certificates, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Certificates), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 Certificates. The Certificates will be issued as fully registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Certificates, in the aggregate principal amount of such issue, and will be deposited with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Certificates may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Certificates, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Certificates may wish to ascertain that the nominee holding the Certificates for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the 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 Certificates within a maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

Redemption proceeds, principal, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or 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 Certificates at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to the holder of such Certificates and will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" hereinabove.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City, the Financial Advisor, and the Purchaser believe to be reliable, but none of the City, the Financial Advisor, or the Purchaser take responsibility for the accuracy thereof.

So long as Cede & Co. is the registered owner of the Certificates, the Issuer will have no obligation or responsibility to the DTC. Participants or Indirect Participants, or the persons for which they act as nominees, with respect to payment to or providing of notice to such Participants, or the persons for which they act as nominees.

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

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

#### **Effect of Termination of Book-Entry-Only System**

In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed certificates representing the Certificates will be issued to the holders and the Certificates will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE – Future Registration."

### **INVESTMENT POLICIES**

The Issuer invests its investable funds in investments authorized by Texas law, including Chapter 2256, as amended, Texas Government Code (the "Texas Public Funds Investment Act"), and in accordance with investment policies approved by the Board. Both State law and the Issuer's investment policies are subject to change.

#### **Legal Investments**

Under State law, the Issuer 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 are unconditionally 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; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for Issuer deposits, or (ii) certificates of deposit where (a) the funds are invested by the Issuer through 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 Issuer as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the Issuer; (b) the broker or the depository institution selected by the Issuer 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 Issuer, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Issuer appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3

as custodian for the Issuer with respect to the certificates of deposit issued for the account of the Issuer; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the Issuer or cash held by the Issuer to be pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) 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 (7) 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 (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or a third party designated by the Issuer, (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; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of 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; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the Issuer with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the Issuer has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the Issuer and deposited with the Issuer or with a third party selected and approved by the Issuer.

The Issuer 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 Issuer retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Issuer must do so by order, ordinance, or resolution. The Issuer 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 final stated 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 State law, the Issuer is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for Issuer funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups. All Issuer funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, the Issuer's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the Issuer must submit an investment report to the City Council detailing: (1) the investment position of the Issuer, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, and 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) the investment strategy expressed in the Issuer's investment policy, and (b) the Public Funds Investment Act. No person may invest Issuer funds without express written authority from the City Council.

### **Additional Provisions**

Under State law, the Issuer is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt an order 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 said order or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Issuer; (4) require the qualified representative of firms offering to engage in an investment transaction with the Issuer to: (a) receive and review the

Issuer's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Issuer and the business organization that are not authorized by the Issuer's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Issuer's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the Issuer and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Issuer's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, or other investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 80% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the Issuer's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of bond proceeds reserves and funds held for debt service to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to confirm to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Issuer.

**Current Investments <sup>(1)</sup>**

**TABLE 1**

As of March 31, 2018 the City held investments as follows:

<u>Type of Security</u>	<u>Market Value</u>	<u>Percentage of Total</u>
Cash and Investment Pool	\$ 9,662,809	11.30%
Logic	23,284,598	27.23%
U.S. Agency Securities	3,112,880	3.64%
Certificates of Deposit	4,177,577	4.87%
Texas Class	22,847,442	26.72%
First Public	22,436,786	26.24%
	<u>\$ 85,522,092</u>	<u>100.00%</u>

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

<sup>(1)</sup> Unaudited.

**AD VALOREM TAX PROCEDURES**

**Property Tax Code and County-Wide Appraisal District**

The Texas Property Tax Code (the "Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Guadalupe Appraisal District (the "Appraisal District") is responsible for appraising property within the City generally as of January 1 of each year. Small portions of the City are also located in Bexar and Comal Counties, Texas. The appraisal values set by the Appraisal District are subject to review and change by the Guadalupe Appraisal Review Board (the "Appraisal Review Board") which is appointed by the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the Issuer in establishing its tax roll and tax rate.

**Property Subject to Taxation by the Issuer**

Except for certain exemptions provided by Texas law, all real and certain tangible personal property with a tax situs in the City are subject to taxation by the Issuer. Principal categories of exempt property (including certain exemptions which are subject to local option by the City Council) include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain improvements to real property and certain tangible personal property located in designated reinvestment zones on which the Issuer has agreed to abate ad valorem taxes, certain household goods, family supplies and personal effects; farm products owned by the producers; certain property of a non-profit corporation used in scientific research and educational activities benefiting a college or university, and designated historical sites. Other principal categories of exempt property include tangible personal property not held or used for production of income, solar and wind-powered energy devices; most individually owned automobiles; certain varying amounts of valuation attributable to residential homesteads of persons ages 65 or over and property of disabled veterans or their surviving spouses or children; and certain classes of intangible property. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

The State of Texas approved a constitutional amendment authorizing counties, cities, towns or junior college districts to establish an ad valorem "tax freeze" on residence homesteads of the disabled and persons sixty-five years of age or older. This "tax freeze" can be implemented by official action of a governing body, or pursuant to an election called by the governing body upon receipt of a petition signed by 5% of registered voters of the political subdivision. **On November 2, 2004 the City approved an election granting the "tax freeze."**

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on

the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is (1) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (2) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse, and (3) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

### Valuation of Property for Taxation

Generally, property in the City must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the Issuer in establishing its tax rolls and tax rate. Assessments under the Tax Code are to be based on one hundred percent (100%) of market value, except as described below, and no assessment ratio can be applied.

State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property.

Article VIII of the Texas Constitution and the Tax Code permits land designated for agricultural use (Section 1-d), open space or timberland (Section 1-d-1) to be appraised at the lesser of its value based on the land's capacity to produce agricultural or timber products or its market value. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Tax Code to act on each claimant's right to the designation individually. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the Issuer can collect taxes based on the new value, including three (3) years for agricultural use and five (5) years for agricultural open space land and timberland prior to the loss of the designation. The same land may not be qualified under both Section 1-d and 1-d-1.

The Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years. The Issuer, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the City or an estimate of any new property or improvements within the City. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the City, it cannot be used for establishing a tax rate within the City until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

### Residential Homestead Exemptions

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

1. An exemption of not less than \$10,000 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. **The Issuer has elected to grant \$10,000 for persons 65 years of age or older and \$3,000 for the disabled.**
2. An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000. **The Issuer has not elected to grant this additional exemption.**

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

State law 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.

A disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100% disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Furthermore, the surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption equal to the percentage of the veteran's disability, if the residence was donated to the disabled veteran by a charitable organization at no cost to the disabled veteran, or at some cost to the disabled veteran in the form of a cash payment, a mortgage, or both in an aggregate amount that is not more than 50% of the good faith estimate of the market value of the residence homestead made by the charitable organization as of the date the donation is made. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Also, the surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or a part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.



The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of the death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

### **Freeport Goods and Goods-In-Transit Exemption**

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit", which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. 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. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. The City took official action before April 1, 1990 to tax freeport property. On October 23, 2007 the City adopted an ordinance that continued the taxation of all goods-in-transit for the tax year 2008 and beyond. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action after October 1 of the prior year but before January 1 of the first tax year in which the governing body proposes to tax goods-in-transit in the 2012 tax year and beyond. **On November 29, 2011, the City Council took official action to again tax goods-in-transit.**

### **Pollution Control**

Article VIII, Section 1-l, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

### **Tax Abatement**

The Issuer may designate areas within the City as a reinvestment zone. Thereafter, the Issuer may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity with taxing authority over the property will follow in granting tax abatement to owners of property. The tax abatement agreement may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the Issuer, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. The terms of all tax abatement agreements must be substantially the same. The City currently has three tax abatements: Capital Group will expire in 2019, Amazon.com will expire in 2019 and Caterpillar phase 1 will expire in 2020.

### **Tax Increment Reinvestment (Financing) Zones**

The City, by action of the City Council, may create one or more tax increment reinvestment zones ("TIRZs" or "TIFs") within the City, and in doing so, other overlapping taxing entities may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for public improvements or projects within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value of taxable real property in the TIRZ is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion (as determined by the City) of the taxes levied by the City against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of the City. The City has created 2 TIRZ/TIF Zones. The City is a principal in the City of Schertz Tax Increment Reinvestment Zone #2 (the "Zone"), pursuant to Chapter 311 of the Texas Tax Code, as amended. Under the terms of the agreement, the City, Bexar County, and the San Antonio River Authority ("the Parties") are funding infrastructure improvements through tax increment financing to the Sedona Development Project. Project costs of the developer will be funded up to 100% of the tax increment generated by the Parties. The Zone has a statutory termination date of December 31, 2027.

### **Economic Development Programs of Grants and Loans**

The City's are also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City has entered into various 380 agreements with businesses in the City. These agreements involve rebates of future ad valorem taxes and/or sales taxes and should not have a significant impact on current tax in future years. Once the terms of the 380 agreements expire, the tax base of the City will be increased to include the new businesses of the City.

## **Issuer and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units, including the Issuer, may appeal the orders of the Appraisal Review Board by filing a timely petition for review in district court within 45 days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party, or through binding arbitration, if requested by the taxpayer. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Tax Code.

The Tax Code sets forth notice and hearing procedures for certain tax rate increases by the Issuer and provides for taxpayer referenda that could result in the repeal of certain tax increases. The Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

## **The Financial Institutions Act of 1989**

The "Financial Institutions Reform, Recovery and Enforcement Act of 1989" ("FIRREA"), enacted on August 9, 1989, contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC").

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states that (i) no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary lien shall attach to such property, (ii) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real property tax when due, (iii) no personal property owned by FDIC is subject to ad valorem taxation, and (iv) notwithstanding failure of a person to challenge an appraisal in accordance with State law, such value shall be determined as of the period for which such tax is imposed.

As of the date hereof, the Issuer is not aware of any significant properties in the City which are under the control of the FDIC, however, real property could come under their control while acting as the receiver of an insolvent financial institution. Accordingly, to the extent the FIRREA provisions are valid and applicable to property in the City, and to the extent that the FDIC attempts to enforce the same, the provisions may affect the time at which the Issuer can collect taxes on property owned by the FDIC, if any, in the City.

## **Levy and Collection of Taxes**

The Issuer is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. Before the later of September 30th or the 60th day after the date the certified appraisal roll is received by the taxing unit, the rate of taxation is set by the Issuer based upon the valuation of property within the City as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the Issuer. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. **The Issuer does not allow split payments but does allow discounts for early payment.**

## **Issuer's Rights in the Event of Tax Delinquencies**

Taxes levied by the Issuer are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each local taxing unit, including the Issuer, having power to tax the property. The Issuer's tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the Issuer is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the Issuer may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the Issuer must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within two (2) years after the purchaser's deed issued at the foreclosure sale is filed in the City records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

## **Property Assessment and Tax Payment**

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a pricing information in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first installment due on February 1 of each year and the final installment due on August 1.

## **TAX RATE LIMITATIONS**

### **General**

Article XI, Section 5 of the Texas Constitution, applicable to cities of more than 5,000 population: limits the City's maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation. The Issuer has adopted a Home Rule Charter which does not limit the City's maximum tax rate limit beyond the Constitutional limit of \$2.50 per \$100 of assessed valuation for all Issuer purposes. No direct funded debt limitation is imposed on the City under current Texas law. The Texas Attorney General has adopted an administrative policy that generally prohibits the issuance of debt by a municipality, such as the City, 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% collection. The issuance of the Certificates does not violate this constitutional provision or the Texas Attorney General's administrative policy.

### **The Property Tax Code**

Before the later of September 30<sup>th</sup> or the 60<sup>th</sup> day after the date the certified appraisal roll is received by the taxing unit, the City Council must adopt a tax rate per \$100 taxable value for the current year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

The City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". The City Council may not adopt a tax rate that exceeds the lower of the rollback rate or 103% of the effective tax rate until it has held a public hearing on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. 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 (unadjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (adjusted) divided by the anticipated tax collection rate.

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.

The Property Tax Code provides certain cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional tax is approved and levied, the ad valorem property tax levy must be reduced by the amount of the estimated sales tax revenues to be generated in the current year. Further, the Property Tax Code provides certain cities the option of assessing a maximum one-half percent (1/2%) sales tax on retail sales of taxable items for economic development purposes, if approved by a majority of the voters in a local option election. In addition, the Issuer has approved an additional one-half cent sales tax for economic development, effective July 1, 2004. The Issuer has authorized the additional sales tax for economic development at the rate of 1/2%.

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Certificates is subject to the opinion of Bond Counsel to the effect that interest on the Certificates for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

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

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance by the City with the provisions of the Ordinance subsequent to the issuance of the Certificates. The Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed therewith by persons other than state or local governmental units, the

manner in which the proceeds of the Certificates are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

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

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to certificateholders of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed or future changes in tax law.

#### **Tax Accounting Treatment of Discount and Premium on Certain Certificates**

The initial public offering price of certain Certificates (the “Discount Certificates”) may be less than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Discount Certificate (assuming that a substantial amount of the Discount Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Certificate. A portion of such original issue discount allocable to the holding period of such Discount Certificate by the initial purchaser will, upon the disposition of such Discount Certificate (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Certificates described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Certificate, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Certificate and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum tax on corporations for taxable years that began before January 1, 2018 and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Certificate by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Certificate in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Certificate was held) is includable in gross income.

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

The initial public offering price of certain Certificates (the “Premium Certificates”) may be greater than the amount payable on such Certificates at maturity. An amount equal to the difference between the initial public offering price of a Premium Certificate (assuming that a substantial amount of the Premium Certificates of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Certificates. The basis for federal income tax purposes of a Premium Certificate

in the hands of such initial purchaser must be reduced each year by the amortizable certificate premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable certificate premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Certificate. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

## **CONTINUING DISCLOSURE OF INFORMATION**

The City in the Ordinance has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. 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"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org), as further described below under "Availability of Information".

### **Annual Reports**

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the Issuer must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must file each audit report within 180 days after the close of the Issuer's fiscal year. The Issuer's fiscal records and audit reports are available for public inspection during the regular business hours, and the Issuer is required to provide a copy of the Issuer's audit reports to any bondholder or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Services Commission.

The Issuer will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Issuer of the general type included in Table 1 of the Official Statement and in tables 1-13 of APPENDIX A to this Official Statement and APPENDIX D. The Issuer will update and provide this information within six months after the end of each fiscal year in or after 2018. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

The Issuer may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements for the Issuer, if the Issuer commissions an audit and it is completed by the required time. If audited financial statements are not available by that time, the Issuer will provide by the required time unaudited financial statements for the applicable fiscal year to the MSRB with the financial information and operating data and will file the annual audit report when and if the same becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Issuer's annual financial statements or such other accounting principles as the Issuer may be required to employ from time to time pursuant to state law or regulation.

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

### **Notice of Certain Events**

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

For these purposes, any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority

having supervision or jurisdiction over substantially all of the assets or business of the City. Neither the Certificates nor the Ordinance make any provision for debt service reserve funds, credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

### **Availability of Information**

Effective July 1, 2009, the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule. All information and documentation filing required to be made by the City in accordance with its undertaking made for the Certificates will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

With respect to debt of the City issued prior to the EMMA Effective Date, the City remains obligated to make annual required filings, as well as notices of specified events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

### **Limitations and Amendments**

The City has agreed to update information and to provide notices of certain specified 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 Certificates 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 agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement 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 the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Certificates. If the City amends its agreement, it must 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 information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent any Purchasers from lawfully purchasing or selling Certificates, respectively, in the primary offering of the Certificates.

### **Compliance with Prior Agreements**

During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule.

On May 28, 2014, S&P Global Ratings ("S&P") upgraded the City's existing general obligation debt from "AA" to "AA+". The notice was filed in a timely matter; however, the notice was posted to the City's Utility CUSIP instead of to the City's General Obligation CUSIP. The notice was refiled on November 16, 2015 to the correct CUSIP.

## **LEGAL MATTERS**

### **Legal Opinions and No-Litigation Certificate**

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, San Antonio, Texas has reviewed (except for numerical, statistical or technical data) the information under the captions "THE CERTIFICATES" (except under the subcaptions "Use of Certificate Proceeds", "Sources and Uses" "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX RATE LIMITATIONS - General", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions

relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

The various legal opinions to be delivered concurrently with the delivery of the Certificates 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**

In the opinion of various officials of the Issuer, there is no litigation or other proceeding pending against or, to their knowledge, threatened against the Issuer in any court, agency, or administrative body (either state or federal) wherein an adverse decision would materially adversely affect the financial condition of the Issuer.

At the time of the initial delivery of the Certificates, the City will provide the Purchaser with a certificate to the effect that no litigation of any nature has been filed or is then pending challenging the issuance of the Certificates or that affects the payment and security of the Certificates or in any other manner questioning the issuance, sale, or delivery of the Certificates.

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

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) and Section 271.051, as amended, Texas Local Government Code, each, provide that the Certificates are negotiable instruments governed by Chapter 8, as amended, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act, Chapter 2256, as amended, Texas Government Code, the Certificates must have to be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. (See "OTHER PERTINENT INFORMATION – Rating" herein.) In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Certificates are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital, and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Certificates for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Certificates for such purposes. The City has made no review of laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

### **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. It is important to note that 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 will prove to be accurate.

### **OTHER PERTINENT INFORMATION**

#### **Registration and Qualification of Certificates for Sale**

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

It is the obligation of the Purchaser to register or qualify the sale of the Certificates under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Purchaser's written request and sole expense, in registering or qualifying the Certificates or in obtaining an exemption from registration or qualification in any state where such action is necessary; provided, however, that the City shall not be required to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction.

## **Rating**

S&P Global Ratings (“S&P”) has assigned an underlying, unenhanced rating of “AA+” to the Certificates. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

## **Authenticity of Financial Information**

The financial data and other information contained herein have been obtained from the Issuer's records, audited financial statements and other sources which are believed to be reliable. All of the summaries of the statutes, documents and Ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and Ordinances. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

## **Financial Advisor**

SAMCO Capital Markets, Inc. is employed as a Financial Advisor to the Issuer in connection with the issuance of the Certificates. In this capacity, the Financial Advisor has compiled certain data relating to the Certificates and has drafted this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and initial delivery of the Certificates.

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

## **Winning Bidder**

After requesting competitive bids for the Certificates, the City accepted the bid of Morgan Stanley & Co., LLC (the “Purchaser” or the “Initial Purchaser”) to purchase the Certificates at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a net premium of \$640,170.55, less a Purchaser’s discount of \$ 88,959.07, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Morgan Stanley & Co. LLC., an underwriter of the Bonds, has entered into a distribution agreement with its affiliate, Morgan Stanley Smith Barney LLC. As part of the distribution arrangement, Morgan Stanley & Co. LLC may distribute municipal securities to retail investors through the financial advisor network of Morgan Stanley Smith Barney LLC. As part of this arrangement, Morgan Stanley & Co. LLC may compensate Morgan Stanley Smith Barney LLC for its selling efforts with respect to the Bonds.

## **Certification of the Official Statement**

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, 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 the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2017, the date of the last financial statements of the City appearing in the Official Statement.

## **Information from External Sources**

References to web site 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 web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.



**Concluding Statement**

No person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by the City. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer of solicitation.

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

The Ordinance authorized the issuance of the Certificates and also approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the re-offering of the Certificates by the Purchaser.

This Official Statement was approved by the Council for distribution in accordance with the provisions of the SEC's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

**CITY OF SCHERTZ, TEXAS**

/s/ Michael Carpenter

Mayor  
City of Schertz, Texas

ATTEST:

/s/ Brenda Dennis

City Secretary  
City of Schertz, Texas

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**APPENDIX A**  
**FINANCIAL INFORMATION RELATING TO**  
**THE CITY OF SCHERTZ, TEXAS**

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**FINANCIAL INFORMATION OF THE ISSUER**

**ASSESSED VALUATION**

**TABLE 1**

2017 Preliminary Market Value of Taxable Property (100% of Market Value).....	\$ 4,457,362,908
Less Exemptions:	
Optional Over-65 or Disabled.....	\$ 24,640,004
Veterans' Exemptions.....	257,067,999
Freeport Exemptions.....	199,674,287
Open-Space Land and Timberland.....	144,926,194
Prorations/Partial Required Exemptions.....	883,881
Pollution Control.....	527,190
Tax Abatement Act.....	300,000
Solar/Wind Exemption.....	404,051
Loss to 10% HO Cap.....	15,019,021
<b>TOTAL EXEMPTIONS</b> .....	<u>643,442,627</u>
2017 Assessed Value of Taxable Property <sup>(1)</sup> .....	\$ 3,813,920,281
2018 Preliminary Assessed Value of Taxable Property.....	\$ 4,193,013,494

<sup>(1)</sup> Includes a Freeze Taxable Value of \$351,325,525.

Source: Bexar, Comal and Guadalupe County Appraisal Districts.

**GENERAL OBLIGATION BONDED DEBT**

(as of June 1, 2018)

**General Obligation Debt (Principal Outstanding)**

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007	\$ 3,630,000
General Obligation Bonds, Series 2007	3,205,000
General Obligation and Refunding Bonds, Series 2009	4,915,000
General Obligation Refunding Bonds, Series 2010	930,000
General Obligation Bonds, Series 2011	6,830,000
General Obligation Refunding Bonds, Series 2011	930,000
General Obligation Refunding Bonds, Series 2011A	3,450,000
General Obligation Bonds, Series 2012	5,785,000
General Obligation Refunding Bonds, Series 2013	1,420,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2013	3,490,000
General Obligation Refunding Bonds, Series 2014	8,100,000
Tax Notes, Series 2015	1,210,000
Tax Notes, Series 2015A	750,000
General Obligation Refunding Bonds, Series 2015	3,165,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016A	2,040,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2016B	1,365,000
General Obligation Bonds, Series 2016	5,270,000
General Obligation Bonds, Series 2017	3,800,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2017	5,130,000
General Obligation Refunding Bonds, Series 2018	6,035,000
The Certificates	<u>10,440,000</u>
Total Gross General Obligation Debt	\$ <u>81,890,000</u>

**Less: Self Supporting Debt**

Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2007 (100.00% Water & Sewer)	\$ 3,630,000
General Obligation Refunding Bonds, Series 2011 (100.00% Water & Sewer)	930,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2013 (100.00% Water & Sewer)	3,490,000
General Obligation Refunding Bonds, Series 2013 (100.00% Water and Sewer)	1,420,000
Tax Notes, Series 2015 (8.44% Water and Sewer, 37.66% Drainage, 42.21% EMS)	1,065,000
The Obligations (53.49% Water & Sewer)	<u>5,825,000</u>
Total Self-Supporting Debt	\$ <u>16,360,000</u>
Total Net General Obligation Debt Outstanding	\$ 65,530,000

2017 Certified Net Assessed Valuation	\$ 3,813,920,281
Ratio of Gross General Obligation Debt Principal to Preliminary Net Taxable Assessed Valuation	2.15%
Ratio of Net General Obligation Debt to Preliminary Net Taxable Assessed Valuation	1.72%

Population: 1990 - 10,555; 2000 - 18,695; 2010 - 31,465; est. 2018 - 40,092  
Per Capita Preliminary Net Taxable Assessed Valuation - \$95,129.21  
Per Capita Gross General Obligation Debt Principal - \$2,042.55  
Per Capita Net General Obligation Debt Principal - \$1,634.49

(As of September 30, 2017)

**Operating Leases**

The City has agreements with several telecommunication companies to place cellular towers on City water towers. The following schedule represents the future minimum lease payments to be received by the City.

<u>FYE</u>	<u>Total</u>
2017	229,096
2018	238,260
2019	250,173
2020	262,681
2021	275,816
2022-2026	1,590,260
2026-2031	757,721
	<u>\$ 3,604,007</u>

**Capital Lease**

In 2014, the City entered into two lease agreements qualifying as capital leases for accounting purposes based on a bargain purchase option. Therefore, capital assets and a related capital lease obligation has been recorded at the present value of the future minimum lease payments at the inception date. The assets acquired through capital lease are reported in capital assets with the following accumulated depreciation at September 30, 2017.

Assets:	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Equipment	\$ 133,715	\$ 347,705
Less: Accumulated Depreciation	<u>(40,115)</u>	<u>(250,218)</u>
Total	<u>\$ 93,600</u>	<u>\$ 97,487</u>

Future minimum lease payments are as follows:

Year Ending September 30,	<u>Governmental Activities</u>	<u>Business Activities</u> <sup>(1)</sup>
2018	\$ 25,505	\$ 70,041
2019	<u>-</u>	<u>23,347</u>
Total Payments	\$ 25,505	\$ 93,388
Less: Amount Representing Interest	<u>(358)</u>	<u>(667)</u>
Payments	\$ 25,147	\$ 92,721

Source: The Issuer's Annual Financial Report for the fiscal year ended September 30, 2017.

**GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending Sept. 30	Current Total Outstanding Debt <sup>(a)</sup>	The Certificates			Combined Debt Service <sup>(a)</sup>	Less: Self- Supporting Debt	Total Net Debt Service
		Principal	Interest	Total			
2018	\$ 8,072,641				\$ 8,072,641	\$ 2,144,065	\$ 5,928,576
2019	7,393,564	\$ 385,000	\$ 457,495	\$ 842,495	8,236,058	2,231,489	6,449,826
2020	7,398,073	405,000	401,813	806,813	8,204,885	2,221,927	6,423,384
2021	7,151,938	430,000	380,938	810,938	7,962,875	2,064,996	6,344,417
2022	6,190,114	450,000	358,938	808,938	6,999,052	1,391,621	6,049,631
2023	6,033,767	475,000	335,813	810,813	6,844,579	1,395,779	5,896,213
2024	5,891,067	495,000	311,563	806,563	6,697,630	1,392,994	5,746,811
2025	5,207,374	520,000	286,188	806,188	6,013,561	1,388,566	5,066,595
2026	4,982,697	435,000	262,313	697,313	5,680,009	1,170,372	4,955,100
2027	4,494,667	455,000	240,063	695,063	5,189,730	683,063	4,950,430
2028	4,361,868	480,000	216,688	696,688	5,058,556	678,413	4,821,756
2029	3,515,553	505,000	192,063	697,063	4,212,616	682,900	3,973,616
2030	3,521,138	525,000	168,938	693,938	4,215,075	676,525	3,979,175
2031	3,627,357	545,000	150,263	695,263	4,322,619	679,288	4,085,119
2032	2,475,835	560,000	133,688	693,688	3,169,523	680,975	2,930,823
2033	1,960,663	580,000	116,225	696,225	2,656,888	676,688	2,422,288
2034	1,139,869	595,000	97,494	692,494	1,832,363	441,225	1,832,363
2035	1,142,331	620,000	77,750	697,750	1,840,081	444,575	1,840,081
2036	1,147,800	640,000	56,875	696,875	1,844,675	442,138	1,844,675
2037	-	660,000	34,938	694,938	694,938	443,913	694,938
2038	-	680,000	11,900	691,900	691,900	444,788	691,900
Total	<u>\$ 85,708,312</u>	<u>\$ 10,440,000</u>	<u>\$ 4,291,939</u>	<u>\$ 14,731,939</u>	<u>\$ 100,440,251</u>	<u>\$ 22,376,295</u>	<u>\$ 86,927,712</u>

<sup>(a)</sup> Includes self-supporting debt.

**TAX ADEQUACY (Includes Self-Supporting Debt)**

2017 Freeze Adjusted Net Taxable Assessed Valuation	\$	3,462,594,756
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2019)		8,236,058 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$	0.2427 *

\* Includes the Certificates.

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

**TAX ADEQUACY (Excludes Self-Supporting Debt)**

2017 Freeze Adjusted Net Taxable Assessed Valuation	\$	3,462,594,756
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2019)		6,449,826 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$	0.19007 *

\* Includes the Certificates.

Note: Above computations are exclusive of investment earnings, delinquent tax collections and penalties and interest on delinquent tax collections.

**INTEREST AND SINKING FUND MANAGEMENT INDEX**

Audited Interest and Sinking Fund Balance, Fiscal Year Ended September 30, 2017	\$ 1,450,082
2017 Interest and Sinking Fund Tax Levy at 98% Collections Produce	6,211,961
Plus: Other City Funds	2,144,065
Total Available for General Obligation Debt	<u>\$ 9,806,108</u>
Less: General Obligation Debt Service Requirements, Fiscal Year Ending 9/30/17 <sup>(1)</sup>	<u>8,072,641</u>
Estimated Surplus at Fiscal Year Ending 9/30/17 <sup>(2)</sup>	<u>\$ 1,733,467</u>

<sup>(1)</sup> Includes self-supporting general obligation debt.

<sup>(2)</sup> Does not include delinquent tax collections, penalties and interest on delinquent tax collections or investment earnings.

**GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE**

(as of June 1, 2018)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year	Percent of Principal Retired (%)
	Currently Outstanding <sup>(a)</sup>	The Certificates	Total		
2018	\$ 1,045,000	-	\$ 1,045,000	\$ 80,845,000	1.28%
2019	5,840,000	\$ 385,000	6,225,000	74,620,000	8.88%
2020	6,015,000	405,000	6,420,000	68,200,000	16.72%
2021	5,945,000	430,000	6,375,000	61,825,000	24.50%
2022	5,165,000	450,000	5,615,000	56,210,000	31.36%
2023	5,055,000	475,000	5,530,000	50,680,000	38.11%
2024	5,075,000	495,000	5,570,000	45,110,000	44.91%
2025	4,395,000	520,000	4,915,000	40,195,000	50.92%
2026	4,315,000	435,000	4,750,000	35,445,000	56.72%
2027	3,975,000	455,000	4,430,000	31,015,000	62.13%
2028	3,975,000	480,000	4,455,000	26,560,000	67.57%
2029	3,330,000	505,000	3,835,000	22,725,000	72.25%
2030	3,465,000	525,000	3,990,000	18,735,000	77.12%
2031	3,700,000	545,000	4,245,000	14,490,000	82.31%
2032	2,670,000	560,000	3,230,000	11,260,000	86.25%
2033	2,255,000	580,000	2,835,000	8,425,000	89.71%
2034	1,505,000	595,000	2,100,000	6,325,000	92.28%
2035	1,570,000	620,000	2,190,000	4,135,000	94.95%
2036	1,630,000	640,000	2,270,000	1,865,000	97.72%
2037	525,000	660,000	1,185,000	680,000	99.17%
2038	-	680,000	680,000	-	100.00%
<b>Total</b>	<b>\$ 71,450,000</b>	<b>\$ 10,440,000</b>	<b>\$ 81,890,000</b>		

<sup>(a)</sup> Includes self-supporting debt.

**TAXABLE ASSESSED VALUATION FOR TAX YEARS 2007-2017**

**TABLE 3**

Year	Net Taxable Assessed Valuation	Change From Preceding Year	
		Amount (\$)	Percent
2007-08	\$ 1,935,306,283	\$ -	---
2008-09	2,214,592,685	279,286,402	14.43%
2009-10	2,317,194,810	102,602,125	4.63%
2010-11	2,362,900,159	45,705,349	1.97%
2011-12	2,390,893,877	27,993,718	1.18%
2012-13	2,589,622,413	198,728,536	8.31%
2013-14	2,769,188,746	179,566,333	6.93%
2014-15	3,068,012,356	298,823,610	10.79%
2015-16	3,400,613,988	332,601,632	10.84%
2016-17	3,683,394,908	282,780,920	8.32%
2017-18	3,813,920,281	130,525,373	3.54%

Source: Bexar, Comal and Guadalupe County Appraisal Districts.

**PRINCIPAL TAXPAYERS 2017-2018**

**TABLE 4**

Name	Type of Business/Property	% of Total 2017	
		2017 Net Taxable Assessed Valuation	Assessed Valuation
Amazon.com.KYDC LLC	Retail	\$ 80,987,236	2.12%
US Real Estate LP	Real Estate	57,155,244	1.50%
SC Schertz LLC	Commercial	24,351,699	0.64%
H E Butt Grocery Co.	Grocery	23,430,800	0.61%
Dallas MTA LP	Real Estate	20,524,572	0.54%
EM Limited Partnership	Financial Investment	16,875,100	0.44%
Wal-Mart Real Estate Business Trust	Retail	13,221,374	0.35%
Schertz Holdings LTD	Investment Mangement	12,490,000	0.33%
Capital Group Companies Inc.	Investment Mangement	11,451,026	0.30%
Guadalupe Valley Electric CO OP	Utility	10,942,700	0.29%
		<b>\$ 271,429,751</b>	<b>7.12%</b>

Source: Bexar, Comal and Guadalupe County Appraisal Districts.



**CLASSIFICATION OF ASSESSED VALUATION**

**TABLE 5**

	2017	% of Total	2016	% of Total	2015	% of Total
Real, Residential, Single-Family	\$ 2,506,858,481	56.24%	\$ 2,321,477,459	54.93%	\$ 2,105,595,878	49.82%
Real, Residential, Multi-Family	62,165,120	1.39%	61,211,562	1.45%	51,987,706	1.23%
Real, Vacant Lots/Tracts	53,822,108	1.21%	54,708,417	1.29%	47,251,702	1.12%
Real, Acreage (Land Only)	146,765,602	3.29%	132,588,591	3.14%	130,816,959	3.10%
Real, Farm and Ranch Improvements	45,931,621	1.03%	39,046,067	0.92%	35,661,829	0.84%
Real, Commercial and Industrial	751,226,159	16.85%	707,932,328	16.75%	667,227,733	15.79%
Real & Tangible, Personal Utilities	19,711,046	0.44%	18,293,268	0.43%	16,838,199	0.40%
Tangible Personal, Commercial & Industrial	818,875,523	18.37%	839,527,229	19.86%	764,689,123	18.09%
Tangible Personal, Mobile Homes	12,246,697	0.27%	11,589,223	0.27%	12,619,783	0.30%
Residential Inventory	37,079,181	0.83%	36,633,189	0.87%	26,911,164	0.64%
Real Property, Inventory	2,681,370	0.06%	3,520,047	0.08%	3,711,295	0.09%
<b>Total Appraised Value</b>	<b>\$ 4,457,362,908</b>	<b>100.00%</b>	<b>\$ 4,226,527,380</b>	<b>100.00%</b>	<b>\$ 3,863,311,371</b>	<b>91.41%</b>
<b>Less:</b>						
Optional Over-65 or Disabled	\$ 24,640,004		\$ 24,055,612		\$ 23,223,673	
Veterans' Exemptions	257,067,999		198,531,263		158,202,329	
Freeport Exemptions	199,674,287		171,613,784		119,801,572	
Open-Space Land and Timberland	144,926,194		130,898,648		129,130,441	
Prorations/Partial Required Exemptions	883,881		-		800,623	
Pollution Control	527,190		456,315		456,315	
Tax Abatement Act	300,000		978,670		13,130,019	
Solar/Wind Exemption	404,051		414,400		321,433	
Loss to 10% HO Cap	15,019,021		16,183,780		17,630,978	
<b>Net Taxable Assessed Valuation</b>	<b>\$ 3,813,920,281</b>		<b>\$ 3,683,394,908</b>		<b>\$ 3,400,613,988</b>	
<b>Freeze Taxable</b>	<b>351,325,525</b>		<b>355,329,028</b>		<b>303,659,114</b>	
<b>Freeze Adjusted Taxable</b>	<b>\$ 3,462,594,756</b>		<b>\$ 3,328,065,880</b>		<b>\$ 3,096,954,874</b>	

Source: Bexar, Comal and Guadalupe County Appraisal Districts.

**TAX DATA**

**TABLE 6**

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2008	\$ 2,214,592,685	\$ 0.409000	\$ 9,057,684	97.93	98.40	9/30/2009
2009	2,317,194,810	0.434200	10,061,260	99.17	100.16	9/30/2010
2010	2,362,900,159	0.449300	10,616,510	96.01	96.46	9/30/2011
2011	2,390,893,877	0.484300	11,579,099	96.64	97.39	9/30/2012
2012	2,589,622,413	0.499900	12,945,522	96.70	97.08	9/30/2013
2013	2,769,188,746	0.497400	13,773,945	96.43	99.35	9/30/2014
2014	3,068,012,356	0.499900	15,336,994	96.08	99.61	9/30/2015
2015	3,400,613,988	0.491100	16,700,415	96.92	99.92	9/30/2016
2016	3,683,394,908	0.491100	18,089,152	99.01	101.00	9/30/2017
2017	3,813,920,281	0.491000	18,726,349	(In process of collection)		9/30/2018

**TAX RATE DISTRIBUTION**

**TABLE 7**

	2017	2016	2015	2014	2013
General Fund	\$ 0.324800	\$ 0.316800	\$ 0.315900	\$ 0.299300	\$ 0.301000
I & S Fund	0.166200	0.174300	0.175200	0.200600	0.196400
<b>Total Tax Rate</b>	<b>\$ 0.491000</b>	<b>\$ 0.491100</b>	<b>\$ 0.491100</b>	<b>\$ 0.499900</b>	<b>\$ 0.497400</b>

Source: Bexar, Comal and Guadalupe County Appraisal Districts.

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code, which authorizes the City to levy a 1% sales and use tax and use the revenues from such tax for general municipal purposes. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development tax. At an election held on August 9, 1997, an additional ½ cent sales tax was authorized by the voters for economic development. The City began collecting this increase on January 1, 1998. Revenues received from the ½ cent sales tax for economic development are transferred to the Schertz Economic Development Corporation (a nonprofit economic development corporation created by the City) to be used to promote economic development in the City and are not available to be used for general municipal purposes. Net collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy <sup>(1)</sup>	Equivalent of Ad Valorem Tax Rate
2008	\$ 6,264,333	46.11%	\$ 0.35
2009	5,884,043	38.99%	0.39
2010	6,297,600	39.08%	0.38
2011	7,002,410	40.32%	0.34
2012	8,130,275	41.94%	0.32
2013	9,716,196	47.03%	0.29
2014	10,445,078	45.40%	0.29
2015	10,303,430	41.13%	0.33
2016	10,992,746	40.51%	0.34
2017	10,849,278	38.62%	0.35
2018	5,071,252	(as of June 2018)	

<sup>(1)</sup> Calculated to reflect only the sales tax revenues collected by the City from its 1.00% sales tax.

Source: State Comptroller's Office of the State of Texas.

**OVERLAPPING DEBT INFORMATION**

(as of June 1, 2018)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer 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 authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt (As of 6/1/18)	% Overlapping	Amount Overlapping
Alamo Community College District	\$ 488,500,000	0.22%	\$ 1,074,700
Bexar County	1,732,565,000	0.22%	3,811,643
Bexar County Hospital District	891,565,000	0.00%	24,072
Comal County	151,845,000	5.02%	7,622,619
Comal ISD	767,165,107	7.02%	53,854,991
Guadalupe County	13,655,000	24.68%	3,370,054
Schertz-Cibolo-Universal City ISD	418,156,092	49.49%	206,945,450
Total Gross Overlapping Debt			<u>\$ 276,703,529</u>
Schertz, City of			\$ 81,890,000 *
Total Gross Direct and Overlapping Debt			<u>\$ 358,593,529 *</u>
Ratio of Gross Direct Debt and Overlapping Debt			9.40% *
Per Capita Gross Direct Debt and Overlapping Debt			\$8,944.27 *

Note: The above figures show Gross General Obligation Debt for the City of Schertz, Texas. The Issuer's Net General Obligation Debt is \$65,530,000\*. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Net Direct and Overlapping Debt	\$ 342,233,529
Ratio of Net Direct and Overlapping Debt to 2017 Net Assessed Valuation	8.97%
Per Capita Net Direct and Overlapping Debt	\$8,536.20

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas

\* Includes the Certificates.

**ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS**

Governmental Subdivision	2017 Assessed Valuation	% of Actual	2017 Tax Rate
Alamo Community College District	\$ 154,494,708,444	100%	\$ 0.149000
Bexar County	150,933,852,946	100%	0.304000
Bexar County Hospital District	156,342,553,586	100%	0.276000
Comal County	16,111,118,698	100%	0.308000
Comal ISD	13,264,610,468	100%	1.390000
Guadalupe County	10,846,229,588	100%	0.327000
Schertz-Cibolo-Universal City ISD	4,944,500,628	100%	1.490000

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

**AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

Issuer	Date of Authorization	Purpose	Amount Authorized	Issued To-Date	Unissued
Alamo Community College District	5/6/2017	College Facility	\$ 450,000,000	\$ 173,000,000	\$277,000,000
Bexar County	None				
Bexar County Hospital District	None				
Comal County	None				
Comal ISD	None				
Guadalupe County	None				
San Antonio River Authority	None				
Schertz-Cibolo-Universal City ISD	None				
Schertz, City of	11/03/2015	Streets and Bridges	\$ 7,000,000	\$ 2,000,000	\$ 5,000,000

Source: Texas Municipal Reports published by the Municipal Advisory Council of Texas.

**GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES**

**TABLE 9**

The following statements set forth in condensed form reflect the historical operations of the Issuer. Such summary has been prepared for inclusion herein based upon information obtained from the Issuer's audited financial statements and records. Reference is made to such statements for further and complete information.

	Fiscal Year Ended				
	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Fund Balance - Beginning of Year	\$ 11,428,778	\$ 9,616,487	\$ 7,722,034	\$ 6,017,206	\$ 3,976,817
Revenues					
Taxes	\$ 19,450,338	\$ 18,850,031	\$ 17,926,685	\$ 16,652,245	\$ 15,411,501
Licenses and Permits	2,367,929	1,234,048	1,447,814	1,365,624	1,398,781
Charges for Services	2,107,844	1,610,940	1,609,917	1,592,851	3,205,265
Fines and Forfeitures	1,021,965	1,343,236	1,498,887	1,712,562	1,870,825
Intergovernmental	307,809	293,727	233,959	218,081	464,979
Investment Earnings	128,158	58,724	24,369	13,657	10,244
Grants	603,477	599,791	-	-	584,214
Other Sources	-	-	571,416	547,515	-
Total Revenues	\$ 25,987,520	\$ 23,990,497	\$ 23,313,047	\$ 22,102,535	\$ 22,945,809
Expenditures					
General Government	\$ 5,171,635	\$ 5,187,489	\$ 5,187,335	\$ 5,232,687	\$ 5,552,150
Public Safety	11,846,184	11,010,802	10,037,830	9,398,845	9,113,840
Streets and Parks	1,128,979	1,007,326	952,663	1,012,607	951,528
Health	1,682,955	1,173,070	404,008	394,918	1,120,724
Recreation	901,992	843,643	1,182,906	1,100,971	830,149
Cultural	672,934	480,175	795,436	794,434	341,961
Capital Outlay	2,395,926	1,692,977	637,800	383,264	2,597,128
Administration	644,773	498,251	1,638,429	1,604,825	221,562
Bond Issue Costs	33,174	-	-	-	-
Principal	36,513	33,175	31,875	32,764	37,792
Interest and Fiscal Charges	-	38,214	8,341	579	913
Total Expenses	\$ 24,515,065	\$ 21,965,122	\$ 20,876,623	\$ 19,955,894	\$ 20,767,747
Excess (Deficit) of Revenues Over Expenditures	\$ 1,472,455	\$ 2,025,375	\$ 2,436,424	\$ 2,146,641	\$ 2,178,062
Other Financing Sources (Uses):					
Issuance of Bonds	\$ -	\$ -	\$ -	\$ -	\$ -
Capital Lease	-	-	-	133,715	-
Operating Transfers In	68,385	3,019	-	89,416	61,226
Operating Transfers Out	-	(216,103)	(541,971)	(664,944)	(198,899)
Total Other Financing Sources (Uses):	\$ 68,385	\$ (213,084)	\$ (541,971)	\$ (441,813)	\$ (137,673)
Prior Year End Adjustment	-	-	-	-	-
Fund Balance - End of Year	\$ 12,969,618 <sup>(1)</sup>	\$ 11,428,778	\$ 9,616,487	\$ 7,722,034	\$ 6,017,206

Source: The Issuer's Comprehensive Annual Financial Reports and information provided by the Issuer.

(1) City administration anticipates that the unaudited General Fund balance for the period ending September 30, 2018 will be approximately \$11,753,790

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 agency multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Sections 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at [www.tmr.org](http://www.tmr.org).

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

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 over 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.

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

	2015	2016
Inactive employees or beneficiaries currently receiving benefits	79	84
Inactive employees entitles to but not yet receiving benefits	138	155
Active employees	312	317
	<u>529</u>	<u>556</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 with 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contributions rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.94% and 158.87% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$2,756,511.

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 Net Pension Liability was determined by an actuarial valuation as of that date.

Actuarial assumptions:

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return*	6.75%

\*Presented net of pension plan investment expense, including inflation.

## EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D

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 with Blue Collar adjustment are used with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year se-forward for both males and female. In addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

Actuarial assumptions used in the December 31, 2016 valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering the 2009 through 2011, and the dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7% to 6.75%. 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 expenses and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolio, GRS focused on the area between (1) arithmetic mean (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimate of arithmetic real rates of return for each major asset summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	20.00%	1.00%
Non-Core Fixed Income	10.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
Total	<u>100.00%</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 and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefit payments to determine the Total Pension Liability.

**EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D**

Changes in the Net Pension Liability

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 55,119,232	\$ 38,499,857	\$ 16,619,375
Changes for the year:			
Service Cost	2,855,745	-	2,855,745
Interest	3,763,562	-	3,763,562
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	139,216	-	139,216
Changes of Assumptions	-	-	-
Contributions - Employer	-	2,627,335	(2,627,335)
Contributions - Employee	-	1,152,864	(1,152,864)
Net Investment Income	-	2,602,572	(2,602,572)
Benefit Payments, Including Refunds of Employee Contributions	(1,581,272)	(1,581,272)	-
Administrative Expense	-	(29,385)	29,385
Other Changes	-	(1,583)	1,583
Net Changes	5,177,251	4,770,531	406,720
Balance at December 31, 2016	\$ 60,296,483	\$ 43,270,388	\$ 17,026,095
	2014	2015	

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

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability	\$ 27,443,427	\$ 17,026,095	\$ 8,668,647

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/Inflows of Resources Related to Pensions

For the year ended September 30, 2017, the City recognized pension expense of \$3,512,360. Also as of September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ 132,647	\$ -
Changes in Actuarial Assumptions	39,689	-
Differences Between Projected and Actual Investment Earnings	1,658,421	-
Contributions Subsequent to the Measurement Date	1,980,718	-
	<u>\$ 3,811,475</u>	<u>\$ -</u>

## **EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D**

Deferred outflows of resources in the amount of \$1,980,718 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2017. The City liquidates their Net Pension Liability through payments from the general fund. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year ended December 31,	
2017	\$ 613,689
2018	613,689
2019	531,495
2020	45,274
2021	25,004
Thereafter	<u>1,606</u>
	<u>\$ 1,830,757</u>

### **Other Postemployment Benefits**

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as 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 lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

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 life insurance during the employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$22,066, \$20,324, and \$21,681, respectively, which equaled the required contributions each year.

### **Note 11 - Retiree Health Insurance Plan**

#### Plan Description

The City provides another post-employment benefit to eligible retirees of the City whereby they can stay on the City's health insurance plan by paying the full premium.

#### Contributions

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, 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	\$ 139,515
Interest on OPEB obligation	17,912
Adjustment to ARC	<u>(21,183)</u>
Annual OPEB cost	136,244
Contributions	<u>(24,107)</u>
Increase in Net OPEB obligation	112,137
Beginning Net OPEB Obligation	<u>543,618</u>
Ending Net OPEB Obligation	<u>\$ 655,755</u>



**EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS - CONT'D**

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, 2016 and the preceding two fiscal years were as follows:

September 30,	Cost	Contributions	Contributed	Obligation
2017	\$ 136,244	\$ 24,107	17.7%	\$ 655,755
2016	136,557	23,519	17.2%	543,618
2015	81,159	15,485	19.1%	430,580

The Projected Unit Credit Cost Method is used to calculate the actuarial required contribution (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 mortize 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	2.5%
Investment Rate of Return	4.0%, net of expenses
Actuarial Cost Method	Projected Unit of Credit
Amortization Method	Level as a percent of payroll
Amortization Period	30-year open period
Payroll Growth	3.0%
Medical Trend	Initial rate of 7.50%, declining to an ultimate rate of 4.25% after 15 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.

The funded status as of December 31, 2015, the most recent actuarial valuation date, is as follows:

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL)	Funded Ratio	Unfunded AAL (UAAL)	Covered Payroll	UAAL as a Percentage of Covered Payroll
12/31/2015	\$ -	\$ 1,055,757	0.0%	\$ 1,055,757	\$ 14,356,845	7.4%

**WATERWORKS AND SEWER SYSTEM PLANT IN OPERATION****TABLE 11**

(As of September 30, 2017)

Land	\$ 1,354,138
Water Rights	70,245
Buildings and Improvements	4,660,001
Machinery, Equipment and Vehicles	5,013,077
Infrastructure	92,807,350
Construction in Progress	<u>2,907,404</u>
Total	\$ 106,812,215
Less: Accumulated Depreciation	<u>(31,233,417)</u>
Net Waterworks and Sewer System in Service	<u>\$ 75,578,798</u>

**WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT****TABLE 12**

The following condensed statements have been compiled using accounting principles customarily employed in the determination of net revenues available for debt service, and in all instances exclude depreciation, transfers, bad debt, debt service payments and expenditures identified as capital.

	Fiscal Year Ended				
	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Revenues	\$ 25,831,284	\$ 22,105,622	\$ 21,007,823	\$ 19,680,313	\$ 18,321,198
Expenditures	<u>18,697,162</u>	<u>17,603,487</u>	<u>16,376,259</u>	<u>15,822,737</u>	<u>14,659,528</u>
Schertz/Seguin LGC Payment	<u>2,242,314</u>	<u>2,160,309</u>	<u>1,378,081</u>	<u>1,432,074</u>	<u>1,739,708</u>
Net Revenues Available					
Available for Debt Service	<u>\$ 4,891,808</u>	<u>\$ 2,341,826</u>	<u>\$ 3,253,483</u>	<u>\$ 2,425,502</u>	<u>\$ 1,921,962</u>
Connections:					
Water	14,124	13,877	13,570	13,324	12,757
Sewer	12,398	12,282	11,413	11,578	11,456

Source: The Issuer's Comprehensive Annual Financial Reports for Fiscal Year Ending September 30, 2017.

**WATER SUPPLY****TABLE 13**

Schertz's primary water source is from the Carrizo Aquifer which is pumped and treated by the Schertz Seguin Local Government Corporation ("SSLGC"); the "Corporation" has water leases totaling 20,000 acre feet and 50% are dedicated to Schertz. Schertz's water system has nine water storage tanks which can hold 15,500,000 gallons. Schertz maintains 225 miles of water lines. Schertz's total water usage for fiscal year September 30, 2013 was 1,550,045,200 gallons.

Schertz's secondary source of water is a lease from the Edwards Aquifer Authority for 1,768 acre-feet (or 576,104,568 gallons) per year. Of this amount, 700 acre feet is leased for additional revenue. The water source is used only during emergency situations or when the Schertz utility system demand is at peak levels. Schertz has two wells which can produce up to 4,180,000 gallons per day from the Edwards Aquifer. Although Schertz still maintains its permits (and ownership) to draw water from the Edwards Aquifer, for fiscal year ending September 30, 2013 the City obtained 98% of its water from the Schertz/Seguin Local Government Corporation. Schertz leased its excess Edwards Aquifer water to other entities that did not have capacity. The revenue from leases is included in Schertz's Utility System Revenue.

To develop an additional source of water outside of the Edwards Aquifer, the City of Schertz, along with the City of Seguin, created the Schertz/Seguin Local Government Corporation. The Corporation was charged with financing a new water resource for these cities.

**APPENDIX B**

**GENERAL INFORMATION REGARDING THE CITY OF SCHERTZ  
AND GUADALUPE, COMAL AND BEXAR COUNTIES, TEXAS**

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**GENERAL INFORMATION REGARDING THE CITY OF SCHERTZ, TEXAS  
BEXAR, COMAL, AND GUADALUPE COUNTIES, TEXAS**

**The City of Schertz**

The City of Schertz, Texas (the "City") is located between the Cities of Austin and San Antonio, Texas, on Interstate 35, and on Interstate 10 between the Cities of San Antonio and Seguin, Texas and in the area between the two Interstates. The corporate limits extend into the Counties of Bexar, Guadalupe, and Comal, Texas. The largest portion of the City is within Guadalupe County, Texas. In addition to the two Interstates, FM 3009, FM 78 and Schertz Parkway provide major thoroughfares into and through the City. Southern Pacific, Missouri Pacific, Missouri Kansas, and Texas Railroad provide rail services into the Schertz and San Antonio areas.

The City was incorporated in December 1958 and is a home rule municipality operating under its own Charter since April, 1974, as amended April 1979, May 1989, May 1997, 2006, and 2008. The Charter provides that the City will operate under the council/manager form of government pursuant to the laws of the State of Texas. The City Manager, appointed by the six-member elected Council, is the chief administrative officer of the City.

The City provides a full range of services including: police, emergency medical services, and fire protection; water and sewer services; waste collection; code enforcement; comprehensive planning; street maintenance and recreational activities as well as economic development efforts. The City has 2 fire stations and 1 training facility with 32 full time employees. The Fire Department covers more than 40 square miles, including unincorporated areas of Bexar, Comal and Guadalupe Counties. The fire Department has 13 vehicles including one 100' aerial platform, two class A engines, one reserve engine, two brush trucks, one hazmat truck, and one rescue trailer. The City also has 7 parks, 20 playgrounds, 12 baseball/softball fields and 2 pavilions (one large – 10,000 square feet; one small – 600 square feet.)

**Economy**

In the last few years, four Fortune 100 companies have made major investments in Schertz. These four companies include General Electric, Caterpillar, Amazon.com and SYSCO. General Electric purchased Salof Companies which designs and manufactures small scale liquefied natural gas technologies and occupies a 390,935 square foot facility in Schertz. Amazon.com completed construction of their \$166 million fulfillment center on 96 acres. The fulfillment center has 1.26 million square feet and is the largest facility in Schertz and in Guadalupe County. SYSCO completed their 630,000 square foot distribution facility in January 2012 and employs 810 full-time staff. This is a regional distribution center for SYSCO.

In 2017, the City completed three major construction projects. These projects were built as speculative projects to help absorb increased demand for industrial space within the San Antonio market.

Baptist Emerus Hospital completed construction on its new \$11 million facility in 2013. Businesses with headquarters or divisions located within the city or in close proximity include Vision Works, Brandt Engineering, Cal-Tex Protective Coatings, Inc., CST Distribution which was formerly Valero, FedEx Freight, Marshall Shredding Company, Kraft Nabisco, Republic National Distributing Company, Caterpillar, Wal-Mart, and H.E.B.

**PRINCIPAL 2017 EMPLOYERS**

Employer	Employees	% of Total City Employment
Schertz/Cibolo/UC ISD	1837	12.92%
Amazon.com	1256	8.83%
Sysco Central Texas	815	5.73%
Baker Hughes, a GE Company	600	4.22%
The Brandt Companies, LLC	437	3.07%
FedEx Ground	475	3.34%
Visionworks	400	2.81%
Republic Beverage Company	382	2.69%
HEB Grocery Co	350	2.46%
City of Schertz	341	2.40%

**Medical**

The Methodist Healthcare has the largest medical facilities in San Antonio and its surrounding areas. With a total of 9 hospitals; 5 main healthcare Hospitals (including one in Boerne), 1 Children's Hospital, 2 Heart Hospitals, 1 Specialty and Transplant Hospital and 3 outpatient clinics. Located in the City of Live Oak on IH-35 and Judson Road, the Northeast Methodist Hospital is the largest medical center for the northeast quadrant of San Antonio. The Northeast Methodist Hospital offers a wide variety of services which includes: 24-hour emergency, surgical, cardiovascular (three cardiac cath labs with electrophysiology capabilities) units, a spacious intensive care unit and inpatient rehabilitation services. An orthopedic service has been implemented – The Joint Replacement Academy – offering the latest treatment options for knee and hip pain. Northeast Methodist Hospital is accredited by the Joint Commission in stroke care and is designated as an accredited Chest Pain Center.

**Education**

Schertz-Cibolo-Universal City Independent School District serves most of the City. Higher education facilities are located within a few minutes driving time and include 15 universities and colleges. Some of the numerous facilities available in nearby San Antonio, Texas include University of Texas at San Antonio, University of Texas Health Science Center, St. Mary's University, Trinity University, Incarnate Word University, Our lady of the Lake University, Texas A&M and Alamo Community Colleges. Texas State University is located nearby in San Marcos, Texas and Texas Lutheran University is located nearby in Seguin, Texas.

## Guadalupe County, Texas

Guadalupe County, Texas (the "County") located in south central Texas, is bounded by Comal, Hays, Caldwell, Gonzales, Wilson, and Bexar counties. The County seat is the City of Seguin, Texas. Guadalupe County was created from Gonzales and Bexar counties and was organized on July 13, 1846. The County takes its name from the Guadalupe River, which Alonso de Leon named in 1689 in honor of the Lady of Guadalupe depicted on his standard.

The County is a component of the "San Antonio Area Metropolitan Statistical Area" (MSA) and covers an area of 715 square miles. The County is traversed by Interstate Highway 35 and Highway 10 (east to west). US Highway 90 and US Highway 90A both branch off Interstate Highway 10 in Seguin and continue eastward to the county line toward Luling and Gonzales. Additionally, the County has two major state highways, State Highway 46 and State Highway 123 that both bisect the County (north to south). Recently completed is State Highway 130, a toll road, which is meant to divert traffic on Interstate Highway 35 around Austin. State Highway 130 begins in Georgetown and travels east of Austin, coming into Guadalupe County on the northeast boundary and connecting to Interstate Highway 10 east of Seguin.

Major commercial construction projects, such as a new Caterpillar plant, a major expansion project by Guadalupe Regional Medical Center, and a new warehouse distribution center by Amazon, significantly contributed to the lower unemployment rate.

The recent increase in employment and sales tax is also attributed to the residual activity from the Eagle Ford Shale oil development in areas south of Guadalupe County. The Eagle Ford Shale gas formation was discovered in 2008 and is unlike many other shale formations because it has both oil and natural gas resources. Located in Southwest Texas from the Mexican border to areas in east Texas, all south of Guadalupe County, the Eagle Ford Shale is estimated to have 20.81 trillion cubic feet of natural gas and 3.351 billion barrels of oil. The formation ranges in depth from 4,000 to 14,000 feet and covers over 3,000 square miles.

### Labor Force Statistics <sup>(1)</sup>

	2018 <sup>(2)</sup>	2017 <sup>(3)</sup>	2016 <sup>(3)</sup>	2015 <sup>(3)</sup>
Civilian Labor Force	78,828	77,510	75,830	72,882
Total Employed	76,491	74,946	73,109	70,313
Total Unemployed	2,337	2,564	2,721	2,569
% Unemployment	3.0%	3.3%	3.63%	3.5%
Texas Unemployment	3.7%	4.3%	4.6%	4.4%

(1) Source: Texas Workforce Commission.

(2) As of May, 2018.

(3) Average Annual Statistics.

## Comal County, Texas

### General Information

Comal County, Texas (the "County"), a pioneer German settlement, was created in 1846 from Bexar, Gonzales and Travis Counties, Texas. This scenic south central Texas county was named after the Comal Springs and the Comal River that flow through New Braunfels, Texas, the County seat.

The County has an area of 567 square miles. There are seven cities within Comal County, the City of Garden Ridge, the City of Schertz, the City of Selma, the City of Fair Oaks Ranch, the City of Bulverde and the City of New Braunfels.

### Commercial

The County's location between San Antonio and Austin provides opportunities for commuters to live in the county and work in one of the major cities. During 2013, 366 new home sites became available in subdivisions in the unincorporated areas of Comal County.

The County has continued to enjoy a prosperous economy. The major sectors of Comal County's economy, manufacturing, tourism, distribution and real estate continue to grow.

## Major Employers

<u>Employer</u>	<u>Number of Employees</u>
Comal ISD	2,648
Schlitterbahn Water Park	1,689
Wal-Mart Distribution Center	1,237
New Braunfels ISD	1,050
Hunter Industries/Colorado Materials, Inc.	995
Sysco	864
IBEX Corporation	659
Comal County	657
City of New Braunfels	607
GE Oil and Gas	573

### Labor Force Statistics <sup>(1)</sup>

	<u>2018 <sup>(2)</sup></u>	<u>2017 <sup>(3)</sup></u>	<u>2016 <sup>(3)</sup></u>	<u>2015 <sup>(3)</sup></u>
Civilian Labor Force	68,109	66,826	65,377	61,841
Total Employed	66,022	64,580	63,013	59,574
Total Unemployed	2,087	2,246	2,364	2,267
% Unemployment	3.1%	3.4%	3.6%	3.7%
Texas Unemployment	3.7%	4.3%	4.6%	4.4%

(1) Source: Texas Workforce Commission.

(2) As of May, 2018.

(3) Average Annual Statistics.

## Bexar County

Bexar County (the “County”) was created in 1836 from Spanish municipality named for Duke de Bexar, a colonial capital of Texas. The County is located in south central Texas and is a component of the Metropolitan Statistical Area (“MSA”) of San Antonio. The San Antonio MSA is one of the nation’s largest MSAs and the third largest MSA in Texas. The principal city within the County is San Antonio, the county seat. The City was founded in the early eighteenth century and was incorporated by the Republic of Texas in 1837.

### Economic Factors

The County has a diversified economic base which is composed of financial services, healthcare, agriculture, manufacturing, construction, military, and tourism. Support for these economic activities is demonstrated by the County’s ongoing commitment to economic development projects along with ongoing infrastructure improvements to support the County’s growing population. As Bexar County has continued to add jobs it has also fared better than the nation with the current unemployment issues.

### Education

The County encompasses 19 independent school districts which include over 400 schools. Enrollment ranges anywhere from nearly 900 in Lackland ISD to over 91,000 in Northside ISD, the fourth largest independent school district in Texas. Students attend school districts in which they reside with no busing in effect. In addition, San Antonio has over 150 private and parochial schools at all education levels. San Antonio has 20 institutions of higher learning offering degrees in all major fields of study, many at the graduate level. Among universities, the University of Texas at San Antonio (UTSA) has over 30,000 students enrolled and has represented many first-time college students within their family. In May of 2009, the Texas A&M University San Antonio became the newest four-year college in San Antonio. Among junior colleges, Alamo Colleges includes five colleges, San Antonio, Palo Alto, St. Philips, Northeast Lakeview, and Northwest Vista.

### Electric and Gas Services

Electric and gas services to the Bexar County area are provided by CPS Energy (“CPS”), an electric and gas utility owned by the City of San Antonio (the “City”) that maintains and operates certain utilities infrastructure. This infrastructure includes a 16 generating unit electric system and the gas system that serves the Bexar County area. CPS also owns a 40% interest in the South Texas Project (“STP”), two existing nuclear generating units which generate 1,888 megawatts of power for CPS Energy customers. CPS Energy has invested in a 7.625 percent share

of two additional units at STP, once loan guarantees are approved by the federal government the additional units should be online by 2017 and will provide an additional 200 megawatts of power for customers. These nuclear units supplied 34.6% of the electric system native load for the fiscal year ending January 31, 2010.

## Water Supply

Historically and currently, the City obtains all of its water through wells drilled into a geologic formation known as the Edwards Limestone Formation. The portion of the formation supplying water in the City's area has been the "Edward Underground Water Reservoir" (the "Edwards Aquifer") and since 1978 has been designated by the Environmental Protection Agency as a sole-source aquifer under the Safe Drinking Water Act. The Edwards Aquifer lies beneath an area approximately 3,600 square miles in size, and including its recharge zone, it underlies all or part of 13 counties varying from 5 to 30 miles in width and stretching over 175 miles in length, beginning in Brackettville, Kinney County Texas, in the west and stretching to Kyle, Hays, County, Texas in the east. The Edwards Aquifer receives most of its water from rainfall runoff, rivers, and streams flowing across the 4,400 square miles of drainage basins located above it. Much of the Edward Aquifer region consists of agricultural land, but areas of population ranging from communities with only a few hundred residents to urban areas with well over one million citizens exist as well. The Edward Aquifer supplies nearly all the water for the municipal, domestic, industrial, commercial, and agricultural needs in its region.

<b>Employers</b>	<b>Total Number of Employees</b>
Joint Base San Antonio <sup>(1)</sup>	89,661
H.E.B. Grocery Company	23,418
USAA	18,305
Northside Independent School District	13,977
City of San Antonio	11,462
Methodist Healthcare System	9,620
Northeast Independent School District	9,292
University Health System	8,570
San Antonio Independent School District	7,375
Baptist Health System	6,383

(1) Under the BRAC Joint Basing Recommendation for San Antonio, installation support functions at the Army's Fort Sam Houston were combined with those at Randolph and Lackland Air Force Bases under a single organization (Joint Base San Antonio). Includes military personnel and civilian personnel.

### Labor Force Statistics <sup>(1)</sup>

	<u>2018</u> <sup>(2)</sup>	<u>2017</u> <sup>(3)</sup>	<u>2016</u> <sup>(3)</sup>	<u>2015</u> <sup>(3)</sup>
Civilian Labor Force	940,604	924,590	903,856	878,118
Total Employed	910,618	892,277	870,020	844,697
Total Unemployed	29,986	32,313	33,836	33,421
% Unemployment	3.2%	3.5%	3.7%	3.8%
Texas Unemployment	3.7%	4.3%	4.6%	4.4%

(1) Source: Texas Workforce Commission.

(2) As of May, 2018.

(3) Average Annual Statistics.



**APPENDIX C**

**FORM OF LEGAL OPINION OF BOND COUNSEL**

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**FINAL**

IN REGARD to the authorization and issuance of the “City of Schertz, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018” (the *Certificates*), dated July 1, 2018 in the aggregate principal amount of \$10,440,000 we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Schertz, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 2019 through 2038, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

WE HAVE SERVED AS BOND COUNSEL for the Issuer solely to pass upon the legality and validity of the issuance of the Certificates under the laws of the State of Texas and with respect to the exclusion of the interest on the Certificates from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer or the Issuer’s combined utility system and have not assumed any responsibility with respect to the financial condition or capabilities of the Issuer or the disclosure thereof in connection with the sale of the Certificates. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Certificates. Our role in connection with the Issuer’s Official Statement prepared for use in connection with the sale of the Certificates has been limited as described therein.

WE HAVE EXAMINED, the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the City Council of the Issuer in connection with the issuance of the Certificates, including the Ordinance; (2) customary certifications and opinions of officials of the Issuer; (3) certificates executed by officers of the Issuer relating to the expected use and investment of proceeds of the Certificates and certain other funds of the Issuer and to certain other facts solely within the knowledge and control of the Issuer; and (4) such other documentation, including an examination of the Certificate executed and delivered initially by the Issuer and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

Norton Rose Fulbright US LLP is a limited liability partnership registered under the laws of Texas.

Norton Rose Fulbright US LLP, Norton Rose Fulbright LLP, Norton Rose Fulbright Australia, Norton Rose Fulbright Canada LLP and Norton Rose Fulbright South Africa Inc are separate legal entities and all of them are members of Norton Rose Fulbright Verein, a Swiss verein. Norton Rose Fulbright Verein helps coordinate the activities of the members but does not itself provide legal services to clients. Details of each entity, with certain regulatory information, are available at [nortonrosefulbright.com](http://nortonrosefulbright.com).

**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF SCHERTZ, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018”**

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Certificates have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Certificates are valid and legally binding obligations of the Issuer enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors’ rights or the exercise of judicial discretion in accordance with general principles of equity. The Certificates are payable from the proceeds of an ad valorem tax levied, within the limitations prescribed by law, upon all taxable property in the Issuer and are additionally payable from and secured by a lien on and pledge of the Pledged Revenues, being a limited amount of the Net Revenues derived from the operation of the Issuer’s combined utility system (the *System*), such lien on and pledge of the limited amount of Net Revenues being subordinate and inferior to the lien on and pledge thereof providing for the payment and security of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer. The Issuer also previously authorized the issuance of the Limited Pledge Obligations that are payable in part from and secured by a lien on and pledge of a limited amount of the Net Revenues of the System in accordance with the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance, the Issuer reserves and retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

BASED ON OUR EXAMINATION, IT IS FURTHER OUR OPINION that, assuming continuing compliance after the date hereof by the Issuer with the provisions of the Ordinance and in reliance upon the representations and certifications of the Issuer made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Certificates, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Certificates will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Certificates will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations.

FOR TAXABLE YEARS THAT BEGAN BEFORE JANUARY 1, 2018, interest on the Certificates owned by a corporation will be included in such corporation’s adjusted current earnings for purposes of computing the alternative minimum tax on such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with

**Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF SCHERTZ, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018”**

subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Norton Rose Fulbright US LLP

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**APPENDIX D**

**FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

(Independent Auditor's Report, General Financial Statements and Notes to the Financial Statements – not intended to be a complete statement of the Issuer's financial condition. Reference is made to the complete Annual Financial Report for further information.)

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the 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 Schertz, as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise City of Schertz's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 City of Schertz, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liabilities and related ratios and the schedule of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The budgetary comparison information is the responsibility of management and was 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 budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. We have applied certain limited procedures to 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 management's discussion and analysis, budgetary comparison information, and schedule of changes in net pension liabilities and related ratios and the schedule of contributions 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 City of Schertz's basic financial statements. The comparative financial statements, combining and individual nonmajor fund financial statements, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative financial statements and combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative, combining and individual nonmajor fund financial statements 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 it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 6, 2018 on our consideration of City of Schertz's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Schertz's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Armstrong, Vaughan & Associates, P.C.".

Armstrong, Vaughan & Associates, P.C.

March 6, 2018

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## MANAGEMENTS DISCUSSION AND ANALYSIS

As management of the City of Schertz, we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Schertz for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report.

### **Financial Highlights**

The assets of the City of Schertz exceeded its liabilities at the close of the most recent fiscal year by \$197.8 million (net position). Of this amount, \$23.0 million (unrestricted net position) may be used to meet the City's ongoing obligations to citizens and creditors.

The City's total net position increased by \$24.3 million. A significant portion of this increase, 66.4%, is attributable to capital contributions from developers.

As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$49.1 million, an increase of \$10.1 million in comparison with the prior year.

At the end of the fiscal year, the combined total of the General Fund assigned and unassigned fund balances was \$10.8 million which is 45.5% of the general fund expenditures not including capital outlay. The fund balance policy is to reserve a 26% balance.

During the fiscal year, the City issued \$9.41 million in general obligation bonds and certificates of obligation of which \$540,000 is allocated to the proprietary fund.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements 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 and liabilities, with the difference between the two 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 of Schertz 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 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 of Schertz 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 of Schertz include general government, public safety, streets and parks, health, and culture and recreation. The business-type

activities of the City of Schertz include a water and sewer department and an emergency medical services department.

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 of Schertz, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the City of Schertz can be divided into two categories: governmental and proprietary.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is 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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Schertz maintains thirteen 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, the debt service fund, the economic development corporation and the capital projects fund, all of which are considered to be major funds. Data from the other seven governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and sewer department and for the emergency medical services department, both of which are considered to be major funds of the City of Schertz.

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's general fund budgetary schedule. The City of Schertz adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. The economic development corporation also adopts an annual budget, and a comparison schedule for it also is provided in the required supplementary information.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information.

### Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the City of Schertz, assets exceeded liabilities by \$197.8 million at the close of the most recent fiscal year.

The largest portion of the City's total net position (78%) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that is still outstanding, plus bond proceeds that have not yet been signed. The City of Schertz uses these capital assets to provide services to citizens; consequently, these assets are not available for operational type of future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's total net position (10.4%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$23.0 million, may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the City of Schertz 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. The same situation held true for the prior fiscal year.

**TABLE A-1**  
**NET POSITION**

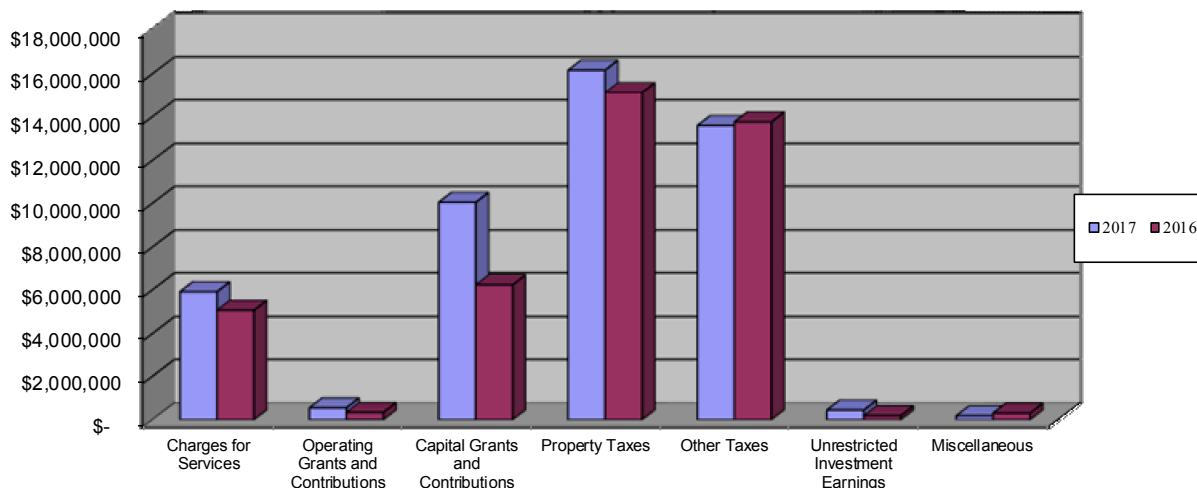
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 53,489,898	\$ 45,626,048	\$ 34,305,074	\$ 28,142,800	\$ 87,794,972	\$ 73,768,848
Capital Assets	133,989,421	125,109,658	75,578,798	71,023,364	209,568,219	196,133,022
Total Assets	<u>187,479,319</u>	<u>170,735,706</u>	<u>109,883,872</u>	<u>99,166,164</u>	<u>297,363,191</u>	<u>269,901,870</u>
Deferred Outflows	3,637,434	3,985,590	997,659	1,082,823	4,635,093	5,068,413
Current Liabilities	7,331,101	9,650,691	5,029,905	4,646,767	12,361,006	14,297,458
Long-Term Liabilities	76,793,511	71,506,935	14,709,300	15,654,519	91,502,811	87,161,454
Total Liabilities	<u>84,124,612</u>	<u>81,157,626</u>	<u>19,739,205</u>	<u>20,301,286</u>	<u>103,863,817</u>	<u>101,458,912</u>
Deferred Inflows	344,220	-	-	-	344,220	-
Net Investment in						
Capital Assets	84,537,238	74,237,004	70,361,035	64,210,231	154,898,273	138,447,235
Restricted	20,437,116	17,095,325	-	-	20,437,116	17,095,325
Unrestricted	1,673,567	2,231,341	20,781,291	15,737,470	22,454,858	17,968,811
Total Net Position	<u>\$ 106,647,921</u>	<u>\$ 93,563,670</u>	<u>\$ 91,142,326</u>	<u>\$ 79,947,701</u>	<u>\$ 197,790,247</u>	<u>\$ 173,511,371</u>

The government's net position increased by \$24.3 million during the current fiscal year. Sixty-six percent of this increase represents capital contributions from developers. The following table indicates changes in net position for governmental and business-type activities followed by graphs displaying total revenues and expenses by type:

**TABLE A-2**  
**CHANGES IN NET POSITION FOR GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES**

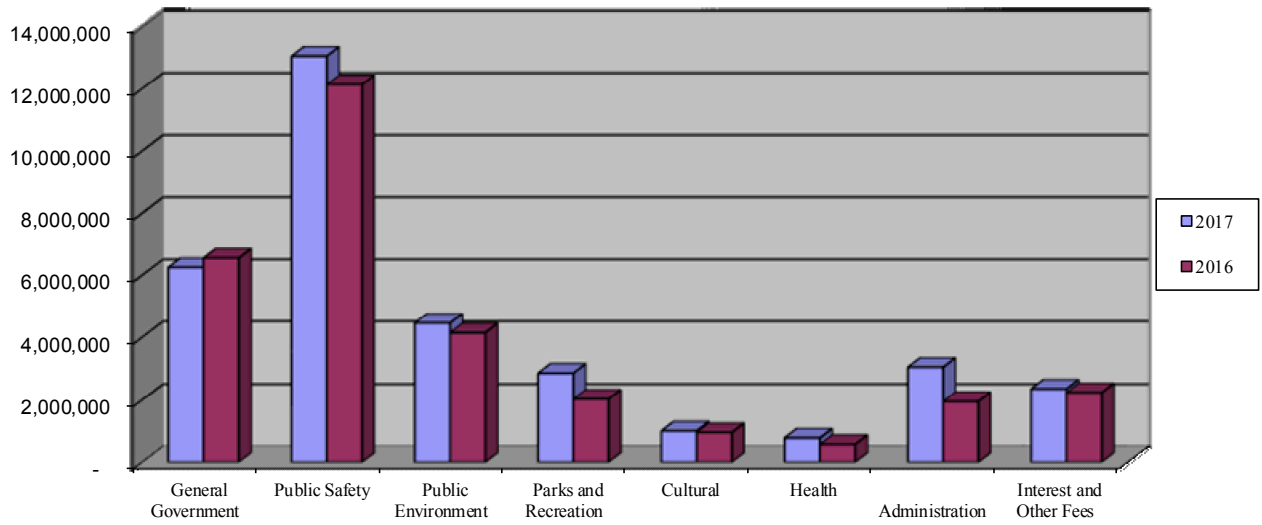
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
Program Revenues:						
Charges for Services	\$ 5,910,899	\$ 5,067,903	\$ 31,757,607	\$ 27,925,017	\$ 37,668,506	\$ 32,992,920
Operating Contributions	552,878	342,485	-	-	552,878	342,485
Capital Contributions	10,043,483	6,227,664	6,111,474	2,831,126	16,154,957	9,058,790
General Revenues						
Property Taxes	16,166,006	15,131,997	-	-	16,166,006	15,131,997
Other Taxes	13,595,041	13,760,248	-	-	13,595,041	13,760,248
Investment Earnings	448,408	187,847	211,466	102,642	659,874	290,489
Miscellaneous	182,754	309,275	475,733	522,221	658,487	831,496
<b>Total Revenues</b>	<b>46,899,469</b>	<b>41,027,419</b>	<b>38,556,280</b>	<b>31,381,006</b>	<b>85,455,749</b>	<b>72,408,425</b>
<b>Expenses:</b>						
General Government	6,253,926	6,557,778	-	-	6,253,926	6,557,778
Public Safety	13,061,120	12,141,968	-	-	13,061,120	12,141,968
Public Environment	4,460,540	4,147,653	-	-	4,460,540	4,147,653
Parks and Recreation	2,859,974	2,034,964	-	-	2,859,974	2,034,964
Cultural	1,004,747	954,871	-	-	1,004,747	954,871
Health	776,494	570,204	-	-	776,494	570,204
Administration	3,052,102	1,954,276	-	-	3,052,102	1,954,276
Interest and Other Fees	2,355,714	2,240,783	-	-	2,355,714	2,240,783
Water and Sewer	-	-	21,346,078	20,269,111	21,346,078	20,269,111
EMS	-	-	6,006,178	5,004,110	6,006,178	5,004,110
<b>Total Expenses</b>	<b>33,824,617</b>	<b>30,602,497</b>	<b>27,352,256</b>	<b>25,273,221</b>	<b>61,176,873</b>	<b>55,875,718</b>
<b>INCREASE IN NET POSITION BEFORE TRANSFERS</b>	<b>13,074,852</b>	<b>10,424,922</b>	<b>11,204,024</b>	<b>6,107,785</b>	<b>24,278,876</b>	<b>16,532,707</b>
Transfers	9,399	29,211	(9,399)	(29,211)	-	-
<b>CHANGE IN NET POSITION</b>	<b>13,084,251</b>	<b>10,454,133</b>	<b>11,194,625</b>	<b>6,078,574</b>	<b>24,278,876</b>	<b>16,532,707</b>
<b>BEGINNING NET POSITION</b>	<b>93,563,670</b>	<b>83,109,537</b>	<b>79,947,701</b>	<b>73,869,127</b>	<b>173,511,371</b>	<b>156,978,664</b>
<b>ENDING NET POSITION</b>	<b>\$ 106,647,921</b>	<b>\$ 93,563,670</b>	<b>\$ 91,142,326</b>	<b>\$ 79,947,701</b>	<b>\$ 197,790,247</b>	<b>\$ 173,511,371</b>

**TOTAL REVENUES-GOVERNMENT-WIDE**



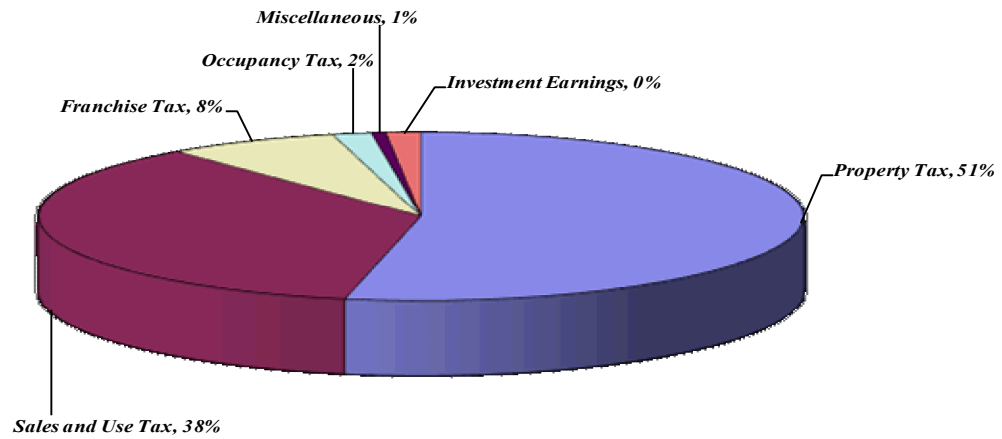


### TOTAL EXPENSES-GOVERNMENT-WIDE



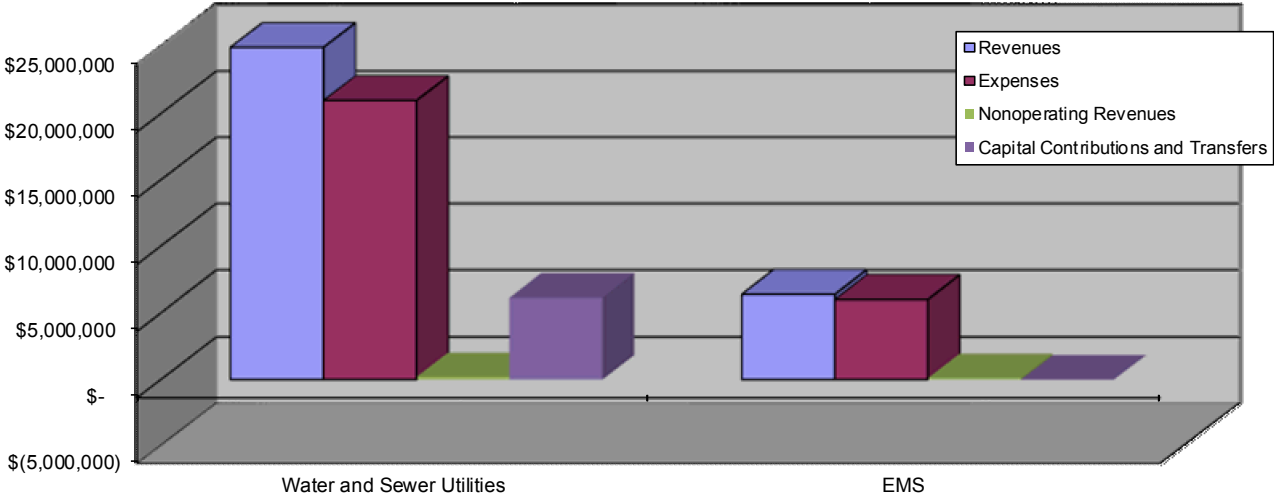
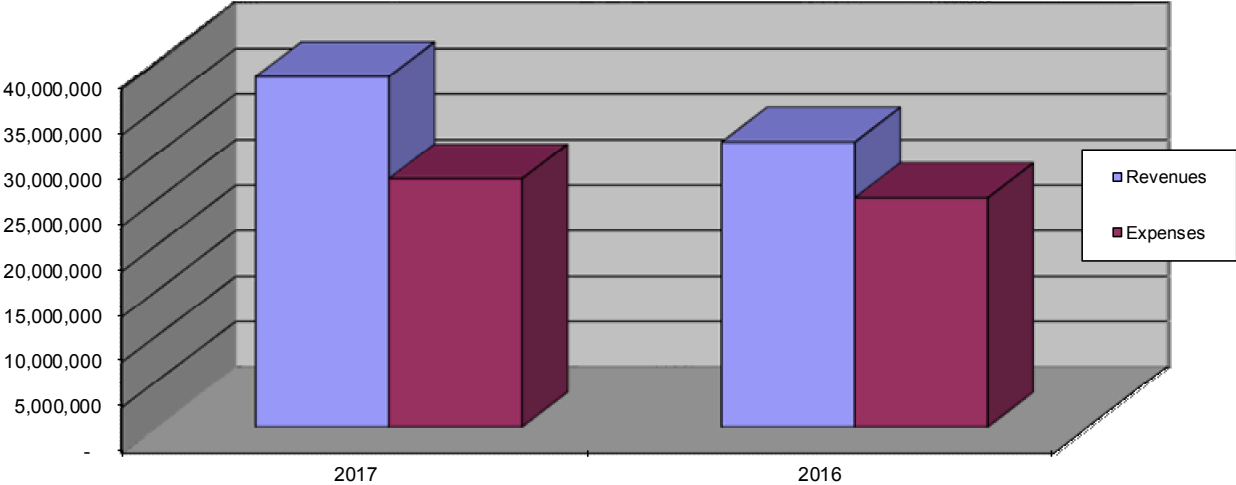
### Revenues-Governmental Activities (Continued)

#### General Revenue by Source - Governmental Activities



**Business-Type Activities**

Business-Type activities accounted for 45.9% of the growth in the net position of the City of Schertz. Of this increase, 54.6% is the result of capital contributions from developers. For the most part, increases in expenses closely paralleled inflation and the change in revenues was primarily related to fluctuations in capital contributions from developers.



## **Financial Analysis of the Government's Funds**

As noted earlier, the City of Schertz 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 current fiscal year, the City's governmental funds reported combined ending fund balances of \$49.1 million. Of this total amount, \$10.0 million constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is non-spendable, restricted, or assigned to indicate that it is not available for new spending because it has already been committed to pay debt service, for capital improvement projects, and other assigned purposes.

The general fund is the chief operating fund of the City of Schertz. At the end of the current fiscal year, unassigned fund balance of the general fund was \$10.0 million, while total fund balance was \$13.0 million, an increase of \$1.5 million from the prior year. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 41.8% of total general fund expenditures, not including capital.

The debt service fund has a total fund balance of \$1.5 million all of which is restricted for the payment of debt service. The net increase in fund balance during the current year in the debt service fund was \$0.1 million.

The capital projects fund has a total fund balance of \$16.9 million, an increase of \$5.3 million. The City issued \$8.87 million in new governmental bonds to supplement capital project activity during the year.

**Proprietary funds.** The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. Unrestricted net position of the water and sewer fund at the end of the year amounted to \$20.2 million and those for the Schertz EMS fund amounted to \$1.1 million. The proprietary fund issued \$540 thousand in new bonds to supplement capital project activity during the year.

## **General Fund Budgetary Highlights**

The General Fund expenditures were \$939 thousand less than the \$25.5 million budget. This was the result of cost savings across most of the General Fund. Revenues were higher by \$796 thousand than budgeted. Overall, the fund balance increased by \$1.5 million higher than budgeted.

## CAPITAL ASSET AND DEBT ADMINISTRATION

**Capital assets.** The City's investment in capital assets for its governmental and business-type activities as of September 30, 2017, amounts to \$209.6 million (net of accumulated depreciation). Developers contributed \$15.4 million in infrastructure during the year. The City also has several projects in progress from voter approved bonds. Additional information on the City's capital assets can be found in the note 7 to the basic financial statements.

**TABLE A-3**  
CAPITAL ASSETS  
(Net of Depreciation)

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 7,499,108	\$ 7,499,108	\$ 1,354,138	\$ 1,354,138	\$ 8,853,246	\$ 8,853,246
Water Rights	-	-	70,245	70,245	70,245	70,245
Buildings and Improvements	43,677,947	43,607,412	4,660,001	4,660,001	48,337,948	48,267,413
Machinery, Equipment, and Vehicles	10,347,015	9,282,067	5,013,077	5,095,324	15,360,092	14,377,391
Infrastructure	109,303,478	100,003,048	92,807,350	85,890,831	202,110,828	185,893,879
Construction in Progress	13,632,514	9,832,153	2,907,404	2,681,683	16,539,918	12,513,836
Accumulated Depreciation	<u>(50,470,641)</u>	<u>(45,114,130)</u>	<u>(31,233,417)</u>	<u>(28,728,858)</u>	<u>(81,704,058)</u>	<u>(73,842,988)</u>
<b>TOTALS</b>	<u>\$ 133,989,421</u>	<u>\$ 125,109,658</u>	<u>\$ 75,578,798</u>	<u>\$ 71,023,364</u>	<u>\$ 209,568,219</u>	<u>\$ 196,133,022</u>

**Long-Term Debt.** At the end of the current fiscal year, the City of Schertz had total bonded debt outstanding of \$76.7 million. The related principal and interest payment for the bonds are backed by an annual ad valorem tax levied against all taxable property within the City. The City of Schertz maintains a "AA+" rating from Standard and Poors. Additional information on the City's long-term debt can be found in note 10 to the basic financial statements.

**TABLE A-4**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
General Obligation Bonds	\$ 55,225,000	\$ 54,995,000	\$ 2,530,000	\$ 3,010,000	\$ 57,755,000	\$ 58,005,000
Certificates of Obligation	8,560,000	3,850,000	8,050,000	8,220,000	16,610,000	12,070,000
Tax Notes and Leases	<u>1,230,000</u>	<u>1,740,000</u>	<u>1,065,000</u>	<u>1,360,000</u>	<u>2,295,000</u>	<u>3,100,000</u>
<b>TOTALS</b>	<u>\$ 65,015,000</u>	<u>\$ 60,585,000</u>	<u>\$ 11,645,000</u>	<u>\$ 12,590,000</u>	<u>\$ 76,660,000</u>	<u>\$ 73,175,000</u>

## **Economic Factors and Next Year's Budgets and Rates**

At the end of the last fiscal year, the assigned and unassigned fund balance in the general fund increased to \$10.0 million. The City of Schertz has appropriated \$1.5 million of this amount for spending in the 2018 fiscal year budget. The approved tax rate decreased marginally to \$0.4910 per \$100 of valuation. Each year the City updates its five-year budgeting forecast and has implemented a long-term debt model to assist management in making informed financial decisions that will impact the community now and in the future.

## **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 government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Schertz, 1400 Schertz Parkway, Schertz, Texas 78154.



## BASIC FINANCIAL STATEMENTS

CITY OF SCHERTZ, TEXAS  
STATEMENT OF NET POSITION  
SEPTEMBER 30, 2017

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<i>Current Assets:</i>			
Cash and Cash Equivalents	\$ 5,265,632	\$ 2,353,733	\$ 7,619,365
Investments	42,160,733	10,277,545	52,438,278
Receivables (net of allowances)			
Taxes	2,751,714	-	2,751,714
Accounts and Other	1,678,132	5,812,200	7,490,332
Current Service Concession Arrangement Receivable	90,909	-	90,909
Accrued Interest Income	7,949	6,324	14,273
Inventories	98,263	133,430	231,693
Internal Balances	59,044	(59,044)	-
<i>Total Current Assets</i>	<u>52,112,376</u>	<u>18,524,188</u>	<u>70,636,564</u>
<i>Noncurrent Assets:</i>			
Restricted Assets:			
Cash and Cash Equivalents	617,075	1,444,226	2,061,301
Investments	-	14,336,660	14,336,660
Service Concession Arrangement Receivable	760,447	-	760,447
Capital Assets:			
Land	7,499,108	1,354,138	8,853,246
Water Rights	-	70,245	70,245
Buildings and Improvements	43,677,947	4,660,001	48,337,948
Equipment and Vehicles	10,347,015	5,013,077	15,360,092
Infrastructure	109,303,478	92,807,350	202,110,828
Construction in Progress	13,632,514	2,907,404	16,539,918
Accumulated Depreciation	(50,470,641)	(31,233,417)	(81,704,058)
<i>Total Noncurrent Assets</i>	<u>135,366,943</u>	<u>91,359,684</u>	<u>226,726,627</u>
<b>TOTAL ASSETS</b>	<u>187,479,319</u>	<u>109,883,872</u>	<u>297,363,191</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Deferred Loss on Debt Refundings	733,620	89,998	823,618
Deferred Pension Related Outflows	2,903,814	907,661	3,811,475
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 3,637,434</u>	<u>\$ 997,659</u>	<u>\$ 4,635,093</u>

See Accompanying notes to basic financial statements.



CITY OF SCHERTZ, TEXAS  
STATEMENT OF NET POSITION (CONTINUED)  
SEPTEMBER 30, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
<b>LIABILITIES</b>			
<i>Current Liabilities:</i>			
Accounts Payable	\$ 884,188	\$ 2,094,236	\$ 2,978,424
Accrued Liabilities	654,117	176,160	830,277
Due to Other Governments	119,149	-	119,149
Unearned Revenue	35,346	431,098	466,444
Accrued Interest Payable	445,372	63,571	508,943
Compensated Absences	213,970	62,125	276,095
Customer Deposits	54,200	590,618	644,818
Current Service Concession Arrangement (Liability)	54,153	-	54,153
Current Portion of Long-Term Debt	4,870,606	1,612,097	6,482,703
<i>Total Current Liabilities</i>	<u>7,331,101</u>	<u>5,029,905</u>	<u>12,361,006</u>
<i>Noncurrent Liabilities:</i>			
Compensated Absences	855,879	248,500	1,104,379
Net Other Post-Employment Benefit Payable	506,934	148,821	655,755
Net Pension Liability	12,968,145	4,057,950	17,026,095
Service Concession Arrangement (Liability)	452,983	-	452,983
Long-Term Debt	62,009,570	10,254,029	72,263,599
<i>Total Noncurrent Liabilities</i>	<u>76,793,511</u>	<u>14,709,300</u>	<u>91,502,811</u>
<b>TOTAL LIABILITIES</b>	<u>84,124,612</u>	<u>19,739,205</u>	<u>103,863,817</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Deferred Service Concession Arrangement	344,220	-	344,220
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u>344,220</u>	<u>-</u>	<u>344,220</u>
<b>NET POSITION</b>			
Net Investment In Capital Assets	84,537,238	70,361,035	154,898,273
Restricted For:			
Police and Municipal Court	1,243,281	-	1,243,281
PEG Capital Fees	638,506	-	638,506
Tourism Development	1,503,873	-	1,503,873
Economic Development	15,069,420	-	15,069,420
Parks and Tree Mitigation	699,725	-	699,725
Debt Service	1,087,260	-	1,087,260
Scholarships and Other Purposes	195,051	-	195,051
Unrestricted	1,673,567	20,781,291	22,454,858
<b>TOTAL NET POSITION</b>	<u>\$ 106,647,921</u>	<u>\$ 91,142,326</u>	<u>\$ 197,790,247</u>

See Accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

<b>Functions and Programs</b>	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Primary Government:</b>				
<i>Governmental Activities:</i>				
General Government	\$ 6,253,926	\$ 874,737	\$ 189,264	\$ 10,042,931
Public Safety	13,061,120	4,131,548	210,681	-
Public Environment	4,460,540	-	-	-
Parks and Recreation	2,859,974	544,460	129,148	-
Cultural	1,004,747	330,412	4,144	-
Health	776,494	29,742	19,641	552
Administration	3,052,102	-	-	-
Interest	2,355,714	-	-	-
<i>Total Governmental Activities</i>	<u>33,824,617</u>	<u>5,910,899</u>	<u>552,878</u>	<u>10,043,483</u>
<i>Business-Type Activities</i>				
Water and Sewer	21,346,078	25,390,713	-	6,111,474
EMS	6,006,178	6,366,894	-	-
<i>Total Business-Type Activities</i>	<u>27,352,256</u>	<u>31,757,607</u>	<u>-</u>	<u>6,111,474</u>
<b>Total Primary Government</b>	<u>\$ 61,176,873</u>	<u>\$ 37,668,506</u>	<u>\$ 552,878</u>	<u>\$ 16,154,957</u>

**General Revenues:**

Taxes:

Ad Valorem

Sales

Franchise Fees

Hotel/Motel

Mixed Drink

Investment Earnings

Miscellaneous

**Total General Revenues**

Transfers

Change in Net Position

Net Position at Beginning of Year

Net Position at End of Year

See Accompanying notes to basic financial statements.

Net (Expense) Revenue and  
Changes in Net Position

Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ 4,853,006 (8,718,891) (4,460,540) (2,186,366) (670,191) (726,559) (3,052,102) (2,355,714) <u>(17,317,357)</u>	          \$ 10,156,109 <u>360,716</u> <u>10,516,825</u>	\$ 4,853,006 (8,718,891) (4,460,540) (2,186,366) (670,191) (726,559) (3,052,102) (2,355,714) <u>(17,317,357)</u>          10,156,109 <u>360,716</u> <u>10,516,825</u>          <u>(6,800,532)</u>
16,166,006 10,844,503 2,208,373 499,466 42,699 448,408 182,754 <u>30,392,209</u>	- - - - - 211,466 475,733 <u>687,199</u>	16,166,006 10,844,503 2,208,373 499,466 42,699 659,874 658,487 <u>31,079,408</u>
<u>9,399</u>	<u>(9,399)</u>	-
13,084,251	11,194,625	24,278,876
93,563,670	79,947,701	173,511,371
<u>\$ 106,647,921</u>	<u>\$ 91,142,326</u>	<u>\$ 197,790,247</u>

CITY OF SCHERTZ, TEXAS  
BALANCE SHEET – GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2017

	General Fund	Capital Projects	Debt Service
	<u>          </u>	<u>          </u>	<u>          </u>
<b>ASSETS</b>			
Cash and Cash Equivalents	\$ 2,062,393	\$ 1,753,815	\$ 59,148
Investments	9,485,725	15,546,171	1,390,934
Receivables (net of allowances)			
Taxes	1,970,300	-	82,550
Accounts and Other	1,677,633	-	-
Inventory	98,263	-	-
Restricted Assets:			
Cash and Cash Equivalents	617,075	-	-
<b>TOTAL ASSETS</b>	<u>\$ 15,911,389</u>	<u>\$ 17,299,986</u>	<u>\$ 1,532,632</u>
 <b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
<i>Liabilities:</i>			
Accounts Payable	\$ 544,406	\$ 267,949	\$ -
Accrued Salaries and Benefits	653,700	-	-
Customer Deposits	54,200	-	-
Due to Other Governments	119,149	-	-
Due to Other Funds	(175,084)	116,040	-
Unearned Revenues	35,346	-	-
<i>Total Liabilities</i>	<u>1,231,717</u>	<u>383,989</u>	<u>-</u>
 <i>Deferred Inflows of Resources:</i>			
Unavailable Revenues	<u>1,710,054</u>	<u>-</u>	<u>82,550</u>
 <i>Fund Balances:</i>			
Nonspendable:			
Inventory	98,263	-	-
Restricted for:			
Police and Public Safety/Municipal Court	101,842	-	-
Municipal Court	728,350	-	-
PEG Capital Fees	638,506	-	-
Capital Improvement	-	16,915,997	-
Debt Service	-	-	1,450,082
Tourism Development	-	-	-
Parks and Tree Mitigation	-	-	-
Historical Committee and Library	-	-	-
Economic Development	-	-	-
Animal Control	35,660	-	-
Veterans	4,796	-	-
Scholarships	77,458	-	-
Committed for Civic Center/CIED	454,376	-	-
Assigned for:			
Property Replacement	854,198	-	-
Unassigned	9,976,169	-	-
<i>Total Fund Balances</i>	<u>12,969,618</u>	<u>16,915,997</u>	<u>1,450,082</u>
 <b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	 <u>\$ 15,911,389</u>	 <u>\$ 17,299,986</u>	 <u>\$ 1,532,632</u>

See Accompanying notes to basic financial statements.

<u>Economic Development Corporation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 893,858	\$ 496,421	\$ 5,265,635
13,506,156	2,231,747	42,160,733
665,316	33,548	2,751,714
8,448	-	1,686,081
-	-	98,263
-	-	617,075
<u>\$ 15,073,778</u>	<u>\$ 2,761,716</u>	<u>\$ 52,579,501</u>
\$ 3,940	\$ 67,892	\$ 884,187
417	-	654,117
-	-	54,200
-	-	119,149
-	-	(59,044)
-	-	35,346
<u>4,357</u>	<u>67,892</u>	<u>1,687,955</u>
-	-	1,792,604
-	-	98,263
-	413,089	514,931
-	-	728,350
-	-	638,506
-	-	16,915,997
-	-	1,450,082
-	1,503,873	1,503,873
-	699,725	699,725
-	77,137	77,137
15,069,421	-	15,069,421
-	-	35,660
-	-	4,796
-	-	77,458
-	-	454,376
-	-	854,198
-	-	9,976,169
<u>15,069,421</u>	<u>2,693,824</u>	<u>49,098,942</u>
<u>\$ 15,073,778</u>	<u>\$ 2,761,716</u>	<u>\$ 52,579,501</u>



CITY OF SCHERTZ, TEXAS  
RECONCILIATION OF BALANCE SHEET  
SEPTEMBER 30, 2017

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		\$ 49,098,942
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		133,989,421
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recognized as revenue in the funds.		1,792,604
The governmental funds report other post-employment benefit contributions as expenditures when they become due and payable. However, in the statement of activities differences between other post-employment benefit contributions and actuarially determined costs are reported as an obligation.		(506,934)
Long-term liabilities, including bonds payable and capital leases, are not due and payable in the current period and therefore, not reported in the funds:		
Bonds Payable	(65,015,000)	
Unamortized Premiums, Discounts, Losses on Refundings	(1,106,409)	
Capital Lease Payable	(25,151)	
Accrued Interest Payable	(445,372)	
Compensated Absences	<u>(1,069,849)</u>	(67,661,781)
Service Concession Arrangements (and related deferred inflows and outflows of resources) do not consume current financial resources and are not reported in governmental funds:		
Service Concession Arrangement (Liability)	(507,136)	
Service Concession Arrangement Receivable	851,356	
Deferred Service Concessions	<u>(344,220)</u>	-
Net Pension Liabilities (and related deferred inflows and outflows of resources) do not consume current financial resources are not reported in governmental funds:		
Net Pension Liability	(12,968,145)	
Pension Related Deferred Outflows	<u>2,903,814</u>	<u>(10,064,331)</u>
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		<u><u>\$ 106,647,921</u></u>

See accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	General Fund	Capital Projects	Debt Service Fund
<b>REVENUES</b>			
Taxes	\$ 19,450,338	\$ -	\$ 6,149,844
Permits and Fees	2,367,929	-	-
Service Fees	2,107,844	-	-
Fines and Fees	1,021,965	-	-
Intergovernmental	307,809	89,264	-
Investment Earnings	128,158	123,920	47,758
Miscellaneous	603,477	745,050	100,000
<b>TOTAL REVENUES</b>	<u>25,987,520</u>	<u>958,234</u>	<u>6,297,602</u>
<b>EXPENDITURES</b>			
<i>Current:</i>			
General Government	5,171,635	-	-
Public Safety	11,846,184	-	-
Public Environment	1,128,979	-	-
Parks and Recreation	1,682,955	-	-
Cultural	901,992	-	-
Health	672,934	-	-
Administration	2,395,926	-	-
<i>Capital Outlay</i>	644,773	4,757,930	-
<i>Debt Service:</i>			
Principal	33,174	-	4,440,000
Interest and Fiscal Charges	36,513	-	2,077,166
Bond Issue Costs	-	211,330	2,950
<b>TOTAL EXPENDITURES</b>	<u>24,515,065</u>	<u>4,969,260</u>	<u>6,520,116</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,472,455</u>	<u>(4,011,026)</u>	<u>(222,514)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Proceeds From Issuance of Debt	-	8,870,000	-
Premiums from Issuance of Debt	-	381,931	-
Transfers In	68,385	9,399	361,019
Transfers Out	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>68,385</u>	<u>9,261,330</u>	<u>361,019</u>
<b>Net Change in Fund Balance</b>	1,540,840	5,250,304	138,505
Fund Balances at Beginning of Year	<u>11,428,778</u>	<u>11,665,693</u>	<u>1,311,577</u>
Fund Balances at End of Year	<u>\$ 12,969,618</u>	<u>\$ 16,915,997</u>	<u>\$ 1,450,082</u>

See accompanying notes to basic financial statements.



Economic Development Corporation	Other Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,620,930	\$ 499,466	\$ 29,720,578
-	172,116	2,540,045
-	24,455	2,132,299
-	195,656	1,217,621
-	-	397,073
125,684	22,897	448,417
-	209	1,448,736
<u>3,746,614</u>	<u>914,799</u>	<u>37,904,769</u>
92,829	130,454	5,394,918
-	24,452	11,870,636
-	-	1,128,979
-	202,960	1,885,915
-	19,878	921,870
-	-	672,934
450,524	66,405	2,912,855
-	89,493	5,492,196
-	-	4,473,174
-	-	2,113,679
-	-	214,280
<u>543,353</u>	<u>533,642</u>	<u>37,081,436</u>
<u>3,203,261</u>	<u>381,157</u>	<u>823,333</u>
-	-	8,870,000
-	-	381,931
-	-	438,803
<u>(361,019)</u>	<u>(68,385)</u>	<u>(429,404)</u>
<u>(361,019)</u>	<u>(68,385)</u>	<u>9,261,330</u>
2,842,242	312,772	10,084,663
<u>12,227,179</u>	<u>2,381,052</u>	<u>39,014,279</u>
<u>\$ 15,069,421</u>	<u>\$ 2,693,824</u>	<u>\$ 49,098,942</u>



CITY OF SCHERTZ, TEXAS  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS \$ 10,084,663

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. In addition, capital assets contributed to governmental activities are not recorded on the fund statements.

Capital Outlay	4,821,788	
Capital Contributions	10,042,931	
Depreciation Expense	<u>(5,734,405)</u>	9,130,314

Proceeds from capital asset dispositions produce current financial resources in the fund statements, while the net gain (loss) is recognized in the Statement of Activities. This is net book value of capital assets disposed. (250,551)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. (305,723)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, which the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any affect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from the Issuance of Debt	(8,870,000)	
Premiums Received from the Issuance of Debt	(381,931)	
Principal Repayments	4,473,174	
Amortization of Premiums, Discounts, Losses	<u>27,898</u>	(4,750,859)

Governmental funds report required contributions to employee pensions as expenditures. However, in the Statement of Activities the cost of the pension is recorded based on the actuarially determined cost of the plan. This is the amount that actuarially determined pension expense exceeded contributions. (584,062)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Compensated Absences	(47,306)	
Net Other Postemployment Benefits	(100,056)	
Accrued Interest	<u>(92,169)</u>	<u>(239,531)</u>

CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES \$ 13,084,251

See accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS  
SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental Activities
	Water and Sewer System	Schertz EMS	Total	Internal Service Fund
<b>ASSETS</b>				
<i>Current Assets:</i>				
Cash and Cash Equivalents	\$ 2,353,733	\$ -	\$ 2,353,733	\$ -
Investments	9,725,719	551,826	10,277,545	-
Accounts Receivable, Net of Allowance:				
Customer Accounts	2,719,495	3,092,705	5,812,200	-
Due from Other Funds	116,040	-	116,040	-
Accrued Interest	6,324	-	6,324	-
Inventory	51,790	81,640	133,430	-
<i>Total Current Assets</i>	<u>14,973,101</u>	<u>3,726,171</u>	<u>18,699,272</u>	<u>-</u>
<i>Noncurrent Assets:</i>				
Restricted Assets:				
Cash and Cash Equivalents	1,444,226	-	1,444,226	-
Investments	14,246,632	90,028	14,336,660	-
Capital Assets:				
Land	1,354,138	-	1,354,138	-
Water Rights	70,245	-	70,245	-
Buildings and Improvements	4,653,501	6,500	4,660,001	-
Machinery, Equipment, and Vehicles	2,814,438	2,198,639	5,013,077	-
Infrastructure	92,807,350	-	92,807,350	-
Construction in Progress	2,907,404	-	2,907,404	-
Less: Accumulated Depreciation	(29,835,794)	(1,397,623)	(31,233,417)	-
<i>Total Noncurrent Assets</i>	<u>90,462,140</u>	<u>897,544</u>	<u>91,359,684</u>	<u>-</u>
<b>TOTAL ASSETS</b>	<u>105,435,241</u>	<u>4,623,715</u>	<u>110,058,956</u>	<u>-</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Deferred Loss on Refunding	89,998	-	89,998	-
Deferred Pension Related Outflows	359,249	548,412	907,661	-
<b>TOTAL DEFERRED OUTFLOWS</b>	<u>\$ 449,247</u>	<u>\$ 548,412</u>	<u>\$ 997,659</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
STATEMENT OF NET POSITION - PROPRIETARY FUNDS (CONTINUED)  
SEPTEMBER 30, 2017

	<u>Business-Type Activities - Enterprise Funds</u>			Governmental
	Water and Sewer System	Schertz EMS	Total	Internal Service Fund
<b>LIABILITIES</b>				
<i>Current Liabilities:</i>				
Accounts Payable	\$ 2,037,480	\$ 56,756	\$ 2,094,236	\$ -
Accrued Liabilities	45,370	130,790	176,160	-
Customer Deposits	590,618	-	590,618	-
Accrued Interest Payable	55,618	7,953	63,571	-
Due to Other Funds	-	175,084	175,084	-
Unearned Revenue	431,088	10	431,098	-
Current Portion of Compensated Absences	19,212	42,913	62,125	-
Current Portion of Long-Term Debt	1,282,556	329,541	1,612,097	-
<i>Total Current Liabilities</i>	<u>4,461,942</u>	<u>743,047</u>	<u>5,204,989</u>	<u>-</u>
<i>Noncurrent Liabilities:</i>				
Compensated Absences	76,847	171,653	248,500	-
Net Other Post-Employment Benefit Payable	48,451	100,370	148,821	-
Net Pension Liability	1,603,324	2,454,626	4,057,950	-
Long-Term Debt (Net of Current Portion)	9,441,450	812,579	10,254,029	-
<i>Total Noncurrent Liabilities</i>	<u>11,170,072</u>	<u>3,539,228</u>	<u>14,709,300</u>	<u>-</u>
<b>TOTAL LIABILITIES</b>	<u>15,632,014</u>	<u>4,282,275</u>	<u>19,914,289</u>	<u>-</u>
<b>NET POSITION</b>				
Net Investment in Capital Assets	70,065,611	295,424	70,361,035	-
Unrestricted	20,186,863	594,428	20,781,291	-
<b>TOTAL NET POSITION</b>	<u>\$ 90,252,474</u>	<u>\$ 889,852</u>	<u>\$ 91,142,326</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental
	Water and Sewer System	Schertz EMS	Total	Internal Service Fund
<b>OPERATING REVENUES</b>				
Fees Charged to Users	\$ 25,079,280	\$ 6,366,894	\$ 31,446,174	\$ -
Charges for Premiums	-	-	-	2,690,926
Other Charges	311,433	-	311,433	-
<b>TOTAL OPERATING REVENUES</b>	<u>25,390,713</u>	<u>6,366,894</u>	<u>31,757,607</u>	<u>2,690,926</u>
<b>OPERATING EXPENSES</b>				
Personnel Services	1,861,475	3,976,190	5,837,665	2,690,926
Contribution to Joint Ventures	2,542,314	-	2,542,314	-
Water Purchase	2,918,214	-	2,918,214	-
Garbage Contractor	4,342,077	-	4,342,077	-
Sewage Treatment	3,763,487	-	3,763,487	-
General and Administrative	2,454,165	541,006	2,995,171	-
Contractual Services	356,891	651,726	1,008,617	-
Supplies and Maintenance	458,539	480,692	939,231	-
Depreciation	2,282,145	339,171	2,621,316	-
<b>TOTAL OPERATING EXPENSES</b>	<u>20,979,307</u>	<u>5,988,785</u>	<u>26,968,092</u>	<u>2,690,926</u>
<b>OPERATING INCOME (LOSS)</b>	<u>4,411,406</u>	<u>378,109</u>	<u>4,789,515</u>	<u>-</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Investment Earnings	207,817	3,649	211,466	-
Lease Income	232,754	-	232,754	-
Miscellaneous	122,373	120,606	242,979	-
Interest Expense	(368,390)	(17,393)	(385,783)	-
Amortization	1,619	-	1,619	-
<b>TOTAL NONOPERATING REVENUES (EXPENSES)</b>	<u>196,173</u>	<u>106,862</u>	<u>303,035</u>	<u>-</u>
<b>INCOME BEFORE CONTRIBUTIONS AND TRANSFERS</b>	4,607,579	484,971	5,092,550	-
Transfers In (Out)	-	(9,399)	(9,399)	-
Capital Contributions	6,111,474	-	6,111,474	-
<b>CHANGE IN NET POSITION</b>	10,719,053	475,572	11,194,625	-
<b>NET POSITION AT BEGINNING OF YEAR</b>	<u>79,533,421</u>	<u>414,280</u>	<u>79,947,701</u>	<u>-</u>
<b>NET POSITION AT END OF YEAR</b>	<u>\$ 90,252,474</u>	<u>\$ 889,852</u>	<u>\$ 91,142,326</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	Business-Type Activities - Enterprise Funds			Governmental
	Water and Sewer System	Schertz EMS	Total	Internal Service Fund
<b>Cash Flows From Operating Activities:</b>				
Cash Received From Customers and Users	\$ 25,048,982	\$ 5,591,596	\$ 30,640,578	\$ -
Cash Received from Interfund Services	-	-	-	2,690,926
Cash Paid to Employees for Services	(1,836,377)	(3,810,177)	(5,646,554)	(2,690,926)
Cash Paid to Supplier for Goods & Services	(16,460,515)	(1,704,734)	(18,165,249)	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>6,752,090</u>	<u>76,685</u>	<u>6,828,775</u>	<u>-</u>
<b>Cash Flows From Noncapital Financing Activities:</b>				
Cash Advances From/(To) Other Funds	-	165,685	165,685	-
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	<u>-</u>	<u>165,685</u>	<u>165,685</u>	<u>-</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Acquisition and Construction of Capital Assets	(1,030,767)	(34,510)	(1,065,277)	-
Interest Paid on Long-Term Debt	(365,973)	(11,336)	(377,309)	-
Principal Paid on Long-Term Debt	(1,332,556)	(229,541)	(1,562,097)	-
<b>Net Cash Provided (Used) by Capital and Related Financing Activities</b>	<u>(2,729,296)</u>	<u>(275,387)</u>	<u>(3,004,683)</u>	<u>-</u>
<b>Cash Flows From Investing Activities:</b>				
Purchase of Investments	(4,904,577)	(552,751)	(5,457,328)	-
Premium from Issuance of Debt	-	19,399	19,399	-
Proceeds from Issuance of Debt	-	540,000	540,000	-
Payments from Leases	232,754	-	232,754	-
Interest and Investment Earnings	207,817	3,649	211,466	-
<b>Net Cash Provided (Used) by Investing Activities</b>	<u>(4,464,006)</u>	<u>10,297</u>	<u>(4,453,709)</u>	<u>-</u>
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	<u>(441,212)</u>	<u>(22,720)</u>	<u>(463,932)</u>	<u>-</u>
<b>Cash and Cash Equivalents at Beginning of Year:</b>				
Cash and Cash Equivalents	1,779,941	22,720	1,802,661	-
Restricted Cash and Cash Equivalents	2,459,230	-	2,459,230	-
	<u>4,239,171</u>	<u>22,720</u>	<u>4,261,891</u>	<u>-</u>
<b>Cash and Cash Equivalents at End of Year:</b>				
Cash and Cash Equivalents	2,353,733	-	2,353,733	-
Restricted Cash and Cash Equivalents	1,444,226	-	1,444,226	-
	<u>\$ 3,797,959</u>	<u>\$ -</u>	<u>\$ 3,797,959</u>	<u>\$ -</u>

See accompanying notes to basic financial statements.

CITY OF SCHERTZ, TEXAS  
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2017

	<u>Business-Type Activities - Enterprise Funds</u>			<u>Governmental</u>
	<u>Water and Sewer System</u>	<u>Schertz EMS</u>	<u>Total</u>	<u>Activities Internal Service Fund</u>
<b>Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:</b>				
Operating Income	\$ 4,411,406	\$ 378,109	\$ 4,789,515	\$ -
Revenues from Other Sources	122,373	120,606	242,979	-
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	2,282,145	339,171	2,621,316	-
Decrease (Increase) in Assets:				
Accounts Receivable (net)	(494,473)	(895,886)	(1,390,359)	-
Prepaid Expenses	17,189	19,327	36,516	-
Inventory	9,928	(47)	9,881	-
Deferred Pension Outflows	25,794	53,434	79,228	-
Increase (Decrease) in Liabilities:				
Accounts Payable	348,055	(50,590)	297,465	-
Accrued Liabilities	(7,659)	11,302	3,643	-
Customer Deposits	20,868	-	20,868	-
Unearned Revenue	9,501	(18)	9,483	-
Compensated Absences	(11,920)	15,727	3,807	-
Net Pension Liability	30,066	62,286	92,352	-
Net Other Post-employment Benefit Payable	(11,183)	23,264	12,081	-
<b>Net Cash Provided (Used) by Operating Activities</b>	<b><u>\$ 6,752,090</u></b>	<b><u>\$ 76,685</u></b>	<b><u>\$ 6,828,775</u></b>	<b><u>\$ -</u></b>
Noncash Capital and Related Financing Transactions:				
Developer Contributions of Capital Assets	\$ 6,111,474	\$ -	\$ -	\$ -

See accompanying notes to basic financial statements.



NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS  
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Schertz is a municipal corporation governed by an elected mayor and five-member council. The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

A. Reporting Entity

**Component Units** - As required by generally accepted accounting principles, these financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations; thus, data from these units are be combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize it is legally separate from the government. The City reports the following blended component units:

1. Schertz Economic Development Corporation - The Corporation was organized for the purpose of promoting economic development in order to eliminate unemployment and underemployment and to promote and encourage employment and public welfare of, for, and on behalf of the City. The board of directors consists of seven (7) members appointed by the city council. The City is financially accountable for the Corporation because the city council approves the Corporation's budget. For financial reporting purposes, the SEDC is reported as if it were part of the City's operations because its purpose is to benefit the citizens of the City. Complete financial statements for the Schertz Economic Development Corporation may be obtained from City Hall.
2. Parks and Recreation Foundation – The Foundation was organized to improve and expand the community parks, trails, venues, and recreational programs providing fun leisure and healthy activities. The Foundation's governing board is comprised of Schertz residents and employees of the City, the accounting records are maintained by the finance department, cash is held by the City and the City provides financing for the Foundation. In addition, the City includes the Foundation as part of the City budget process. The Foundation qualifies as a blended component unit as it provides services entirely to the City and its citizens. The Foundation was dissolved by the City in the current year.

**Joint Ventures** - A joint venture is a legally separate entity that results from a contractual arrangement and that is owned, operated, or governed by two or more participating governments. The following entities meet the criteria as joint ventures. Separate financial statements for these entities may be obtained at City Hall.

1. Schertz/Seguin Local Government Corporation - is a public, nonprofit corporation organized to aid, assist, and act on behalf of the cities of Schertz and Seguin in acquiring, constructing, maintaining, and operating a water utility system. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations.
2. Cibolo Valley Local Government Corporation – is a public, nonprofit corporation organized July 28, 2011 to aid, assist, and act on behalf of the cities of Cibolo, Converse and Schertz in acquiring, constructing, maintaining, and operating a water utility system. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations.

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. Cibolo Creek Municipal Authority (CCMA) – was created in 1971 and provides regional wastewater services to the area northeast of San Antonio. The City and CCMC entered into a joint project to develop a new treatment facility that will currently only serve the City. The project will have excess capacity to serve other users in the future. The City is solely responsible for funding the project until other users need capacity.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges of customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. 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.

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 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. Nonexchange revenues that are measurable but not available are recorded as unavailable revenue (a deferred inflow of resources). These revenues are generally property taxes and warrants outstanding. 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.

Exchange revenues (payments for services) received in advance of the service being provided are recorded as unearned revenue.

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

**The General Fund** is the City's primary operating fund which accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**The Debt Service Fund** accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

**The Capital Projects Fund** accounts for financial resources to be used for the acquisition and construction of major capital facilities and is principally financed by the sale of bonds or certificates of obligation and grants.

**Economic Development Corporation** collects sales taxes to support business development and expansion within the City.

**Nonmajor Funds** include Special Revenue funds (other than major projects and grants).

The government reports the following major proprietary funds:

**The Water and Sewer System Fund** accounts for the water and sewer services provided to the citizens through user charges.

**The EMS Fund** accounts for the emergency medical services provided to the citizens of the City and other participating governments through user charges.

**Internal Service Fund** accounts for the City's group medical insurance program.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this are charges between the City's general government function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applications for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes and investment earnings.

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 water and sewer enterprise fund and the EMS enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds 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 SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand and demand deposits. Cash is reported as restricted when it has restrictions on its use narrower than the purpose of the fund in which it is reported. This can result in differences in presentation between fund statements and government-wide statements.

E. Investments

The City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal of and interest on which are unconditionally guaranteed or insured by the State of Texas or the United States; (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated of not less than "AA" or its equivalent; (5) certificates of deposit issued by state and national banks domiciled in Texas that are guaranteed or insured by the Federal Deposit Insurance Corporation (FDIC) or its successor, or secured by obligations mentioned above; and (6) fully collateralized direct repurchase agreements having a defined termination date. In addition, the City is authorized to invest in local government investment pools. The investment pools operate in accordance with appropriate state laws and regulations and have regulatory oversight from the Texas Public Funds Investment Act Sec. 2256.0016. The fair value of the City's position in each pool is the same as the fair value of the pool shares.

F. Receivables and Payables

Activities between the funds that are representative of interfund loans outstanding at the end of the fiscal year are referred to as due to/from other funds. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Accounts receivable are reported net of allowances for uncollectible accounts. The allowance account represents management's estimate of uncollectible accounts based upon experience and historical trends.

Property taxes for the City are levied each October 1 on the taxable value as of the preceding January 1, the date a lien attaches, for all taxable real and personal property located in the City. Taxes are due by January 31 following the October 1 assessment date and become delinquent on February 1, at which time they begin accruing penalty and interest. The enforceable legal claim date for property taxes is the assessment date; therefore, the City did not record a receivable for accrual of future taxes at year end. Accordingly, no current taxes receivable are reported. Delinquent taxes have been reported in the financial statements net of the allowance for uncollectible taxes. Tax revenues are recognized as they become available. Accordingly, an amount equal to taxes not yet available has been reported as unavailable revenue (a deferred inflow of resources) at the government fund level.

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both governmental-wide and fund financial statements and in the fund financial statements are offset by a nonspendable fund balance which indicates they do not represent “available spendable resources”.

H. Restricted Assets

Certain proceeds from bonds, resources set aside for their repayment, and other restrictive agreements are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants and/or contractual arrangements.

I. Capital Assets

Capital assets, which include land, buildings and improvements, machinery, equipment, vehicles, and infrastructure assets (i.e., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. When capital assets are purchased, they are capitalized and depreciated in the government-wide financial statements and the proprietary fund statements. Capital assets are recorded as expenditures of the current period in the governmental fund financial statements.

Capital assets are valued at cost where historical records are available and at an estimated cost where no records exist. Donated capital assets, donated works of art and similar items received as part of a service concession arrangement are reported at acquisition value. All other donated capital assets are valued at their estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements to capital assets that materially extend the life of the asset or add to the value are capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during construction will not be capitalized in the governmental activities on the government-wide financial statements; however capitalization of interest is required for business-type activities. There was no capitalized interest during the current fiscal year.

Capital assets are depreciated over their useful lives on a straight-line basis as follows:

Assets	Useful Lives (Years)
Buildings and Improvements	10 - 50
Machinery, Equipment, and Vehicles	2 - 20
Infrastructure	15 - 30

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Deferred Inflows/Outflows of Resources

A deferred outflow of resources is a consumption of net position by the government that is applicable to a future reporting period while a deferred inflow of resources is an acquisition of net position. These items are presented in separate sections following assets (deferred outflows) or liabilities (deferred inflows) on the statement of net position.

K. Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and compensatory time benefits. There is no liability for unpaid accumulated sick leave since the City does not have a policy to pay any amounts when employees separate from service with the City. All vacation and compensatory time pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

L. Pensions

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

M. 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, discounts, and losses on defeasance are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Losses on defeasance are reported as deferred outflows of resources. Bond issuance costs are expensed as incurred.

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.

N. Fund Equity

Fund balances in governmental funds are classified as follows:

Nonspendable – Represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid items) or legally required to remain intact.

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Equity (Continued)

Restricted – Represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed – Represents amounts that can only be used for a specific purpose because of a formal action by the government’s highest level of decision making authority: an ordinance adopted by City Council prior to the end of the fiscal year. 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.

Assigned – Represents amounts which the City intends to use for a specific purpose but do not meet the criteria of restricted or committed. The City Council may make assignments through formal documentation in the minutes. The City Council authorized (by way of policy) the City Manager to also make assignments. The City Manager’s assignments do not require formal action; however, the City Manager has not assigned any funds at this time.

Unassigned – Represents the residual balance that may be spent on any other purpose of the City.

When an expenditure is incurred for a purpose in which multiple classifications are available, the City considers restricted balances spent first, committed second, and assigned third.

O. Net Position

Net position represents the difference between assets plus deferred outflows of resources less liabilities and deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net assets are reported as restricted when there are limitations imposed by creditors, grantors, or laws or regulations of other governments.

P. 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 disclosures of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual amounts could differ from those estimates.

Q. Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the library grant special revenue fund, police department forfeiture special revenue fund and the capital projects fund, which adopts project-length budgets.

R. Reclassifications

Certain reclassifications have been made in the presentation of the September 30, 2017 financial statements. All comparative information for prior periods has been reclassified to match the new presentation. The changes in presentation had no impact on the changes in net position or fund balance.



CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

The City's operating deposits are held at one institution. The institution provides a combination of pledged collateral and FDIC insurance to completely collateralize the City's deposits.

As of September 30, 2017, the City had the following pooled investment funds:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Weighted Average Maturity in Days</u>
LOGIC	\$ 17,541,325	40
Lone Star Investment Pool	21,322,949	47
Texas CLASS	21,623,633	79
Schertz Bank & Trust - Certificates of Deposit	3,153,510	180
Capital One - U.S. Agency Securities	3,133,521	676
Total	<u>\$ 66,774,938</u>	<u>91</u>

*Interest Rate Risk.* As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's investment portfolio to highly liquid investments to meet unanticipated cash requirements, and/or to redeploy cash into other investments expected to outperform current holdings.

*Credit Risk.* State law limits investments in certificates of deposit to guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor or the National Credit Union Share Insurance Fund, or its successor and investment pools continuously rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. The City's investment policy does not further limit its investment choices. As of September 30, 2017, the City's investments in the pooled investment funds were rated AAAM by Standard & Poor's. The City has also invested in debt securities provided by the Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Farm Credit Banks, and U.S Treasury Notes. As of September 30, 2017, the City's investments in debt securities were rated BBB+ by Standard & Poor's.

*Custodial Credit Risk - Deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned. As of September 30, 2017, the City's cash and cash equivalents (including certificates of deposit, and component unit holdings) were fully collateralized by the City's depository by a combination of pledged collateral and FDIC insurance. All collateral is held in the City's name.

*Custodial Credit Risk - Investments.* For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the government securities owned by the City are held by its agent in the City's name.

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 3 - FAIR VALUE MEASUREMENT

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. 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.

As of September 30, 2017, the City's recurring fair value measurement assets consist of Fixed Income U.S. Agency Securities. These investments are valued using prices quoted in active markets for those securities.

The following table summarizes the assets for which fair values are determined on a recurring basis as of September 30, 2017:

<u>Investment Type</u>	<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Fair Value</u>
Fixed Income Securities	\$ 3,133,521	\$ -	\$ -	\$ 3,133,521
Municipal Investment Pools	60,487,907	-	-	60,487,907
 Total	 <u>\$ 63,621,428</u>	 <u>\$ -</u>	 <u>\$ -</u>	 <u>\$ 63,621,428</u>

NOTE 4 - PROPERTY TAX

Taxes are levied on and payable as of October 1. The City has contracted with the Guadalupe County Tax Assessor-Collector to collect taxes on its behalf. Current taxes become delinquent February 1. Current year delinquent taxes not paid by July 1 are turned over to attorneys for collection action. The total taxable value as of October 1, 2016, upon which the fiscal 2017 levy was based, was \$3,647,504,903 (i.e., market value less exemptions). The estimated market value was \$4,296,677,844 making the taxable value 85% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to \$2.50 per \$100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to \$1.50 per \$100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt for the year ended September 30, 2017, was \$0.4911 per \$100 of assessed value, which means that the City has a tax margin of \$2.0089 for each \$100 value and could increase its annual tax levy by approximately \$73,274,726 based upon the present assessed valuation before the limit is reached.

However, the City may not adopt a tax rate that exceeds the tax rate calculated in accordance with the Texas Property Tax Code without holding a public hearing. The Property Tax Code subjects an increase in the effective tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's effective tax rate.

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 4 - PROPERTY TAX (Continued)

Property taxes are recorded as receivables and unearned revenues at the time the taxes are assessed. In governmental funds, revenues are recognized as the related ad valorem taxes are collected. Additional amounts estimated to be collectible in the time to be a resource for payment of obligations incurred during the fiscal year and therefore susceptible to accrual in accordance with generally accepted accounting principles have been recognized as revenue. In the government-wide financial statements, the entire levy is recognized as revenue, net of estimated uncollectible amounts (if any), at the levy date.

NOTE 5 - RECEIVABLES

Receivables as September 30, 2017 for the government's individual major funds and nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds			Proprietary Funds		
	General	Economic Development	Debt Service	Nonmajor Funds	Water and Sewer Fund	Schertz EMS
<i>Receivables:</i>						
Property Taxes	\$ 158,116	\$ -	\$ 87,819	\$ -	\$ -	\$ -
Sales Taxes	1,330,632	665,316	-	-	-	-
Occupancy Taxes	-	-	-	33,548	-	-
Franchise Taxes	491,039	-	-	-	-	-
Customers	116,209	-	-	-	2,813,969	23,335,745
Court Fines	3,836,423	-	-	-	-	-
Grants	-	-	-	-	-	-
Other	-	8,448	-	-	-	51,284
Gross Receivables	5,932,419	673,764	87,819	33,548	2,813,969	23,387,029
Less: Allowance for Uncollectibles	2,284,486	-	5,269	-	94,474	20,294,324
Net Total Receivables	<u>\$ 3,647,933</u>	<u>\$ 673,764</u>	<u>\$ 82,550</u>	<u>\$ 33,548</u>	<u>\$ 2,719,495</u>	<u>\$ 3,092,705</u>

Governmental funds report *unavailable revenue* in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of *unearned/ unavailable revenue* and *unavailable revenue* reported in the governmental funds were as follows:

	Unavailable
<i>General Fund</i>	
Delinquent Property Taxes Receivable	\$ 148,630
Court Fines	1,561,424
<i>Total General Fund</i>	<u>1,710,054</u>
<i>Debt Service Fund</i>	
Delinquent Property Taxes Receivable	82,550
<i>Total Debt Service Fund</i>	<u>82,550</u>
<i>Total Governmental Funds</i>	<u>\$ 1,792,604</u>

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 6 - INTERFUND BALANCES AND TRANSFERS

The composition of interfund balances as of September 30, 2017 is as follows:

Due From	Due To	Amount	Purpose
Capital Projects Fund	Water & Sewer	\$ 116,040	Structured funding for Waterline Project
EMS	General	175,084	Short-term pooled cash loan

The following schedule briefly summarizes the City's transfer activity for the year ending September 30, 2017:

Transfer From	Transfer To	Amount	Purpose
Nonmajor Governmental	General	\$ 68,385	Supplement DEA expenditures
EMS	Capital Projects	9,399	Supplement capital purchases
Economic Development	Debt Service	361,019	Pledge in support of debt service

NOTE 7 - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
<b>Governmental Activities:</b>					
<i>Capital Assets, Not Being Depreciated:</i>					
Land	\$ 7,499,108	\$ -	\$ -	\$ -	\$ 7,499,108
Construction in Progress	9,832,153	4,858,158	-	(1,057,797)	13,632,514
<i>Total Capital Assets Not Being Depreciated</i>	<u>17,331,261</u>	<u>4,858,158</u>	<u>-</u>	<u>(1,057,797)</u>	<u>21,131,622</u>
<i>Capital Assets, Being Depreciated:</i>					
Buildings and Improvements	43,607,412	-	-	70,535	43,677,947
Machinery, Equipment, and Vehicles	9,282,067	706,131	(628,445)	987,262	10,347,015
Streets and Infrastructure	100,003,048	9,300,430	-	-	109,303,478
<i>Total Capital Assets Being Depreciated</i>	<u>152,892,527</u>	<u>10,006,561</u>	<u>(628,445)</u>	<u>1,057,797</u>	<u>163,328,440</u>
<i>Accumulated Depreciation:</i>					
Buildings and Improvements	(10,743,693)	(1,536,428)	-	-	(12,280,121)
Machinery, Equipment, and Vehicles	(5,257,401)	(934,052)	377,894	-	(5,813,559)
Streets and Infrastructure	(29,113,036)	(3,263,925)	-	-	(32,376,961)
<i>Total Accumulated Depreciation</i>	<u>(45,114,130)</u>	<u>(5,734,405)</u>	<u>377,894</u>	<u>-</u>	<u>(50,470,641)</u>
Total Capital Assets Being Depreciated, Net	<u>107,778,397</u>	<u>4,272,156</u>	<u>(250,551)</u>	<u>1,057,797</u>	<u>112,857,799</u>
Governmental Activities Capital Assets, Net	<u>\$ 125,109,658</u>	<u>\$ 9,130,314</u>	<u>\$ (250,551)</u>	<u>\$ -</u>	<u>\$ 133,989,421</u>

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 7 - CAPITAL ASSETS (Continued)

Capital asset activity for the year ended September 30, 2017 was as follows:

	Beginning Balance	Increases	Deletions	Transfers	Ending Balance
<b>Business-Type Activities:</b>					
<i>Capital Assets, Not Being Depreciated:</i>					
Land	\$ 1,354,138	\$ -	\$ -	\$ -	\$ 1,354,138
Water Rights	70,245	-	-	-	70,245
Construction in Progress	2,681,683	1,030,767	-	(805,046)	2,907,404
<i>Total Assets Not Being Depreciated</i>	<u>4,106,066</u>	<u>1,030,767</u>	<u>-</u>	<u>(805,046)</u>	<u>4,331,787</u>
<i>Capital Assets, Being Depreciated:</i>					
Buildings and Improvements	4,660,001	-	-	-	4,660,001
Machinery, Equipment, and Vehicles	5,095,324	34,510	(116,757)	-	5,013,077
Infrastructure	85,890,831	6,111,473	-	805,046	92,807,350
<i>Total Capital Assets Being Depreciated</i>	<u>95,646,156</u>	<u>6,145,983</u>	<u>(116,757)</u>	<u>805,046</u>	<u>102,480,428</u>
<i>Accumulated Depreciation:</i>					
Buildings and Improvements	(2,226,657)	(247,349)	-	-	(2,474,006)
Machinery, Equipment, and Vehicles	(2,503,456)	(608,901)	116,757	-	(2,995,600)
Infrastructure	(23,998,745)	(1,765,066)	-	-	(25,763,811)
<i>Total Accumulated Depreciation</i>	<u>(28,728,858)</u>	<u>(2,621,316)</u>	<u>116,757</u>	<u>-</u>	<u>(31,233,417)</u>
Total Capital Assets Being Depreciated, Net	<u>66,917,298</u>	<u>3,524,667</u>	<u>-</u>	<u>805,046</u>	<u>71,247,011</u>
Business-Type Activities Capital Assets, Net	<u>\$ 71,023,364</u>	<u>\$ 4,555,434</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 75,578,798</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

<i>Governmental Activities:</i>	
General Government	\$ 671,298
Public Safety	744,936
Public Environment	3,296,787
Parks and Recreation	851,154
Cultural	58,617
Health	84,359
Administration	27,254
<i>Total Depreciation Expense - Governmental Activities</i>	<u>\$ 5,734,405</u>
<i>Business-Type Activities:</i>	
Water and Sewer System	\$ 2,282,145
EMS	339,171
<i>Total Depreciation Expense - Business Type Activities</i>	<u>\$ 2,621,316</u>

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 8 - OPERATING LEASE

The City has agreements with several telecommunication companies to place cellular towers on City water towers. The following schedule represents the future minimum lease payments.

Fiscal Year Ending September 30,	Total
2018	\$ 248,161
2019	260,569
2020	273,597
2021	287,277
2022	301,641
2023-2027	1,740,127
2028-2032	404,227
	\$ 3,515,599

NOTE 9 - CAPITAL LEASE

In 2014, the City entered into two lease agreements qualifying as capital leases for accounting purposes based on a bargain purchase option. Therefore, capital assets and a related capital lease obligation have been recorded at the present value of the future minimum lease payments at the inception date. The assets acquired through capital lease are reported in capital assets with the following accumulated depreciation at September 30, 2017:

	Governmental Activities	Business-type Activities
<i>Assets:</i>		
Equipment	\$ 133,715	\$ 347,705
Less Accumulated Depreciation	(40,115)	(250,218)
Total	\$ 93,600	\$ 97,487

Future minimum lease payments are as follows:

Year Ending September 30,	Governmental Activities	Business-type Activities
2018	\$ 25,505	\$ 70,041
2019	-	23,347
Total Payments	25,505	93,388
Less: Amount Representing Interest	(358)	(667)
Present Value of Minimum Lease Payments	\$ 25,147	\$ 92,721

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 10 - LONG TERM DEBT

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities and equipment for governmental activities. These instruments include general obligation bonds, certificates of obligation, and capital leases. These debt obligations are secured by primarily future property tax revenues. In some cases, these bonds are also secured by a pledge of net revenues from the utility system, emergency medical services and economic development sales taxes. However, the amount of the formal pledge is generally limited to \$1,000.

In June 2017, the City issued \$3,935,000 in General Obligation Bonds Series 2017 and \$5,475,000 Certificates of Obligations Series 2017 pursuant to the constitution and general laws of the State of Texas, particularly, Subchapter C of Chapter 271 of the Texas Local Government Code, as amended, and in ordinance adopted by the City Council. The certificates constitute direct and general obligations of the City payable from ad valorem taxes levied against all payable property within the City, as well as pledged revenue of up to \$1,000 of the surplus revenues from proprietary funds. The bonds and certificates were issued for the purpose of paying contractual obligations of the City for street improvements, renovations of the Municipal Complex, Senior Center and recreational facilities, purchase of ambulances and fire apparatuses, and the construction of Fire Station No. 2.

A summary of the terms of general obligation bonds and combination of tax and revenue certificates of obligation outstanding at September 30, 2017, follows:

	<u>Issue Amount</u>	<u>Maturity</u>	<u>Rate</u>	<u>Balance</u>
<b><i>Primary Government</i></b>				
General Obligation Bonds				
2007 Series	\$ 6,000,000	2027	4.07%	\$ 3,495,000
2008 Series	9,900,000	2028	4.13%	6,510,000
2009 Series	9,500,000	2033	2.0% - 5.50%	5,465,000
2010 Series, Refunding	2,865,000	2021	2.0% - 4.0%	1,215,000
2011 Series	8,250,000	2036	3.0% - 6.0%	7,070,000
2011A Series, Refunding	6,745,000	2024	2.33%	4,085,000
2012 Series	7,625,000	2032	2.00%	6,120,000
2014 Series, Refunding	8,450,000	2030	2.0%-4.0%	8,200,000
2015 Series, Refunding	4,185,000	2031	2.0%-3.25%	3,655,000
2016 Series	5,880,000	2036	2.0%-4.0%	5,475,000
2017 Series	3,935,000	2037	2.0%-4.0%	3,935,000
Tax Notes				
2013 Notes	835,000	2018	0.7% - 1.7%	170,000
2013A Notes	800,000	2018	1.30%	165,000
2015 Notes	245,000	2021	1.75%	145,000
2015A Notes	1,020,000	2023	1.54%	750,000
Certificates of Obligation				
2016 Series A	2,375,000	2036	2.0% - 4.0%	2,205,000
2016 Series B	1,475,000	2036	3.0%-3.75%	1,420,000
2017 Series	4,935,000	2037	3.0%-3.75%	4,935,000
<b>Total Governmental Long-Term Obligations</b>				<b><u><u>\$ 65,015,000</u></u></b>

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 10 - LONG-TERM DEBT (Continued)

<u>Primary Government (Continued)</u>	<u>Issue Amount</u>	<u>Maturity</u>	<u>Rate</u>	<u>Balance</u>
General Obligation Bonds				
2011 Series, Refunding	\$ 2,675,000	2021	2.0% - 3.0%	\$ 930,000
2013 Series, Refunding	2,130,000	2025	2.58%	1,600,000
Certificates of Obligation				
2007 Series CIB 1	6,600,000	2026	4.01%	3,880,000
2013 Series	4,965,000	2033	2.0%-4.0%	3,630,000
2017 Series	540,000	2022	3.0%-3.75%	540,000
Tax Notes				
2015 Notes	1,880,000	2021	1.75%	1,065,000
<b>Total Business-Type Long-Term Obligations</b>				<b><u><u>\$ 11,645,000</u></u></b>

Changes in long-term debt for the year ending September 30, 2017 are as follows:

	<u>Balance</u> <u>9/30/2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>9/30/2017</u>	<u>Due Within</u> <u>One Year</u>
<i>Governmental Activities:</i>					
General Obligation Bonds	\$ 36,385,000	\$ 3,935,000	\$ (2,250,000)	\$ 38,070,000	\$ 2,230,000
Unamortized Premium	661,176	126,800	(36,808)	751,168	43,148
General Obligation Refunding Bonds	18,610,000	-	(1,455,000)	17,155,000	1,510,000
Unamortized Premium	696,096	-	(58,650)	637,446	58,650
Certificates of Obligation	3,850,000	4,935,000	(225,000)	8,560,000	465,000
Unamortized Premium	207,189	255,130	(10,904)	451,415	23,661
Tax Notes	1,740,000	-	(510,000)	1,230,000	515,000
Capital Lease	58,321	-	(33,174)	25,147	25,147
Compensated Absences	1,022,543	251,815	(204,509)	1,069,849	213,970
<i>Total Governmental Activities</i>	<b><u><u>\$ 63,230,325</u></u></b>	<b><u><u>\$ 9,503,745</u></u></b>	<b><u><u>\$ (4,784,045)</u></u></b>	<b><u><u>\$ 67,950,025</u></u></b>	<b><u><u>\$ 5,084,576</u></u></b>
<i>Business-Type Activities:</i>					
General Obligation Refunding Bonds	\$ 3,010,000	\$ -	\$ (480,000)	\$ 2,530,000	\$ 405,000
Unamortized Premium	4,595	-	(969)	3,626	969
Certificates of Obligation	8,220,000	540,000	(710,000)	8,050,000	830,000
Unamortized Premium	111,966	19,400	(6,587)	124,779	6,587
Tax Notes	1,360,000	-	(295,000)	1,065,000	300,000
Capital Lease	162,262	-	(69,541)	92,721	69,541
Compensated Absences	306,818	65,170	(61,363)	310,625	62,125
<i>Total Business-Type Activities</i>	<b><u><u>\$ 13,175,641</u></u></b>	<b><u><u>\$ 624,570</u></u></b>	<b><u><u>\$ (1,623,460)</u></u></b>	<b><u><u>\$ 12,176,751</u></u></b>	<b><u><u>\$ 1,674,222</u></u></b>



CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 10 - LONG-TERM DEBT (Continued)

Annual debt service requirements of bonded debt as of September 30, 2017, are as follows:

September 30,	Governmental Activities		
	Principal	Interest	Total
2018	\$ 4,720,000	\$ 2,417,491	\$ 7,137,491
2019	4,210,000	2,201,637	6,411,637
2020	4,355,000	2,038,287	6,393,287
2021	4,415,000	1,860,579	6,275,579
2022	4,270,000	1,697,788	5,967,788
2023-2027	19,625,000	6,369,435	25,994,435
2028-2032	16,165,000	2,974,153	19,139,153
2033-2037	7,255,000	533,363	7,788,363
Total	\$ 65,015,000	\$ 20,092,733	\$ 85,107,733

September 30,	Business-Type Activities		
	Principal	Interest	Total
2018	\$ 1,535,000	\$ 366,416	\$ 1,901,416
2019	1,580,000	322,858	1,902,858
2020	1,620,000	279,902	1,899,902
2021	1,500,000	233,599	1,733,599
2022	875,000	191,146	1,066,146
2023-2027	3,270,000	540,361	3,810,361
2028-2032	1,035,000	152,900	1,187,900
2033-2037	230,000	4,600	234,600
Total	\$ 11,645,000	\$ 2,091,782	\$ 13,736,782

NOTE 11 - RETIREMENT PLAN

**Plan Description**

The City of Schertz participates as one of 872 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the state of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the system with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Service 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.

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**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.

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

	2015	2016
Inactive Employees or Beneficiaries Currently Receiving Benefits	79	84
Inactive Employees Entitled to but Not Yet Receiving Benefits	138	155
Active employees	312	317
	529	556

**Contributions**

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

Employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15.94% and 15.87% in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were \$2,756,511 and were equal to the required contributions.

**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 Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Actuarial Assumptions**

The Total Pension Liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Overall Payroll Growth	3.0% per year
Investment Rate of Return*	6.75%

\* Presented net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Health 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 Tables with Blue Collar adjustment are used with males rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. IN addition, a 3% minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the 3% floor.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding the expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive).

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Actuarial Assumptions (Continued)**

The target allocation and best estimates of arithmetic real rates of return for each major asset class in fiscal year 2017 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
	<u>100.00%</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 and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Changes in the Net Pension Liability**

The below schedule presents the changes in the Net Pension Liability as of December 31, 2016:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2015	\$ 55,119,232	\$ 38,499,857	\$ 16,619,375
Changes for the year:			
Service Cost	2,855,745	-	2,855,745
Interest	3,763,562	-	3,763,562
Change of Benefit Terms	-	-	-
Difference Between Expected and Actual Experience	139,216	-	139,216
Changes of Assumptions	-	-	-
Contributions - Employer	-	2,627,335	(2,627,335)
Contributions - Employee	-	1,152,864	(1,152,864)
Net Investment Income	-	2,602,572	(2,602,572)
Benefit Payments, Including Refunds of Employee Contributions	(1,581,272)	(1,581,272)	-
Administrative Expense	-	(29,385)	29,385
Other Changes	-	(1,583)	1,583
Net Changes	<u>5,177,251</u>	<u>4,770,531</u>	<u>406,720</u>
Balance at December 31, 2016	<u>\$ 60,296,483</u>	<u>\$ 43,270,388</u>	<u>\$ 17,026,095</u>

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

	Discount Rate 5.75%	Discount Rate 6.75%	Discount Rate 7.75%
Net Pension Liability	\$ 27,443,427	\$ 17,026,095	\$ 8,668,647

**Pension Plan Fiduciary Net Position**

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

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

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

For the year ended September 30, 2017, the City recognized pension expense of \$3,512,360. Also as of September 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Economic Experience	\$ 132,647	\$ -
Changes in Actuarial Assumptions	39,689	-
Differences Between Projected and Actual Investment Earnings	1,658,421	-
Contributions Subsequent to the Measurement Date	1,980,718	-
	\$ 3,811,475	\$ -

Deferred outflows of resources in the amount of \$1,980,718 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2017. The City liquidates their Net Pension Liability through payments from the general fund. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

For the Year ended December 31,		
	2017	\$ 613,689
	2018	613,689
	2019	531,495
	2020	45,274
	2021	25,004
	Thereafter	1,606
		\$ 1,830,757

C. Other Post-Employment Benefits

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by TMRS known as 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.

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 11 - RETIREMENT PLAN (Continued)

C. Other Post-Employment Benefits (Continued)

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

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 life insurance during the employees' entire careers.

The City's contributions to the TMRS SDBF for the years ended 2017, 2016, and 2015 were \$22,066, \$20,324, and \$21,681, respectively, which equaled the required contributions each year.

NOTE 12 – RETIREE HEALTH INSURANCE PLAN

A. Plan Description

The City provides another post-employment benefit to eligible retirees of the City whereby they can stay on the City's health insurance plan by paying the full premium.

B. Contributions

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, 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	\$ 139,515
Interest on OPEB obligation	17,912
Adjustment to ARC	<u>(21,183)</u>
Annual OPEB cost	136,244
Contributions	<u>(24,107)</u>
Increase in net OPEB obligation	112,137
Beginning Net OPEB Obligation	<u>543,618</u>
Ending Net OPEB Obligation	<u><u>\$ 655,755</u></u>

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 12 – RETIREE HEALTH INSURANCE PLAN (Continued)

B. Contributions (Continued)

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>September 30,</u>	<u>Cost</u>	<u>Contributions</u>	<u>Contributed</u>	<u>Obligation</u>
2017	\$ 136,244	\$ 24,107	17.7%	\$ 655,755
2016	136,557	23,519	17.2%	543,618
2015	81,159	15,485	19.1%	430,580

The Projected Unit Credit Cost Method is used to calculate the actuarial required contribution (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	2.5%
Investment Rate of Return	4.0%, net of expenses
Actuarial Cost Method	Projected Unit of Credit
Amortization Method	Level as a percent of payroll
Amortization Period	30-year open period
Payroll Growth	3.0%
Medical Trend	Initial rate of 7.50%, declining to an ultimate rate of 4.25% after 15 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.

The funded status as of December 31, 2015, the most recent actuarial valuation date, is as follows:

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Funded Ratio</u>	<u>Unfunded AAL (UAAL)</u>	<u>Covered Payroll</u>	<u>UAAL as a Percentage of Covered Payroll</u>
12/31/2015	\$ -	\$ 1,055,757	0.0%	\$ 1,055,757	\$ 14,356,845	7.4%



CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 13 - JOINT VENTURES

*Schertz/Seguin Local Government Corporation*

The Schertz/Seguin Local Government Corporation is a public, nonprofit corporation organized to aid, assist, and act on behalf of the cities of Schertz and Seguin in acquiring, constructing, maintaining, and operating a water utility system. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations. Contributions to the corporation are reflected as “operating expenses” in the water and sewer fund and totaled \$2,242,314 for the year ended September 30, 2017. Separate financial statements for the Schertz/Seguin Local Government Corporation may be obtained from the City of Seguin, 210 East Gonzales Street, Seguin, Texas 78156.

The City of Schertz is jointly liable, together with the City of Seguin, for operating deficits and long-term debt of the Schertz/Seguin Local Government Corporation. Following is a summary of financial data as reported in the Corporation’s audited financial statements dated September 30, 2016:

<b>ASSETS:</b>	
Current Assets	\$ 14,027,427
Restricted Cash and Cash Equivalents	6,859,879
Property, Plant & Equipment (net)	95,187,724
Other Assets	108,809
<b>TOTAL ASSETS</b>	<u>116,183,839</u>
<b>Deferred Charges on Refunding</b>	<u>2,546,875</u>
<b>LIABILITIES:</b>	
Current Liabilities	4,858,647
Revenue Bonds (Less Current Maturities)	100,976,449
<b>TOTAL LIABILITIES</b>	<u>105,835,096</u>
<b>NET POSITION:</b>	
Net Investment in Capital Assets	(2,288,897)
Restricted	5,364,082
Unrestricted	9,820,433
<b>TOTAL NET POSITION</b>	<u>\$ 12,895,618</u>

The Corporation had net revenue bonds outstanding in the amount of \$103,281,449 (as of September 30, 2016) to provide funds to build, improve, extend, enlarge and repair the Corporation’s utility system, fund a reserve, and pay the costs of bond issuance. The bond resolution pledges intergovernmental contract revenues from the cities of Schertz and Seguin (the participating governments) to bond holders. Under the intergovernmental water supply contract, the participating governments are unconditionally obligated to pay their respective shares of annual contract revenue bond debt service from the operation of their respective utility systems.

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 13 - JOINT VENTURES (Continued)

*Cibolo Valley Local Government Corporation*

The Cibolo Valley Local Government Corporation (CVLGC) is a public nonprofit corporation incorporated in March 2012 to assist and act on behalf of the cities of Schertz, and Cibolo to obtain additional water sources. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations. Contributions to the corporation are reflected as “operating expenses” in the water and sewer fund. Separate financial statements for the CVLGC may be obtained from the City of Seguin, 210 East Gonzales Street, Seguin, Texas 78156.

The City of Schertz is jointly liable, together with the City of Cibolo, for operating deficits and long-term debt of CVLGC. Following is a summary of financial data as reported in the Corporation’s audited financial statements dated September 30, 2016:

<b>ASSETS:</b>	
Current Assets	\$ 613,204
Noncurrent Assets	1,268,516
<b>TOTAL ASSETS</b>	<u>1,881,720</u>
 <b>LIABILITIES:</b>	
Current Liabilities	<u>92,012</u>
<b>TOTAL LIABILITIES</b>	<u>92,012</u>
 <b>NET POSITION:</b>	
Net Investment in Capital Assets	1,268,516
Unrestricted	521,192
<b>TOTAL NET POSITION</b>	<u><u>\$ 1,789,708</u></u>

*Cibolo Creek Municipal Authority*

Cibolo Creek Municipal Authority (CCMA) provides sewage treatment for the area in and around the City. CCMA has agreed to construct a sewage treatment facility in the southern portion of the City to primarily serve citizens of the City but also neighboring Cities and future development. Because the City would be the primary customer at this time, the City agreed to enter into a regional wastewater treatment contract in September 2014. CCMA will issue bonds to finance the project and the City has agreed to make payments to CCMA to cover operation expenses, maintenance expenses, and debt service. The City is the sole member at this time, so it is responsible for 100% of the project costs. Should other members join, the City’s share of the costs would be reduced.

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 13 - JOINT VENTURES (Continued)

*Cibolo Creek Municipal Authority (Continued)*

In September 2014, CCMA issued bonds for the project in the amount of \$6,950,000 with debt service requirements as follows:

Fiscal Year Ending September 30,	Principal	Interest	Total
2018	\$ 150,000	\$ 260,250	\$ 410,250
2019	155,000	257,250	412,250
2020	160,000	254,150	414,150
2021	160,000	250,950	410,950
2022	165,000	247,750	410,950
2023-2027	905,000	1,156,050	2,061,050
2028-2032	1,090,000	966,450	2,056,450
2033-2037	1,340,000	721,950	2,061,950
2038-2042	1,680,000	372,050	2,052,050
2043-2044	775,000	46,800	821,800
	<u>\$ 6,580,000</u>	<u>\$ 4,533,650</u>	<u>\$ 11,111,850</u>

NOTE 14 - COMMITMENTS AND CONTINGENCIES

*Tax Increment Financing (the "Zone")*

The City is a principal in the City of Schertz Tax Increment Reinvestment Zone #2, pursuant to Chapter 311 of the Texas Tax Code. Under the terms of the Zone agreement, the City of Schertz, Bexar County, and San Antonio River Authority are funding infrastructure improvements through tax increment financing to the Sedona Development Project.

At the time the Zone was created, the property tax base was "frozen" and increment taxes resulting from the increases to property tax base are being used to finance Zone improvements. The total projected cost is a combined figure of \$45,000,000. Project costs of the developer will be funded up to 100% of the tax increment generated by the City of Schertz, Bexar County, and San Antonio River Authority (SARA). The City of Schertz (combined with SARA) have committed up to \$32,877,000 of the total \$45,000,000. The Zone has a statutory termination date of December 31, 2027. The TIRZ has collected \$949,976 from taxing entities (net of administrative reimbursements) and remitted \$771,928 to the developer as of September 30, 2017.

*380 Agreements*

The Chapter 380 Incentive program, authorized by Chapter 380 of the Texas Local Government Code, enables the City of Schertz to provide grants or reimbursements from the City's general fund. To become eligible for Chapter 380 Incentives, projects must: create at least of \$100 million in new real and personal property; or generate at least \$35 million in gross sales that is subject to the collection of local sales and use tax. Businesses that have a 380 Incentive agreement with the City are eligible to receive a reimbursement of taxes paid for the year if they have met the requirements outlined in the agreement by a certain date each year. For the fiscal year ended September 30, 2017, the City reimbursed \$965,674 in property taxes paid.

CITY OF SCHERTZ, TEXAS  
 NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2017

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

*Economic Development Incentive Agreements*

The City of Schertz Economic Development Corporation (the SEDC) negotiates economic development incentive agreement on behalf of the SEDC and the City of Schertz (the City) on an individual basis. As of September 30, 2017, the City had nine active incentive agreements.

On May 2, 2017, the City and the Corporation approved the Schertz Incentive Policy which outlines the City's primary tools to attract commercial investment and promote economic development. Projects are selected on a case-by-case basis in accordance current policy and state laws at the discretion of the governing body. All incentive agreements are formalized through a performance agreement with specified terms and recapture criteria.

The SEDC Incentive program, authorized by Chapters 501, 502 and 505 of the Texas Local Government Code, enables the Corporation to fund allowable projects from the collection of one-half of one percent of sales tax proceeds collected in the City of Schertz. In accordance with state law, the SEDC Incentive Policy establishes grants and loans for businesses that create Primary Jobs for the following categories: Existing Businesses (3 years of operation within City), Small Businesses (fewer than 50 full-time jobs or annual sales less than \$10 million), Large Impact Businesses (Up to \$100 million in taxable property), and Extra Large Businesses (over \$100 million in taxable property).

The City and Corporation's outstanding incentive agreement grants are as follows:

	FY 2016-17 Amt.	Est. Remaining Grant
City of Schertz - LGC 380.001	\$ 965,674	\$ 2,736,572
SEDC - LGC 501.101	-	451,552

*Service Concession Arrangements*

The City entered into an agreement with YMCA, under which YMCA will operate and collect user fees from the Natatorium and Outdoor Pools for the next 20 years. YMCA will pay the city \$100,000 annually over the course of the arrangement; the present value of these installment payments is estimated to be \$851,356. The City will approve the rates and services that YMCA will provide, however, YMCA will retain all revenues earned from the operation of the Natatorium. The YMCA will remit all revenues received from operating the Outdoor Pools to the City with the exception of revenues earned from YMCA specific programs. As of September 30, 2017, the Natatorium is still under construction and is reported by the City as Construction in Progress in the amount of \$9,801,311. The City reports the Outdoor Pools and related equipment as capital assets with a total carrying amount of \$778,529. The City reports a receivable and deferred inflow of resources in the amount of \$851,356 on the government-wide statements at year-end pursuant to the service concession arrangement. Additionally, a liability of \$507,136 for the present value of maintenance costs estimated over the life of the Service Concession arrangement.

*Litigation*

The City is the subject of various claims and litigation that have arisen in the course of its operations. Management is of the opinion that the City's liability in these cases, if decided adversely to the City, will not have a material effect on the City's financial position.

CITY OF SCHERTZ, TEXAS  
NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2017

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

*Construction Commitments*

The City of Schertz has entered into commitments for various projects as follows:

<i>Primary Government:</i>	Estimated Project Cost to City	Expended to Date	Estimated Future Commitment
<i>Governmental Activities:</i>			
Lower Seguin Road Improvements	\$ 304,841	\$ 263,598	\$ 41,243
Natorium Project	9,812,363	9,812,363	-
FM 78 and Main Street	1,000,000	7,513	992,487
Fire Station 3	8,000,000	435,007	7,564,993
FM 1103 Street Improvements	2,000,000	181,226	1,818,774
Building Improvements	1,600,000	30,364	1,569,636
Main Street Improvements	407,057	-	407,057
FM 1518 Street Improvements	5,000,000	-	5,000,000
Total Governmental Commitments	<u>28,124,261</u>	<u>10,730,071</u>	<u>17,394,190</u>
<i>Business-Type Activities:</i>			
Woman Hollering WasteWater	5,940,424	504,684	5,435,740
Town Creek Sewer Project (Phase III)	931,740	931,740	-
Corbett Ground Storage Tank & Pumps	1,650,000	930	1,649,070
Corbett Elevated Water Tank	2,982,052	286,563	2,695,489
Trainer Hale Road Distribution Main	500,000	-	500,000
Total Business-Type Activities	<u>12,004,216</u>	<u>1,723,917</u>	<u>10,280,299</u>
Total Estimated Future Commitments	<u>\$ 40,128,477</u>	<u>\$ 12,453,988</u>	<u>\$ 27,674,489</u>

*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. The City contracts with the Texas Municipal League Intergovernmental Risk Pool, a public entity risk pool currently operating as a common risk management and insurance program providing insurance coverage in the following areas: general liability, automobile liability and physical damage, law enforcement liability, worker's compensation, real and personal property, mobile equipment, and errors and omissions liability. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts. Annual contributions for the year ended September 30, 2017 were \$435,914 for property and casualty and workers compensation coverage. There were no significant increases or decreases in coverage from fiscal year 2016.

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