

OFFICIAL STATEMENT

Dated September 10, 2018

Rating:
S&P: "AA+"
See "OTHER INFORMATION –
Rating"

NEW ISSUE – Book-Entry-Only

In the opinion of the Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



\$4,225,000
CITY OF LIBERTY HILL, TEXAS
(A political subdivision of the State of Texas located within Williamson County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2018

Dated Date: September 27, 2018
Interest Accrues from the Date of Initial Delivery (defined below)

Due: September 1, as shown on the inside cover page

PAYMENT TERMS . . . Interest on the \$4,225,000 City of Liberty Hill, Texas General Obligation Refunding Bonds, Series 2018 (the "Bonds") will accrue from the Date of Initial Delivery (defined below), will be payable March 1 and September 1 of each year commencing March 1, 2019, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the beneficial owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar named below to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE OBLIGATIONS – Book-Entry-Only System" herein). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "THE OBLIGATIONS – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance (the "Bond Ordinance") adopted by the City Council of the City of Liberty Hill, Texas (the "City") on September 10, 2018. The Bonds are direct obligations of the City payable from the levy and collection of a continuing ad valorem tax levied, within the limits prescribed by law, upon all taxable property within the City as provided in the Bond Ordinance (see "THE OBLIGATIONS – Authority for Issuance" and "THE OBLIGATIONS – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purpose of refunding certain maturities of the City's outstanding obligations (the "Refunded Obligations") (see "SCHEDULE I" herein) to restructure the debt service of such obligations by extending the maturity thereof and to pay the costs of issuing the Bonds (see "PLAN OF FINANCING").

CUSIP PREFIX: 530572
MATURITY SCHEDULE
As Shown on the Inside Cover Page

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having a stated maturity on and after September 1, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE OBLIGATIONS – Optional Redemption"). Additionally, Term Bonds maturing on September 1, 2030 are subject to mandatory sinking fund redemption (see "THE OBLIGATIONS – Mandatory Sinking Fund Redemption – The Bonds").

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the underwriter thereof named below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, Austin, Texas (see "APPENDIX C – Forms of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Antonio, Texas.

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on September 27, 2018 (the "Date of Initial Delivery").

SAMCO CAPITAL MARKETS, INC.

MATURITY SCHEDULE

\$3,730,000 Serial Bonds

9/1 Maturity	Principal Amount	Interest Rate	Initial Yield ⁽¹⁾	CUSIP Numbers ⁽²⁾
2019	\$ 180,000	3.000%	1.730%	530572CV6
2020	175,000	3.000%	1.900%	530572CW4
2021	180,000	3.000%	2.010%	530572CX2
2022	185,000	3.000%	2.170%	530572CY0
2023	190,000	4.000%	2.280%	530572CZ7
2024	200,000	4.000%	2.400%	530572DA1
2025	205,000	4.000%	2.530%	530572DB9
2026	215,000	4.000%	2.630%	530572DC7
2027	225,000	4.000%	2.700%	530572DD5
2028	235,000	4.000%	2.770%	(3) 530572DE3
***	***	***	***	***
2031	260,000	4.000%	2.990%	(3) 530572DH6
2032	275,000	4.000%	3.010%	(3) 530572DJ2
2033	285,000	4.000%	3.080%	(3) 530572DK9
2034	295,000	4.000%	3.130%	(3) 530572DL7
2035	305,000	4.000%	3.180%	(3) 530572DM5
2036	320,000	4.000%	3.240%	(3) 530572DN3

\$495,000 Term Bonds

\$495,000 4.000% Term Bonds due September 1, 2030 to Yield 2.920%⁽¹⁾⁽³⁾ – 530572DG8⁽²⁾

(Interest Accrues from the Date of Initial Delivery)

- (1) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter for offers to the public.
- (2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. None of the City, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
- (3) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on September 1, 2027, the first optional redemption date for such Bonds, at a redemption price of par, plus accrued interest to the redemption date.

SEPARATE ISSUES . . . The Bonds and the \$2,875,000 “City of Liberty Hill, Texas Tax and Water System Surplus Revenue Certificates of Obligation, Series 2018” (the “Certificates”) are being offered by the City concurrently under the same Official Statement, and the Bonds and Certificates are sometimes hereinafter referred to collectively as the “Obligations.” The Bonds and the Certificates are separate and distinct securities offerings being issued and sold independently from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

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OFFICIAL STATEMENT

Dated September 10, 2018

Rating:
S&P: "AA+"
See "OTHER INFORMATION -
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NEW ISSUE – Book-Entry-Only

In the opinion of the Orrick, Herrington & Sutcliffe LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates. See "TAX MATTERS" herein.

THE CERTIFICATES HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



\$2,875,000

CITY OF LIBERTY HILL, TEXAS

(A political subdivision of the State of Texas located within Williamson County)

TAX AND WATER SYSTEM SURPLUS REVENUE CERTIFICATES OF OBLIGATION, SERIES 2018

Dated Date: September 27, 2018

Due: September 1, as shown on the next page

Interest Accrues from the Date of Initial Delivery (defined below)

PAYMENT TERMS . . . Interest on the \$2,875,000 City of Liberty Hill, Texas Tax and Water System Surplus Revenue Certificates of Obligation, Series 2018 (the "Certificates"), will accrue from the Date of Initial Delivery (defined below) and will be payable March 1 and September 1 of each year commencing March 1, 2019, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Certificates will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the book-entry-only system described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar named below to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates (see "THE OBLIGATIONS – Book-Entry-Only System" herein). The initial Paying Agent/Registrar is BOKF, NA, Dallas, Texas (see "THE OBLIGATIONS – Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the "Certificate of Obligation Act of 1971"), Chapter 1502, Texas Government Code, as amended, and an ordinance (the "Certificate Ordinance") adopted by the City Council of the City of Liberty Hill, Texas (the "City") on September 10, 2018. The Certificates are direct obligations of the City payable from the levy and collection of a continuing ad valorem tax levied, within the limits prescribed by law, upon all taxable property within the City as provided in the Certificate Ordinance. The City has also pledged to the payment of the Certificates surplus net revenues of the City's water system, such pledge being limited to \$1,000 (see "THE OBLIGATIONS – Authority for Issuance" and "THE OBLIGATIONS – Security and Source of Payment").

PURPOSE . . . Proceeds from the sale of the Certificates will be used for (i) construction, renovations and improvements to City parks and trails and parking related thereto; (ii) construction, renovations and improvements to City buildings and parking related thereto; (iii) repairs, improvements and extensions to City streets, including sidewalks, traffic signals/controllers, signage and acquisition of land and rights-of-way in connection therewith; (iv) construction, improvements and extension of the City's sewer, water, and drainage systems and acquisition of land and rights-of-way in connection therewith (collectively, items (i)-(iv), the "Project"); and (v) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates.

CUSIP PREFIX: 530572
MATURITY SCHEDULE
As Shown on the Next Page

LEGALITY . . . The Certificates are offered for delivery when, as and if issued and received by the underwriter thereof named below (the "Underwriter") and subject to the approving opinion of the Attorney General of Texas and the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel, Austin, Texas (see "APPENDIX C – Forms of Bond Counsel's Opinions"). Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Antonio, Texas.

DELIVERY . . . It is expected that the Certificates will be available for delivery through DTC on September 27, 2018 (the "Date of Initial Delivery").

SAMCO CAPITAL MARKETS, INC.

MATURITY SCHEDULE

\$1,295,000 Serial Certificates

9/1 Maturity	Principal Amount	Interest Rate	Initial Yield ⁽¹⁾	CUSIP Numbers ⁽²⁾
2020	\$ 100,000	3.000%	1.900%	530572DQ6
***	***	***	***	***
2025	150,000	4.000%	2.530%	530572DV5
2026	160,000	4.000%	2.630%	530572DW3
***	***	***	***	***
2033	210,000	4.000%	3.080% ⁽³⁾	530572ED4
2034	215,000	4.000%	3.130% ⁽³⁾	530572EE2
2035	225,000	4.000%	3.180% ⁽³⁾	530572EF9
2036	235,000	4.000%	3.240% ⁽³⁾	530572EG7

\$1,580,000 Term Certificates

\$335,000 4.000% Term Certificates due September 1, 2028 to Yield 2.770%⁽¹⁾⁽³⁾ – 530572DY9⁽²⁾
\$360,000 4.000% Term Certificates due September 1, 2030 to Yield 2.920%⁽¹⁾⁽³⁾ – 530572EA0⁽²⁾
\$390,000 4.000% Term Certificates due September 1, 2032 to Yield 3.010%⁽¹⁾⁽³⁾ – 530572EC6⁽²⁾
\$495,000 4.000% Term Certificates due September 1, 2038 to Yield 3.300%⁽¹⁾⁽³⁾ – 530572EJ1⁽²⁾

(Interest Accrues from the Date of Initial Delivery)

- (1) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriter for offers to the public.
- (2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are included herein solely for the convenience of the owners of the Certificates. None of the City, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers shown herein.
- (3) Yield calculated based on the assumption that the Certificates denoted and sold at a premium will be redeemed on September 1, 2027, the first optional redemption date for such Certificates, at a redemption price of par, plus accrued interest to the redemption date.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Certificates having a stated maturity on and after September 1, 2028, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see “THE OBLIGATIONS – Optional Redemption”). Additionally, Term Certificates maturing on September 1 in the years 2028, 2030, 2032 and 2038 are subject to mandatory sinking fund redemption (see “THE OBLIGATIONS – Mandatory Sinking Fund Redemption – The Certificates”).

SEPARATE ISSUES . . . The Certificates and the \$4,225,000 “City of Liberty Hill, Texas General Obligation Refunding Bonds, Series 2018” (the “Bonds”) are being offered by the City concurrently under the same Official Statement, and the Certificates and Bonds are sometimes hereinafter referred to collectively as the “Obligations.” The Certificates and the Bonds are separate and distinct securities offerings being issued and sold independently from the other and should be reviewed and analyzed independently, including the type of obligation being offered, its terms for payment, the security for its payment, the rights of the holders, and other features.

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No dealer, broker, salesman or other person has been authorized by the City or the Underwriter 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 or the Underwriter. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy Obligations in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.

The information set forth or included in this Official Statement has been provided by the City or obtained from other sources believed by the City to be reliable. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinion or that they will be realized.

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

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

NONE OF THE CITY, ITS FINANCIAL ADVISOR, OR THE UNDERWRITER MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in the Official Statement pursuant to its responsibility to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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The cover page hereof, this page, the appendices and schedule included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

OFFICIAL STATEMENT SUMMARY

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

THE OBLIGATIONS

THE OBLIGATIONS..... The Bonds are issued as \$4,225,000 General Obligation Refunding Bonds, Series 2018, maturing on September 1 in the years and in the principal amounts set forth on page 2 hereof.

The Certificates are issued as \$2,875,000 Tax and Water System Surplus Revenue Certificates of Obligation, Series 2018, maturing on September 1 in the years and in the principal amounts set forth on page 4 hereof.

The Bonds and the Certificates are sometimes referred to herein collectively as the “Obligations.”

PAYMENT OF INTEREST Interest on the Obligations accrues from the Date of Initial Delivery and is payable March 1, 2019, and each September 1 and March 1 thereafter until maturity or prior redemption. See “THE OBLIGATIONS – General.”

AUTHORITY FOR ISSUANCE The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the “State”), particularly Chapter 1207 of the Texas Government Code, as amended, and an ordinance adopted by the City Council of the City on September 10, 2018 (the “Bond Ordinance”).

The Certificates are issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended (the “Certificate of Obligation Act of 1971”), Chapter 1502, Texas Government Code, as amended, and an ordinance adopted by the City Council of the City on September 10, 2018 (the “Certificate Ordinance”). See “THE OBLIGATIONS – Authority for Issuance.”

SECURITY FOR THE OBLIGATIONS..... The Bonds constitute direct obligations of the City, payable from the levy and collection of a continuing ad valorem tax levied, within the limits prescribed by law, upon all taxable property located within the City as provided in the Bond Ordinance.

The Certificates are direct obligations of the City payable from the levy and collection of a continuing ad valorem tax levied, within the limits prescribed by law, upon all taxable property within the City as provided in the Certificate Ordinance. The City has also pledged to the payment of the Certificates surplus net revenues of the City’s water system, such pledge being limited to \$1,000. See “THE OBLIGATIONS – Security and Source of Payment,” and “– Tax Rate Limitation” herein.

OPTIONAL REDEMPTION The City reserves the right, at its option, to redeem Obligations having stated maturities on and after September 1, 2028, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see “THE OBLIGATIONS – Optional Redemption”). Additionally, Term Bonds maturing on September 1, 2030 and Term Certificates maturing on September 1 in the years 2028, 2030, 2032 and 2038 are subject to mandatory sinking fund redemption (see “THE OBLIGATIONS – Mandatory Sinking Fund Redemption”).

QUALIFIED TAX-EXEMPT OBLIGATIONS..... The City has designated the Obligations as “Qualified Tax-Exempt Obligations” for financial institutions (see “QUALIFIED TAX-EXEMPT OBLIGATIONS”).

TAX EXEMPTION..... In the opinion of Bond Counsel, under existing law, interest on the Obligations is excludable from gross income for federal income tax purposes and the Obligations are not “private activity bonds.” See “TAX MATTERS” for a discussion of the opinion of Bond Counsel, including a description of alternative minimum tax consequences for corporations.

USE OF PROCEEDS Proceeds from the sale of the Bonds will be used for the purpose of refunding certain maturities of the City’s outstanding obligations (the “Refunded Obligations”) (see

“SCHEDULE I” herein) to restructure the debt service of such obligations by extending the maturity thereof and to pay the costs of issuing the Bonds (see “PLAN OF FINANCING”).

Proceeds from the sale of the Certificates will be used for (i) construction, renovations and improvements to City parks and trails and parking related thereto; (ii) construction, renovations and improvements to City buildings and parking related thereto; (iii) repairs, improvements and extensions to City streets, including sidewalks, traffic signals/controllers, signage and acquisition of land and rights-of-way in connection therewith; (iv) construction, improvements and extension of the City’s sewer, water, and drainage systems and acquisition of land and rights-of-way in connection therewith (collectively, items (i)-(iv), the “Project”); and (v) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates.

GENERAL

THE CITY..... The City of Liberty Hill, Texas (the “City”), incorporated in 1999, is a Type A general-law municipality located in Williamson County operating under the laws of the State of Texas (the “State”). The City operates under the aldermanic form of government in which the Mayor and five Councilmembers are elected for staggered two-year terms. Policy making and supervisory functions are the responsibility of, and are vested in, the City Council. The City Council delegates the responsibility of daily operations of the City to the City Administrator who is the chief executive of the City.

The City is approximately 2 square miles in area. See “APPENDIX A – General Information Regarding the City.”

RATING..... The Obligations have been rated “AA+” by S&P Global Ratings (“S&P”). See “OTHER INFORMATION – Rating.”

BOOK-ENTRY-ONLY SYSTEM..... The definitive Obligations will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the book-entry-only system described herein. Beneficial ownership of the Obligations may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Obligations will be made to the beneficial owners thereof. Principal of and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations. See “THE OBLIGATIONS – Book-Entry-Only System.”

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

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	G.O. Tax Debt Outstanding at End Of Year ⁽³⁾	Per Capita G.O. Tax Debt	G.O. Tax Debt to Taxable Assessed Valuation	% of Total Tax Collections
2015	1,383	\$ 125,250,525	\$ 90,564	\$ 5,570,000	\$ 4,027	4.45%	99.79%
2016	1,612	134,616,239	83,509	6,330,000	3,927	4.70%	100.31%
2017	1,650	189,315,712	114,737	5,776,000	3,501	3.05%	100.00%
2018	1,665	227,342,469	136,542	9,641,000 ⁽⁴⁾	5,790	4.24%	99.43% ⁽⁵⁾
2019	1,665	257,077,755	154,401	9,176,000 ⁽⁴⁾	5,511	3.57%	N/A

- (1) Source: The Municipal Advisory Council; estimated population for Fiscal Years 2018 and 2019 provided by the City.
- (2) Valuations shown are certified taxable assessed values reported by the Williamson Central Appraisal District (the “Appraisal District”) to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.
- (3) Includes self-supporting debt.
- (4) Projected; includes the Obligations and excludes the Refunded Obligations.
- (5) Partial collections as of July 5, 2018.

CITY OFFICIALS, STAFF AND CONSULTANTS

Policy making and supervisory functions are the responsibility of and are vested in the Mayor and a five-member City Council (the "Council"). The Mayor and Councilmember elections are held annually in May of each year. The Mayor and Councilmembers serve two-year staggered terms with three councilmembers being elected in odd-numbered years and the Mayor and two councilmembers being elected in the even-numbered years. Administrative responsibilities belong to the City Administrator. Various support services are provided by independent consultants and advisors.

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>
Rick Hall Mayor	6 Months	May 2020
Liz Rundzieher Mayor Pro-Tem	14 Years	May 2019
Liz Branigan Councilmember	6 Years	May 2019
Wendell McLeod Councilmember	16 Years	May 2020
Ron Rhea Councilmember	5 Years	May 2020
Troy Whitehead Councilmember	5 Years	May 2019

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>
Greg Boatright	City Administrator	5 Years
Michel Sorrell	Finance Director	6 Months
Barbara Zwernemann	City Secretary	4½ Years

CONSULTANTS AND ADVISORS

Certified Public AccountantsBelt Harris Pechacek, LLLP
Austin, Texas

Bond Counsel Orrick, Herrington & Sutcliffe LLP
Austin, Texas

Financial Advisor.....Specialized Public Finance Inc.
Austin, Texas

For additional information regarding the City, please contact:

Michel Sorrell Finance Director City of Liberty Hill, Texas 926 Loop 332 Liberty Hill, Texas 78642 (512) 778-5449 (512) 778-5418 Fax	or	Dan Wegmiller Managing Director Specialized Public Finance Inc. 248 Addie Roy Road, Suite B-103 Austin, Texas 78746 (512) 275-7300 (512) 275-7305 Fax
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**OFFICIAL STATEMENT
RELATING TO**

**\$4,225,000
CITY OF LIBERTY HILL, TEXAS
GENERAL OBLIGATION REFUNDING
BONDS, SERIES 2018**

**\$2,875,000
CITY OF LIBERTY HILL, TEXAS
TAX AND WATER SYSTEM SURPLUS REVENUE
CERTIFICATES OF OBLIGATION, SERIES 2018**

INTRODUCTION

GENERAL . . . This Official Statement, which includes the Schedule and Appendices hereto, provides certain information regarding the issuance of the \$4,225,000 City of Liberty Hill, Texas, General Obligation Refunding Bonds, Series 2018 (the “Bonds”) and the \$2,875,000 City of Liberty Hill, Texas Tax and Water System Surplus Revenue Certificates of Obligation, Series 2018 (the “Certificates”). The Bonds are being issued by the City of Liberty Hill, Texas (the “City”) pursuant to an ordinance (the “Bond Ordinance”) adopted by the City Council on September 10, 2018. The Certificates are being issued by the City pursuant to an ordinance (the “Certificate Ordinance”) adopted by the City Council on September 10, 2018. The Bond Ordinance and the Certificate Ordinance are sometimes referred to herein collectively as the “Ordinances.” In addition, the Bonds and the Certificates are sometimes referred to herein collectively as the “Obligations.” Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinances, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Obligations and certain information regarding the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Financial Advisor, Specialized Public Finance Inc., Austin, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. Copies of the final Official Statement pertaining to the Obligations will be deposited with the Municipal Securities Rulemaking Board, 1900 Duke Street, Suite 600, Alexandria, Virginia 22314. See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the City’s undertaking to provide certain information on a continuing basis.

DESCRIPTION OF THE CITY . . . The City is a Type A general-law municipality located in Williamson County, Texas, duly organized and existing under the laws of the State of Texas (the “State”). The City operates under an aldermanic form of government with a City Council comprised of the Mayor and five Councilmembers with terms expiring in staggered two-year terms. The City Administrator is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police), streets, water and sanitary sewer utilities, public improvements, planning and zoning, and general administrative services. The 2018 estimated population is 1,665. The City covers approximately 2 square miles.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used for the purpose of refunding certain maturities of the City’s outstanding obligations (the “Refunded Obligations”) (see “SCHEDULE I – Schedule of Refunded Obligations” herein) to restructure the debt service of such obligations by extending the maturity thereof and to pay the costs of issuing the Bonds.

Proceeds from the sale of the Certificates will be used for (i) construction, renovations and improvements to City parks and trails and parking related thereto; (ii) construction, renovations and improvements to City buildings and parking related thereto; (iii) repairs, improvements and extensions to City streets, including sidewalks, traffic signals/controllers, signage and acquisition of land and rights-of-way in connection therewith; (iv) construction, improvements and extension of the City’s sewer, water, and drainage systems and acquisition of land and rights-of-way in connection therewith (collectively, items (i)-(iv), the “Project”); and (v) payment of professional services of attorneys, financial advisors, engineers and other professionals in connection with the Project and the issuance of the Certificates.

REFUNDED OBLIGATIONS . . . The principal of and interest due on the Refunded Obligations are to be paid on the redemption date of such Refunded Obligations, as applicable, from funds to be deposited pursuant to a certain deposit letter (the “Deposit Letter”) between the City and Wells Fargo Bank, N.A., as paying agent/registrar for the Refunded Obligations (the “2006 Paying Agent”). The Bond Ordinance provides that from the proceeds of the sale of the Bonds received from the Underwriter, together with other funds of the City (if any), the City will deposit with the 2006 Paying Agent the cash necessary to accomplish the discharge and final payment of the Refunded Obligations on their respective redemption dates, as applicable. Specialized Public Finance Inc., in its capacity as Financial Advisor to the City, will certify as to the sufficiency (such certification, the “Sufficiency Certificate”) of the amount initially deposited to the Defeasance Fund (as defined below) without regard to investment, to pay the principal and interest on the Refunded Obligations, when due, at their date of redemption. Such funds will be held by the 2006 Paying Agent in a special segregated account (the “Defeasance Fund”).

SOURCES AND USES OF PROCEEDS . . . The proceeds from the sale of the Obligations will be applied approximately as follows:

Sources:	<u>The Bonds</u>	<u>The Certificates</u>
Principal	\$ 4,225,000.00	\$ 2,875,000.00
Reoffering Premium	<u>296,529.60</u>	<u>208,368.20</u>
Total Sources	\$ 4,521,529.60	\$ 3,083,368.20
Uses:		
Deposit to Defeasance Fund	\$ 4,419,002.25	\$ 0.00
Deposit to Construction Fund	0.00	3,000,000.00
Deposit to Interest and Sinking Fund	391.44	2,730.66
Underwriter's Discount	32,068.72	25,200.04
Costs of Issuance	<u>70,067.19</u>	<u>55,437.50</u>
Total Uses	\$ 4,521,529.60	\$ 3,083,368.20

THE OBLIGATIONS

GENERAL . . . The Obligations are dated September 27, 2018, and mature on September 1 in each of the years and in the amounts shown on the inside covers 2 and 4, respectively, hereof. Interest will accrue from the Date of Initial Delivery, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on September 1 and March 1 until maturity or prior redemption commencing March 1, 2019. The definitive Obligations will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the book-entry only system described herein. **No physical delivery of the Obligations will be made to the beneficial owners thereof.** Principal of and interest on the Obligations will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Obligations. See "Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State, particularly Chapter 1207 of the Texas Government Code, as amended, and the Bond Ordinance.

The Certificates are being issued pursuant to the Constitution and general laws of the State, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, Chapter 1502, Texas Government Code, as amended, and the Certificate Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The Bonds constitute direct obligations of the City payable, both as to principal and interest, from the levy and collection of a continuing ad valorem tax, within the limits prescribed by law, upon all taxable property within the City.

The Certificates are direct obligations of the City payable from the levy and collection of a continuing ad valorem tax levied, within the limits prescribed by law, upon all taxable property within the City as provided in the Certificate Ordinance. The City has also pledged to the payment of the Certificates surplus net revenues of the City's water system, such pledge being limited to \$1,000. See "THE OBLIGATIONS – Tax Rate Limitation" and "TAX INFORMATION" herein.

TAX RATE LIMITATION . . . Article XI, Section 4 of the State Constitution is applicable to the City and limits its maximum ad valorem tax rate to \$1.50 per \$100 taxable assessed valuation for all City purposes. Administratively, the Attorney General of Texas will permit the allocation of \$1.00 of the \$1.50 maximum tax rate for ad valorem tax debt service.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Obligations having stated maturities on and after September 1, 2028, in whole or from time to time in part, in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2027, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. If an Obligation subject to redemption is in a denomination larger than \$5,000, a portion of such Obligation may be redeemed, but only in integral multiples of \$5,000. In selecting portions of Obligations for redemption, each Obligation shall be treated as representing that number of Obligations of \$5,000 denomination which is obtained by dividing the principal amount of such Obligation by \$5,000. Additionally, Term Bonds maturing on September 1, 2030 and Term Certificates maturing on September 1 in the years 2028, 2030, 2032 and 2038 are subject to mandatory sinking fund redemption. If less than all the Obligations are to be redeemed, the City shall determine the maturities and amounts to be redeemed. If less than all the Obligations of a particular maturity are to be redeemed, the Paying Agent/Registrar shall select by lot or other customary random selection method the Obligations or portions thereof to be redeemed.

MANDATORY SINKING FUND REDEMPTION:

THE BONDS . . . The Bonds maturing on September 1, 2030 (the “Term Bonds”) are subject to mandatory sinking fund redemption in the following amounts, on the following dates in each case at a redemption price equal to the principal amount of the Bonds or the portions thereof so called for redemption plus accrued interest to the date fixed for redemption:

<u>Term Bonds Due September 1, 2030</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2029	\$ 245,000
September 1, 2030*	250,000

*Stated Maturity.

The particular Term Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random selection method, on or before January 1 of each year in which Term Bonds are to be mandatorily redeemed. The principal amount of Term Bonds to be mandatorily redeemed in each year shall be reduced by the principal amount of such Term Bonds that have been optionally redeemed and which have not been made the basis for a previous reduction.

THE CERTIFICATES . . . The Certificates maturing on September 1 in the years 2028, 2030, 2032 and 2038 (the “Term Certificates”) are subject to mandatory sinking fund redemption in the following amounts, on the following dates in each case at a redemption price equal to the principal amount of the Certificates or the portions thereof so called for redemption plus accrued interest to the date fixed for redemption:

<u>Term Certificates Due September 1, 2028</u>		<u>Term Certificates Due September 1, 2030</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2027	\$ 165,000	September 1, 2029	\$ 175,000
September 1, 2028*	170,000	September 1, 2030*	185,000

<u>Term Certificates Due September 1, 2032</u>		<u>Term Certificates Due September 1, 2038</u>	
<u>Redemption Date</u>	<u>Principal Amount</u>	<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2031	\$ 190,000	September 1, 2037	\$ 245,000
September 1, 2032*	200,000	September 1, 2038*	250,000

*Stated Maturity.

The particular Term Certificates to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary random selection method, on or before January 1 of each year in which Term Certificates are to be mandatorily redeemed. The principal amount of Term Certificates to be mandatorily redeemed in each year shall be reduced by the principal amount of such Term Certificates that have been optionally redeemed and which have not been made the basis for a previous reduction.

NOTICE OF REDEMPTION . . . Not less than thirty (30) days prior to a redemption date for the Obligations, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the Owners of such Obligations to be redeemed at the address of the Owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the business day next preceding the date of mailing such notice.

In the respective Ordinances, the City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem such Obligations conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Obligations subject to conditional redemption where such redemption has been rescinded will remain Outstanding, and the rescission of such redemption will not constitute an Event of Default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an Event of Default.

ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN AND SUBJECT, IN THE CASE OF AN OPTIONAL REDEMPTION, TO ANY RIGHTS OR CONDITIONS RESERVED BY THE CITY IN THE NOTICE, THE

OBLIGATIONS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY OBLIGATION OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH OBLIGATION OR PORTION THEREOF SHALL CEASE TO ACCRUE.

DTC REDEMPTION PROVISIONS . . . The Paying Agent/Registrar and the City so long as a book-entry-only system is used for the Obligations, will send any notice of redemption or other notices with respect to the Obligations to DTC (as defined below). Any failure by DTC to advise any DTC Participant, or of any Direct Participant (as defined below) or Indirect Participant (as defined below) to notify the beneficial owner, shall not affect the validity of the redemption of the bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Obligations by the City will reduce the outstanding principal amount of such Obligations held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Obligations held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Obligations and such redemption will not be conducted by the City or the Paying/Agent Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC Participants, Indirect Participants or persons for whom DTC Participants, or beneficial owners of the selection of portions of the Obligations for redemption.

DEFEASANCE . . . The Ordinances provide that the Obligations may be defeased, discharged or refunded in any manner permitted by applicable law.

AMENDMENTS TO THE ORDINANCES . . . In the Ordinances, the City has reserved the right, without the consent of or notice to the Owners, from time to time and at any time to amend each Ordinance in any manner not detrimental to the interests of the Owners of such Obligations, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the Owners of a majority in aggregate principal amount of such respective Obligations then Outstanding, amend, add to or rescind any of the provisions of such Ordinance; provided, that, without the consent of all of the Owners of all related Obligations then Outstanding, no such amendment, addition, or rescission shall:

- (a) extend the time or times of payment of the principal of and interest on the Obligations;
- (b) reduce the redemption price of any Obligation;
- (c) reduce the rate of interest borne by any of the related Obligations;
- (d) reduce the amount of the principal payable on the related Obligations;
- (e) modify the terms of payment of principal of or interest on the related Obligations;
- (f) give any preference to any Obligation over any other Obligation; or
- (g) reduce the aggregate principal amount of Obligations required to be held by Owners for consent to any such amendment, addition or recession.

Obligations owned or held by or for the account of or for the benefit of the City shall not be deemed to be outstanding for the purpose of amending the Ordinances.

OBLIGATION HOLDERS' REMEDIES . . . Each Ordinance establishes specific events of default with respect to each respective series of Obligations. If the City defaults in the payment of principal of or interest on any of the Obligations of a particular series when due, or, defaults in payments required to be made into the applicable debt service fund, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in such Ordinance, each Ordinance provides that any Owner of such series is entitled to seek a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the City and the official thereof to observe and perform the covenants, obligations, or conditions prescribed in such Ordinance. Any delay or omission to exercise any right or power shall not be construed to be a waiver of any such default or acquiescence therein, and every such right or power may be exercised from time to time and as often as may be deemed expedient. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance under the Obligations or such Ordinance and the City's obligations are not uncertain or disputed. The remedy 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 a series of the Obligations in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year.

The Ordinances do not provide for the appointment of a trustee to represent the interest of the Owners of the Obligations upon any failure of the City to perform in accordance with the terms of the Ordinances, 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 Owners.

The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's governmental immunity from a suit for money damages, Owners may not be able to bring such a suit against the City for breach of the Obligations or covenants in the Ordinances. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the 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 Obligations.

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 governmental and proprietary functions is not clear, the Wasson opinion held that the Proprietary-Governmental Dichotomy applies in a contract-claims context. The Court reviewed Wasson again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship. 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 judgement, is justiciable against a municipality.

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 opinions of bond counsel will note that all opinions with respect to the rights of the Owners of the Obligations are subject to the applicable provisions of federal bankruptcy laws and any other similar laws affecting the rights of creditors of political subdivisions generally, and may be limited by general principles of equity which permit the exercise of judicial discretion.

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

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

DTC will act as securities depository for the Obligations. The Obligations will be issued as fully-registered Obligations 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 certificate will be issued for each maturity of the Obligations, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Obligations under the DTC system must be made by or through Direct Participants, which will receive a credit for the Obligations on DTC’s records. The ownership interest of each actual purchaser of each Obligation (“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 Obligations are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Obligations, except in the event that use of the book-entry system for the Obligations is discontinued.

To facilitate subsequent transfers, all Obligations deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Obligations with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Obligations; DTC's records reflect only the identity of the Direct Participants to whose accounts such Obligations 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 Obligations may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Obligations, such as redemptions, tenders, defaults, and proposed amendments to the Obligation documents. For example, Beneficial Owners of Obligations may wish to ascertain that the nominee holding the Obligations 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 Obligations within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

All payments on the Obligations will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable 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 Obligations held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend 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 Obligations at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, certificates are required to be printed and delivered to the owners thereof.

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

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

USE OF CERTAIN TERMS IN OTHER SECTIONS OF THIS OFFICIAL STATEMENT. In reading this Official Statement it should be understood that while the Obligations are in the Book-Entry-Only System, references in other sections of this Official Statement to Owners should be read to include the person for which the DTC Participant acquires an interest in the Obligations, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to Owners under the Ordinances will be given only to DTC.

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

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar for the Obligations is BOKF, NA, Dallas, Texas. Interest on and principal of the Obligations will be payable, and transfer functions will be performed, at the office for payment of the Paying Agent/Registrar in Dallas, Texas (the "Designated Payment/Transfer Office"). In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Obligations are duly paid. Any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the State or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Obligations. Upon any change in the Paying Agent/Registrar for the Obligations, the City agrees to promptly cause a written

notice thereof to be sent to each Owner of the Obligations by United States mail, first-class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

TRANSFER, EXCHANGE AND REGISTRATION . . . Obligations shall be transferable only upon the presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar, accompanied by an assignment duly executed by the Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Obligation for transfer, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor, within seventy-two (72) hours after such presentation, a new Obligation or Obligations, registered in the name of the transferee or transferees, in authorized denominations, of the same series of the same maturity, aggregate principal amount and bearing interest at the same rate as the Obligation or Obligations so presented and surrendered. All Obligations shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar for an Obligation or Obligations, maturity and interest rate and in any authorized denomination, in an aggregate principal amount equal to the unpaid principal amount of the Obligation or Obligations presented for exchange. All Obligations issued in transfer or exchange shall be delivered to the Owners thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar or sent by United States mail, first class, postage prepaid. The City or the Paying Agent/Registrar may require the Owner of any Obligation to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Obligation. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the City. The Paying Agent/Registrar shall not be required to transfer or exchange any Obligation called for redemption in whole or in part during the forty-five (45) day period immediately prior to the date fixed for redemption; provided, however, that this restriction shall not apply to the transfer or exchange by the Owner of the unredeemed portion of an Obligation called for redemption in part. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Obligations.

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the Obligations on any interest payment date means the close of business on the fifteenth (15th) day of the month preceding such 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 (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Such Special Record Date shall be fifteen (15) days prior to the date fixed for payment of such past due interest, and notice of the date of payment and the Special Record Date shall be sent at least five days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Owner as of the close of business on the day prior to mailing such notice.

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TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Williamson Central Appraisal District (the "Appraisal District"). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Property Tax Code to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market rate comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. 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 for the most recent tax year that the market value was determined by the appraisal office; or (2) the sum of (a) 10 percent of the appraised value of the property for the preceding tax year, plus (b) the appraised value of the property for the preceding tax year, plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least once every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

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

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

Except for certain exemptions provided by State law, all real and certain tangible personal property with a tax situs in the City is subject to taxation by the City. Principal categories of exempt property (including certain exemptions which are subject to local option by the City) include property owned by the State 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 City 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 nonprofit corporation used in scientific research and educational activities benefiting a college or university; and designated historic sites. Other principal categories of exempt property include tangible personal property not held or used for production of income; solar and windpowered energy devices; most individually owned automobiles; and certain classes of intangible property.

Under Article VIII, Section 1-b, and State law, the governing body of a political subdivision, at its option, may grant: (1) an exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; and (2) an exemption of up to 20% of the market value of residence homesteads, subject to a minimum exemption under this provision of \$5,000. After the exemption described in clause (1) above is authorized, such exemption may be repealed, decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of the decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value. The surviving spouse of an individual who qualifies for the foregoing exemption for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased taxpayer qualified if (i) the taxpayer died in a year in which the taxpayer qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the taxpayer and (iii) the property was the residence homestead of the surviving spouse when the taxpayer died and remains the residence homestead of the surviving spouse. Effective until December 31, 2019, the governing body of a municipality that adopted an exemption described in clause (2) above for the 2014 tax year (fiscal year 2015) may not reduce the amount of or repeal such exemption.

In the case of residence homestead exemptions granted under Article VIII, Section 1-b, 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.

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.

In addition, cities are authorized to refrain from increasing the total ad valorem tax (except for increases attributable to certain improvements) on the residence homestead of the disabled or persons 65 years of age or older and their spouses above the amount of tax imposed in the later of (1) the year such residence qualified for an exemption based upon the disability or age of the owner or (2) the year the city chooses to establish the above-referenced limitation. Also, upon receipt of a petition signed by five percent of the registered voters of the City an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons who are 65 years of age or older or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes improved is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repealed or rescinded.

Article VIII provides that eligible owners of both agricultural land (Section 1-d) and open-space land (Section 1-d-1), including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation and the appraiser is required 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 City 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 designation. The same land may not be qualified under both Section 1-d and 1-d-1.

Nonbusiness personal property, such as automobiles or light trucks, are exempt from ad valorem taxation unless the governing body of a political subdivision elects to tax this property. Boats owned as nonbusiness property are exempt from ad valorem taxation.

Article VIII, Section 1-j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal. In addition, under Article VIII, Section 1-n and Section 11.253 of the Texas Tax Code, "goods-in-transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is detained at a location in the state in which the owner of the property does not have a direct or indirect ownership interest for assembling, storing, manufacturing, processing, or fabricating purposes by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail 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.

Article VIII, Section 1-1, 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.

The City may create one or more tax increment reinvestment zones ("TIRZ") within the City and freeze the taxable values of property in the TIRZ at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIRZ may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIRZ in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIRZ. Taxes levied by the City against the values of real property in the TIRZ in excess of the "frozen" value are not available for general city use but are restricted to paying or

financing “project costs” within the TIRZ. The City also may enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The City in turn agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code, 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, a 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.

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The City Council is required to adopt a tax rate per \$100 taxable value for the current year before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Tax Code, the City must annually calculate and publicize its “effective tax rate” and “rollback tax rate”. A tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City’s website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

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

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

The Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year. Reference is made to the Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

PROPERTY ASSESSMENT AND TAX PAYMENT . . . Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September 1. Oil and gas reserves are assessed on the basis of a valuation process that uses 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. Certain taxpayers, including the disabled, persons 65 years or older and disabled veterans, who qualified for certain tax exemptions, are permitted by State law to pay taxes on homesteads in four installments with the first due before February 1 of each year and the final installment due before August 1.

PENALTIES AND INTEREST . . . Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

Month	Cumulative Penalty	Cumulative Interest	Total
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July an attorney’s collection fee of up to 20% may be added to the total tax penalty and interest charge. Under certain circumstances,

taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City’s lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

CITY APPLICATION OF TAX CODE . . . The City grants a local option exemption to the market value of the residence homestead of persons 65 years of age or older and the disabled of \$3,000.

The City has not granted an additional local option exemption of 20% of the market value of residence homesteads; minimum exemption of \$5,000.

See Table 1 for a listing of the amounts of the exemptions described above.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property and the Williamson Central Appraisal District collects taxes for the City.

The City does not permit split payments, and discounts are not allowed.

The City has not taken action to tax freeport property. The City has not taken action to tax goods-in-transit.

The City does collect an additional half cent sales tax for economic development.

The City does collect an additional one-fourth cent sales tax for a street maintenance fund.

The City does not have a sales tax reduction of ad valorem taxes.

TAX INCREMENT FINANCING ZONES . . . The City has created “Reinvestment Zone Number Two, City of Liberty Hill, Texas” (“TIRZ No. 2”) to facilitate the development of certain public improvements within the Summerlyn West development.

TABLE 1 – VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2018/19 Market Valuation Established by Williamson Central Appraisal District		
(excluding totally exempt property and exempt agricultural use value)		\$ 263,698,076
Less Exemptions/Reductions		<u>6,620,321</u>
2018/19 Taxable Assessed Valuation		\$ 257,077,755
Debt Payable from Ad Valorem Taxes (as of 7/31/2018)	\$ 2,946,000	(1)
The Bonds	4,225,000	
The Certificates	<u>2,875,000</u>	
Debt Payable from Ad Valorem Taxes	\$ 10,046,000	
Less: Self-Supporting Debt	<u>(4,630,000)</u>	(2)
Net Debt Payable from Ad Valorem Taxes	\$ 5,416,000	
Interest and Sinking Fund (as of 7/31/2018)	\$ 259,588	
Ratio Tax Supported Debt to Taxable Assessed Valuation		2.11%

2019 Estimated Population - 1,665
Per Capita Taxable Assessed Valuation - \$154,401
Per Capita Net Debt Payable from Ad Valorem Taxes - \$3,253

(1) Excludes the Refunded Obligations.

(2) While the security for the Bonds is the City’s ad valorem tax, the City intends that repayment of the Bonds will be funded entirely from Net Revenues of the City’s water system. If Net Revenues of the City’s water system are not sufficient to repay the Bonds, the City is required to levy an ad valorem tax rate sufficient for repayment of the Bonds.

TABLE 2 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population ⁽¹⁾	Taxable Assessed Valuation ⁽²⁾	Taxable Assessed Valuation Per Capita	Funded Debt Outstanding at End Of Year ⁽³⁾	Ratio of G.O. Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2015	1,383	\$ 125,250,525	\$ 90,564	\$ 5,570,000	4.45%	\$ 4,027
2016	1,612	134,616,239	83,509	6,330,000	4.70%	3,927
2017	1,650	189,315,712	114,737	5,776,000	3.05%	3,501
2018	1,665	227,342,469	136,542	9,641,000 ⁽⁴⁾	4.24%	5,790
2019	1,665	257,077,755	154,401	9,176,000 ⁽⁴⁾	3.57%	5,511

- (1) Source: The Municipal Advisory Council; estimated population for Fiscal Years 2018 and 2019 provided by the City.
 (2) Valuations shown are certified taxable assessed values reported by the Williamson Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.
 (3) Includes self-supporting debt.
 (4) Projected; includes the Obligations and excludes the Refunded Obligations.

TABLE 3 – TAX RATE, LEVY AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	General Fund	Interest and Sinking Fund	Tax Levy	% Current Collections	% Total Collections
2014	\$ 0.5364	\$ 0.0787	\$ 0.4577	\$ 622,807	98.66%	99.27%
2015	0.5364	0.0990	0.4374	650,314	98.91%	99.79%
2016	0.5278	0.1003	0.4275	704,400	99.11%	100.31%
2017	0.5000	0.0973	0.4027	942,234	99.45%	100.00%
2018	0.5000	0.3566	0.1434	1,110,262	99.02% ⁽¹⁾	99.43% ⁽¹⁾

- (1) Partial collections as of July 5, 2018.

TABLE 4 – TEN LARGEST TAXPAYERS⁽¹⁾

Name of Taxpayer	2018/19 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
Merridel Achievement Center Inc.	\$ 7,558,446	2.94%
Oldcastle Materials Texas Production	5,206,588	2.03%
LGI Homes-Texas LLC	4,644,556	1.81%
P&L Investor Group LP	4,405,216	1.71%
Liberty Trails LP	4,249,163	1.65%
Pedernales Electric Cooperative Inc.	4,060,714	1.58%
Mazursky Hawkins Partners II LP	3,454,719	1.34%
Dilley Development LLC	3,378,148	1.31%
LH Storage LLC	3,196,573	1.24%
Carranza, Maria Elena	3,109,384	1.21%
	<u>\$ 43,263,507</u>	<u>16.83%</u>

- (1) As shown in the table above, the top ten taxpayers in the City account for in excess of 16% of the City’s tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the City, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Obligations may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See “THE OBLIGATIONS – Obligation Holders’ Remedies” and “TAX INFORMATION” in this Official Statement.

TABLE 5 – ESTIMATED OVERLAPPING DEBT

Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. This statement of direct and estimated overlapping ad valorem tax debt (“Tax Debt”) was developed from information contained in “Texas Municipal Reports” published by the Municipal Advisory Council of Texas. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional bonds since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	Total G.O. Tax Debt	Estimated % Applicable	City's Overlapping G.O. Tax Debt as of 6/30/18
City of Liberty Hill	\$ 5,416,000	100.00%	\$ 5,416,000 ⁽¹⁾
Liberty Hill ISD	141,401,272	12.50%	17,675,159
Williamson County	895,874,942	0.35%	3,135,562
Total Direct and Overlapping Net Funded Debt			\$ 26,226,721 ⁽¹⁾
Ratio of Direct and Overlapping Net Funded Debt to Taxable Assessed Valuation			10.20% ⁽¹⁾
Per Capita Direct and Overlapping Net Funded Debt			\$ 15,752 ⁽¹⁾

(1) Excludes the Refunded Obligations and includes the Obligations.

DEBT INFORMATION

TABLE 6 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ending 9/30	Outstanding Debt ⁽¹⁾		The Bonds ⁽²⁾		The Certificates ⁽³⁾		Self- Supporting Debt	Total Tax- Supported Debt Service
	Principal	Interest	Principal	Interest	Principal	Interest		
2018	\$ 691,000	\$ 166,924	\$ -	\$ -	\$ -	\$ -	\$ 532,910	\$ 325,014
2019	285,000	39,686	180,000	150,114	-	105,767	330,114	430,453
2020	289,000	36,140	175,000	156,400	100,000	114,000	331,400	539,140
2021	480,000	30,642	180,000	151,150	-	111,000	331,150	621,642
2022	487,000	23,022	185,000	145,750	-	111,000	330,750	621,022
2023	495,000	14,579	190,000	140,200	-	111,000	330,200	620,579
2024	505,000	5,075	200,000	132,600	-	111,000	332,600	621,075
2025	-	-	205,000	124,600	150,000	111,000	329,600	261,000
2026	-	-	215,000	116,400	160,000	105,000	331,400	265,000
2027	-	-	225,000	107,800	165,000	98,600	332,800	263,600
2028	-	-	235,000	98,800	170,000	92,000	333,800	262,000
2029	-	-	245,000	89,400	175,000	85,200	334,400	260,200
2030	-	-	250,000	79,600	185,000	78,200	329,600	263,200
2031	-	-	260,000	69,600	190,000	70,800	329,600	260,800
2032	-	-	275,000	59,200	200,000	63,200	334,200	263,200
2033	-	-	285,000	48,200	210,000	55,200	333,200	265,200
2034	-	-	295,000	36,800	215,000	46,800	331,800	261,800
2035	-	-	305,000	25,000	225,000	38,200	330,000	263,200
2036	-	-	320,000	12,800	235,000	29,200	332,800	264,200
2037	-	-	-	-	245,000	19,800	-	264,800
2038	-	-	-	-	250,000	10,000	-	260,000
	\$ 3,232,000	\$ 316,068	\$ 4,225,000	\$ 1,744,414	\$ 2,875,000	\$ 1,566,967	\$ 6,502,324	\$ 7,457,124

(1) Excludes the Refunded Obligations.

(2) Interest on the Bonds has been calculated at the rates shown on page 2 hereof.

(3) Interest on the Certificates has been calculated at the rates shown on page 4 hereof.

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION DEBT . . . None.

ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT . . . The City does not anticipate issuing any tax supported debt within the next 6 months.

OTHER OBLIGATIONS . . . For more information on other obligations, see Notes to Financial Statements, III.D. “Detailed Notes on All Funds, Long-Term Debt,” in the Excerpts from the City’s Annual Financial Report for Fiscal Year Ended September 30, 2017, attached hereto as APPENDIX B. The City does not have any additional outstanding leases of June 30, 2018.

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System (“TMRS”), a State-wide administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. Plan members are required to contribute 7% of their annual covered salary. The contribution rates for the City were 7.25% and 7.55% in calendar years 2016 and 2017, respectively. The City’s contributions to TMRS for the fiscal year ended September 30, 2017 were \$83,387, which were equal to the required contributions. (For more detailed information concerning the retirement plan, see Notes to Financial Statements, IV.C. “Other Information, Pension Plan” in the Excerpts from the City’s Annual Financial Report for Fiscal Year Ended September 30, 2017, attached hereto as APPENDIX B.)

OTHER POST-EMPLOYMENT BENEFITS . . . In addition to providing pension benefits through the TMRS, the City has opted to provide eligible retired employees with post-employment group term life insurance coverage.

The Governmental Accounting Standards Board (“GASB”) released the Statement of General Accounting Standards No. 45 (“GASB 45”), Accounting by Employers for Other Post-Employment Benefits (“OPEB”), in June 2004. The City was required to implement GASB 45, for the fiscal year beginning October 1, 2008. GASB 45 sets forth standards for the measurement, recognition, and display of post-employment benefits, other than pensions, such as health and life insurance for current and future retirees. Those subject to this pronouncement are required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and (iii) provide information useful in assessing potential demands on the employer’s future cash flows. The employer’s contributions to OPEB costs that are less than an actuarially determined annual require contribution will result in a net OPEB cost, which under GASB 45 will be required to be recorded as a liability in the employer’s financial statements.

See Notes to Financial Statements, IV.D. “Other Information, Other Post-Employment Benefits” in the Excerpts from the City’s Annual Financial Report for Fiscal Year Ended September 30, 2017, attached hereto as APPENDIX B.

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FINANCIAL INFORMATION

TABLE 7 – GENERAL FUND REVENUES AND EXPENDITURE HISTORY

	Fiscal Year Ending September 30,				
	2017	2016	2015	2014	2013
<u>Revenues:</u>					
Taxes	\$ 977,913	\$ 862,249	\$ 775,644	\$ 635,567	\$ 697,920
Fines and Forfeitures	181,149	138,215	132,137	81,471	191,606
Licenses and Permits	895,316	617,460	565,546	217,916	56,610
Development Agreements	542,500	-	-	-	24,383
Investment Earnings	363	-	-	-	-
Intergovernmental	4,544	284,256	-	52,556	98,085
Other	331,048	1,046,864	141,237	231,623	3,200
Total Revenues	\$ 2,932,833	\$ 2,949,044	\$ 1,614,564	\$ 1,219,133	\$ 1,071,804
<u>Expenditures:</u>					
General Government	\$ 1,908,693	\$ 1,309,053	\$ 555,269	\$ 382,430	\$ 513,380
Municipal Court	176,478	154,845	141,353	124,265	-
Police Department	671,111	470,186	504,167	356,493	345,307
Parks and Recreation	84,559	75,290	108,155	101,444	225,772
Debt Service	-	-	-	-	-
Total Expenses	\$ 2,840,841	\$ 2,009,374	\$ 1,308,944	\$ 964,632	\$ 1,084,459
Excess (Deficiency) of Revenues over Expenditures	\$ 91,992	\$ 939,670	\$ 305,620	\$ 254,501	\$ (12,655)
Operating Transfers In	\$ 156,000	\$ 745,860	\$ 162,366	\$ 285,863	\$ 163,681
Issuance of Debt	-	1,135,000	-	-	-
Operating Transfers Out	(1,767,616) ⁽¹⁾	-	-	-	(61,679)
Net Increase (Decrease)	\$ (1,519,624)	\$ 2,820,530	\$ 467,986	\$ 540,364	\$ 89,347
Fund Balance at Beginning of Year	4,121,274	1,300,744	832,758	292,394	600,911
Adjustments to Fund Balance	-	-	-	-	-
Fund Balance at End of Year	\$ 2,601,650 ⁽²⁾	\$ 4,121,274	\$ 1,300,744	\$ 832,758	\$ 690,258

Source: The City’s audited financial statements.

- (1) In 2017, the capital improvement fund was created and reported a fund balance of \$1,767,616 as of year-end, representing a transfer of the same amount from the General Fund. This transfer to the capital improvement fund is to be used to improve many facilities and parks throughout the City. See “APPENDIX B – Excerpts from the City of Liberty Hill, Texas Annual Financial Report for the year ended September 30, 2017 – Management Discussion and Analysis.”
- (2) For fiscal year ending September 30, 2018, the anticipated unaudited General Fund balance is expected to be approximately \$3,500,000.

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TABLE 8 – MUNICIPAL SALES TAX HISTORY

The City has adopted the Municipal Sales and Use Tax Act, Chapter 321, Texas Tax Code, which grants the City the power to impose and levy a 1.0% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Obligations. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts of the State of Texas, which remits the proceeds of the tax after deduction of a 2% service fee to the City monthly.

Fiscal Year Ended 9/30	Total Collected ⁽¹⁾	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2014	\$ 438,521	70.41%	\$ 0.3501	\$ 419
2015	546,472	84.03%	0.4059	395
2016	603,241	85.64%	0.3186	374
2017	668,671	70.97%	0.2941	405
2018 ⁽²⁾	688,982	62.06%	0.3204	414

(1) Excludes 1/2% sales and use tax collected for economic development. Includes 1/4% sales and use tax collected for street maintenance fund.

(2) Partial collections as of July 13, 2018.

The Tax Code provides certain cities and counties 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 estimated amount of the sales tax revenues to be generated in the current year. Subject to the approval of a majority of the voters in a local option election, state law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues. The City has not adopted this local option.

State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6¼%).

The City collects a one-fourth percent (1/4%) sales and use tax for a street maintenance fund and an additional one-half percent (1/2%) sales and use tax for economic development. Levy of the additional sales and use tax began on October 1, 1995.

FINANCIAL POLICIES

BASIS OF ACCOUNTING . . . The City’s accounting system is conducted on the modified accrual basis of accounting for all governmental fund types, expendable trust funds and agency funds. Under this basis, expenditures are recorded when liabilities are incurred; and, revenues are recorded when they become measurable and available as net current assets. The accrual basis of accounting is followed for the proprietary and non-expendable trust funds. Under the accrual basis, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recorded in the accounting period incurred, if measurable.

GASB 34 ADOPTION BY THE CITY . . . In June 1999, the Governmental Accounting Standards Board issued GASB 34. The objective of GASB 34 is to enhance the clarity and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The City implemented GASB 34 for its fiscal year ending September 30, 2003. While the adoption of GASB 34 has altered the presentation of some financial information, and the City has devoted additional resources to implementing GASB 34, the City believes that there has been no material adverse impact to its financial position, results of operation, or cash flows as a result of the implementation of GASB 34.

DEBT SERVICE FUND BALANCE . . . A reasonable debt service fund balance is maintained in order to compensate for unforeseen events.

BUDGETARY PROCEDURES . . . General law requires the City Administrator submit to the City Council a proposed operating budget for the year commencing the following October 1, at least 30 days prior to the date the City Council adopts the tax rate. The operating budget includes proposed expenditures and the means of financing them. A public hearing is conducted and the budget is adopted no earlier than 15 days after the date the City Administrator submitted the budget to the City Council and no later than the date the City Council adopts the tax rate.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Under State law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which 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 City deposits, or (ii) certificates of deposit where (a) the funds are invested by the City 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 City 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 City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the City with respect to the certificates of deposit issued for the account of the City; (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 City or cash held by the City to be pledged to the City, held in the City's name and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and (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 City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (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 City 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 City 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 City and deposited with the City or with a third party selected and approved by the City.

INVESTMENT POLICIES . . . Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in

investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each funds' investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield. The City is required to designate one or more officers or employees as investment officers to be responsible for the investment of its funds. In the administration of the duties of an investment officer, the person so designated shall exercise the judgment and care, under prevailing circumstances that a prudent person would exercise in the management of the person's own affairs. Unless authorized by law, a person may not deposit, withdraw, or manage in any other manner the funds of the City.

Under State law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the City shall submit an investment report for the period. The report must: (1) describe the investment position of the City, (2) be prepared jointly and signed by each investment officer, (3) contain a summary statement prepared in compliance with generally accepted accounting principles of each pooled fund group that states: the beginning market value, any additions and changes to market value and the ending value for the period and fully accrued interest for the reporting period, (4) state the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) state the maturity date of each separately invested asset, (6) state the account or pooled fund group for which each individual investment was acquired, and (7) state the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. If the City invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers shall be reviewed at least annually by an independent auditor, and the result of the review shall be reported to the City Council. No person may invest City funds without express written authority from the City Council.

ADDITIONAL PROVISIONS . . . Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies ; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and record in such rule, order, ordinance or resolution any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the Treasurer, Chief Financial Officer, and 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 non-money market mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and prohibit the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

The City's current investment policy is in compliance with the State law requirements described above.

TABLE 9 – CURRENT INVESTMENTS

As of June 30, 2018, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Purchase Price</u>	<u>Percent</u>
Classic Bank	\$ 9,859,636	70.71%
TexPool	3,854,505	27.64%
CDs	<u>230,075</u>	<u>1.65%</u>
Total	\$ 13,944,216	100.00%

As of such date, 100% of the City's investment portfolio will mature within twelve months. The market value of the investment portfolio was approximately 100% of its purchase price.

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TAX MATTERS

In the opinion of the Orrick, Herrington & Sutcliffe LLP, Bond Counsel (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Obligations is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Obligations is not a specific preference item for purposes of the federal alternative minimum tax. Complete copies of the proposed forms of opinions of Bond Counsel is set forth in APPENDIX C hereto.

To the extent the issue price of any maturity of the Obligations is less than the amount to be paid at maturity of such Obligations (excluding amounts stated to be interest and payable at least annually over the term of such Obligations), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Obligations which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Obligations is the first price at which a substantial amount of such maturity of the Obligations is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Obligations accrues daily over the term to maturity of such Obligations on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Obligations to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Obligations. Beneficial Owners of the Obligations should consult their own tax advisors with respect to the tax consequences of ownership of Obligations with original issue discount, including the treatment of Beneficial Owners who do not purchase such Obligations in the original offering to the public at the first price at which a substantial amount of such Obligations is sold to the public.

Obligations purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Obligations”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Obligations, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Obligation, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Obligations should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Obligations. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Obligations will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Obligations being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Obligations. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel’s attention after the date of issuance of the Obligations may adversely affect the value of, or the tax status of interest on, the Obligations. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Obligations is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Obligations may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Obligations to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Obligations. Prospective purchasers of the Obligations should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel’s judgment as to the proper treatment of the Obligations for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel’s engagement with respect to the Obligations ends with the issuance of the Obligations, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Obligations in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed

counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Obligations for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Obligations, and may cause the City or the Beneficial Owners to incur significant expense.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The City has designated the Obligations as “qualified tax-exempt obligations” within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated “bank-qualified” investments.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinances, the City has made the following agreement for the benefit of the holders and beneficial owners of the Obligations. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Obligations. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (“MSRB”). This information will be available free of charge from the MSRB via its Electronic Municipal Market Access system at www.emma.msrb.org.

ANNUAL REPORTS . . . The City 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 City of the general type included in this Official Statement under Tables numbered 1 through 4 and 6 through 9 and in APPENDIX B. The City will update and provide this information within 6 months after the end of each fiscal year ending in or after 2018.

The City 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, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

NOTICE OF CERTAIN EVENTS . . . The City shall provide notice of any of the following events with respect to the Obligations to the MSRB in a timely manner and not more than 10 business days after the occurrence of the event: (i) principal and interest payment delinquencies; (ii) nonpayment related defaults, if material; (iii) unscheduled draws on debt service reserves reflecting financial difficulties; (iv) unscheduled draws on credit enhancements reflecting financial difficulties; (v) substitution of credit or liquidity providers, or their failure to perform; (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations; (vii) modifications to the rights of Owners, if material; (viii) bond calls, if material and tender offers; (ix) defeasance; (x) release, substitution or sale of property securing repayment of the Obligations, if material; (xi) rating changes; (xii) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (xiii) 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 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 (xiv) appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material.

For these purposes, any event described in the immediately preceding clause (xii) 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 of governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

The City shall notify the MSRB, in a timely manner, of any failure by the City to provide financial information or operating data in accordance with the foregoing provisions by the time required therein.

AVAILABILITY OF INFORMATION FROM MSRB . . . The City has agreed to provide the foregoing information only to the MSRB. All documents provided by the City to the MSRB described above under “Annual Reports” and “Notice of Certain Events” will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

The address of the MSRB is 1900 Duke Street, Suite 600, Alexandria VA 22314, and its telephone number is (703) 797-6600.

LIMITATIONS AND AMENDMENTS . . . The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results, 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 Obligations at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Obligations may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Obligations in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Obligations consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized Bond Counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Obligations. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the 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 an underwriter from lawfully purchasing or selling Obligations in the primary offering of the Obligations.

If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the past five years, the City has complied in all material respects with its previous continuing disclosure agreements except for Fiscal Year 2013 when the audited financial statements were filed late. This document along with a late notice have been since filed.

LEGAL MATTERS

LEGAL OPINIONS . . . The City will furnish complete transcripts of proceedings had incident to the authorization and issuance of the Obligations, including the unqualified approving legal opinions of the Attorney General of Texas approving the Obligations and to the effect that the Obligations are valid and legally binding obligations of the City, and based upon examination of such transcripts of proceedings, the approving legal opinions of Bond Counsel, to like effect and to the effect that the interest on the Obligations will be excludable from gross income for federal income tax purposes under existing law and the Obligations are not “private activity bonds.” See “TAX MATTERS” for a discussion of the opinions of Bond Counsel, including a description of the alternative minimum tax consequences for corporations. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information relating to the Obligations and the Ordinances under the captions “THE OBLIGATIONS” (except for the information under the subcaptions “Obligation Holders’ Remedies” and “Book-Entry-Only System”), “PLAN OF FINANCING” (except the information under the subcaption “Sources and Uses of Proceeds”), “TAX MATTERS,” “CONTINUING DISCLOSURE OF INFORMATION” (except the information under the subcaptions “Availability of Information from MSRB” and “Compliance with Prior Undertakings”), “LEGAL MATTERS – Legal Opinions” and the subcaptions “Registration and Qualification of Obligations for Sale” and “Legal Investments and Eligibility to Secure Public Funds in Texas” under the caption “OTHER INFORMATION” in the Official Statement and such firm is of the opinion that the information relating to the Obligations and the legal issues contained under such captions fairly and accurately describe the provisions thereof. Such firm has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to the accuracy or completeness of any of the information contained herein. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Obligations are contingent upon the sale and delivery of the Obligations.

The various legal opinions to be delivered concurrently with the delivery of the Obligations express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of the expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction, nor does the rendering of an opinion guarantee the outcome of any legal dispute that

may arise out of the transaction. Certain legal matters will be passed upon for the Underwriter by its counsel, Norton Rose Fulbright US LLP, San Antonio, Texas, whose fee is contingent upon the sale and delivery of the Obligations.

OTHER INFORMATION

RATING . . . The Obligations have been rated “AA+” by S&P Global Ratings (“S&P”). An explanation of the significance of such rating may be obtained from the company furnishing the rating. The rating reflects only the respective view of such organization and the City makes no representation as to the appropriateness of the rating. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Obligations.

LITIGATION . . . It is the opinion of the City’s staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City, the Obligations, or its operations.

REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE . . . The sale of the Obligations has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Obligations have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Obligations been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Obligations under the securities laws of any jurisdiction in which the Obligations may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Obligations shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS . . . Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Obligations are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Obligations by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Obligations be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “OTHER INFORMATION – Rating” herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Obligations are legal investments for state banks, savings banks, trust companies with a capital of one million dollars or more, and savings and loan associations. The Obligations are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Obligations are legal investments for various institutions in those states.

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

FINANCIAL ADVISOR . . . Specialized Public Finance Inc. is employed as Financial Advisor to the City in connection with the issuance of the Obligations. The Financial Advisor’s fee for services rendered with respect to the sale of the Obligations is contingent upon the issuance and delivery of the Obligations. Specialized Public Finance Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Obligations, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

FORWARD-LOOKING STATEMENTS . . . The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City’s expectations, hopes, intentions, or strategies regarding the future.

Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements.

The 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, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

UNDERWRITING . . . The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at the initial yields set forth on page 2 of this Official Statement, less an underwriting discount of \$32,068.72. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has agreed, subject to certain conditions, to purchase the Certificates from the City at the initial yields set forth on page 4 of this Official Statement, less an underwriting discount of \$25,200.04. The Underwriter will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates to be offered to the public may be offered and sold to certain dealers (including the Underwriter and other dealers depositing Certificates into investment trusts) at prices lower than the public offering prices of such Certificates, and such public offering prices may be changed, from time to time, by the Underwriter.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement pursuant to their responsibilities to investors under federal securities laws, but the Underwriter do not guarantee the accuracy or completeness of such information.

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

Reference is made to original documents in all respects. The Ordinances authorizing the issuance of the Obligations will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Obligations by the Underwriter.

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.

This Official Statement has been approved by the City Council of the City for distribution in accordance with the provisions of the Securities and Exchange Commission's rule codified at 17 C.F.R. Section 240.15c2-12, as amended.

/s/ RICK HALL
Mayor
City of Liberty Hill, Texas

ATTEST:

/s/ BARBARA ZWERNEMANN
City Secretary
City of Liberty Hill, Texas

SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

Combination Tax and Junior Lien Revenue
Certificates of Obligation, Series 2006A

Amount	Maturity	Coupon
\$ 70,000	9/1/2019	3.350%
70,000	9/1/2020	3.400%
75,000	9/1/2021	3.400%
80,000	9/1/2022	3.500%
80,000	9/1/2023	3.500%
85,000	9/1/2024	3.550%
85,000	9/1/2025	3.600%
90,000	9/1/2026	3.600%
95,000	9/1/2027	3.650%
<u>\$ 730,000</u>		

Redemption Date: 10/29/2018

Redemption Price: 100%

Combination Tax and Junior Lien Revenue
Certificates of Obligation, Series 2006B

Amount	Maturity	Coupon
\$ 350,000	9/1/2019	2.350%
365,000	9/1/2020	2.400%
380,000	9/1/2021	2.400%
390,000	9/1/2022	2.500%
405,000	9/1/2023	2.500%
420,000	9/1/2024	2.550%
435,000	9/1/2025	2.600%
455,000	9/1/2026	2.600%
470,000	9/1/2027	2.650%
<u>\$ 3,670,000</u>		

Redemption Date: 10/29/2018

Redemption Price: 100%

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

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THE CITY

The City of Liberty Hill (the “City”) is located on State Highway 29 in the Hill Country, 15 miles west of Georgetown and 33 miles northwest of Austin in Williamson County. The City encompasses some 2 square miles.

LABOR MARKET PROFILE

	Williamson County	
	July 2018	July 2017
Total Civilian Labor Force	295,655	288,827
Total Unemployment	9,447	9,787
Percent Unemployed	3.2%	3.4%
Total Employment	286,208	279,040

	State of Texas	
	July 2018	July 2017
Total Civilian Labor Force	13,840,527	13,571,881
Total Unemployment	556,630	604,241
Percent Unemployed	4.0%	4.5%
Total Employment	13,283,897	12,967,640

Source: The Texas Labor Market.

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APPENDIX B

EXCERPTS FROM THE
CITY OF LIBERTY HILL, TEXAS
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2017

The information contained in this APPENDIX consists of excerpts from the City of Liberty Hill, Texas Annual Financial Report for the Year Ended September 30, 2017, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
City Council Members of the
City of Liberty Hill, Texas:

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

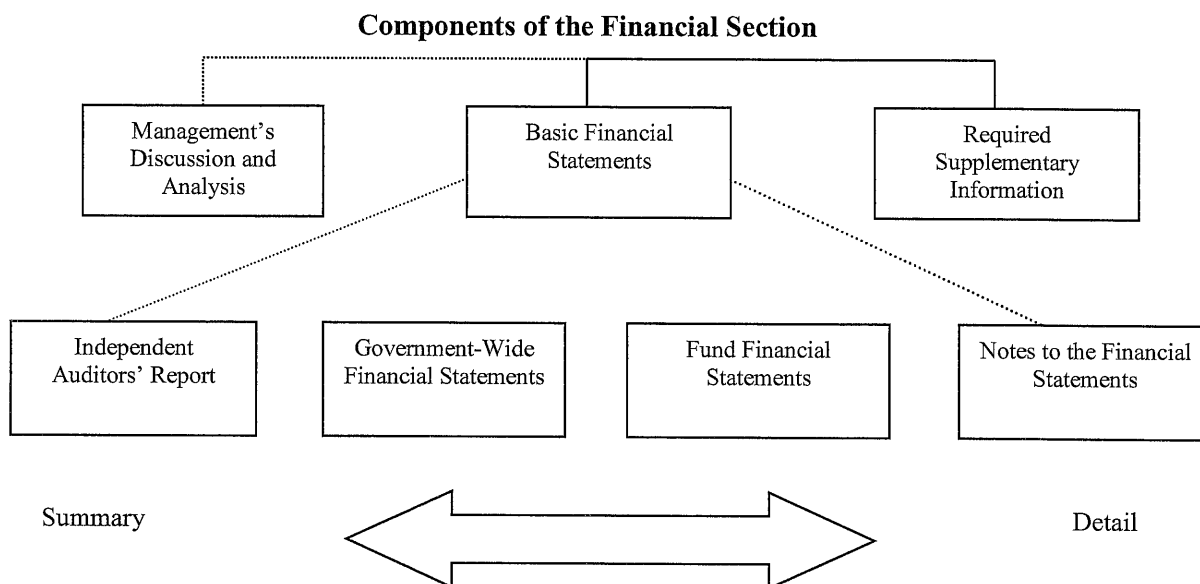
***MANAGEMENT'S DISCUSSION
AND ANALYSIS***

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CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2017

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

THE STRUCTURE OF OUR ANNUAL REPORT



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

Government-Wide Statements

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

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

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

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

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

1. *Governmental Activities* – Most of the City's basic services are reported here, which include general government, public safety, municipal court, and public works. Interest payments on the City's governmental debt are also reported here. Property taxes, sales taxes, franchise taxes, and other revenue finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water, sewer, and wastewater operations. Interest payments on the City's business-type activities debt are also reported here.

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

FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance-related legal reporting requirements. The two categories of City funds are 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 may be useful in evaluating the City's near-term financing requirements.

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

The City maintains seven governmental funds. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and Liberty Parke Public Improvement District which are considered to be major funds for reporting purposes. While the Liberty Hill Economic Development Corporation (LHEDC) fund, street maintenance fund, Summerlyn West Public Improvement District, and capital improvement funds did not technically meet the criteria to be reported as major, the City has elected to present these funds as major due to their significance.

The City adopts an annual appropriated budget for four of its seven governmental funds. Budgetary comparison schedules have been provided for each fund to demonstrate compliance with these budgets.

Proprietary Funds

The City maintains one type of proprietary fund, an enterprise fund. Proprietary funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

enterprise funds to account for its water, sewer, and wastewater treatment operations. The proprietary fund financial statements provide separate information for the water, sewer, and wastewater operations. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Notes to Financial Statements

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

Other Information

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes budgetary comparison schedules for the general fund, LHEDC fund, and street maintenance fund as well as the schedule of changes in net pension liability and related ratios and a schedule of contributions for the Texas Municipal Retirement System. RSI can be found after the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows by \$20,956,311 as of September 30, 2017. A portion of the City's net position, 56 percent, reflects its investment in capital assets (e.g., land and City hall, as well as the public works facilities). The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

Statement of Net Position

The following table reflects the condensed Statement of Net Position:

	September 30, 2017			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 10,106,323	\$ 8,155,819	\$ -	\$ 18,262,142
Capital assets, net	2,971,534	26,588,014	-	29,559,548
Total Assets	13,077,857	34,743,833	-	47,821,690
Deferred outflows - pensions				
Total Deferred Outflows of Resources	105,118	-	-	105,118
Long-term liabilities	9,837,885	15,780,000	-	25,617,885
Other liabilities	651,038	693,589	-	1,344,627
Total Liabilities	10,488,923	16,473,589	-	26,962,512
Deferred inflows - pensions				
Total Deferred Inflows of Resources	7,986	-	-	7,986
Net Position:				
Net investment in capital assets	2,971,534	14,528,610	(5,776,000)	11,724,144
Restricted	6,948,086	1,651,588	-	8,599,674
Unrestricted	(7,233,553)	2,090,046	5,776,000	632,493
Total Net Position	\$ 2,686,067	\$ 18,270,244	\$ -	\$ 20,956,311
	September 30, 2016			
	Governmental Activities	Business-Type Activities	Reconciliation	Total
Current and other assets	\$ 5,406,266	\$ 13,271,182	\$ -	\$ 18,677,448
Capital assets, net	1,966,963	20,192,537	-	22,159,500
Total Assets	7,373,229	33,463,719	-	40,836,948
Deferred outflows - pensions				
Total Deferred Outflows of Resources	88,581	-	-	88,581
Long-term liabilities	6,413,224	16,740,000	-	23,153,224
Other liabilities	183,961	1,091,961	-	1,275,922
Total Liabilities	6,597,185	17,831,961	-	24,429,146
Deferred inflows - pensions				
Total Deferred Inflows of Resources	7,767	-	-	7,767
Net Position:				
Net investment in capital assets	1,966,963	11,268,733	(5,195,000)	8,040,696
Restricted	1,173,475	815,922	-	1,989,397
Unrestricted	(2,283,580)	3,547,103	5,195,000	6,458,523
Total Net Position	\$ 856,858	\$ 15,631,758	\$ -	\$ 16,488,616

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

A portion of the City's net position, \$8,599,674, represents resources restricted to a specific purpose. The balance of unrestricted net position, \$632,493, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position increased by \$4,467,695 during the current fiscal year, an increase of 27 percent over the prior year. The overall condition of the City improved during the year primarily due to increases in property tax and sales tax revenue as a result of increased growth and consumer activity.

The City has issued and repaid debt in its governmental activities for which the proceeds were used to construct capital assets for business-type activities. With one activity carrying the capital asset and another carrying the debt, the result is an unusual net position presentation. The City has included a reconciliation column in the Statement of Net Position adjusting the net investment in capital assets. Outstanding debt associated with governmental activities, in the amount of \$5,776,000, is being used to finance capital assets reported in business-type activities. Accordingly, this amount has been added back to unrestricted net position and deducted from net investment in capital assets in total for the primary government.

Statement of Activities

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

	For the Year Ended September 30, 2017			For the Year Ended September 30, 2016		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 1,076,465	\$ 6,218,108	\$ 7,294,573	\$ 755,675	\$ 6,897,855	\$ 7,653,530
Capital grants and contributions	4,544	-	4,544	402,142	-	402,142
General revenues:						
Property taxes	977,801	-	977,801	728,112	-	728,112
Sales taxes	1,160,139	-	1,160,139	1,048,171	-	1,048,171
Franchise and local taxes	115,005	-	115,005	110,463	-	110,463
Other	1,517,757	67,148	1,584,905	1,051,759	7,401	1,059,160
Total Revenues	4,851,711	6,285,256	11,136,967	4,096,322	6,905,256	11,001,578
Expenses						
General government	1,496,686	-	1,496,686	798,649	-	798,649
Municipal court	176,662	-	176,662	157,435	-	157,435
Public safety	600,663	-	600,663	466,737	-	466,737
Public works	234,606	-	234,606	605,480	-	605,480
Water, sewer, and wastewater collections	-	3,490,770	3,490,770	-	2,578,564	2,578,564
Interest and fiscal agent fees on long-term debt	669,886	-	669,886	144,669	554,018	698,687
Total Expenses	3,178,502	3,490,770	6,669,272	2,172,970	3,132,582	5,305,552
Increase (Decrease) in Net Position Before Transfers	1,673,209	2,794,486	4,467,695	1,923,352	3,772,674	5,696,026
Transfers in (out)	156,000	(156,000)	-	745,860	(745,860)	-
Change in Net Position	1,829,209	2,638,486	4,467,695	2,669,212	3,026,814	5,696,026
Beginning net position	856,858	15,631,758	16,488,616	(1,812,354)	12,604,944	10,792,590
Ending Net Position	\$ 2,686,067	\$ 18,270,244	\$ 20,956,311	\$ 856,858	\$ 15,631,758	\$ 16,488,616

Overall, governmental activities revenue increased. Sales taxes revenue increased by \$111,968 or 11 percent due to an increase in activity in the City and population growth.

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

Revenue for business-type activities decreased by \$620,000 or 9 percent from the prior year mainly due to decreases in contributions from developers of subdivisions within the City. Business-type expenses increased by \$358,188 or 11 percent as a result of the increases in new connections related to all of the additional residential growth within the City.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$9,453,940. At the end of the current year, \$2,505,854 was unassigned. Total restricted fund balance for various purposes is \$6,948,086.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$2,505,854, while total fund balance reached \$2,601,650. Of this amount, \$42,350 is restricted for municipal court security and technology and \$53,446 is restricted for communication equipment that is related to Public Education Government fees collected from cable companies. 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 88 percent of total general fund expenditures, while total fund balance represents 92 percent of the same amount.

The debt service fund balance of \$212,908 is restricted for future debt payments of principal and interest. Fund balance in the debt service fund increased by \$66,292.

The LHEDC fund balance increased \$121,796 as a result of more sales tax revenue than expenditures during the year. The ending fund balance of \$943,994 is restricted for economic development.

The street maintenance fund reported a fund balance of \$167,593, which was an increase of \$49,166. The street maintenance fund balance is restricted for repair and maintenance expenditures on streets in the City.

The Summerlyn West Public Improvement District was a new fund created in fiscal year 2017 and does not currently have a fund balance. The City is going to use this fund to track the use of developer funds related to the creation and administration of the Public Improvement District.

The Liberty Parke Public Improvement District (the "PID") was a new fund created in fiscal year 2017 and reported an ending fund balance of \$3,759,911. This was primarily due to the issuance of debt by the PID to be repaid by special assessments on residents within the PID.

The capital improvement fund was a new fund created in fiscal year 2017 and reported a fund balance \$1,767,616 as of year end. The increase in fund balance was due to a transfer in from the general fund in order to improve many of the facilities and parks throughout the City.

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

CITY OF LIBERTY HILL, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2017

GENERAL FUND BUDGETARY HIGHLIGHTS

Budgeted general fund revenues exceeded actual revenues by \$1,101,092 during the year. The net negative variance is primarily due to less revenue from development agreements and other sources than anticipated. General fund expenditures were under the final budget by \$1,072,047 mainly due to positive variances of \$929,165 in general administration and \$83,344 in the police department. These positive variances come from less spending on payroll and operation costs than expected.

CAPITAL ASSETS

At the end of the year, the City's governmental and business-type activities had invested \$29,559,548 in capital assets and infrastructure (net of accumulated depreciation). This represents an increase of \$7,400,048 from the prior year.

Major capital asset events during the year included the following:

- Construction in progress additions related to Wastewater Treatment Plant Phase 3B expansion of \$6,627,270
- Construction in progress for downtown renovation project of \$658,905
- Purchase of Fowler Building for \$223,123
- Two new vehicles for the Wastewater Treatment Facility for \$83,018

More detailed information about the City's capital assets is presented in note III. C. to the financial statements.

LONG-TERM DEBT

At the end of the current year, the City had total certificates of obligation, tax notes, special assessment revenue bonds, and revenue bonds outstanding of \$25,531,000.

More detailed information about the City's long-term liabilities is presented in note III.D. to the financial statements.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Michel Sorrell, City Finance Director, City Hall, 1120 Loop 332, Liberty Hill, Texas, 78642; telephone (512) 778-5449.

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BASIC FINANCIAL STATEMENTS

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF NET POSITION

September 30, 2017

Primary Government

	Governmental Activities	Business-Type Activities	Reconciliation	Total
<u>Assets</u>				
Cash and cash equivalents	\$ 9,819,125	\$ 7,327,251	\$ -	\$ 17,146,376
Investments	-	606,392	-	606,392
Receivables, net	287,198	222,176	-	509,374
	<u>10,106,323</u>	<u>8,155,819</u>	<u>-</u>	<u>18,262,142</u>
Capital assets:				
Nondepreciable capital assets	1,737,038	16,322,883	-	18,059,921
Net depreciable capital assets	1,234,496	10,265,131	-	11,499,627
	<u>2,971,534</u>	<u>26,588,014</u>	<u>-</u>	<u>29,559,548</u>
Total Assets	<u>13,077,857</u>	<u>34,743,833</u>	<u>-</u>	<u>47,821,690</u>
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pensions	105,118	-	-	105,118
	<u>105,118</u>	<u>-</u>	<u>-</u>	<u>105,118</u>
<u>Liabilities</u>				
Accounts payable and accrued liabilities	611,721	572,825	-	1,184,546
Customer deposits	-	83,050	-	83,050
Accrued interest	39,317	37,714	-	77,031
	<u>651,038</u>	<u>693,589</u>	<u>-</u>	<u>1,344,627</u>
Noncurrent liabilities:				
Long-term liabilities due within one year	604,486	985,000	-	1,589,486
Long-term liabilities due in more than one year	9,233,399	14,795,000	-	24,028,399
	<u>9,837,885</u>	<u>15,780,000</u>	<u>-</u>	<u>25,617,885</u>
Total Liabilities	<u>10,488,923</u>	<u>16,473,589</u>	<u>-</u>	<u>26,962,512</u>
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pensions	7,986	-	-	7,986
	<u>7,986</u>	<u>-</u>	<u>-</u>	<u>7,986</u>
<u>Net Position</u>				
Net investment in capital assets	2,971,534	14,528,610	(5,776,000)	11,724,144
Restricted	6,948,086	1,651,588	-	8,599,674
Unrestricted	(7,233,553)	2,090,046	5,776,000	632,493
	<u>2,686,067</u>	<u>18,270,244</u>	<u>-</u>	<u>20,956,311</u>
Total Net Position	<u>\$ 2,686,067</u>	<u>\$ 18,270,244</u>	<u>\$ -</u>	<u>\$ 20,956,311</u>

See Notes to Financial Statements.

CITY OF LIBERTY HILL, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2017

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Capital Grants and Contributions
Primary Government:			
Governmental Activities			
General government	\$ 1,496,686	\$ 895,316	\$ -
Municipal court	176,662	-	-
Public safety	600,663	181,149	-
Public works	234,606	-	4,544
Interest and fiscal agent fees on long-term debt	669,886	-	-
Total Governmental Activities	3,178,502	1,076,465	4,544
Business-Type Activities			
Water, sewer, and wastewater collections	3,490,770	6,218,108	-
Total Business-Type Activities	3,490,770	6,218,108	-
Total Primary Government	\$ 6,669,272	\$ 7,294,573	\$ 4,544
General Revenues:			
Taxes:			
Property taxes			
Sales taxes			
Franchise and local taxes			
Investment income			
Other			
Transfers			
Total General Revenues and Transfers			
Change in Net Position			
Beginning net position			
			Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (601,370)	\$ -	\$ (601,370)
(176,662)	-	(176,662)
(419,514)	-	(419,514)
(230,062)	-	(230,062)
<u>(669,886)</u>	-	<u>(669,886)</u>
<u>(2,097,493)</u>	-	<u>(2,097,493)</u>
-	2,727,338	2,727,338
-	2,727,338	2,727,338
<u>(2,097,493)</u>	<u>2,727,338</u>	<u>629,845</u>
977,801	-	977,801
1,160,139	-	1,160,139
115,005	-	115,005
16,052	-	16,052
1,501,705	67,148	1,568,853
156,000	(156,000)	-
<u>3,926,702</u>	<u>(88,852)</u>	<u>3,837,850</u>
1,829,209	2,638,486	4,467,695
<u>856,858</u>	<u>15,631,758</u>	<u>16,488,616</u>
<u>\$ 2,686,067</u>	<u>\$ 18,270,244</u>	<u>\$ 20,956,311</u>

CITY OF LIBERTY HILL, TEXAS

BALANCE SHEET GOVERNMENTAL FUNDS

September 30, 2017

	<u>General</u>	<u>Debt Service</u>	<u>Liberty Hill Economic Development Corporation</u>	<u>Street Maintenance</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 3,026,770	\$ 213,308	\$ 888,313	\$ 137,940
Receivables, net	164,711	32,998	59,663	29,826
Total Assets	\$ 3,191,481	\$ 246,306	\$ 947,976	\$ 167,766
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 582,166	\$ 400	\$ 3,982	\$ 173
Total Liabilities	582,166	400	3,982	173
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	7,665	32,998	-	-
<u>Fund Balances</u>				
Restricted:				
Municipal court	42,350	-	-	-
Communication equipment	53,446	-	-	-
Street maintenance	-	-	-	167,593
Capital projects	-	-	-	-
Debt service	-	212,908	-	-
Economic development	-	-	943,994	-
Unassigned	2,505,854	-	-	-
Total Fund Balances	2,601,650	212,908	943,994	167,593
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 3,191,481	\$ 246,306	\$ 947,976	\$ 167,766

See Notes to Financial Statements.

Summerlyn West Public Improvement District	Liberty Parke Public Improvement District	Capital Improvement	Total Governmental Funds
\$ 25,000	\$ 3,760,178	\$ 1,767,616	\$ 9,819,125
-	-	-	287,198
<u>\$ 25,000</u>	<u>\$ 3,760,178</u>	<u>\$ 1,767,616</u>	<u>\$ 10,106,323</u>
\$ 25,000	\$ -	\$ -	\$ 611,721
<u>25,000</u>	<u>-</u>	<u>-</u>	<u>611,721</u>
-	-	-	40,663
-	-	-	42,350
-	-	-	53,446
-	-	-	167,593
-	3,760,179	1,767,616	5,527,795
-	-	-	212,908
-	-	-	943,994
-	-	-	2,505,854
<u>-</u>	<u>3,760,179</u>	<u>1,767,616</u>	<u>9,453,940</u>
<u>\$ 25,000</u>	<u>\$ 3,760,179</u>	<u>\$ 1,767,616</u>	<u>\$ 10,106,324</u>

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CITY OF LIBERTY HILL, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

September 30, 2017

Total fund balances for governmental funds		\$	9,453,940
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds.			
Capital assets - nondepreciable			1,737,038
Capital assets - net depreciable			1,234,496
			2,971,534
Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the governmental funds.			
			40,663
Deferred outflows and deferred inflows related to the net pension liability are not reported in the governmental funds.			
Deferred outflows- pensions			105,118
Deferred inflows- pensions			(7,986)
			97,132
Some liabilities, including bonds payable, compensated absences, accrued interest, and net pension liability, are not reported as liabilities in the governmental funds.			
Accrued interest			(39,317)
Noncurrent liabilities due in more than one year			(604,486)
Noncurrent liabilities due in one year			(9,233,399)
			(9,877,202)
Net Position of Governmental Activities			\$ 2,686,067

See Notes to Financial Statements.

CITY OF LIBERTY HILL, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended September 30, 2017

<u>Revenues</u>	<u>General</u>	<u>Debt Service</u>	<u>Liberty Hill Economic Development Corporation</u>	<u>Street Maintenance</u>
Property taxes	\$ 194,237	\$ 767,693	\$ -	\$ -
Sales taxes	668,671	-	327,680	163,788
Franchise and local taxes	115,005	-	-	-
Fines and forfeitures	181,149	-	-	-
Licenses and permits	895,316	-	-	-
Development agreements	542,500	-	-	-
Investment income	363	3,579	5,136	2,397
Intergovernmental	4,544	-	-	-
Other	331,048	-	-	6,200
Total Revenues	2,932,833	771,272	332,816	172,385
<u>Expenditures</u>				
Current:				
General administration	1,908,693	-	211,020	-
Municipal court	176,478	-	-	-
Police department	671,111	-	-	-
Parks and recreation and street maintenance	84,559	-	-	123,219
Debt service:				
Principal	-	554,000	-	-
Interest and fiscal charges	-	150,980	-	-
Bond Issuance costs	-	-	-	-
Total Expenditures	2,840,841	704,980	211,020	123,219
Excess (Deficiency) of Revenues Over (Under) Expenditures	91,992	66,292	121,796	49,166
<u>Other Financing Sources (Uses)</u>				
Issuance of debt	-	-	-	-
Transfers in	156,000	-	-	-
Transfers out	(1,767,616)	-	-	-
Total Other Financing Sources (Uses)	(1,611,616)	-	-	-
Net Change in Fund Balances	(1,519,624)	66,292	121,796	49,166
Beginning fund balances	4,121,274	146,616	822,198	118,427
Ending Fund Balances	\$ 2,601,650	\$ 212,908	\$ 943,994	\$ 167,593

See Notes to Financial Statements.

Summerlyn West Public Improvement District	Liberty Parke Public Improvement District	Capital Improvement	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 961,930
-	-	-	1,160,139
-	-	-	115,005
-	-	-	181,149
-	-	-	895,316
-	621,957	-	1,164,457
-	4,577	-	16,052
-	-	-	4,544
-	-	-	337,248
<u>-</u>	<u>626,534</u>	<u>-</u>	<u>4,835,840</u>
-	350,764	-	2,470,477
-	-	-	176,478
-	-	-	671,111
-	-	-	207,778
-	-	-	554,000
-	-	-	150,980
-	490,591	-	490,591
<u>-</u>	<u>841,355</u>	<u>-</u>	<u>4,721,415</u>
-	(214,821)	-	114,425
-	3,975,000	-	3,975,000
-	-	1,767,616	1,923,616
-	-	-	(1,767,616)
<u>-</u>	<u>3,975,000</u>	<u>1,767,616</u>	<u>4,131,000</u>
-	3,760,179	1,767,616	4,245,425
-	-	-	5,208,515
<u>\$ -</u>	<u>\$ 3,760,179</u>	<u>\$ 1,767,616</u>	<u>\$ 9,453,940</u>

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CITY OF LIBERTY HILL, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2017

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

Net change in fund balances - total governmental funds	\$	4,245,425
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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.

Capital asset acquisitions		1,103,255
Depreciation expense		(98,684)

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Net change in unavailable revenue - property taxes		15,871
--	--	--------

Change in pension activity does not affect fund balances on the statement of revenues, expenditures, and changes in fund balances for the governmental funds.

Changes in pension activity that affect the City's net position are as follows:

Net pension liability		14,494
Deferred outflows- pensions		16,537
Deferred inflows- pensions		(219)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position.

Principal paid on long-term debt		554,000
Debt issued		(3,975,000)
Accrued interest expense		(28,315)

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 the governmental funds.

Compensated absences		(18,155)
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Change in Net Position of Governmental Activities	\$	<u>1,829,209</u>
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See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2017

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
Assets				
Current Assets				
Cash and cash equivalents	\$ 1,719,278	\$ 4,418,862	\$ 1,189,111	\$ 7,327,251
Investments	-	606,392	-	606,392
Receivables, net	44,076	97,239	80,861	222,176
Total Current Assets	1,763,354	5,122,493	1,269,972	8,155,819
Noncurrent Assets				
Capital assets:				
Land	521,486	393,700	129,483	1,044,669
Construction in progress	2,544,450	9,871,109	2,862,655	15,278,214
Wastewater treatment facility	-	4,311,819	-	4,311,819
Water system	-	-	1,694,908	1,694,908
Sewer system	6,324,909	-	-	6,324,909
Less accumulated depreciation	(1,211,052)	(607,338)	(248,115)	(2,066,505)
Total Net Depreciable Assets	8,179,793	13,969,290	4,438,931	10,265,131
Total Noncurrent Assets	8,179,793	13,969,290	4,438,931	26,588,014
Total Assets	9,943,147	19,091,783	5,708,903	34,743,833
Liabilities				
Current Liabilities				
Accounts payable	3,682	460,096	109,047	572,825
Customer deposits	100	13,575	69,375	83,050
Accrued interest	-	27,560	10,154	37,714
Total Current Liabilities	3,782	501,231	188,576	693,589
Noncurrent Liabilities				
Long-term liabilities due within one year	-	245,000	740,000	985,000
Long-term liabilities due in more than one year	-	11,760,000	3,035,000	14,795,000
Total Noncurrent Liabilities	-	12,005,000	3,775,000	15,780,000
Total Liabilities	3,782	12,506,231	3,963,576	16,473,589
Net Position				
Net investment in capital assets	10,248,801	3,037,967	1,241,842	14,528,610
Restricted for:				
Debt service	-	1,073,677	577,911	1,651,588
Unrestricted	(309,436)	2,473,908	(74,426)	2,090,046
Total Net Position	\$ 9,939,365	\$ 6,585,552	\$ 1,745,327	\$ 18,270,244

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS

For the Year Ended September 30, 2017

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<u>Operating Revenues</u>				
Charges for services	\$ 1,133,701	\$ 3,010,429	\$ 1,528,378	\$ 5,672,508
Impact fees	-	545,600	-	545,600
Total Operating Revenues	1,133,701	3,556,029	1,528,378	6,218,108
<u>Operating Expenses</u>				
Water operations	-	-	573,632	573,632
Sewer operations	281,901	-	-	281,901
Wastewater collection operations	-	1,784,513	-	1,784,513
Depreciation	165,274	148,028	42,373	355,675
Total Operating Expenses	447,175	1,932,541	616,005	2,995,721
Operating Income	686,526	1,623,488	912,373	3,222,387
<u>Nonoperating Revenues (Expenses)</u>				
Interest expense and fiscal agent fees	-	(362,681)	(132,368)	(495,049)
Investment income	1,976	61,222	3,950	67,148
Total Nonoperating Revenues (Expenses)	1,976	(301,459)	(128,418)	(427,901)
Income (Loss) Before Transfers	688,502	1,322,029	783,955	2,794,486
Transfers (out)	-	(156,000)	-	(156,000)
Change in Net Position	688,502	1,166,029	783,955	2,638,486
Beginning net position	9,250,863	5,419,523	961,372	15,631,758
Ending Net Position	\$ 9,939,365	\$ 6,585,552	\$ 1,745,327	\$ 18,270,244

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

For the Year Ended September 30, 2017

	Sewer	Wastewater Treatment	Water	Total Business-Type Activities
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 1,121,583	\$ 4,141,045	\$ 1,541,633	\$ 6,804,261
Payments to suppliers and service providers	(263,166)	(1,782,294)	(431,024)	(2,476,484)
Payments to employees for salaries and benefits	(33,530)	(451,080)	(85,812)	(570,422)
Net Cash Provided by Operating Activities	824,887	1,907,671	1,024,797	3,757,355
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfers (out) to other funds	-	(156,000)	-	(156,000)
Net Cash (Used) by Noncapital Financing Activities	-	(156,000)	-	(156,000)
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	(40,863)	(6,710,289)	-	(6,751,152)
Principal paid on capital debt	-	(725,000)	(235,000)	(960,000)
Interest and fiscal agent fees paid	-	(362,681)	(132,368)	(495,049)
Net Cash (Used) by Capital and Related Financing Activities	(40,863)	(7,797,970)	(367,368)	(8,206,201)
<u>Cash Flows from Investing Activities</u>				
Interest received	1,976	61,222	3,950	67,148
Purchase of investments	-	(606,392)	-	(606,392)
Net Cash Provided by Investing Activities	1,976	(545,170)	3,950	(539,244)
Net Increase (Decrease) in Cash and Cash Equivalents	786,000	(6,591,469)	661,379	(5,144,090)
Beginning cash and cash equivalents	933,278	11,010,331	527,732	12,471,341
Ending Cash and Cash Equivalents	\$ 1,719,278	\$ 4,418,862	\$ 1,189,111	\$ 7,327,251
 Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income	\$ 686,526	\$ 1,623,488	\$ 912,373	\$ 3,222,387
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	165,274	148,028	42,373	355,675
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Accounts receivable	(12,118)	584,041	180	572,103
Increase (Decrease) in:				
Accounts payable	(14,795)	(447,236)	52,484	(409,547)
Accrued interest	-	(1,625)	(1,250)	(2,875)
Customer deposits	-	975	13,075	14,050
Net Cash Provided by Operating Activities	\$ 824,887	\$ 1,907,671	\$ 1,024,797	\$ 3,757,355

See Notes to Financial Statements.

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CITY OF LIBERTY HILL, TEXAS

NOTES TO FINANCIAL STATEMENTS

For the Year Ended September 30, 2017

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Liberty Hill, Texas (the “City”) was incorporated under the laws of the State of Texas in January 1999. The City operates as a “General Law” City, which provides for a “Mayor-Council” form of government.

The City provides the following services: public safety, municipal court, highways and streets, sanitation, water and sewer services, and general administration.

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

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

Blended Component Units

Liberty Hill Economic Development Corporation

The Liberty Hill Economic Development Corporation (LHEDC) is a non-profit corporation organized under the Development Corporation Act of 1979 and covered by Section 4B of the Act. The LHEDC was organized exclusively for the purposes of benefiting and accomplishing public purposes of, and to act on behalf of, the City; and for the promotion and development of commercial, industrial, and manufacturing enterprises to promote and encourage employment and the public welfare. The LHEDC is governed by a board of directors appointed by the City Council. The LHEDC is responsible for managing a one-half percent sales tax for its economic development activities on behalf of the City. The LHEDC’s budget requires approval from City Council.

Summerlyn West Public Improvement District

The Summerlyn West Public Improvement District (the “PID”) was created pursuant to Chapter 372 of the Texas Local Government Code. The City created the PID as a mechanism to finance public infrastructure improvements within the PID boundaries. These improvements consist of the maintenance of water lines, sanitary sewer lines, streets, sidewalks, parks, public landscaping, recreational activity amenities, contingency provisions, financing costs, and administrative and legal

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

services for the PID. The City Council found that the improvements would serve to promote the construction of single-family units and confer a special benefit to properties within the PID. Consequently, it would be necessary to apportion the costs of the improvements against the property owners in the PID by special assessments. Initially, the public improvements would be prefunded by the developers of the residential subdivisions within the PID. The developers would then be entitled to receive reimbursement of the public improvement costs, subject to limitations contained in their development agreements with the City. The City retains the right to create a board to manage the PID, but currently retains all management capacity at year end.

Liberty Parke Public Improvement District

The Liberty Parke Public Improvement District (the “PID”) was created pursuant to Chapter 372 of the Texas Local Government Code. The City created the PID as a mechanism to finance public infrastructure improvements within the PID boundaries. These improvements consist of the maintenance of water lines, sanitary sewer lines, streets, sidewalks, parks, public landscaping, recreational activity amenities, contingency provisions, financing costs, and administrative and legal services for the PID. The City Council found that the improvements would serve to promote the construction of single-family units and confer a special benefit to properties within the PID. Consequently, it would be necessary to apportion the costs of the improvements against the property owners in the PID by special assessments. Initially, the public improvements would be prefunded by the developers of the residential subdivisions within the PID. The developers would then be entitled to receive reimbursement of the public improvement costs, subject to limitations contained in their development agreements with the City. The PID issued \$3,975,000 in special assessment revenue bonds during fiscal year 2017 to cover reimbursement costs to developers currently working within the boundaries of the PID. The City retains the right to create a board to manage the PID, but currently retains all management capacity at year end.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all activities of the primary government and its component unit. *Governmental activities*, which are normally 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.

C. Basis of Presentation – Government-Wide Financial Statements

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

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

D. Basis of Presentation – Fund Financial Statements

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

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales and franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general administration, municipal court, police department, and parks and recreation. The general fund is always considered a major fund for reporting purposes.

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

The *capital projects fund* is used to account for the expenditures of resources accumulated from the sale of long-term debt as well as resources from other funds and related interest earnings for capital improvement projects. The capital projects fund is considered a nonmajor fund for reporting purposes.

The *special revenue funds* are used to account for proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The special revenue funds include the LHEDC, street maintenance, Summerlyn West PID, and Liberty Parke PID. The Liberty Parke PID is considered a major fund for reporting purposes. The LHEDC, street maintenance, and Summerlyn West PID funds are considered nonmajor for reporting purposes but due to their significance the City has elected to present them as major.

The City reports the following enterprise funds:

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

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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

E. Measurement Focus and Basis of Accounting

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

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

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

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

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

1. Cash and Cash Equivalents

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

The City maintains a pooled cash and investments account. Each fund whose monies are deposited in the pooled cash and investment account has equity therein, and interest earned on the investment

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest-bearing accounts and other investments are displayed on the combined balance sheet as “cash and cash equivalents.”

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

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

- Direct obligations of the U.S. Government or U.S. Government agencies
- Fully collateralized certificates of deposit

- Money market mutual funds that meet certain criteria
- Bankers’ acceptances
- Statewide investment pools

3. Inventories and Prepaid Items

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

4. Capital Assets

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

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

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 years
Furniture and fixtures	4-8 years
Infrastructure	40 years
Machinery and equipment	4-8 years
Water and sewer system	20-40 years
Buildings and improvements	10-40 years

5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has four items that qualify for reporting in this category on the government-wide Statement of Net Position. Deferred charges have been recognized as a result of differences between the actuarial expectations and the actual economic experience and for the changes in actuarial assumptions related to the City's defined benefit pension plan. These amounts are deferred and amortized over the average of the expected service lives of pension plan members. Deferred outflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. A deferred charge has been recognized for employer pension plan contributions that were made subsequent to the measurement date through the end of the City's fiscal year. This amount is deferred and recognized as a reduction to the net pension liability during the measurement period in which the contributions were made.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows have been recognized as a result of differences in actuarial expectations and actual economic experience. This amount is deferred and amortized over the average of the expected service lives of pension plan members. At the fund level, the City has only one type of item, which arises only under a modified accrual basis of accounting, which qualifies for reporting in this category. Accordingly, the item, *deferred revenue*, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from property taxes. This amount is deferred and recognized as an inflow of resources in the period that the amount becomes available.

6. Compensated Employee Absences

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

7. Long-Term Obligations

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

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

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

8. Net Position Flow Assumption

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

9. Fund Balance Flow Assumptions

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

10. Fund Balance Policies

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

Amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact are classified as nonspendable fund balance. Amounts that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions are classified as restricted.

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

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

11. Estimates

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

12. Pensions

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

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on February 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid. Penalties and interest accumulate on the unpaid accounts until July 1, at which time the delinquent accounts are turned over to the tax attorney for legal action.

3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services and operating contributions. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise 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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general fund, LHEDC, street maintenance, and the debt service fund. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined in the approved budget is at the department level. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended September 30, 2017.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

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

Investment Type	Value	Weighted Average Maturity (Years)
Statewide investment pool (TexPool)	\$ 1,861,059	0.00
Certificate of deposit	835,152	0.98
Total Investments	\$ 2,696,211	

Portfolio Weighted Average Maturity 0.98

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

Credit risk. The City’s policy requires that investment pools must be rated no lower than ‘AAA’ or ‘AAA-m’. Bankers’ acceptances must be issued in the United States and carry a rating of ‘A1’/‘P1’ as provided by two of the top nationally recognized rating agencies. As of September 30, 2017, the City’s investments in TexPool was rated ‘AAAm’ 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 City’s deposits may not be returned to it. The City’s investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of September 30, 2017, market values of pledged securities and FDIC exceeded bank balances with the exception of certificates of deposit held at Classic bank.

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

TexPool

TexPool was established as a trust company with the Treasurer of the State of Texas as trustee, segregated from all other trustees, investments, and activities of the trust company. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure. Finally, Standard & Poor’s rates TexPool “AAAm”. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as to the office of the Comptroller of Public Accounts for review.

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification per share, weighted average

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. Texpool's authority may only impose restrictions on redemptions in the event of general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects the pool's liquidity.

B. Receivables

The following comprises receivable balances at year end:

	<u>General</u>	<u>Debt Service</u>	<u>LHEDC</u>	<u>Street Maintenance</u>
Property taxes	\$ 8,144	\$ 33,721	\$ -	\$ -
Other taxes	157,046	-	59,663	29,826
Less allowance	(479)	(723)	-	-
Total	<u><u>\$ 164,711</u></u>	<u><u>\$ 32,998</u></u>	<u><u>\$ 59,663</u></u>	<u><u>\$ 29,826</u></u>

	<u>Sewer</u>	<u>Wastewater</u>	<u>Water</u>
Accounts	\$ 46,069	\$ 112,803	\$ 135,400
Less allowance	(1,993)	(15,564)	(54,539)
Total	<u><u>\$ 44,076</u></u>	<u><u>\$ 97,239</u></u>	<u><u>\$ 80,861</u></u>

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

C. Capital Assets

A summary of changes in capital assets for the year is as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 368,321	\$ -	\$ -	\$ 368,321
Construction in progress	709,812	658,905	-	1,368,717
	1,078,133	658,905	-	1,737,038
Other capital assets:				
Building and improvements	846,614	358,477	-	1,205,091
Machinery and equipment	33,744	-	-	33,744
Police equipment	576,934	85,873	(32,846)	629,961
	1,457,292	444,350	(32,846)	1,868,796
Less accumulated depreciation for:				
Building and improvements	(162,726)	(35,350)	-	(198,076)
Machinery and equipment	(18,651)	(3,773)	-	(22,424)
Police equipment	(387,085)	(59,561)	32,846	(413,800)
	(568,462)	(98,684)	32,846	(634,300)
Other capital assets, net	888,830	345,666	-	1,234,496
Governmental Activities Capital Assets, Net	\$ 1,966,963	\$ 1,004,571	\$ -	\$ 2,971,534
		Net Investment in Capital Assets		\$ 2,971,534

Depreciation was charged to governmental functions as follows:

General government	\$ 57,237
Public safety	14,803
Public works	26,645
Total Governmental Activities Depreciation Expense	\$ 98,684

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities				
Capital assets not being depreciated:				
Land	\$ 1,044,669	\$ -	\$ -	\$ 1,044,669
Construction in progress	8,650,943	6,627,271	-	15,278,214
	9,695,612	6,627,271	-	16,322,883
Other capital assets:				
Wastewater treatment facility	4,228,801	83,018	-	4,311,819
Water system	1,694,908	-	-	1,694,908
Sewer system	6,284,046	40,863	-	6,324,909
	12,207,755	123,881	-	12,331,636
Less accumulated depreciation for:				
Wastewater treatment facility	(460,390)	(131,426)	-	(591,816)
Water system	(206,313)	(58,976)	-	(265,289)
Sewer system	(1,044,127)	(165,273)	-	(1,209,400)
	(1,710,830)	(355,675)	-	(2,066,505)
Other capital assets, net	10,496,925	(231,794)	-	10,265,131
Business-Type Activities Capital Assets, Net	\$ 20,192,537	\$ 6,395,477	\$ -	26,588,014
			Less associated debt	(15,780,000)
			Plus unspent proceeds	3,720,596
			Net Investment in Capital Assets	\$ 14,528,610

Depreciation was charged to business-type functions as follows:

Water operations	\$ 131,426
Sewer operations	165,273
Wastewater collection operations	58,976
Total Business-Type Activities Depreciation Expense	\$ 355,675

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

D. Long-Term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
2006A certificates of obligation	\$ 860,000	\$ -	\$ (65,000)	\$ 795,000	* \$ 65,000
2006B certificates of obligation	4,335,000	-	(325,000)	4,010,000	* 340,000
2016 tax notes	1,135,000	-	(164,000)	971,000	* 157,000
2017 special assessment revenue bonds	-	3,975,000	-	3,975,000	5,000
Net pension liability	59,728	-	(14,494)	45,234	-
Compensated absences	23,496	46,604	(28,449)	41,651	37,486
Total Governmental Activities	<u>\$ 6,413,224</u>	<u>\$ 4,021,604</u>	<u>\$ (596,943)</u>	<u>\$ 9,837,885</u>	<u>\$ 604,486</u>
			Long-term liabilities due in more than one year	<u>\$ 9,233,399</u>	
			*Debt associated with business-type activities capital assets	<u>\$ 5,776,000</u>	

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

The following is a summary of changes in the City's total business-type long-term liabilities for the year. The City uses the water and wastewater service revenues to liquidate business-type long-term liabilities.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
2012 water revenue bonds	\$ 1,800,000	\$ -	\$ (95,000)	\$ 1,705,000	\$ 100,000
2012 wastewater treatment facility revenue bonds	3,250,000	-	(150,000)	3,100,000	155,000
2014 water system revenue bonds	2,210,000	-	(140,000)	2,070,000	145,000
2015 wastewater treatment facility revenue bonds	9,480,000	-	(575,000)	8,905,000	585,000
Total Business-Type Activities	<u>\$ 16,740,000</u>	<u>\$ -</u>	<u>\$ (960,000)</u>	<u>\$ 15,780,000</u>	<u>* \$ 985,000</u>
			Long-term liabilities due in more than one year	<u>\$ 14,795,000</u>	
			*Debt associated with business-type activities capital assets	<u>\$ 15,780,000</u>	

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

Governmental activities long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Certificates of Obligation		
Series 2006A	3.00-3.65%	\$ 795,000
Series 2006B	2.00-2.65%	4,010,000
Tax Notes		
Tax notes 2016	1.56-1.65%	971,000
Special Assessment Revenue Bonds		
Series 2017 MIA	5.125-6.000%	2,825,000
Series 2017 NIA	5.375%	1,150,000
Total Governmental Activities Long-Term Debt		\$ 9,751,000

Business-type activities long-term debt at year end was comprised of the following debt issues:

Description	Interest Rates	Balance
Revenue Bonds		
2012 Water Revenue Bond	1.00-4.85%	\$ 1,705,000
2012 Wastewater Treatment Facility	3.85%	3,100,000
2014 Water System Revenue Bond	3.01%	2,070,000
2015 Wastewater Treatment Facility	2.52%	8,905,000
Total Revenue Bonds		15,780,000
Total Business-Type Activities Long-Term Debt		\$ 15,780,000

The annual requirements to amortize debt issues outstanding at year end were as follows:

Year Ending Sep. 30	Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest
2018	\$ 567,000	\$ 428,135	\$ 985,000	\$ 470,768
2019	654,000	354,395	1,015,000	443,326
2020	670,000	338,159	1,050,000	414,671
2021	703,000	320,955	1,075,000	384,773
2022	720,000	302,504	1,105,000	353,943
2023-2027	3,252,000	1,226,104	6,015,000	1,268,370
2028-2032	575,000	862,719	4,535,000	351,400
2033-2037	740,000	677,100	-	-
2038-2042	935,000	440,544	-	-
2043-2046	935,000	139,048	-	-
Total	\$ 9,751,000	\$ 4,510,072	\$ 15,780,000	\$ 3,687,251

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

Federal Arbitrage

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

E. Interfund Transactions

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

Transfer In	Transfer Out	Amount
Capital improvement	General fund	\$ 1,767,616
General fund	Wastewater fund	156,000
	Total	\$ 1,923,616

Amounts transferred between funds were related to capital and operating activities.

F. Fund Equity

Funds restricted by enabling legislation are \$95,796, which are related to municipal court security and technology fees and Public Education Government fees.

IV. OTHER INFORMATION

A. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City participates along with 2,617 other entities in the Texas Municipal League’s Intergovernmental Risk Pool (the “Pool”). The Pool purchases commercial insurance at a group rate for participants in the Pool. The City has no additional risk or responsibility to the Pool, outside of the payment of insurance premiums. The City has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts for the past three years.

B. Contingent Liabilities

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

Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Claim liabilities are calculated considering the effects of inflation, recent claim

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

settlement trends including frequency and amount of payouts, and other economic and social factors. No claim liabilities are reported at year end.

C. Pension Plan

Texas Municipal Retirement System

Plan Description

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

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

Benefits Provided

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

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

The plan provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS. Plan provisions for the City were as follows:

	<u>2017</u>	<u>2016</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	0% Repeating, Transfers	0% Repeating, Transfers
Annuity increase (to retirees)	0% of CPI Repeating	0% of CPI Repeating

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

Employees Covered by Benefit Terms

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

Inactive employees entitled to, but not yet receiving, benefits	10	
Active employees	21	
	31	Total

Contributions

The contribution rates for employees in TMRS are either five percent, six percent, or seven percent of employee gross earnings, and the City matching percentages are either 100 percent, 150 percent, or 200 percent, 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 seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.25 percent and 7.55 percent in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2017 were \$83,387, which 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 NPL was determined by an actuarial valuation as of that date.

Actuarial Assumptions

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

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

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment, with male rates multiplied by 109 percent and female rates multiplied by 103 percent. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent 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 three percent 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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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 EAN actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are 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	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%
Total	<u>100.00%</u>	

Discount Rate

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

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 131,717	\$ -	\$ 131,717
Interest	31,221	-	31,221
Change in current period benefits	-	-	-
Difference between expected and actual experience	(16,343)	-	(16,343)
Changes in assumptions	-	-	-
Contributions - employer	-	69,655	(69,655)
Contributions - employee	-	68,385	(68,385)
Net investment income	-	23,326	(23,326)
Benefit payments, including refunds of employee contributions	(15,090)	(15,090)	-
Administrative expense	-	(263)	263
Other changes	-	(14)	14
Net Changes	131,505	145,999	(14,494)
Balance at December 31, 2015	404,216	344,488	59,728
Balance at December 31, 2016	\$ 535,721	\$ 490,487	\$ 45,234

Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's Net Pension Liability (Asset)	\$ 121,593	\$ 45,234	\$ (18,314)

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.

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

For the fiscal year ended September 30, 2017, the City recognized pension expense of \$78,381.

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 19,915	\$ 7,986
Changes in actuarial assumptions	6,404	-
Difference between projected and actual investment earnings	13,527	-
Contributions subsequent to the measurement date	65,272	-
Total	\$ 105,118	\$ 7,986

\$65,272 is reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30:	Pension Expense
2018	\$ 6,804
2019	5,568
2020	1,556
2021	(2,551)
2022	(2,594)
Thereafter	(781)
Total	\$ 8,002

D. Other Post Employment Benefits

TMRS Supplemental Death Benefit Fund

Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other post employment benefit," or OPEB. For the year ended September 30, 2017, the City offered the supplemental death benefit to both active and retired employees.

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all

CITY OF LIBERTY HILL, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2017

death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the fiscal years ended 2017, 2016, and 2015 were \$269, \$220, and \$144, respectively, which equaled the required contributions each year. The City's contribution rates for the past three years are shown below:

	2017	2016	2015
Annual Req. Contrib. (Rate)	0.00%	0.00%	0.00%
Actual Contribution Made	0.00%	0.00%	0.00%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

E. Subsequent Event

On October 17, 2017, the City issued \$1,856,000 in tax notes, series 2017 to be used for capital projects and improvements within the City. The interest rate on this debt is between one and two percent and the debt will mature on March 1st of 2024.

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APPENDIX C

FORMS OF BOND COUNSEL'S OPINIONS

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Orrick, Herrington & Sutcliffe LLP
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September 27, 2018

City of Liberty Hill, Texas
General Obligation Refunding Bonds, Series 2018

We have acted as Bond Counsel for the City of Liberty Hill, Texas (the “City”), in connection with the issuance of its General Obligation Refunding Bonds, Series 2018 (the “Bonds”), dated September 27, 2018, in the aggregate principal amount of \$4,225,000. The Bonds are authorized in an ordinance adopted by the City Council of the City on September 10, 2018 (the “Ordinance”) authorizing the issuance of the Bonds. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Ordinance.

We have acted as Bond Counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the Constitution and laws of the State of Texas; federal income tax law; and a transcript of certain certified proceedings pertaining to the issuance of the Bonds and the obligations that are being refunded (the “Refunded Obligations”) with the proceeds of the Bonds, as described in the Ordinance. The transcript contains certified copies of certain proceedings of the City; the tax certificate of the City (the “Tax Certificate”); a deposit letter (the “Deposit Letter”) between the City and Wells Fargo Bank, National Association (the “Deposit Agent”); the certificate (the “Sufficiency Certificate”) of Specialized Public Finance Inc., financial advisor to the City, which verifies the sufficiency of the deposit made with the Deposit Agent for the defeasance of the Refunded Obligations; certain certifications and representations and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds and the firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations. We have also examined executed Bond No. R-1 of this issue.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement

with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance, the Deposit Letter and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Ordinance, the Deposit Letter and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect, and the Bonds constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof;
- (2) The Bonds are payable, both as to principal and interest, from, and secured by, the proceeds of a continuing annual ad valorem tax, levied within the limits prescribed by law, upon all taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Bonds;
- (3) The Deposit Letter has been duly executed and delivered and constitutes a binding and enforceable agreement in accordance with its terms; the establishment of the Defeasance Fund pursuant to the Deposit Letter and the deposit made therein constitute the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Obligations; in reliance upon the accuracy of the calculations contained in the Sufficiency Certificate, the Refunded Obligations, having been discharged and paid, are no longer outstanding and the lien on and pledge of ad valorem taxes and other revenues as set forth in the ordinance

authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Obligations may obtain payment of the principal of, redemption premium, if any, and interest on the Refunded Obligations only out of the funds provided therefor now held in in a Defeasance Fund for that purpose by the Deposit Agent pursuant to the terms of the Deposit Letter; and therefore the Refunded Obligations are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in such Deposit Letter; and

- (4) Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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September 27, 2018

City of Liberty Hill, Texas
Tax and Water System Surplus Revenue Certificates of Obligation, Series 2018

We have acted as Bond Counsel for the City of Liberty Hill, Texas (the “City”) in connection with the issuance of its Tax and Water System Surplus Revenue Certificates of Obligation, Series 2018 (the “Certificates”), dated September 27, 2018, in the aggregate principal amount of \$2,875,000. The Certificates are authorized in the ordinance adopted by the City Council of the City on September 10, 2018 (the “Ordinance”) authorizing the issuance of the Certificates. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Ordinance.

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

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Certificates has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by,

and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance and the Tax Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Certificates to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Certificates, the Ordinance and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against issuers in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Certificates and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently in effect; the Certificates constitute valid and legally binding obligations of the City enforceable in accordance with the terms and conditions thereof;
- (2) The Certificates are payable, both as to principal and interest, from and secured by, the proceeds of a continuing annual ad valorem tax, levied within the limits prescribed by law, upon all taxable property located within the City, which taxes have been pledged irrevocably to pay the principal of and interest on the Certificates, and a limited pledge of surplus revenues of the City's water system, not to exceed \$1,000; and
- (3) Interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Certificates.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

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