

This Preliminary Official Statement and the information contained herein are subject to completion or amendment without notice. These securities may not be sold, nor may offers to buy them be accepted, prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of, these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration, qualification or filing under the securities laws of any such jurisdiction.

Rating: S&P: Applied For  
(See "RATING", "BOND INSURANCE" and "BOND INSURANCE  
GENERAL RISKS" herein)

## PRELIMINARY OFFICIAL STATEMENT

Dated: October 31, 2018

NEW ISSUE: Book-Entry-Only

*In the opinion of Bond Counsel (identified below), assuming continuing compliance by the Authority (defined herein) after the date of initial delivery of the Bonds (defined herein) with certain covenants contained in the Order (defined herein) and subject to the matters set forth under "TAX MATTERS" herein, interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date of initial delivery of the Bonds, and (2) will not be included in computing the alternative minimum taxable income of individuals or, except as described herein, corporations. (See "TAX MATTERS" herein.)*

### THE BONDS WILL BE DESIGNATED AS QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS

\$4,500,000

### CIBOLO CREEK MUNICIPAL AUTHORITY

(A political subdivision of the State of Texas located in Bexar, Comal and Guadalupe Counties)

### CONTRACT REVENUE BONDS, SERIES 2018 (SOUTHERN WASTEWATER TREATMENT PLANT PROJECT)

Dated Date: November 15, 2018

Due: September 1, as shown on inside cover

The \$4,500,000 Cibolo Creek Municipal Authority Contract Revenue Bonds, Series 2018 (Southern Wastewater Treatment Plant Project) (the "Bonds") are being issued pursuant to the laws of the State of Texas, including Chapter 8166 Texas Special District Laws and Codes, as amended, Chapters 30, 49 and 54, as amended, Texas Water Code, and the order (the "Order") to be adopted by the Board of Directors of the Cibolo Creek Municipal Authority (the "Authority" or "Issuer") on November 8, 2018. (See "THE BONDS – Authority for Issuance" herein.)

Interest on the Bonds accrues from November 15, 2018 and is payable on September 1, 2019 and on each March 1 and September 1 thereafter until stated maturity or prior redemption. Principal of the Bonds will be paid at stated maturity or prior redemption only upon presentation and surrender of the Bonds at the corporate trust office of the Paying Agent/Registrar, initially UMB Bank, N.A., Austin, Texas. (See "THE BONDS - General Description" herein.) The Bonds are issued in fully registered form in the denomination of \$5,000 principal amount or any integral multiple thereof and will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. The Bonds will be available to purchasers only in book-entry form. For as long as Cede & Co. is the exclusive registered owner of the Bonds, the principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to DTC, which will be responsible for making such payments to DTC Participants for subsequent remittance to owners of beneficial interest in the Bonds. Purchasers of the Bonds will not receive certificates evidencing their beneficial ownership therein. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

The Bonds are special obligations payable as to principal and interest from, and secured solely, together with the currently outstanding Previously Issued Bonds (defined herein), by a lien on and pledge of the Special Payments (as defined in the Order), which consists of the Annual Payment as a portion of the Annual Requirement (as defined in the Contract) to be paid to the Authority initially solely by the City of Schertz, Texas (the "City") pursuant to the Contract (defined herein) as set forth in APPENDIX F. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the Authority, including the Project (defined herein) or either of their utility systems, and the registered owner of a Bond shall never have the right to demand payment of the Bonds from any other sources or properties of the Authority or the City, or the State of Texas. The Bonds are not payable from or secured by any other revenues of the Authority, or any other entity (including the City), and the Authority is not authorized to levy an ad valorem tax for any purpose, including for payment of the Bonds. In the Order, the Authority reserves the right to issue Additional Bonds and Additional Obligations (each as defined herein), without limitation as to principal amount, but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. (See "THE BONDS – Additional Bonds and Additional Obligations" herein.)

The Authority is considering qualifying the Bonds for municipal bond insurance and has made application to municipal bond insurance companies in connection with such consideration. The purchase of such insurance, if available, and the payment of all associated costs will be at the sole discretion of the Authority. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)

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### SEE INSIDE FRONT COVER HEREOF FOR MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS AND REDEMPTION PROVISIONS FOR THE BONDS

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*The Bonds are offered when, as and if issued, and delivered to the initial purchaser thereof named below (the "Underwriter") subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. Certain matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. Certain legal matters will be passed upon by the Attorney General of the State of Texas, and the Special City Attorney. The Bonds are expected to be available for delivery to the Underwriter through the services of DTC on or about December 6, 2018.*

HilltopSecurities

\* Preliminary, subject to change.

**STATED MATURITY SCHEDULE\***

**\$4,500,000**

**CIBOLO CREEK MUNICIPAL AUTHORITY**

**(A political subdivision of the State of Texas located in Bexar, Comal and Guadalupe Counties)**

**CONTRACT REVENUE BONDS, SERIES 2018 (SOUTHERN WASTEWATER TREATMENT PLANT PROJECT)**

CUSIP No. Prefix<sup>(1)</sup> 17164F

<b>Stated</b>				<b>CUSIP</b>	<b>Stated</b>				<b>CUSIP</b>
<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Intital</b>	<b>No.</b>	<b>Maturity</b>	<b>Principal</b>	<b>Interest</b>	<b>Intital</b>	<b>No.</b>
<u><b>9/1</b></u>	<u><b>Amount</b></u>	<u><b>Rate</b></u>	<u><b>Yield</b></u>	<u><b>Suffix</b></u> <sup>(1)</sup>	<u><b>9/1</b></u>	<u><b>Amount</b></u>	<u><b>Rate</b></u>	<u><b>Yield</b></u>	<u><b>Suffix</b></u> <sup>(1)</sup>
2020	\$ 110,000				2033	\$ 180,000			
2021	115,000				2034	185,000			
2022	120,000				2035	195,000			
2023	120,000				2036	205,000			
2024	125,000				2037	210,000			
2025	130,000				2038	220,000			
2026	135,000				2039	230,000			
2027	140,000				2040	235,000			
2028	150,000				2041	245,000			
2029	155,000				2042	255,000			
2030	160,000				2043	265,000			
2031	165,000				2044	275,000			
2032	175,000								

(Accrued interest from November 15, 2018 to be added)

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

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

\* Preliminary, subject to change.

**CIBOLO CREEK MUNICIPAL AUTHORITY**

**Board of Directors**

Ken Greenwald ..... President  
 Richard Braud ..... Vice-President  
 Reginna Agee ..... Treasurer  
 Jake Jacobs ..... Director  
 John E. Bierschwale ..... Director

**ADMINISTRATION**

<u>Name</u>	<u>Title</u>	<u>Length of Service with the District</u>
Clint Ellis	General Manager	11 years
Robert Dabney	Utility Director	14 years
Ryan Madsen	Business Manager	4 years

**ELECTED OFFICIALS  
CITY OF SCHERTZ, TEXAS**

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

**CONSULTANTS AND ADVISORS**

Norton Rose Fulbright US LLP, San Antonio, Texas	Bond Counsel
ABIP, PC, San Antonio, Texas	Auditor
SAMCO Capital Markets, Inc., San Antonio, Texas	Financial Advisor
Orrick, Herrington & Sutcliffe LLP, Austin, Texas	Special City Attorney

## USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities Exchange Commission (the "Rule"), as amended and in effect on the date of this Preliminary Official Statement, this document constitutes an "official statement" of the Authority with respect to the Bonds that has been "deemed final" by the Authority as of its date except for the omission of no more than the information permitted by the Rule.

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

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

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

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

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

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES 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.

None of the Authority, the Underwriter, or the Financial Advisor makes 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 as described herein under the caption "BOOK-ENTRY-ONLY SYSTEM".

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

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## SUMMARY STATEMENT

This Summary Statement is subject in all respects to the more complete information contained in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement, including the Appendices hereto. No person is authorized to detach this Summary Statement from this Official Statement or to otherwise use it without this entire Official Statement including the Appendices hereto. Capitalized terms used herein and not otherwise defined shall have the meanings assigned thereto in the Order authorizing the issuance of the Bonds or in the Contract. See "SELECTED PROVISIONS OF THE ORDER – Definitions" attached hereto as APPENDIX A.

<b>The Authority</b>	The Cibolo Creek Municipal Authority (the "Issuer" or "Authority") is a governmental agency and political subdivision of the State of Texas created as a conservation and reclamation district for the purpose of providing a regional sewer system (the "System"). The Authority was established by the Texas Legislature by the passage of Chapter 8166 Texas Special District Laws and Codes, as amended (the "Enabling Act"). Its defined boundaries encompass areas in Bexar, Comal and Guadalupe Counties. The initial acreage of 20,170 acres was expanded to 28,755 acres on April 5, 1977, by the 65 <sup>th</sup> Texas Legislature by the passage of S.B. 137. The Enabling Act confers on the Authority the rights, powers, privileges, authority and functions of the general laws of Texas applicable to municipal utility districts created under Chapters 49 and 54, Title 4, Texas Water Code, as amended, and of river authorities created under Chapter 30, Texas Water Code, as amended. Policy making and supervisory functions are the responsibility of, and are vested in, a five member Board of Directors. The General Manager is the Authority's chief administrative officer. Support services are provided by independent consultants and advisors. (See "Financial Information Regarding the Cibolo Creek Municipal Authority" in APPENDIX C herein).
<b>The Bonds</b>	\$4,500,000* Cibolo Creek Municipal Authority Contract Revenue Bonds, Series 2018 (Southern Wastewater Treatment Plant Project), dated November 15, 2018, maturing on September 1 in each of the years 2020 through 2044. Interest on the Bonds will be paid semiannually on each September 1 and March 1, commencing September 1, 2019 until stated maturity or prior redemption. (See "THE BONDS – General Description.")
<b>Purpose of Bonds</b>	The proceeds of the Bonds will be used to (i) acquire, design, construct and equip the Southern Wastewater Treatment Plant and (ii) pay the costs of issuance of the Bonds. (See "PLAN OF FINANCING – Purpose" herein).
<b>Security</b>	The Bonds are special obligations payable as to principal and interest from and secured, together with any of the currently outstanding Previously Issued Bonds (defined herein), solely by a lien on and pledge of the Special Payments (as defined in the Order), which consists of the Annual Payment (as defined in the Contract) as a portion of the Annual Requirement (as defined in the Contract) to be paid to the Authority initially solely by the City of Schertz, Texas (the "City") pursuant to the Contract (defined herein) and as set forth in APPENDIX F. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the Authority or the City, including the Project (defined herein) or each of the respective utility systems, and the registered owner of a Bond shall never have the right to demand payment of the Bonds from any other sources or properties of the Authority or the City (defined herein), or the State of Texas. The Bonds are not payable from or secured by any other revenues of the Authority, or any other entity (including the City), and the Authority is not authorized to levy an ad valorem tax for any purpose, including for payment of the Bonds. In the Order, the Authority reserves the right to issue Additional Bonds (defined herein) and Additional Obligations (defined herein) without limitation as to principal amount, but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. (See "THE BONDS – Additional Bonds and Additional Obligations" herein.)
<b>Redemption</b>	The Issuer reserves the right to redeem the Bonds maturing on or after September 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described herein. (See "THE BONDS – Redemption Provisions" herein.)
<b>Rating</b>	An application has been made to S&P Global Ratings ("S&P") for a rating on the Bonds. (See "RATING" herein.)
<b>Bond Insurance</b>	The Authority is considering qualifying the Bonds for municipal bond insurance and has made application to municipal bond insurance companies in connection with such consideration. The purchase of such insurance, if available, and the payment of all associated costs will be at the sole discretion of the Authority. (See "BOND INSURANCE" and "BOND INSURANCE GENERAL RISKS" herein.)

\* Preliminary, subject to change.

<b>Book-Entry-Only System</b>	The Bonds are initially issuable only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only system described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the purchasers thereof. Principal of, premium if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the DTC Participants (as defined herein) for subsequent remittance to the owners of the beneficial interests in the Bonds. (See “BOOK-ENTRY-ONLY SYSTEM.”)
<b>Tax Exemption</b>	Interest on the Bonds for federal income tax purposes under existing statutes, regulations, published rulings, and court decisions (1) will be excludable from the gross income of the owners thereof pursuant to section 103 of the Internal Revenue Code of 1986, as amended, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" herein.)
<b>Qualified Tax-Exempt Obligations</b>	The Authority will designate the bonds as “Qualified Tax-Exempt Obligations” for financial institutions. (See “TAX MATTERS – Qualified Tax-Exempt Obligations”)
<b>Payment Record</b>	The Issuer has never defaulted on the payment of its bonded indebtedness.
<b>Delivery</b>	When issued, anticipated on or about December 6, 2018.
<b>Legality</b>	Delivery of the Bonds is subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. Certain legal matters will be passed upon for the Issuer by the Special City Attorney for the City.

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**PRELIMINARY OFFICIAL STATEMENT**

relating to

**\$4,500,000\***

**CIBOLO CREEK MUNICIPAL AUTHORITY**

**(A political subdivision of the State of Texas located in Bexar, Comal and Guadalupe Counties)**

**CONTRACT REVENUE BONDS, SERIES 2018**

**(SOUTHERN WASTEWATER TREATMENT PLANT PROJECT)**

**INTRODUCTORY STATEMENT**

This Official Statement, which includes the cover page, the maturity schedule and the appendices hereto, provides certain information regarding the issuance by the Cibolo Creek Municipal Authority (the “Authority” or the “Issuer”) of its \$4,500,000 Contract Revenue Bonds, Series 2018 (Southern Wastewater Treatment Plant Project) (the “Bonds”). Capitalized terms used in this Official Statement have the same meaning assigned to such terms in the order (the “Order”) authorizing the issuance of the Bonds, except as otherwise indicated herein. (See “SELECTED PROVISIONS OF THE ORDER – Definitions” in APPENDIX A.)

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

There follows in this Official Statement brief descriptions of the Project, the Bonds, the Authority, the City, the Contract, the System, and the City’s System. 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 Authority’s Financial Advisor, SAMCO Capital Markets, Inc., 1020 Northeast Loop 410, Suite 640, San Antonio, Texas 78209, via 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. A copy of the Final Official Statement pertaining to the Bonds will be deposited with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access (“EMMA”) system. (See “CONTINUING DISCLOSURE OF INFORMATION” herein for a description of the Authority’s and the City’s undertakings to provide certain information on a continuing basis.)

**PLAN OF FINANCING**

**Purpose**

The proceeds of the Bonds will be used to (i) acquire, design, construct and equip the Southern Wastewater Treatment Plant and (ii) pay the costs of issuance of the Bonds.

**THE AUTHORITY**

The Authority was created in 1971 and provides regional wastewater services for the area northeast of San Antonio, Texas, particularly the communities of Schertz, Cibolo, Selma, Randolph Air Force Base, and portions of Live Oak, San Antonio, and Universal City.

The overall Authority utility system includes the gravity interceptor system, lift stations, force mains, a water reclamation plant, and a reclaimed water distribution system. The Authority maintains approximately 20.5 miles of gravity sewer line and 8.5 miles of force main. In general, the gravity system follows the natural topography and drainage basins flowing to the Authority’s Odo J. Riedel Regional Water Reclamation Plant which is rated for an annual average flow of 6.2 million gallons per day. The Odo J. Riedel Regional Water Reclamation Plant is currently under a major expansion to accommodate a permitted capacity of 10 million gallons per day.

Over the last decade, the Authority’s service area has experienced dramatic growth. The Authority has expanded its wastewater system to meet the projected demands of its wholesale customers. The Authority’s service area encompasses approximately 58,261 acres.

\*Preliminary, subject to change.



## THE PROJECT

The Southern Plant Project (the “Project”) is a joint effort by the City and the Authority to bring wastewater service to southern Schertz, southern Cibolo, and the Interstate 10 corridor. The need for the Project is a result of the rapid development of the southern portions of the City of Schertz, and anticipated growth along the I-10 corridor and southern City of Cibolo. The Project, which will replace an existing smaller package plant, will initially treat up to 500,000 gallons per day, the equivalent of just over 2,000 homes. Residential customers are expected to provide the bulk of the flow during start-up period, with higher levels of both commercial and light industrial development occurring along I-10 once wastewater service is available. The first phase is projected to become operational in early 2020. Subsequent expansions will eventually increase the Project to a permitted treatment capacity of over 9,000,000 gallons per day, draining and servicing an area of over 14,000 acres, and providing wholesale wastewater service to the equivalent of over 36,000 homes. The Authority will own, operate and maintain the Project, located on property already acquired for this purpose and the Authority will manage the . The City of Schertz will own and operate its wastewater collection system that ties into the Project and connect to the City’s residential and commercial wastewater . The Project will be financed by the City of Schertz, pursuant to the terms of the Contract, with the permitting and construction managed by the Authority.

## THE BONDS

### General Description

The Bonds will be dated November 15, 2018, and will be issued in fully registered form in denominations of \$5,000 or any integral multiple thereof. The Bonds will bear interest from November 15, 2018. Interest will be paid semiannually on each September 1 and March 1, commencing September 1, 2019. Interest will accrue on the Bonds on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued as book-entry-only securities pursuant to arrangements made with The Depository Trust Company, New York, New York. (See “BOOK-ENTRY-ONLY SYSTEM.”)

Principal on the Bonds will be payable to the registered owner (the “Owner”) at stated maturity or prior redemption upon presentation and surrender of such Bonds at the corporate office of the paying agent/registrars (the “Paying Agent/Registrar”), initially UMB Bank, N.A., Austin, Texas. Upon discontinuance of the Book-Entry-Only System, interest on the Bonds will be payable by check dated as of the interest payment date and mailed by the Paying Agent/Registrar to Owners as shown on the records of the Paying Agent/Registrar on the Record Date (see “REGISTRATION, TRANSFER AND EXCHANGE - Record Date for Interest Payment” herein), or by such other customary banking arrangement, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the Owner. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or a day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

The Bonds will mature on the dates, in the amounts and bear interest at the rates as set forth on page 2 of this Official Statement.

The Bonds are payable solely pursuant to the terms of the Contract and the Project is being created as a separate enterprise fund of the Authority and no other assets of the City or the Authority’s utility system are encumbered or pledged to pay the debt service requirements on the Bonds.

### Authority for Issuance

The Bonds are being issued pursuant to the laws of the State of Texas, including Chapter 8166 Texas Special District Laws and Codes, as amended, Chapters 30, 49 and 54, as amended, Texas Water Code, and an order (the “Order”) to be adopted by the Board of Directors of the Cibolo Creek Municipal Authority (the “Authority” or “Issuer”) on November 8, 2018.

### Legality

The Bonds are offered when, as and if issued, subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. Certain legal matters will be addressed by the Authority’s General Counsel, the City Attorney, and counsel to the Underwriter. The legal opinion of Bond Counsel will be printed on or attached to the Bonds. (See “OTHER INFORMATION – Legal Matters” and APPENDIX D.)

## **Security and Source of Payment**

The Bonds are special obligations payable as to principal and interest from, and secured, together with the currently outstanding Previously Issued Bonds (as defined in the Contract) solely by a lien on and pledge of the Special Payments (as defined in the Order), which consists of the Annual Payment (as defined in the Contract) as a portion of the Annual Requirement (as defined in the Contract), to be paid to the Authority initially solely by the City pursuant to the Contract (defined herein) and as set forth in APPENDIX F. The Bonds do not constitute a legal or equitable pledge, charge, lien or encumbrance upon any property of the City or the Authority, including the Project or their respective utility systems, and the registered owner of a Bond shall never have the right to demand payment of the Bonds from any other sources or properties of the Authority, the City, or the State of Texas. The Bonds are not secured by any other revenues of the Authority, or any other entity (including the City), and the Authority is not authorized to levy an ad valorem tax for any purpose, including for payment of the Bonds. In the Order, the Authority reserves the right to issue Additional Bonds (defined herein) and one or more series of Additional Obligations (defined herein) without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. (See “THE BONDS – Additional Bonds and Additional Obligations” herein.)

Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Special Payments and such pledge is therefore, valid, effective and perfected. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Special Payments is to be subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the Owners of the Bonds a security interest in such pledge, the Authority agrees to take such measures as it determines is reasonable and necessary to enable a filing of a security interest in said pledge to occur.

## **Rate Covenant**

Pursuant to the Order, the Authority has agreed, while any of the Bonds Similarly Secured (including the Bonds) and the currently outstanding Previously Issued Bonds are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient: (1) to pay all Maintenance and Operating Expenses of the System, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System; (2) to produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Prior Lien Obligations hereafter issued by the Authority and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Prior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a prior and first lien on and pledge of the Net Revenues of the System; (3) to produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Junior Lien Obligations hereafter issued by the Authority and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Junior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a junior and inferior lien on and pledge of the Net Revenues of the System; (4) to produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Inferior Lien Obligations hereafter issued by the Authority and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Inferior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a subordinate and inferior lien on and pledge of the Net Revenues of the System; and (5) to produce Net Revenues, together with any other lawfully available funds, including Special Payments, to pay the principal of and interest on the Bonds Similarly Secured as the same become due and payable and to deposit the amounts required to be deposited in any special fund or account created and established for the payment and security of the Bonds Similarly Secured (including the Bonds). However, the Bonds Similarly Secured, (including the Bonds) are secured solely by a lien on and Pledge of the Special Payments, which consists of the Annual Payment as a portion of the Annual Requirement to be paid to the Authority initially solely by the City pursuant to the Contract.

## **The Southern Plant Wastewater Contract**

The Authority has a written contract to treat wastewater from the Participating Members pursuant to a Regional Wastewater Treatment Contract (Southern Wastewater Treatment Plant Project), dated September 11, 2014, as amended (the “Contract”) between the Authority and the Participating Members. As of the date hereof, the City is the only Participating Member. Under the Contract, the Authority agrees to treat wastewater delivered by the Participating Members to the Authority at the Project.

The Contract creates a rate methodology established pursuant to the Authority's Service Rules and Policies. These Rules and Policies are available, upon written request, from the Authority. See "APPENDIX F – Selected Provisions of the Contract". Pursuant to the Contract, Participating Members have each agreed to pay fixed charges, as described in the Contract ("Annual Payments"), including the Special Payments, as a portion of the Annual Requirements (as defined in the Contract), that in the aggregate are sufficient to pay their respective shares of the debt service on the Bonds Similarly Secured and a portion of the Maintenance and Operation Expenses relating to the Project.

### **Additional Bonds and Additional Obligations**

The Authority reserves the right to issue "Additional Bonds" and "Additional Obligations" without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. Additional Bonds, when issued, together with the Bonds and the currently outstanding Previously Issued Bonds, shall be payable from and secured solely by a lien on and pledge of the Special Payments, which consists of the Annual Payment as a portion of the Annual Requirement. Additional Obligations, which include the Authority's Prior Lien Obligations, Junior Lien Obligations, and Inferior Lien Obligations, when issued, shall be secured by a prior lien on and pledge of the Net Revenues of the System (See "APPENDIX A - SELECTED PROVISIONS OF THE ORDER.")

### **Redemption Provisions**

The Issuer reserves the right to redeem the Bonds maturing on and after September 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on September 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest to the date of redemption as further described herein.

If less than all of the Bonds of any maturity are to be redeemed, the Authority will determine the amounts of each maturity or maturities to be redeemed and will direct the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) to select, at random and by lot, the particular Bond or Bonds, or portions thereof, within such maturity or maturities to be redeemed. If a Bond (or any portion of the principal sum thereof) will have been called for redemption and notice of such redemption will have been given, such Bond (or the principal amount thereof to be redeemed), will become due and payable on such redemption date and interest thereon will cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

Not less than 30 days prior to a redemption date for the Bonds, the Authority shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, in the name of the Authority and at the Authority's expense, by the Paying Agent/Registrar to the Owners of the Bonds to be redeemed, in whole or in part, 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. 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, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

All notices of redemption will (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state that the Bonds, or the portion of the principal amount thereof to be redeemed, will become due and payable on the redemption date specified, and the interest thereon, or on the portion of the principal amount thereof to be redeemed, will cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, will be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Order, such Bonds (or the principal amount thereof to be redeemed) so called for redemption will become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or the principal amount thereof to be redeemed) called for redemption will cease to accrue and such Bonds will not be deemed to be outstanding.

The Paying Agent/Registrar and the Authority, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC participant, or of any Direct Participant (defined

herein) or Indirect Participant (defined herein) to notify the Beneficial Owner (defined herein), 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 Bonds by the Authority will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with Direct participants and then Direct participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of Bonds to be redeemed will not be governed by the Order and will not be conducted by the Authority or the Paying Agent. Neither the Authority nor the Paying Agent/Registrar will have any responsibility to Direct Participants, Indirect Participants or the persons for whom DTC Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption. (See “BOOK-ENTRY-ONLY-SYSTEM” herein.)

In addition, any Bonds structured as one or more term Bonds (the “Term Bonds”) by the Underwriter will be subject to mandatory sinking fund redemption at the times and in the amounts as specified in the Order, which provisions will be disclosed in the final Official Statement.

### **Defeasance**

The Order provides for the defeasance of the Bonds when payment of the principal of and premium, if any, on such Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise) is provided by irrevocably depositing with a paying agent in trust (1) money in an amount sufficient to make such payment and/or (2) Government Securities (hereinafter defined) certified, in the case of a net defeasance, by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and to bear interest at such rates as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom (likewise to be held in trust and committed, except as hereinafter provided), be sufficient to make such payment; provided however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of the Bonds.

The Order provides that “Government Securities” means (i) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (ii) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (iv) any additional securities and obligations hereafter authorized by the State law as eligible for use to accomplish the discharge of obligations, such as the Bonds. Authority officials may restrict the use of certain Government Securities as deemed appropriate. There is no assurance that the ratings for United States Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible Government Securities (such list consisting of those securities identified in clauses (i) through (iii) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds (“Defeasance Proceeds”), though the Authority has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Order does not contractually limit such permissible Government Securities and expressly recognizes the ability of the Authority to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other Government Securities, notwithstanding the fact that such Government Securities may not be of the same investment quality as those currently identified under State law as permissible Government Securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding or unpaid for purposes of applying any limitation or indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the Authority to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the Authority has reserved the option, to be exercised at the time of the defeasance of the Bonds, to call for redemption at an earlier date those Bonds which have been defeased to their maturity date, if the Authority (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption, (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements, and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

## Amendments

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

## Defaults and Remedies

If the Issuer defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set for in the Order, the registered owners may seek a writ of mandamus to compel Authority officials to carry out their legally imposed duties with respect to the Bonds, if there is no other available remedy at law to compel performance of the Bonds or the Order and the Authority's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Order does not provide for the appointment of a trustee to represent the interest of the bond owners upon any failure of the Authority to perform in accordance with the terms of the Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the Authority's sovereign immunity from a suit for money damages, registered owners may not be able to bring such a suit against the Authority for breach of the Bond or Order covenants. Even if a judgment against the Authority could be obtained, it could not be enforced by direct levy and execution against the Authority's property. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 59 Tex. Sup. Ct. J. 524 (Tex. 2016) ("Wasson") that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the State. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is not clear. The Texas Supreme 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 considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question. Furthermore, the Authority 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, such as the Special Payments, such provision is subject to judicial construction. 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 registered owners of an entity which has sought protection under Chapter 9. Therefore, should the Authority avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Order and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion.

## Ownership of Bonds

The Authority, the Paying Agent/Registrar and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of principal and interest, and for all other purposes, whether or not such Bond is overdue, and neither the Authority nor the Paying Agent/Registrar will be bound by any notice or knowledge to the contrary.

All payments made to the person deemed to be the owner of any Bond in accordance with the Order will be valid and effectual and will discharge the liability of the Authority and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

## SOURCES AND USES OF FUNDS

The proceeds from the sale of the Bonds will be applied approximately as follows:

### Sources:

Principal Amount of Bonds  
[Net] Original Issue Reoffering Premium/Discount  
Accrued Interest on the Bonds  
**Total Sources of Funds**

### Uses:

Deposit to Construction Fund <sup>(1)</sup>  
Issuance Expenses (includes bond insurance premium, if any)  
Underwriter's Discount  
Deposit to Bond Fund  
**Total Uses of Funds**

<sup>(1)</sup> The Authority has approximately \$4,851,210.39 remaining in the proceeds of the Previously Issued Bonds that together with certain proceeds of the Bonds will be utilized to contract the Project.

## BOOK-ENTRY-ONLY SYSTEM

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

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully registered bond certificate will be issued for the Bonds, in the aggregate principal amount of such issue, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants")

deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has an S&P Global Ratings rating of AA+. The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents.

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Authority or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered. The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Authority, the Financial Advisor, and the Underwriter believe to be reliable, but none of the Authority, the Financial Advisor, nor the Underwriter take responsibility for the accuracy thereof.

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

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

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

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

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

## **BOND INSURANCE**

The Issuer is considering qualifying the Bonds for municipal bond insurance and has made application to several bond insurance companies in connection with such consideration. No representation is hereby made that the Issuer will use municipal bond insurance in connection with the issuance of the Bonds (the "Policy") from a bond insurance company (the "Insurer"). The final Official Statement shall disclose, to the extent necessary, any relevant information relating to the Policy.

### **BOND INSURANCE GENERAL RISKS**

#### **General**

The Authority has applied for a Policy to guarantee the Bonds. If a Policy is purchased as a result of the Authority accepting a bid for the Bonds that incorporates the acquisition of such a policy, the following are risk factors relating to the bond insurance.

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the Authority which is recovered by the Authority from the Beneficial Owners as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the Authority (unless the Insurer chooses to pay such amounts at an earlier date). Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE BONDS - Default and Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Beneficial Owners.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely by the special payments, as further described under "THE BONDS – Security



for Payment". In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

If a Policy is acquired, the enhanced long-term rating on the Bonds will be dependent on the financial strength of the Insurer and its claims paying ability. The Insurer's financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the rating on the Bonds, whether or not subject to the Policy, will not be subject to downgrade, and such event could adversely affect the market price or the marketability (liquidity) for the Bonds. See the disclosure described in "OTHER PERTINENT INFORMATION – Rating" herein.

The obligations of the Insurer under the Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the Authority, the Financial Advisor, or the Underwriter have made an independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Insurer is given.

## **REGISTRATION, TRANSFER AND EXCHANGE**

### **Paying Agent/Registrar**

The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Order, the Issuer retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the Issuer, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the Issuer, shall be a national or state banking association or corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, shall be subject to supervision or examination by federal or state authority, and registered as a transfer agent with the United States Securities and Exchange Commission. Upon a change in the Paying Agent/Registrar for the Bonds, the Issuer agrees to promptly cause written notice thereof to be sent to each registered owner of the Bonds affected by the change by United States mail, first-class, postage prepaid.

### **Future Registration**

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

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

The record date ("Record Date") for determining the party to whom the interest on a Bond is payable on any interest payment date means the fifteenth day of the month next preceding each interest payment date. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment will be established by the Paying Agent/Registrar.

### **Limitation on Transfer of Bonds**

Neither the Authority nor the Paying Agent/Registrar will be required to transfer or exchange any Bond (i) during the period commencing with the close of business or any Record Date and ending with the opening of business on the following principal or interest payment date, or (ii) with respect to any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

### **Replacement of Bonds**

The Issuer has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bond to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the Issuer and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The Issuer may require payment of taxes, governmental charges, and other expenses in connection with any such replacement.

## **INVESTMENT CONSIDERATIONS**

The City's ability to make payments of the Special Payments, sufficient to pay principal of and interest on the Bonds Similarly Secured when due may be affected by certain risks described below and elsewhere in this Official Statement. Such risks should be considered in making a decision to invest in the Bonds.

### **Limited Bondholder Remedies**

The Order and the Contract provide only limited remedies to Bondholders in the event of default. Neither the Bonds Similarly Secured nor the Special Payments are subject to acceleration upon default. Although the Bondholders could apply for a writ of mandamus to compel the City and the Authority to abide by their contractual obligations, such a remedy is time consuming and may have to be enforced from year to year. No judgment against the City or the Authority may be enforced by execution of a levy against its public purpose property. In addition, the rights and remedies of Bondholders may be limited by applicable federal bankruptcy and receivership laws affecting creditors of political subdivisions. See "THE BONDS – Defaults and Remedies".

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986 (the "Code"), as amended to the date hereof, of the owners thereof pursuant to section 103 of the Code and existing statutes, regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statute, regulations, rulings, and court decisions on which such opinion is based are subject to change. A form of Bond Counsel's opinion appears in APPENDIX D hereto.

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

Interest on all tax-exempt obligations, including the Bonds, owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust (REIT), a financial asset securitization investment trust (FASIT), or a real estate mortgage investment conduit (REMIC). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the Authority and the City made in certificates pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the Authority with the provisions of the Order subsequent to the issuance of

the Bonds. The Order contains covenants by the Authority with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

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

### **Tax Changes**

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

### **Ancillary Tax Consequences**

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions (see discussion under “Qualified Tax-Exempt Obligations” herein), property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust (FASIT), individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Tax Accounting Treatment of Discount Bonds**

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

However, such accrued interest may be required to be taken into account in determining the alternative minimum tax on corporations for taxable years that began before January 1, 2018, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions (See discussion under “Qualified Tax-Exempt

Obligations” herein), property and casualty insurance companies, life insurance companies, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

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

### **Tax Accounting Treatment of Premium Bonds**

The initial public offering price to be paid for certain Bonds may be greater than the stated redemption price on such Bonds at maturity (the “Premium Bonds”). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and its stated redemption price at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium with respect to the Premium Bonds. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

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

### **Qualified Tax-Exempt Obligations**

Section 265 of the Code provides, in general, that interest expense to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code generally disallows 100% of any deduction for interest expense which is incurred by “financial institutions” described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this interest disallowance rule for interest expense allocable to tax-exempt obligations (other than private activity Bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) obligations and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The Authority will designate the Bonds as “qualified tax-exempt obligations” and has certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the 100% disallowance of interest expense allocable to interest on the Bonds under section 265(b) of the Code. However, the deduction for interest expense incurred by a financial institution which is allocable to the interest on the Bonds will be reduced by 20% pursuant to section 291 of the Code.

## CONTINUING DISCLOSURE OF INFORMATION

In the Order and in the Contract, the Authority and the City (collectively, the “Obligated Parties”), respectively, have made the following agreements for the benefit of the holders and Beneficial Owners of the Bonds. The Obligated Parties are required to observe the agreements for so long as they remain obligated to advance funds to pay the Bonds. Under the agreements, the Obligated Parties will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board (“MSRB”).

### **Continuing Disclosure Undertaking of the Authority**

Pursuant to the Order, the Authority has made a continuing disclosure undertaking for the benefit of the holders and beneficial owners of the Bonds Similarly Secured. The Authority is required to observe the agreement for so long as the Authority remains obligated to advance funds to pay the Bonds Similarly Secured. Under this agreement, the Authority will be obligated to 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 of the general type included in APPENDIX C to this Official Statement and timely notice of specified events to the Municipal Securities Rulemaking Board (the “MSRB”). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access (“EMMA”) system through an internet website accessible at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Continuing Disclosure Undertaking of the Participating Members**

In the Contract, each Participating Member, initially only the City, has agreed to provide certain updated financial information and operating data to the MSRB annually for the benefit of the holders and beneficial owners of the Bonds. Each Participating Member has agreed to observe its agreement to the extent and only during such time as it remains obligated to advance funds to pay the Bonds. Under such agreement, the Participating Members will be obligated to provide certain updated financial information and operating data annually to the MSRB. This information will be available to the general public, free of charge, through EMMA at [www.emma.msrb.org](http://www.emma.msrb.org). The information to be updated includes all quantitative financial information and operating data with respect to such Participating Member of the general type included in its annual financial statement; provided, that at the time of delivery of the Bonds, such Participating Members will acknowledge that such financial information and operating data will include information of the general type included with respect to such Participating Member in APPENDIX B and APPENDIX E to this Official Statement. The Participating Member will update and provide this information within 180 days after the end of their respective fiscal year. If a Participating Member changes its fiscal year, it will file notice of such change with EMMA.

The Participating Members may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (“Rule 15c2-12”) of the United States Securities and Exchange Commission (the “SEC”). The updated information will consist of audited financial statements, if the respective Participating Member commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Participating Members have agreed to provide unaudited financial statements within the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with generally accepted accounting principles for governmental entities or such other accounting principles as the Participating Member may be required to employ from time to time pursuant to state law or regulation.

### **Annual Reports**

The Obligated Parties will provide certain updated financial information and operating data to the MSRB. The information to be updated includes the quantitative financial information and operating data with respect to the Obligated Parties of the general type included in this Official Statement in APPENDIX B for the City and APPENDIX C for the Authority. The Obligated Parties will update and provide this information within six months after the end of each fiscal year.

The Obligated Parties 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 Obligated Parties commission an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Obligated Parties will provide unaudited financial statements by the required time, and will provide audited financial statements when and if they become

available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX E or other such accounting principles as the Obligated Parties may be required to employ from time to time pursuant to state law or regulation.

Each of the Obligated Parties' current fiscal years end are September 30. Accordingly, they must provide updated information by the last day of March in each year, unless any of the Obligated Parties change their fiscal year. If any of the Obligated Parties change their fiscal year, the appropriate Obligated Party will file notice of the change with the MSRB.

### **Event Notices**

The Obligated Parties will file with the MSRB notice of any of the following events with respect to the Bonds not more than 10 business days after occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of registered owners of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Obligated Parties, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Obligated Parties 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 (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material. Neither the Bonds nor the Order make any provision for debt service reserve funds, credit enhancement (although the Issuer is seeking qualifications from bond insurance companies), or liquidity enhancement. In addition, the Obligated Parties will provide timely notice of any failure by the Obligated Parties to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The Obligated Parties will file each notice described in this paragraph with the MSRB.

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

### **Availability of Information**

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

### **Limitations and Amendments**

The Obligated Parties have agreed to update information and the Authority to provide notices of specified events only as described above. The Obligated Parties have not agreed to provide other information that may be relevant or material to a complete presentation of their financial results of operations, condition or prospects or agreed to update any information that is provided, except as described above. The Obligated Parties make no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The Obligated Parties disclaim 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 and beneficial owners of Bonds may seek a writ of mandamus to compel the Obligated Parties to comply with its agreement.

The Obligated Parties may amend their continuing disclosure agreements 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 any of the Obligated Parties, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the Obligated Parties (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The Obligated Parties may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Obligated Parties amend any of their agreements, they must be included with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

### **Compliance with Prior Undertakings by the Authority**

Other than the following, during the past five years, the Authority has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule

Although the Authority’s 2017 audit was filed timely on February 8, 2018, the Continuing Disclosure tables for Fiscal Year 2017 were inadvertently not filed. All financial information from the tables is included in the 2017 Audit, except the total sewer connections and the wholesale sewer rates. On September 6, 2018, the Authority made a corrective filing, which included this information. The Authority has implemented procedures in an attempt to eliminate future noncompliance in accordance with the Rule.

### **Compliance with Prior Undertakings by the Participating Member**

During the past five years, the City of Schertz timely filed its audits and certain tables in accordance with its undertaking, but inadvertently failed to include certain tables associated with its utility system in accordance with its Continuing Disclosure Undertakings. On September 27, 2018 the missing utility system tables were filed. The City has implemented procedures to eliminate future noncompliance in accordance with the Rule.

## **RATING**

The Issuer has made application to S&P Global Ratings (“S&P”) for a contract rating on the Bonds.

An explanation of the significance of such ratings may be obtained from S&P. The rating of the Bonds by S&P reflects only the view of such company at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

## **OTHER INFORMATION**

### **Litigation**

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

### **Environmental Regulations**

The Authority is subject to the environmental regulations of the State and the United States in the operation of its utility system and the Project. These regulations are subject to change and the Authority may be required to expend substantial funds to meet the requirements of such regulatory authorities.

## **Legal Matters**

The Authority will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the approving legal opinion of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding special obligations of the Authority, and based upon examination of such transcript of proceedings, the legal opinion of Bond Counsel to the effect that the Bonds issued in compliance with the provisions of the Order are valid and legally binding special obligations of the Authority and the interest on such Bonds is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions (see "TAX MATTERS"). Though it represents the Financial Advisor, the City, and the Underwriter from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been retained by and only represents the Authority in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement under the captions "THE BONDS," (except the subcaption "Defaults and Remedies" as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE," "APPENDIX A – Selected Provisions of the Order," "APPENDIX F – Selected Provisions of the Contract," "TAX MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except the subcaption "Compliance with Prior Undertakings", as to which no opinion is expressed), "OTHER INFORMATION – Legal Matters (excluding the second paragraph thereof, as to which no opinion is expressed)" "OTHER INFORMATION – Legal Investments in Texas," and "OTHER INFORMATION – Registration and Qualification of Bonds for Sale" and is of the opinion that the information relating to the Bonds, the Contract, and the Order contained therein fairly and accurately describes the provisions thereof and is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the definitive Bonds in the event of the discontinuance of the Book-Entry-Only System.

Certain matters will be passed upon for the Underwriter by its counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. Certain legal matters relating to the validity and enforceability of the Contract will be passed upon by the Attorney General of Texas, and by Orrick, Herrington & Sutcliffe LLP, Special City Attorney for the City of Schertz, Texas concerning the issuance of the Bonds.

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

## **Legal Investments in Texas**

Under Texas law, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than "A" or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for Issuer deposits, or (ii) certificates of deposit where (a) the funds are invested by the Issuer through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Issuer as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the Issuer; (b) the broker or the depository institution selected by the Issuer arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Issuer,



(c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Issuer appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the Issuer with respect to the certificates of deposit issued for the account of the Issuer; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the Issuer or cash held by the Issuer to be pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the Issuer, held in the Issuer's name and deposited at the time the investment is made with the Issuer or a third party designated by the Issuer, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers' acceptances if the bankers' acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the Issuer with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities; (15) investment pools if the Issuer has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than "AAA" or "AAA-m" or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the Issuer and deposited with the Issuer or with a third party selected and approved by the Issuer.

The Issuer may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the Issuer retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Issuer must do so by order, ordinance, or resolution. The Issuer is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

### **Investment Policies**

Under Texas law, the Authority is required to invest its funds in accordance with 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; that includes a list of authorized investments for Authority funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity

allowed for pool fund groups, and the methods to monitor the market price of investments acquired with public funds and the 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. All Authority funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type; (2) preservation and safety of principal; (3) liquidity; (4) marketability of each investment; (5) diversification of the portfolio; and (6) yield.

Under Texas law, Authority 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 Authority must submit to the Authority an investment report detailing (1) the investment position of the Authority; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value, the fully accrued interest, and the ending value of each pooled fund group; (4) the book value and market value of each separately listed asset at the end of the reporting period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to (a) adopted investment strategy statements and (b) State law. No person may invest Authority funds without express written authority from the Board of Directors.

### **Additional Provisions**

Under Texas law, the Authority is additionally required to (1) annually review its adopted policies and strategies; (2) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the said order or resolution; (3) require any investment officers with personal business relationships or relative with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and governing body of the Authority; (4) require the registered principal of firms seeking to sell securities to the Authority to (a) receive and review the Authority's investment policy; (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities; and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the Authority's investment policy; (6) provide specific investment training for the Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investments of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in mutual funds in the aggregate to no more than 15% of the Authority's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in no-load money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service and to no more than 15% of the entity's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (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 the investment transactions with the Authority.

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

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

### **Financial Advisor**

SAMCO Capital Markets, Inc., is employed as a Financial Advisor to the Issuer in connection with the issuance of the Bonds. In this capacity, the Financial Advisor has compiled certain data relating to the Bonds and has assisted in drafting this Official Statement. The Financial Advisor has not independently verified any of the data contained herein or conducted a detailed investigation of the affairs of the Issuer to determine the accuracy or completeness of

this Official Statement. Because of its limited participation, the Financial Advisor assumes no responsibility for the accuracy or completeness of any of the information contained herein. The fees for the Financial Advisor are contingent upon the issuance, sale and delivery of the Bonds.

## **Underwriting**

The Underwriter has agreed, subject to certain customary conditions, to purchase the Bonds at a price equal to \$ \_\_\_\_\_, less an Underwriter's discount of \$ \_\_\_\_\_, plus accrued interest from November 15, 2018. The Underwriter's obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices, and such public 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 in accordance with its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter 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 Issuer, that are not purely historical, are forward-looking statements, including statements regarding the Issuer'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 Issuer on the date hereof, and the Issuer assumes no obligation to update any such forward-looking statements. It is important to note that the Issuer's actual results could differ materially from those in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the Issuer. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement would prove to be accurate.

## **CONCLUDING STATEMENT**

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

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.

MISCELLANEOUS

The Order authorizing the issuance of the Bonds will also approve the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorize its further use in the reoffering of the Bonds by the Underwriter.

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

CIBOLO CREEK MUNICIPAL AUTHORITY

/s/

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President,  
Board of Directors

ATTEST:

/s/

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Secretary,  
Board of Directors

**APPENDIX A**  
**SELECTED PROVISIONS OF THE ORDER**

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## APPENDIX A

### SELECTED PROVISIONS OF THE ORDER

The following contains certain selected provisions of the Order. This document should be qualified by reference to other provisions of the Order referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Order in the Official Statement are, separately and in whole, qualified by reference to the exact terms of the Order, a copy of which may be obtained from the Authority.

SECTION 9: Definitions. For all purposes of this Order (as defined below), except as otherwise expressly provided or unless the context otherwise requires: (i) the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 34 and 48 of this Order have the meanings assigned to them in such Sections, and all such terms include the plural as well as the singular; (ii) all references in this Order to designated “Sections” and other subdivisions are to the designated Sections and other subdivisions of this Order as originally adopted; and (iii) the words “herein”, “hereof”, and “hereunder” and other words of similar import refer to this Order as a whole and not to any particular Section or other subdivision.

A. The term *Additional Bonds* shall mean (i) any obligations or other evidences of indebtedness which the Authority reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 17 of this Order and which are equally and ratably secured, together with the currently outstanding Previously Issued Bonds, solely by a lien on and pledge of the Special Payments in the same manner and to the same extent as the Bonds Similarly Secured, and (ii) any obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and secured by a lien on and pledge of the Special Payments as determined by the Authority in accordance with applicable law.

B. The term *Additional Obligations* shall mean, collectively, any Prior Lien Obligations, Junior Lien Obligations, or Inferior Lien Obligations hereafter issued by the Authority.

C. The term *Authority* shall mean Cibolo Creek Municipal Authority and any other public agency succeeding to the powers, rights, privileges and functions of the Authority and, when appropriate, the Board of Directors of the Authority.

D. The term *Authorized Officials* shall mean the President, Board of Directors, Secretary, Board of Directors and/or the General Manager of the Authority.

E. The term *Average Annual Debt Service Requirements* shall mean that average amount which, at the time of computation, will be required to pay the Debt Service Requirement on all outstanding Bonds Similarly Secured when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such Debt Service Requirement by the number of Fiscal Years then remaining before Stated Maturity of such Bonds Similarly Secured. For purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

F. The term *Bond Fund* shall mean the special Fund or account created and established by the provisions of Section 13 of this Order.

G. The term *Order* shall mean the order adopted by the Board on November 8, 2018.

H. The term *Bonds* shall mean the \$\_\_\_\_\_ “CIBOLO CREEK MUNICIPAL AUTHORITY CONTRACT REVENUE BONDS, SERIES 2018 (SOUTHERN WASTEWATER TREATMENT PLANT PROJECT)”, dated November 15, 2018, authorized by this Order.

I. The term *Bonds Similarly Secured* shall mean the Bonds, the currently outstanding Previously Issued Bonds, and any Additional Bonds hereafter issued by the Authority or bonds issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured by a lien on and pledge of the Special Payments.

J. The term *Closing Date* shall mean the date of physical delivery of the Initial Bond for the payment in full by the Purchasers.

K. The term *Construction Fund* shall mean the Authority’s construction fund ordered established by Section 33 of this Order.

L. The *Contract* shall mean the Regional Wastewater Treatment Contract, dated as of September 11, 2014, together with amendments and supplements thereto (which by the term of such instrument is designated as a supplement or amendment to such Contract), a conformed copy of such Contract being attached hereto as Exhibit E for the purposes of identification.

M. The term *Credit Agreement* shall mean a loan agreement, revolving credit agreement, agreement establishing a line of credit, letter of credit, reimbursement agreement, insurance contract, commitments to purchase any debt, purchase or sale agreements, interest rate swap agreements, or commitments or other contracts or agreements authorized, recognized, and approved by the Authority as a Credit Agreement in connection with the authorization, issuance, security, or payment of any Bond or the payment of any Credit Facility.

N. The term *Credit Facility* shall mean (i) a policy of insurance or a surety bond, issued by an issuer of policies of insurance insuring the timely payment of debt service on governmental obligations, or (ii) a letter or line of credit issued by any financial institution.

O. The term *Debt Service Requirements* shall mean, as of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the Authority as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of obligations without a fixed numerical rate, that such obligations bear interest calculated by assuming (i) that the interest rate for every 12-month period on such bonds is equal to the rate of interest reported in the most recently published edition of *The Bond Buyer* (or its successor) at the time of calculation as the “Revenue Bond Index” or, if such Revenue Bond Index is no longer being maintained by *The Bond Buyer* (or its successor) at the time of calculation, such interest rate shall be assumed to be 80% of the rate of interest then being paid on United States Treasury obligations of like maturity and (ii) that, in the case of bonds not subject to fixed scheduled mandatory sinking fund redemptions, that the principal of such bonds is amortized such



that annual debt service is substantially level over the remaining stated life of such bonds or in the manner permitted under Section 1371.057(c), as amended, Texas Government Code as the same relates to interim or non-permanent indebtedness, and further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to Stated Maturity according to a fixed schedule, the principal amounts thereof will be redeemed prior to Stated Maturity in accordance with the mandatory redemption provisions applicable thereto (in each case notwithstanding any contingent obligation to redeem bonds more rapidly). For the term of any Credit Agreement in the form of an interest rate hedge agreement entered into in connection with any such obligations, Debt Service Requirements shall be computed by netting the amounts payable to the Authority under such hedge agreement from the amounts payable by the Authority under such hedge agreement and such obligations.

P. The term *Depository* shall mean an official depository bank of the Authority.

Q. The term *Fiscal Year* shall mean the twelve month accounting period used by the Authority in connection with the operation of the System, currently ending on September 30th of each year, which may be any twelve consecutive month period established by the Authority, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

R. The term *Government Securities* shall mean (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; (iii) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, or (iv) any additional securities and obligations hereafter authorized by the laws of the State of Texas as eligible for use to accomplish the discharge of obligations such as the Bonds.

S. The term *Gross Revenues* shall mean all income and increment, including, but not limited to, connection fees which may be derived from the ownership and/or operation of the System as it is purchased, constructed or otherwise acquired, but shall not mean the income and increment derived from a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities which under the terms of the authorizing resolution(s) or order(s) that may be pledged for the requirements of the Authority's Special Project Bonds issued particularly to finance certain facilities (even though the facilities to be financed with the Special Project Bonds are physically connected to the System) needed in performing any such contract or contracts; provided, however, that the Board of Directors of the Authority may utilize any revenues, including those generated by the Contract, in excess of the Debt Service Requirements on the Bonds Similarly Secured for any lawful purpose in accordance with this Order and the Contract.

T. The term *Holder or Holders* shall mean the registered owner, whose name appears in the Security Register, for any Bond.

U. The term *Inferior Lien Obligations* shall mean (i) any bonds, notes, warrants, or other obligations hereafter issued by the Authority payable wholly or in part from a pledge of and lien on Net Revenues of the System, all as further provided in Section 19 of this Order, which is subordinate and inferior to the lien on and pledge thereof securing the payment of any Prior Lien Obligations or Junior Lien Obligations hereafter issued by the Authority, and (ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the Board of Directors in accordance with any applicable law.

V. The term *Insurance Policy* shall mean the insurance policy issued by the Insurer guaranteeing the scheduled payment of principal of and interest on the Bonds when due.

W. The term *Insurer* shall mean \_\_\_\_\_, a \_\_\_\_\_ stock insurance company, or any successor thereto or assignee thereof.

X. The term *Interest Payment Date* shall mean the date semiannual interest is payable on the Bonds, being September 1 and March 1 of each year, commencing September 1, 2019, while any of the Bonds remain Outstanding.

Y. The term *Junior Lien Obligations* shall mean (i) any bonds, notes, warrants, or any similar obligations hereafter issued by the Authority that are payable wholly or in part from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues of the System, all as further provided in Section 19 of this Order and (ii) obligations hereafter issued to refund any of the foregoing that are payable from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues as determined by the Board of Directors in accordance with any applicable law.

Z. The term *Maintenance and Operating Expenses* shall mean the expenses necessary to provide for the administration, efficient operation and adequate maintenance of the Authority's System, including the cost of purchasing water, treating wastewater, paying necessary wages, salaries, and benefits, the acquisition of property and materials necessary to maintain the System in good condition and to operate it efficiently, together with such other costs and expenses as may now or hereafter be defined by law as proper maintenance and operating expenses of the System, including Operation and Maintenance Expenses (as defined in the Contract).

AA. The term *Net Revenues* shall mean Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

BB. The term *Outstanding* shall mean when used in this Order with respect to Bonds means, as of the date of determination, all Bonds issued and delivered under this Order, except:

- (1) those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

(2) those Bonds for which payment has been duly provided by the Authority in accordance with the provisions of Section 36 of this Order by the irrevocable deposit with the Paying Agent/Registrar, or an authorized escrow agent, of money or Government Securities, or both, in the amount necessary to fully pay the principal of, premium, if any, and interest thereon to maturity or redemption, as the case may be, provided that, if such Bonds are to be redeemed, notice of redemption thereof shall have been duly given pursuant to this Order or irrevocably provided to be given to the satisfaction of the Paying Agent/Registrar, or waived; and

(3) those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 32 of this Order.

CC. The term *Participating Members* shall have the meaning ascribed in the Contract and will include their lawful assigns under applicable law.

DD. The term *Previously Issued Bonds* shall mean the currently outstanding and unpaid Cibolo Creek Municipal Authority Contract Revenue Bonds, Series 2014 (Southern Wastewater Treatment Plant Project), Series 2014, dated September 1, 2014, and originally issued in the principal amount of \$6,950,000.

EE. The term *Prior Lien Obligations* shall mean (i) any bonds, notes, warrants, or other evidences of indebtedness which the Authority reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 18 of this Order and which are equally and ratably secured solely by a first and prior lien on and pledge of the Net Revenues of the System and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner so as to be payable from and secured by a first and prior lien on and pledge of the Net Revenues as determined by the Board in accordance with applicable law.

FF. The term *Purchasers* shall mean the initial purchaser or purchasers of the Bonds named in Section 33 of this Order.

GG. The term *Special Payments* shall mean the payments that the Authority will receive from the Participating Members pursuant to the terms of the Contract.

HH. The term *Special Project Bonds* shall mean obligations which the Authority expressly reserves the right to issue in Section 20 of this Order.

II. The term *Stated Maturity* shall mean the annual principal payments of the Bonds payable on September 1 of each year, as set forth in Section 2 of this Order.

JJ. The term *System* shall mean the Authority's separate enterprise fund consisting of the works, improvements, facilities, plants, equipments, appliances, property, easements, leaseholds, licenses, privileges, right of use or enjoyment, contract rights or other interests in property comprising the regional wastewater treatment facility designated as the "Southern Wastewater Treatment Plant Project" of the Authority now owned or to be hereafter purchased, constructed or otherwise acquired whether by deed, contract or otherwise, together with any additions or extensions thereto or improvements and replacements thereof, including the Project,

except the facilities which the Authority may purchase or acquire with the proceeds of the sale of Special Project Bonds, so long as such Special Project Bonds are outstanding, notwithstanding that such facilities may be physically connected with the System; provided, however, that System shall not include any other enterprise fund currently owned, operated, and maintained by the Authority.

**SECTION 10: Pledge of Special Payments.** (a) The Authority hereby covenants and agrees that the Special Payments are hereby irrevocably pledged to the payment and security of the Bonds Similarly Secured including the establishment and maintenance of the special funds or accounts created and established for the payment and security thereof, all as hereinafter provided; and it is hereby ordered that the Bonds Similarly Secured, and the interest thereon, shall constitute a lien on and pledge of the Special Payments and be valid and binding without any physical delivery thereof or further act by the Authority, and the lien created hereby on the Special Payments for the payment and security of the Bonds Similarly Secured shall be prior in right and claim as to any other indebtedness, liability, or obligation of the Authority or the System payable pursuant to the terms of the Contract. The Authority shall deposit the Special Payments, as collected and received, into a separate fund and account known as the "Special Payment Account" to be utilized pursuant to the Contract and Section 13 hereof; provided, however, that the Board of Directors of the Authority may utilize any revenues, including those generated by the Contract, in excess of the Debt Service Requirements on the Bonds Similarly Secured for any lawful purpose in accordance with this Order and the Contract.

(b) As an additional source of payment of debt service on the Bonds, but not pledged as additional security therefor, the Authority hereby reserves the right to utilize its Net Revenues for such lawful purpose, but any use of Net Revenues for the payment of Bonds Similarly Secured debt service shall be subject to the prior lien on and pledge of the Net Revenues securing the payment of any Additional Obligations hereafter issued by the Authority.

(c) Chapter 1208, as amended, Texas Government Code, applies to the issuance of the Bonds Similarly Secured and the lien on and pledge of Special Payments granted by the Authority under subsection (a) of this Section, and such pledge is therefore valid, effective, and perfected. If Texas law is amended at any time while the Bonds Similarly Secured are outstanding and unpaid such that the pledge of the Special Payments granted by the Authority is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, then in order to preserve to the registered owners of the Bonds Similarly Secured the perfection of the security interest in this pledge, the Board agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, as amended, Texas Business & Commerce Code and enable a filing to perfect the security interest in this pledge to occur.

**SECTION 11: Rates and Charges.** For the benefit of the Holders of the Bonds Similarly Secured and in addition to all provisions and covenants in the laws of the State of Texas and in this Order, the Authority hereby expressly stipulates and agrees, while any of the Bonds Similarly Secured are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. To pay all Maintenance and Operating Expenses, or any expenses required by statute to be a first claim on and charge against the Gross Revenues of the System;

B. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Prior Lien Obligations hereafter issued by the Authority and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Prior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a prior and first lien on and pledge of the Net Revenues of the System;

C. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Junior Lien Obligations hereafter issued by the Authority and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Junior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a junior and inferior lien on and pledge of the Net Revenues of the System;

D. To produce Net Revenues, together with any other lawfully available funds, sufficient to pay the principal of and interest on any Inferior Lien Obligations hereafter issued by the Authority and the amounts required to be deposited in any reserve, contingency, or redemption fund or account created for the payment and security of any Inferior Lien Obligations, and any other obligations or evidences of indebtedness issued or incurred that are payable from and secured solely by a subordinate and inferior lien on and pledge of the Net Revenues of the System; and

E. To produce Net Revenues, together with any other lawfully available funds, including Special Payments, to pay the principal of and interest on the Bonds Similarly Secured as the same become due and payable and to deposit the amounts required to be deposited in any reserve fund or other special fund or account created and established for the payment and security of the Bonds Similarly Secured.

SECTION 12: System Fund. The Authority hereby reaffirms its covenant and agreement that the Gross Revenues of the System shall be deposited, as collected and received, into a separate fund or account to be created, established, and maintained with the Depository known as the “Cibolo Creek Municipal Authority Southern Wastewater Treatment Plant Revenue Fund” (the “System Fund”) and that the Gross Revenues of the System shall be kept separate and apart from all other funds of the Authority. All Gross Revenues deposited into the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, to be a first charge on and claim against the Gross Revenues of the System.

SECOND: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Prior Lien Obligations hereafter issued by the Authority as the same become due and payable.

THIRD: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Junior Lien Obligations hereafter issued by the Authority as the same become due and payable.

FOURTH: to the payment of the amounts required to be deposited into the bond, reserve, contingency, or redemption funds created and established for the payment of any Inferior Lien Obligations hereafter issued by the Authority as the same become due and payable.

FIFTH: to the payment of the amounts that must be deposited in any reserve account or other special funds or accounts created and established for the payment and security of the Bonds Similarly Secured.

Any Net Revenues remaining in the System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used for any other Authority purpose now or hereafter permitted by law.

SECTION 13: Bond Fund – Excess Bond Proceeds. For purposes of providing funds to pay the principal of and interest on the Bonds Similarly Secured as the same become due and payable, the Authority reaffirms the creation and agrees to maintain, at the Depository, a separate and special fund or account to be created and known as the “Cibolo Creek Municipal Authority Contract Revenue Bonds (Southern Wastewater Treatment Plant Project) Interest and Sinking Fund” (the “Bond Fund”). The Authority covenants that there shall be deposited into the Bond Fund prior to each principal and interest payment date from the available Special Payments deposited into the Special Payment Account pursuant to Section 10 of this Order an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and the principal of the Bonds Similarly Secured then falling due and payable, such deposits to pay maturing principal and accrued interest on the Bonds Similarly Secured to be made in substantially equal monthly installments on or before the tenth day of each month, beginning on or before the tenth day of the month next following the delivery of the Bonds to the Purchasers. If the Special Payments in any month are insufficient to make the required payments into the Bond Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Bond Fund in the next month.

The required monthly deposits to the Bond Fund for the payment of principal of and interest on the Bonds Similarly Secured shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Bond Fund is equal to the amount required to fully pay and discharge all outstanding Bonds Similarly Secured (principal and interest) or, (ii) the Bonds Similarly Secured are no longer Outstanding.

Accrued interest received from the Purchasers of the Bonds shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Special Payments held from time to time in the Special Payments Account. Additionally, any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and such amounts so deposited shall

be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Special Payments.

SECTION 14: Deficiencies - Excess Net Revenues.

A. If on any occasion there shall not be sufficient Special Payments to make the required deposits into the Bond Fund, then such deficiency shall be cured as soon as possible from the next available unallocated Special Payments, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds or accounts during such month or months.

B. Subject to making the required deposits to the Bond Fund when and as required by this Order or any order authorizing the issuance of Additional Bonds or Additional Obligations, the excess Net Revenues of the System may be used by the Authority for any lawful purpose including, but not limited to, the redemption of any Bonds Similarly Secured.

SECTION 15: Payment of Bonds. While any of the Bonds Similarly Secured are outstanding, the Authorized Officials shall cause to be transferred to the Paying Agent/Registrar therefor, from funds on deposit in the Bond Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of the Bonds Similarly Secured as such installment accrues or matures or comes due by reason of redemption or Stated Maturity; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for the Bonds at the close of the business day next preceding the date a debt service payment is due on the Bonds Similarly Secured.

SECTION 16: Investments. Funds held in any Fund or account created, established, or maintained pursuant to this Order shall, at the option of the Authority, be invested as permitted by the provisions of the Public Funds Investment Act, as amended, Chapter 2256, Texas Government Code, or any other law, and secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, including time deposits, certificates of deposit, guaranteed investment contracts, or similar contractual agreements, investments held in book-entry form, in securities including, but not limited to, direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage Association, or Federal Housing Association; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund or account will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds.

SECTION 17: Issuance of Additional Bonds. In addition to the right to issue bonds of subordinate and inferior lien as authorized by the laws of this State of Texas, the Authority reserves the right hereafter to issue Additional Bonds. The Additional Bonds, when issued, shall be payable from and secured by a lien on and pledge of the Special Payments in the same manner and to the same extent as the Bonds, the currently outstanding Previously Issued Bonds, and any Bonds Similarly Secured, shall in all respects be of equal dignity. The Additional Bonds may be issued in one or more installments provided, however, that no Additional Bonds, shall be issued unless and until the following conditions have been met:

A. Except for a refunding to cure a default, the Authority is not then in default as to any covenant, condition or obligation prescribed in the orders authorizing the issuance of the Bonds Similarly Secured or the Contract (including any amendment or supplement thereto).

B. The Participating Members (as defined in the Contract), shall have approved the resolution(s) authorizing the issuance of the Additional Bonds as to form and content and acknowledged that the payment of principal of and interest on such Additional Bonds is payable, in whole or in part, from the Special Payments to be made by the Authority under and pursuant to the Contract.

C. The Additional Bonds are made to mature on September 1 or March 1 or both in each of the years in which they are scheduled to mature.

D. The order authorizing the issuance of the Additional Bonds provides for deposits to be made to the Bond Fund in amounts sufficient to pay the principal of and interest on such Additional Bonds as the same become due.

The Bonds Similarly Secured may be refunded (pursuant to any law then available) upon such terms and conditions as the Board of Directors of the Authority may deem to be in the best interest of the Authority; provided, however, such refunding bonds do not have to comply with paragraph B hereof.

SECTION 18: Issuance of Prior Lien Obligations. Subject to the limitations set forth in the Contract, the Authority also reserves the right to issue Prior Lien Obligations that are payable from and secured by a first and prior lien and pledge of the Net Revenues of the System. The Authority covenants and agrees, however, it will not issue any Prior Lien Obligations unless:

A. Except for a refunding to cure a default, the Authority is not then in default as to any covenant, condition or obligation prescribed by the orders authorizing the issuance of the Bonds Similarly Secured.

B. Each of the funds created solely for the payment of principal of and interest on the Bonds Similarly Secured contains the amounts of money then required to be on deposit therein.

In addition, the Prior Lien Obligations may be refunded pursuant to any law then available upon such terms and conditions as the Board may deem to be in the best interest of the Authority and its inhabitants.



SECTION 19: Obligations of Inferior Lien and Pledge. Subject to the limitations set forth in the Contract, the Authority hereby reserves the right to issue, at any time, obligations including, but not limited to, Junior Lien Obligations and Inferior Lien Obligations payable from and secured, in whole or in part, by a lien on and pledge of the Net Revenues of the System, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of any Prior Lien Obligations hereafter issued by the Authority as may be authorized by the laws of the State of Texas.

SECTION 20: Special Project Bonds. Subject to the limitations set forth in the Contract, the Authority further reserves the right to issue bonds in one or more installments for the purchase, construction, improvement, extension, replacement, enlargement or repair of utility facilities necessary under a contract or contracts with persons, corporations, municipal corporations, political subdivisions, or other entities, such bonds to be payable from and secured by the proceeds of such contract or contracts. The Authority further reserves the right to refund such bonds and secure the payment of the debt service requirements on the refunding bonds in the same manner or as otherwise permitted by the laws of the State of Texas.

SECTION 21: Maintenance of System - Insurance. The Authority covenants, agrees, and affirms its covenants that while the Bonds Similarly Secured remain outstanding it will maintain and operate the System with all possible efficiency and maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State of Texas engaged in a similar type of business (which may include an adequate program of self-insurance); and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State of Texas. All money received from losses under such insurance policies, other than public liability policies, shall be retained for the benefit of the Holders of the Bonds Similarly Secured until and unless the proceeds are paid out in making good the loss or damage in respect of which such proceeds are received, either by replacing the property destroyed or repairing the property damaged, and adequate provision for making good such loss or damage must be made within ninety (90) days after the date of loss. The payment of premiums for all insurance policies required under the provisions hereof shall be considered Maintenance and Operating Expenses. Nothing in this Order shall be construed as requiring the Authority to expend any funds which are derived from sources other than the operation of the System but nothing herein shall be construed as preventing the Authority from doing so.

SECTION 22: Records and Accounts - Annual Audit. The Authority covenants, agrees, and affirms its covenants that so long as any of the Bonds Similarly Secured remain outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto as provided by applicable law. The Holder or Holders of any Bonds Similarly Secured or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts, and data relating thereto, and to inspect the System and all properties comprising the same. The Authority further agrees that following (and in no event later than 150 days after) the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of certified public accountants. Expenses incurred in making the annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses.

SECTION 23: Sale or Encumbrance of System. While any Bonds Similarly Secured remain Outstanding, the Authority will not sell, dispose of or, except as permitted in Sections 17, 18, 19, and 20, further encumber the Net Revenues of the System or any substantial part thereof; provided, however, that this provision shall not prevent the Authority from disposing of any of the Project or the System which is being replaced or is deemed by the Authority to be obsolete, worn out, surplus or no longer needed for the proper operation of the System. Any agreement pursuant to which the Authority contracts with a person, corporation, municipal corporation or political subdivision to operate the System or to lease and/or operate all or part of the System shall not be considered as an encumbrance of the System.

SECTION 24: Competition. To the extent it legally may, the Authority will not grant any franchise or permit for the acquisition, construction or operation of any competing facilities which might be used as a substitute for the System and will prohibit the operation of any such competing facilities.

SECTION 25: Special Covenants. The Authority further covenants and agrees that:

A. Encumbrance and Sale.

(1) The Special Payments and the Net Revenues have not in any manner been pledged to the payment of any debt or obligation of the Authority except with respect to the Bonds Similarly Secured; and while any of the Bonds Similarly Secured are Outstanding, the Authority will not, except as provided in this Order, additionally encumber the Special Payments or the Net Revenues.

(2) While the Bonds Similarly Secured are Outstanding, and except as specifically permitted in Section 17, 18, 19, and 20, of this Order, the Authority shall not mortgage, pledge, encumber, sell, lease, or otherwise dispose of or impair its title to the Net Revenues of the System or any significant or substantial part thereof.

B. Title. The Authority lawfully owns or will own and is or will be lawfully possessed of the lands or easements upon which its System is and will be located, and has or will purchase good and indefeasible estate in such lands in fee simple, or has or will lawfully obtain any necessary easements to operate the System, and it warrants that it has or will obtain and will defend, the title to all the aforesaid lands and easements for the benefit of the owners of the Bonds Similarly Secured against the claims and demands of all persons whomsoever, that it is lawfully qualified to pledge the Special Payments to the payment of the Bonds Similarly Secured, in the manner prescribed herein, and that it has lawfully exercised such rights.

C. Liens. The Authority will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, or its System, and it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge upon its System, provided, however, that no such tax, assessment, or charge, and that no such claims which might be or other lien or charge, shall be required to be paid while the validity of the same shall be contested in good faith by the Authority.

D. Performance. The Authority will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in the orders authorizing the issuance of Bonds Similarly Secured, and in each and every Bond Similarly Secured and pay from the Special Payments the principal of and interest on every Bond Similarly Secured on the dates and in the places and manner prescribed in such orders and Bonds Similarly Secured; and that it will, at the times and in the manner prescribed, deposit or cause to be deposited from the Special Payments the amounts required to be deposited into the Bond Fund; and the Holder of the Bonds Similarly Secured may require the Authority, its officials, agents, and employees to carry out, respect, or enforce the covenants and obligations of this Order or any order authorizing the issuance of Bonds Similarly Secured including, but without limitation, the use and filing of mandamus proceedings, in any court or competent jurisdiction, against the Authority, its officials, agents, and employees.

E. Legal Authority. The Authority is duly authorized under the laws of the State of Texas to issue the Bonds Similarly Secured; that all action on its part for the authorization and issuance of the Bonds Similarly Secured has been duly and effectively taken, and the Bonds Similarly Secured in the hands of the Holders thereof are and will be valid and enforceable special obligations of the Authority in accordance with their terms.

F. Budget. The Authority will prepare, adopt, and place into effect an annual budget (the "Annual Budget") for operation and maintenance of the System for each Fiscal Year, including in each Annual Budget such items as are customarily and reasonably contained in a utility system budget under generally accepted accounting procedures.

G. Permits. The Authority will comply with all of the terms and conditions of any and all franchises, permits, and authorizations applicable to or necessary with respect to the System and which have been obtained from any governmental agency; and the Authority has or will obtain and keep in full force and effect all franchises, permits, authorizations, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System.

SECTION 26: Limited Obligations of the Authority. The Bonds Similarly Secured are limited, special obligations of the Authority payable from and equally and ratably secured solely by a lien on and pledge of the Special Payments, and the Holders thereof shall never have the right to demand payment of the principal or interest on the Bonds Similarly Secured from any funds raised or to be raised through taxation by the Authority.

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**APPENDIX B**

**FINANCIAL INFORMATION REGARDING THE CITY OF SCHERTZ, TEXAS**

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## CITY OF SCHERTZ, TEXAS

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The City of Schertz, Texas ("Schertz"), is located directly northeast of the City of San Antonio, Texas. Schertz is located at the geographical center of the San Antonio Metropolitan Statistical Area and has an area of over 29 square miles. Schertz is bisected by U.S. Interstate Highway ("IH") 35 in the North and its Southern boundary is IH 10.

Schertz was incorporated in December 1958 and is a home rule municipality operating under its own Charter since 1974, as amended. Schertz operates under the Council/Manager form of government pursuant to the laws of the State of Texas. The City Manager, appointed by the five-member elected City Council and Mayor, is the chief executive officer of the City.

The IH 35 corridor between San Antonio and Austin is one of the fastest developing areas in the State of Texas and the entire country. Schertz enjoys a favorable economic environment and indicators point to continued growth recently surpassing 40,000 residents. SYSCO completed their 630,000 square foot distribution facility in January 2012 and employs 600 full-time staff. This is a regional distribution center for SYSCO. Amazon.com completed construction of their \$166 million fulfillment center on 96 acres in Schertz in time for the 2013 holiday season. The fulfillment center has 1.26 million square feet and is the largest facility in Schertz and in Guadalupe County. Since 2013, Schertz has added 2.2 million square feet of new commercial development. Over 85% of the new space has been built by speculative developers. Major tenants include LKQ Corporation, Ace Mart Restaurant Supply, Berger Allied Moving & Storage, Chadwell Supply, Fidelity National Title, Boss Products, Steelcraft Automotive, and Dunbar Armored. Schertz has also seen strong demand for tenant driven development as FedEx Ground, Keaco, Industrial Group Southwest and Texas Plumbing Supply have each constructed new space. Lastly, multiple Schertz businesses have undergone expansions to help support growing demand including Caterpillar, FedEx Freight, Armortex, Mondelez International, ITM, Southeastern Fright, Texas Utility Engineering, AER Manufacturing, Theis Distributing, and others.

The region has a manufacturing and industrial base that adds to the relative stability of the unemployment rate which was 3.7% in September 2018. The region has a labor force of approximately 1,100,000 and this number is expected to increase in the next several years as the region continues to experience population and business growth. Local indicators point to a strong and growing housing market. Schertz planned well and has an abundant water supply for meeting its future growth.

Schertz's population has grown from 7,262 in 1980 to 10,555 in 1990; 18,695 in 2000; 31,465 in 2010; and an estimated population of 40,092 in 2018. Schertz continues to see new areas open up for development.

## FINANCIAL INFORMATION OF THE CITY OF SCHERTZ, TEXAS

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### CONTRACT REVENUE BONDS SUPPORTED BY THE CITY OF SCHERTZ

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Contract Revenue Bonds, Series 2014	\$ 6,430,000
The Bonds	<u>4,500,000</u> *
	\$ 10,930,000 *

\* Preliminary, subject to change.

In addition to the Regional Wastewater Contract entered into between the Authority and the City that supports the Bonds Similarly Secured there is a Southern Plant Wastewater Services and Funding Agreement (the "Funding Agreement") between the Authority, the City and the City of Cibolo. The Funding Agreement establishes certain contractual rights, duties, and obligations among these parties with respect to the Project. In general terms, the Funding Agreement provides that the Authority will establish a rate methodology with respect to the Project and that the City and Cibolo will pay their annual proportionate share of the Project's Maintenance and Operation Expenses and that for the first ten years the City shall pay 100% of the debt service on the Bonds, for years 11-20 the City and Cibolo will each pay 50% of the debt service on the Bonds, and for years 21-30 Cibolo will pay 100% of the debt service on the Bonds. However, the Contract obligates the City to pay 100% of the debt service on the Bonds Similarly Secured while they are Outstanding. Lastly, Section 4(g) of the Funding Agreement provides that Cibolo can terminate any obligation it has pursuant to the Funding Agreement by providing notice within 9 years and termination within 10 years, if Cibolo, in its sole discretion, determines that all necessary permits, licenses, certificates of convenience and necessity, and approvals as may be necessary for Cibolo to provide wastewater services to a service area large enough to require the wastewater system capacity of the Project have been obtained.

**REVENUE DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending Sep. 30	Previously Issued Bonds	The Bonds <sup>(1)</sup>			Total Contract Revenue Debt	Total Principal Outstanding	Bonds Outstanding at the End of the Year	Percent of Principal Retired
		Principal	Interest <sup>(2)</sup>					
			Total					
2018	\$ 410,250				\$ 410,250	\$ 150,000	\$ 10,930,000	
2019	412,250		\$ 143,000	\$ 143,000	555,250	155,000	10,775,000	
2020	414,150	\$ 110,000	180,000	290,000	704,150	270,000	10,505,000	5%
2021	410,950	115,000	175,600	290,600	701,550	275,000	10,230,000	
2022	412,750	120,000	171,000	291,000	703,750	285,000	9,945,000	
2023	412,800	120,000	166,200	286,200	699,000	290,000	9,655,000	
2024	412,700	125,000	161,400	286,400	699,100	300,000	9,355,000	
2025	412,450	130,000	156,400	286,400	698,850	310,000	9,045,000	18%
2026	410,250	135,000	151,200	286,200	696,450	320,000	8,725,000	
2027	412,850	140,000	145,800	285,800	698,650	335,000	8,390,000	
2028	410,050	150,000	140,200	290,200	700,250	350,000	8,040,000	
2029	412,050	155,000	134,200	289,200	701,250	365,000	7,675,000	
2030	413,650	160,000	128,000	288,000	701,650	380,000	7,295,000	34%
2031	409,850	165,000	121,600	286,600	696,450	390,000	6,905,000	
2032	410,850	175,000	115,000	290,000	700,850	410,000	6,495,000	
2033	411,450	180,000	108,000	288,000	699,450	425,000	6,070,000	
2034	411,650	185,000	100,800	285,800	697,450	440,000	5,630,000	
2035	411,450	195,000	93,400	288,400	699,850	460,000	5,170,000	53%
2036	413,200	205,000	85,600	290,600	703,800	485,000	4,685,000	
2037	414,200	210,000	77,400	287,400	701,600	505,000	4,180,000	
2038	409,450	220,000	69,000	289,000	698,450	525,000	3,655,000	
2039	409,200	230,000	60,200	290,200	699,400	550,000	3,105,000	
2040	413,200	235,000	51,000	286,000	699,200	575,000	2,530,000	77%
2041	409,600	245,000	41,600	286,600	696,200	595,000	1,935,000	
2042	410,600	255,000	31,800	286,800	697,400	620,000	1,315,000	
2043	411,000	265,000	21,600	286,600	697,600	645,000	670,000	
2044	410,800	275,000	11,000	286,000	696,800	670,000	-	100%
Total	\$ 11,113,650	\$ 4,500,000	\$ 2,841,000	\$ 7,341,000	\$ 18,454,650	\$ 11,080,000		

<sup>(1)</sup> The Bonds, along with the currently outstanding Previously Issued Bonds, will be secured by a take or pay contract with the City of Schertz, Texas as a lien on and pledge of the City's gross revenues, defined as the Special Payments, as a maintenance and operations expense. No revenues or ad valorem taxes of the Cibolo Creek Municipal Authority are pledged for repayment of the Bonds.

<sup>(2)</sup> Interest calculated at an assumed rate solely for illustration purposes.

**COVERAGE FACTOR**

City Utility System Coverage of the Bonds Similarly Secured:

City Net Revenues available for the Bonds similarly secured debt service for fiscal year ended 9/30/2017	\$ 7,256,495
Average Annual Debt Service Requirements (2018-2044)	\$ 683,506
Coverage Factor (Based on Average Annual Debt Service)	10.62X
Maximum Annual Debt Service Requirements on the Bonds	\$ 704,150
Coverage Factor (Based on Maximum Annual Debt Service)	10.31X

City Utility System Coverage of the Bonds Similarly Secured and Self-Supporting Debt: <sup>(1)</sup>

City Net Revenue available for the Bonds Similarly Secured debt service for fiscal year ended 9/30/2017	\$ 7,256,495
Average Annual Debt Service Requirements (2015-2033)	\$ 1,429,097
Coverage Factor (Based on Average Annual Debt Service)	5.08X
Maximum Annual Debt Service Requirement	\$ 2,597,959
Coverage Factor (Based on Maximum Annual Debt Service)*	2.79X

<sup>(1)</sup> For debt service supported by net revenues of the City's Utility System please see page B-3 herein and represents the combination of the Contract Revenue debt and the City's Self Supporting Debt.



**UTILITY SYSTEM OUTSTANDING DEBT SERVICE**

*[as of September 1, 2018]*

In addition to the Bonds and the Authority's Contract Revenue Bonds, Series 2014 (the "Previously Issues Bonds"), the City of Schertz' Utility System supports six series of City general obligation bonds with net revenues of the City's Utility System. The City has no currently outstanding revenue bonds. Set forth below are the debt service requirements for Schertz's currently outstanding general obligation debt that is self-supporting:

City's Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series	\$	3,290,000
City's General Obligation Refunding Bonds, Series 2011		705,000
City's Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series		3,490,000
City's General Obligation Refunding Bonds, Series 2013		1,420,000
City's Tax Notes, Series 2015		80,000
City's Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018		<u>5,595,000</u>
Total	\$	14,580,000

<u>FYE (9/30)</u>	<u>City's Self-Supporting General Obligation Debt</u>
2018	\$ 1,491,496
2019	1,911,789
2020	1,888,964
2021	1,896,409
2022	1,349,471
2023	1,347,917
2024	1,349,369
2025	1,344,016
2026	1,124,835
2027	636,475
2028	635,600
2029	638,675
2030	632,325
2031	633,275
2032	635,025
2033	630,969
2034	395,688
2035	399,394
2036	397,466
2037	394,978
2038	<u>396,825</u>
Total	\$ 20,130,958

## CITY WATERWORKS AND SEWER SYSTEM PLANT IN OPERATION

(As of September 30, 2017)

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

## CITY WATERWORKS AND SEWER SYSTEM OPERATING STATEMENT

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

	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Revenues	\$ 25,953,657	\$ 22,455,674	\$ 21,007,823	\$ 19,680,313	\$ 18,321,198
Expenditures*	<u>18,697,162</u>	<u>17,603,487</u>	<u>15,916,597</u>	<u>15,246,653</u>	<u>14,553,274</u>
Net Revenues Available					
Available for Debt Service	\$ <u>7,256,495<sup>(1)</sup></u>	\$ <u>4,852,187</u>	\$ <u>5,091,226</u>	\$ <u>4,433,660</u>	\$ <u>3,767,924</u>
Connections:					
Water	14,124	13,877	13,570	13,324	12,757
Sewer	12,398	12,282	11,413	11,578	11,249

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

<sup>(1)</sup> For the fiscal year ending 2018 City management believes that the net revenues available for debt service will be approximately \$4,718,594 (unaudited). Revenue increase for fiscal year ending 2017 was due to larger than usual utility rate increases.

\* Expenditures exclude depreciation and include the following contractual payments:

	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
Cibolo Creek Municipal Authority	\$ 413,650	\$ 411,550	\$ 315,342	\$ -	\$ -
Schertz/Seguin LGC	2,242,314	1,410,309	1,178,081	1,432,074	1,516,043
Cibolo Valley LGC	300,000	750,000	200,000	140,000	-

## PRINCIPAL SEWER CUSTOMERS <sup>(1)</sup>

Name of Customer	Consumption		Amount (\$) as % of Total
	(gallons)	Amount (\$)	
1 Sycamore Creek Apartments	8,126,700	\$ 78,484	1.23%
2 Pecan Grove TX LLC	8,083,100	81,851	1.28%
3 Big Time Management Properties	7,372,600	75,397	1.18%
4 Sebastian Apartments	6,740,000	62,241	0.97%
5 Clemens Athletic Field	5,835,300	54,162	0.85%
6 IPT San Antonio Logistics CTR	5,704,100	56,225	0.88%
7 Legacy at Forest Ridge	5,694,200	49,126	0.77%
8 City of Schertz	5,594,300	54,406	0.85%
9 Caterpillar, Inc.	5,592,500	55,884	0.88%
10 Legacy Oaks Apartments	<u>5,200,700</u>	<u>53,332</u>	<u>0.84%</u>
Total	63,943,500	\$ 621,108	9.73%

<sup>(1)</sup> Through September 30, 2017.

## CITY WATER SUPPLY

The City's primary water source is from the Carrizo Aquifer which is pumped and treated by the Schertz/Seguin Local Government Corporation ("SSLGC" or the "Corporation"). SSLGC has water leases totaling 19,363 acre feet and leases 840 acre feet to Springs Hill and of the remainder 50% are dedicated to the City of Schertz. The City's water system has 9 water storage tanks which can hold 15,500,000 gallons. The city maintains 225 miles of water lines. Schertz's total water usage for fiscal year September 30, 2017 was 1,582,450,300 gallons.

Schertz's secondary source of water is a lease from the Edwards Aquifer Authority for 1,768 acre-feet (or 576,104,568 gallons) per year. Of this amount, 700 acre feet is leased for additional revenue. This water source is used only during emergency situations or when the City Utility System demand is at peak levels. Schertz has 2 wells which can produce up to 4,180,000 gallons per day from the Edwards Aquifer. Although the City still maintains its permits (and ownership) to draw water from the Edwards Aquifer, for fiscal year ending September 30, 2017 the City obtained 99% of its water from the Schertz/Seguin Local Government Corporation. The City leased its excess Edwards Aquifer water to other entities that did not have water capacity. The revenue from leases is included in the City's Utility System Revenues.

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

**Schertz/Seguin Local Government Corporation.** Pursuant to the regional water supply contract dated November 15, 1999, the Corporation issued Contract Revenue Bonds to finance the development of a well field and collection system and transmission and treatment facilities, including the acquisition of related water rights and rights-of-way (the "SSLGC Project"). The SSLGC Project transports groundwater from the Carrizo Aquifer in southwestern Gonzales County to the Schertz Live Oak Tank and the Seguin Water Treatment Plant. The SSLGC Project provides the necessary water, coupled with water from the Edwards Aquifer, to address the City's needs. The payments by the cities of Schertz and Seguin constitute an operating expense of their respective utility systems. The City of Schertz is obligated to pay 50% of the debt service, operation and maintenance and overhead payments. SSLGC Bonds outstanding as of September 30, 2018 are \$139,990,000. Water began to flow from the SSLGC Project to the City of Schertz on February 20, 2003.

## HISTORICAL WATER CONSUMPTION

FYE (9/30)	Estimated Population	Number of Customers	Water Usage (in Gallons)				Water Sales
			Daily Average	Peak Day	Peak Month	Total Usage	
2008	32,057	10,872	3,854,205	7,996,000	182,463,000	1,392,387,500	\$ 6,091,802
2009	31,465	11,471	4,157,619	7,520,000	178,309,000	1,505,068,700	6,886,443
2010	32,523	10,134	3,560,416	7,040,000	180,345,000	1,182,179,600	6,361,401
2011	33,544	12,234	4,667,789	11,000,000	227,186,000	1,612,610,500	7,816,710
2012	34,499	12,557	5,224,301	9,290,000	224,192,000	1,613,141,500	7,657,695
2013	35,201	12,757	4,935,155	9,483,000	204,492,000	1,550,045,200	7,660,165
2014	35,929	13,324	4,245,772	10,089,000	213,349,000	1,549,707,100	7,960,763
2015	36,477	13,570	4,043,050	8,385,000	218,644,000	1,475,713,400	7,943,694
2016	37,865	13,877	4,113,553	8,587,000	214,546,000	1,501,446,900	8,543,050
2017	37,938	14,124	4,335,480	9,478,000	218,181,000	1,582,450,300	9,741,286
2018 <sup>(1)</sup>	39,453	14,567	4,532,352	9,083,000	230,144,000	1,519,008,100	10,271,113

<sup>(1)</sup> Through September 1, 2018.

## PRINCIPAL WATER CUSTOMERS

Name of Customer	Average Monthly Consumption (In Gallons)	Percentage of
		Total Water Sales
1 Caterpillar, Inc.	18,837,200	1.17%
2 Scenic Hill Lawn Care	12,896,100	0.80%
3 Schertz 1518	12,586,700	0.78%
4 Beck Readymix Concrete	10,546,200	0.66%
5 Pecan Grove TX LLC	8,132,300	0.51%
6 Sycamore Creek Apartments	7,871,300	0.49%
7 Big Time Management Properties	7,372,600	0.46%
8 Sebastian Apartments	6,740,000	0.42%
9 Waterford Ridge Apartments	6,131,700	0.38%
10 Wal-Mart Supercenter	5,928,400	0.37%
Total	97,042,500	6.03%

<sup>(1)</sup> Through September 30, 2017.

**WATER RATES**

**New Rates for 2018-2019 GALLONS SOLD BY METER SIZE (RESIDENTIAL AND SMALL COMMERCIAL)**

Meter	Block Gallons	Inside City		Outside City	
		Block Rate	Rate 1000	Block Rate	Rate 1000
5/8 IN CODE 1	0	23.89	2.95	28.94	5.91
	6,000	41.59	3.00	64.4	5.98
	9,000	50.59	3.24	82.34	6.50
	12,000	60.31	3.50	101.84	6.98
	15,000	70.81	3.72	122.78	7.38
	18,000	81.94	4.67	144.92	9.24
	30,000	137.98	5.30	255.81	10.49
	45,000	217.48	5.64	413.16	11.15
	60,000	302.08	5.85	580.42	11.53
	75,000+	389.83	5.97	753.37	11.78
3/4 IN CODE 2	0	35.82	2.95	46.76	5.91
	6,000	53.52	3.00	82.22	5.98
	9,000	62.52	3.24	100.16	6.50
	12,000	72.24	3.50	119.66	6.98
	15,000	82.74	3.71	140.6	7.38
	18,000	93.87	4.67	162.74	9.24
	30,000	149.91	5.30	273.63	10.49
	45,000	229.41	5.64	430.98	11.15
	60,000	314.01	2.85	598.24	11.53
	75,000+	401.76	5.97	771.19	11.78
1.0 IN CODE 3	0	59.7	2.95	77.93	5.91
	6,000	77.4	3.00	113.39	5.98
	9,000	86.4	3.24	131.33	6.50
	12,000	96.12	3.50	150.83	6.98
	15,000	106.62	3.71	171.78	7.38
	18,000	117.75	4.67	193.92	9.24
	30,000	173.79	5.30	304.8	10.49
	45,000	253.29	5.64	462.15	11.15
	60,000	337.89	2.85	629.41	11.53
	75,000+	425.64	5.97	802.36	11.78

**WATER RATES**

**(Cont.)**

Meter	Block Gallons	Inside City		Outside City	
		Block Rate	Rate 1000	Block Rate	Rate 1000
1 1/2 IN CODE 4	0	142.84	2.95	155.85	5.91
	15,000	187.09	3.00	244.5	5.98
	30,000	232.09	3.24	334.21	6.50
	45,000	280.69	3.50	431.71	6.98
	60,000	333.19	3.71	536.42	7.38
	75,000	388.84	4.67	647.12	9.24
	100,000	505.59	5.30	878.13	10.49
	125,000	638.09	5.64	1140.39	11.15
	150,000	779.09	5.85	1,419.15	11.53
	175,000+	925.34	5.97	1,707.40	11.78
2 IN SIMPLE COMPOUND CODE 5	0	228.53	2.95	249.36	5.91
	24,000	299.33	3.00	291.21	5.98
	48,000	371.33	3.24	534.74	6.50
	72,000	449.09	3.50	690.75	6.98
	96,000	533.09	3.71	858.27	7.38
	120,000	622.13	4.67	1035.4	9.24
	160,000	808.93	5.30	4,105.02	10.49
	200,000	1020.93	5.64	1,824.63	11.15
	240,000	1246.53	5.85	2,270.64	11.53
	280,000+	1,480.53	5.97	2,731.85	11.78
2 IN CODE 6	0	285.66	2.95	311.71	5.91
	30,000	374.16	3.00	489.02	5.98
	60,000	464.16	3.24	668.43	6.50
	90,000	561.36	3.50	863.44	6.98
	120,000	666.36	3.71	1072.85	7.38
	150,000	777.66	4.67	1,294.26	9.24
	200,000	1011.16	5.30	1,756.27	10.49
	250,000	1,276.16	5.64	2,280.79	11.15
	300,000	1,558.16	5.85	2,838.30	11.53
	350,000+	1,850.66	5.97	3,414.82	11.78

**WATER RATES**

**(Cont.)**

Meter	Block Gallons	Inside City		Outside City	
		Block Rate	Rate 1000	Block Rate	Rate 1000
3 IN	0	457.06	2.95	498.73	5.91
COMPOUND	48,000	598.66	3.00	782.42	5.98
CODE 7	96,000	742.66	3.24	1069.48	6.5
	144,000	898.18	3.50	1,381.49	6.98
	192,000	1066.18	3.71	1,716.55	7.38
	240,000	1244.26	4.67	2,070.80	9.24
	320,000	1,617.86	5.30	2,810.03	10.49
	400,000	2,041.86	5.64	3,649.26	11.15
	480,000	2,493.06	5.85	4,541.28	11.53
	560,000+	2,961.06	5.97	5,463.71	11.78
3 IN	0	685.59	2.95	748.09	5.91
TURBINE	72,000	987.99	3.00	1173.64	5.98
CODE 8	144,000	113.99	3.24	1,604.22	6.5
	2,160,000	1,347.27	3.50	2,072.24	6.98
	288,000	1,599.27	3.71	2,574.82	7.38
	408,000	2,044.47	4.67	346.46	9.24
	528,000	2,604.87	5.30	4,569.30	10.49
	648,000	3,240.87	5.64	5,828.14	11.15
	768,000	3,917.67	5.85	7,166.18	11.53
	888,000+	4,619.67	5.97	8,549.81	11.78
4 IN	0	714.16	2.95	779.27	5.91
COMPOUND	75,000	935.41	3.00	1222.54	5.98
CODE 9	150,000	116.41	3.24	1,671.06	6.5
	225,000	1,403.41	3.50	2,158.59	6.98
	300,000	1,665.91	3.71	2,682.11	7.38
	425,000	2,129.66	4.67	3,604.65	9.24
	550,000	2,713.41	5.30	4,759.69	10.49
	675,000	3,375.91	5.64	6,070.98	11.15
	800,000	4,080.91	5.85	7,464.77	11.53
	925,000+	4,812.16	5.97	8,906.06	11.78

**WATER RATES**

**(Cont.)**

Meter	Block Gallons	Inside City		Outside City	
		Block Rate	Rate 1000	Block Rate	Rate 1000
4 IN	0	1,199.80	2.95	1,309.16	5.91
TURBINE	126,000	1,571.50	3.00	2,053.86	5.98
CODE 10	252,000	1,949.50	3.24	2,807.37	6.50
	378,000	2,357.74	3.50	3,626.41	6.98
	504,000	2,798.74	3.71	4,505.93	7.38
	630,000	3,266.20	4.67	5,435.85	9.24
	840,000	4,246.90	5.30	7,376.32	10.49
	1,050,000	5,359.90	5.64	9,579.29	11.15
	1,260,000	6,544.30	5.85	11,920.85	11.53
	1,470,000+	7,772.80	5.97	14,342.22	11.78
6 IN	0	1,428.33	2.95	1,558.53	5.91
COMPOUND	150,000	1,870.83	3.00	2,445.08	5.98
CODE 11	300,000	2,320.83	3.24	3,342.13	6.50
	450,000	2,806.83	3.50	4,317.17	6.98
	600,000	3,331.83	3.71	5,364.22	7.38
	750,000	3,888.33	4.67	6,471.27	9.24
	1,000,000	5,055.83	5.30	8,781.35	10.49
	1,250,000	6,380.83	5.64	11,403.93	11.15
	1,500,000	7,790.83	5.85	14,191.50	11.53
	1,750,000+	9,253.33	5.97	17,074.08	11.78
6 IN	0	2,628.11	2.95	2,583.51	5.91
TURBINE	276,000	3,442.31	3.00	4,214.76	5.98
CODE 12	552,000	4,270.31	3.24	5,865.32	6.50
	828,000	5,164.55	3.50	7,659.41	6.98
	1,104,000	6,130.55	3.71	9,585.98	7.38
	1,380,000	7,154.51	4.67	11,622.94	9.24
	1,840,000	9,302.71	5.30	15,873.49	10.49
	2,300,000	11,740.71	5.64	20,699.03	11.15
	2,760,000	14,335.11	5.85	25,828.18	11.53
	3,220,000+	17,026.11	5.97	31,132.12	11.78

**WATER RATES**

**(Cont.)**

Meter	Block Gallons	Inside City		Outside City	
		Block Rate	Rate 1000	Block Rate	Rate 1000
8 IN	0	2,308.51	2.95	2,269.09	5.91
COMPOUND	240,000	3,016.51	3.00	3,687.57	5.98
CODE 13	480,000	3,736.51	3.24	5,122.84	6.50
	720,000	4,514.11	3.50	6,682.92	6.98
	960,000	5,354.11	3.71	8,358.19	7.38
	1,200,000	6,244.51	4.67	10,129.47	9.24
	1,600,000	8,112.51	5.30	13,825.59	10.49
	2,000,000	10,232.51	5.64	18,021.72	11.15
	240,000	12,488.51	5.85	22,481.85	11.53
	2,800,000+	14,828.51	5.97	27,093.97	11.78
8 IN	0	4,617.01	2.95	5,037.30	5.91
TURBINE	480,000	6,033.01	3.00	7,874.32	5.98
CODE 14	960,000	7,473.01	3.24	10,744.87	6.50
	1,440,000	9,028.21	3.50	13,865.02	6.98
	1,920,000	10,708.21	3.71	17,215.57	7.38
	2,400,000	12,489.01	4.67	20,758.12	9.24
	3,200,000	16,225.01	5.30	28,150.37	10.49
	4,000,000	20,465.01	5.64	36,542.63	11.15
	4,800,000	24,977.01	5.85	45,462.88	11.53
	5,600,000+	31,997.01	5.97	59,299.26	11.78
10 IN	0	3,318.47	2.95	3,620.61	5.91
COMPOUND	345,000	4,336.22	3.00	5,659.67	5.98
CODE 15	690,000	5,371.22	3.24	7,722.88	6.50
	1,035,000	6,489.02	3.50	9,965.49	6.98
	1,380,000	7,696.52	3.71	12,373.70	7.38
	1,725,000	8,776.47	4.67	14,919.90	9.24
	2,300,000	11,661.72	5.30	20,233.09	10.49
	2,875,000	14,709.22	5.64	26,265.02	11.15
	3,450,000	17,985.22	5.85	32,676.45	11.53
	4,025,000+	21,315.97	5.97	39,306.38	11.78



**WASTEWATER SYSTEM**

Schertz's Wastewater System consists of a 110 mile wastewater collection system. The collection system is owned and operated by the City. Schertz contracts with the Cibolo Creek Municipal Authority, created in 1971 as a conservation and reclamation district, for the purpose of providing a regional sewer system for an area which includes Schertz, the City of Selma, the City of Cibolo, and parts of the cities of Live Oak, Universal City and San Antonio, and the Randolph Air Force Base (the "Member Cities") for the treatment of effluent. In 2016, Schertz began developing in areas that are serviced by San Antonio River Authority who are currently servicing 53 resident accounts.

Schertz' Wastewater System is responsible for maintaining the collection system and billing its citizens that are on the wastewater system. The rates, which are shown below, produce revenues that are sufficient to pay the sanitation costs, maintain the collection system, pay debt service, if any, and overhead.

**SEWER RATES**

*(New rates effective October 1, 2018)*

	<b>2017-18</b>	<b>2018-19</b>
<b><u>Residential Rates (Single Family)</u></b>		
<b>Base Rate-per month</b>	\$ 11.72	\$ 11.72
<b>Per 1,000 gal Charge, Per Month</b>		
City line Maintenance fee plus Franchise fee	\$ 0.46	\$ 0.46
User Charge based on 100% of avg consumption mo.	\$ 3.58	\$ 3.58
User avg. based on Nov, Dec, and Jan, min. 500 gals.		
Per 1,000 gal charge Total- 12,000 gallons or less	\$ 4.04	\$ 4.04
greater than 12,000 gallons	\$ 8.76	\$ 8.76
<b><u>Business and Multi-family Dwelling Units:</u></b>		
<b>Base Rate per month</b>	\$ 14.73	\$ 14.73
<b>Per 1,000 gal Charge, Per Month</b>		
Line Maintenance-Commercial/Industrial users plus Franchise fee	\$ 0.55	\$ 0.55
User Charge-based on 100% of water consumed	\$ 3.58	\$ 3.58
Per 1,000 gal charge Total- 12,000 gallons or less	\$ 4.14	\$ 4.14
greater than 12,000 gallons	\$ 8.84	\$ 8.84
<b><u>Public Schools</u></b>		
<b>Base Rate per month</b>	\$ 14.73	\$ 14.73
Base Rate-each public school shall be assessed a base rate per connection equivalent determined as in Business and Multi-family dwelling units above. (per month)		
<b>Per 1,000 gal Charge, Per Month</b>		
Line Maintenance-Commercial/Industrial users	\$ 0.55	\$ 0.55
User Charge-based on 100% of all water consumed	\$ 3.58	\$ 3.58
Per 1,000 gal charge Total- 12,000 gallons or less	\$ 4.14	\$ 4.14
greater than 12,000 gallons	\$ 8.84	\$ 8.84
<b><u>For Information Purposes Only:</u></b>		
Cibolo Creek Municipal Authority (CCMA), Per 1,000 gallons includes 5% franchise fee	\$ 3.58	\$ 3.58

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**APPENDIX C**

**FINANCIAL INFORMATION REGARDING THE CIBOLO CREEK MUNICIPAL AUTHORITY**

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## FINANCIAL INFORMATION OF THE CIBOLO CREEK MUNICIPAL AUTHORITY

The following tables are for informational purposes only. The Bonds Similarly Secured are solely supported by the Special Payments generated by the Regional Wastewater Treatment Contract between the Cibolo Creek Municipal Authority (the "CCMA") and the City of Schertz. No revenues generated by CCMA will be pledged in repayment of the Bonds similarly secured.

### REVENUE BOND DEBT DATA

*(As of September 1, 2018)*

<u>Revenue Bond Debt Outstanding:</u>	<u>Par Amount</u>
Revenue Bonds, Series 2002	\$ 345,000
Revenue Bonds, Series 2010	1,895,000
Revenue Refunding Bonds, Series 2010	500,000
Revenue Bonds, Series 2012	19,815,000
Revenue Refunding Bonds, Series 2012	160,000
Revenue Refunding Bonds, Series 2015	2,375,000
Revenue Bonds, Series 2017	<u>2,875,000</u>
Total	<u>\$ 27,965,000</u>

### REVENUE BONDS AUTHORIZED BUT UNISSUED

- NONE -

### CAPITAL ASSETS

*(As of September 30, 2017)*

Land	\$ 3,021,091
Construction in Progress	8,541,174
Wastewater System	34,984,056
Machinery and Equipment	3,831,391
Building Improvements	<u>68,857</u>
Total Capital Assets	<u>\$ 50,446,569</u>
Accumulated Depreciation	
Wastewater System	\$ 11,860,454
Machinery and Equipment	1,330,189
Building Improvements	<u>49,722</u>
Total Accumulated Depreciation	<u>\$ 13,240,365</u>
Total Capital Assets Net of Depreciation	<u>\$ 37,206,204</u>

*Source: The Authority's Annual Financial Report.*

## SEWER SYSTEM OPERATING STATEMENT

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

	Fiscal Year Ended				
	9/30/2017	9/30/2016	9/30/2015	9/30/2014	9/30/2013
<b>Revenues</b>					
Service Revenue	\$ 8,237,385	\$ 7,345,291	\$ 6,860,998	\$ 6,392,724	\$ 5,766,717
Impact Fees	2,301,152	1,734,395	1,714,369	1,749,661	1,573,970
Miscellaneous Revenues	<u>144,634</u>	<u>167,614</u>	<u>139,607</u>	<u>79,419</u>	<u>738,829</u>
Total Operating Revenue	\$ 10,683,171	\$ 9,247,300	\$ 8,714,974	\$ 8,221,804	\$ 8,079,516
<b>Expenditures</b>					
Payroll Expenditures	\$ 2,585,037	\$ 2,392,338	\$ 2,375,502	\$ 2,172,065	\$ 2,060,968
Professional Fees	540,142	197,500	187,759	158,668	203,484
Purchased and Contracted Services	1,279,935	1,090,127	982,687	1,061,342	844,030
Consumable Supplies and Materials	390,545	350,514	370,257	377,360	367,098
Recurring Operating Expenditures	<u>1,365,677</u>	<u>1,362,186</u>	<u>1,176,167</u>	<u>530,053</u>	<u>592,575</u>
Total Operating Expenses	\$ 6,161,336	\$ 5,392,665	\$ 5,092,372	\$ 4,299,488	\$ 4,068,155
<b>Net Revenue Available for Debt Service</b>	<u>\$ 4,521,835<sup>(1)</sup></u>	<u>\$ 3,854,635</u>	<u>\$ 3,622,602</u>	<u>\$ 3,922,316</u>	<u>\$ 4,011,361<sup>(1)</sup></u>
Debt Service	\$ 2,426,508	\$ 2,435,597	\$ 2,422,049	\$ 2,444,852	\$ 2,442,422
Debt Service Coverage	1.86X	1.58X	1.5X	1.6X	1.64X
Customer Count:					
Sewer	40,607	39,329	38,365	37,414	36,442
Total Amount of Sewer Treated for Customers (Thousands of Gallons)	2,458,921	2,331,838	2,286,999	2,333,111	2,306,687

<sup>(1)</sup> CCMA administration anticipates that the unaudited net revenues available for debt service for the period ending September 30, 2018 will be approximately \$4,756,303.

\*Contract Payments for the Bonds and the Previously Issued Bonds are directly deposited into the Authority's Debt Service Fund and are not compiled with the Authority's General Fund shown above.

## SEWER RATES

The Authority increased its sewer treatment rate to 3.58/1,000 gallons of flow to all wholesale customers as of October 1, 2017. The manner of billing for all users (except Randolph Air Force Base and Universal City/Aviation Road, which have remained the same) is now based upon the three (3) month winter average potable water consumption by each connection, averaged for all connections in each contracting entity. The charges to users are stated at a rate per 1,000 gallon billing units. On September 30, 2017, there were 40,607 sewer connections or their equivalents within the Authority's service area. As of October 1, 2018 the Authority's waste water rate has been increased to \$3.83 per 1,000 gallons of waste water.

The Authority charges a one-time Impact Fee (capital recovery) of \$1,800 per connection equivalent to new users of the System. The income received from these fees is difficult to budget accurately since new connections are made as new homes and businesses are constructed in the Authority's service area; however, an estimate is projected based on best information known to management when the budget is proposed. The \$1,800 impact fee per connection equivalent has been reviewed/approved by the Texas Commission on Environmental Quality.

**APPENDIX D**  
**FORM OF LEGAL OPINION OF BOND COUNSEL**

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**DRAFT 10/1/18**

IN REGARD to the authorization and issuance of the “Cibolo Creek Municipal Authority Contract Revenue Bonds, Series 2018 (Southern Wastewater Treatment Plant Project)” (the *Bonds*), dated November 15, 2018, in the aggregate principal amount of \$4,500,000 we have reviewed the legality and validity of the issuance thereof by the Cibolo Creek Municipal Authority (the *Authority*). The Bonds are issuable in fully registered form only, in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Bonds have Stated Maturities of September 1 in each of the years 2020 through 2044, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the order (the *Order*) authorizing the issuance of the Bonds. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Order.

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

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon original or certified copies of the transcript of proceedings of the Board of Directors (the *Board*) of the Authority in connection with the issuance of the Bonds, including the Order and the Regional Wastewater Treatment Contract (Southern Wastewater Treatment Plant Project), dated September 11, 2014, as amended (the *Contract*) between the Authority and the City; the legal opinions of the Schertz City Attorney and the General Counsel to the Authority, each relating to the Bonds; customary certifications and opinions of officials of the Authority and the City; certificates executed by officers of the Authority and the City relating to the expected use and investment of proceeds of the Bonds and certain other funds of the Authority and the City, and to certain other facts solely within the knowledge and control of the Authority and the City; and such other documentation, including an examination of the Bond executed and delivered initially by the Authority, which we found to be in due form and properly executed, and such matters of law as we deem relevant to the matters discussed below. In such examination, we have assumed the authenticity of all documents

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**Legal Opinion of Norton Rose Fulbright US LLP of San Antonio, Texas, a member of Norton Rose Fulbright, in connection with the authorization and issuance of “CIBOLO CREEK MUNICIPAL AUTHORITY CONTRACT REVENUE BONDS, SERIES 2018 (SOUTHERN WASTEWATER TREATMENT PLANT PROJECT)”**

submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such certificates. We express no opinion concerning any effect on the following opinions which may result from changes in law effected after the date hereof.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized by the Authority in compliance with the Constitution and laws of the State of Texas now in force, and the Bonds issued in compliance with the provisions of the Order are valid, legally binding, and enforceable special obligations of the Authority payable solely from and equally and ratably secured by a lien on and pledge of the Special Payments which consists of the Annual Payment as a portion of the Annual Requirement to be received by the Authority from the City pursuant to the Contract, together with certain other funds on deposit in the accounts established in the Order, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Authority or the City, except with respect to the Special Payments. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation. In the Order, the Authority retains the right to issue Additional Bonds and Additional Obligations, without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

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

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

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial

**Legal Opinion of Norton Rose Fulbright US LLP of San Antonio, Texas, a member of Norton Rose Fulbright, in connection with the authorization and issuance of “CIBOLO CREEK MUNICIPAL AUTHORITY CONTRACT REVENUE BONDS, SERIES 2018 (SOUTHERN WASTEWATER TREATMENT PLANT PROJECT)”**

institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a financial asset securitization investment trust, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

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

Norton Rose Fulbright US LLP

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**APPENDIX E**

**CITY OF SCHERTZ, TEXAS AUDITED FINANCIAL STATEMENTS FOR  
FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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## INDEPENDENT AUDITOR'S REPORT

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

### **Report on the Financial Statements**

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

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

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

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

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

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

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

## ***Opinions***

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Schertz, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that management's discussion and analysis, budgetary comparison information, schedule of changes in net pension liabilities and related ratios and the schedule of contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The budgetary comparison information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison information is fairly stated, in all material respects, in relation to the basic financial statements as a whole. We have applied certain limited procedures to required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on management's discussion and analysis, budgetary comparison information, and schedule of changes in net pension liabilities and related ratios and the schedule of contributions because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Schertz's basic financial statements. The comparative financial statements, combining and individual nonmajor fund financial statements, introductory section, and statistical section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative financial statements and combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the comparative, combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole. The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.



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

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

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

Armstrong, Vaughan & Associates, P.C.

March 6, 2018

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## MANAGEMENTS DISCUSSION AND ANALYSIS

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

### **Financial Highlights**

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

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

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

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

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

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

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

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

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

The statement of activities presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g. uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Schertz that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Schertz include general government, public safety, streets and parks, health, and culture and recreation. The business-type

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

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

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information is useful in evaluating a government's near-term financing requirements.

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

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

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

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

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

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

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

### Government-wide Financial Analysis

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

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

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

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

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

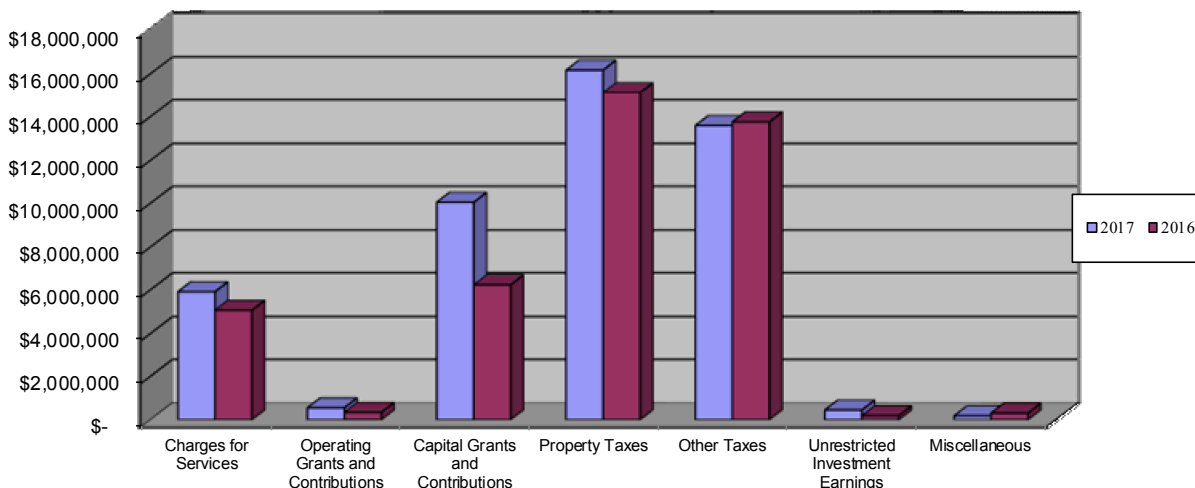
	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and Other Assets	\$ 53,489,898	\$ 45,626,048	\$ 34,305,074	\$ 28,142,800	\$ 87,794,972	\$ 73,768,848
Capital Assets	133,989,421	125,109,658	75,578,798	71,023,364	209,568,219	196,133,022
Total Assets	<u>187,479,319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

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

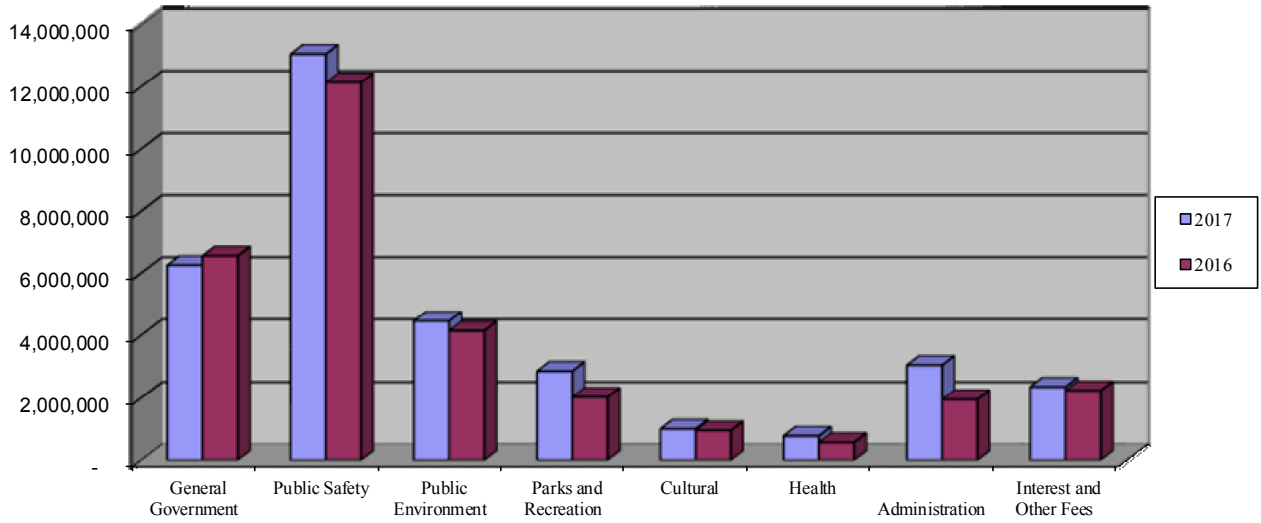
**TABLE A-2**  
CHANGES IN NET POSITION FOR GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

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

TOTAL REVENUES-GOVERNMENT-WIDE

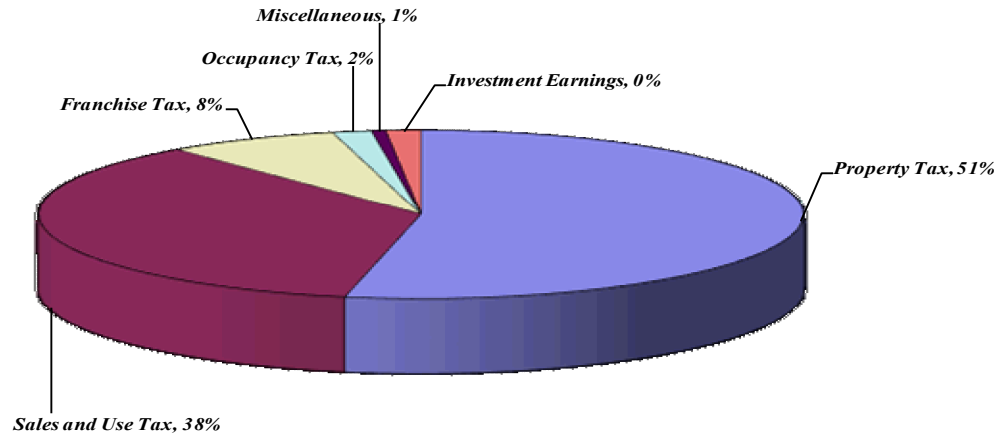


### TOTAL EXPENSES-GOVERNMENT-WIDE



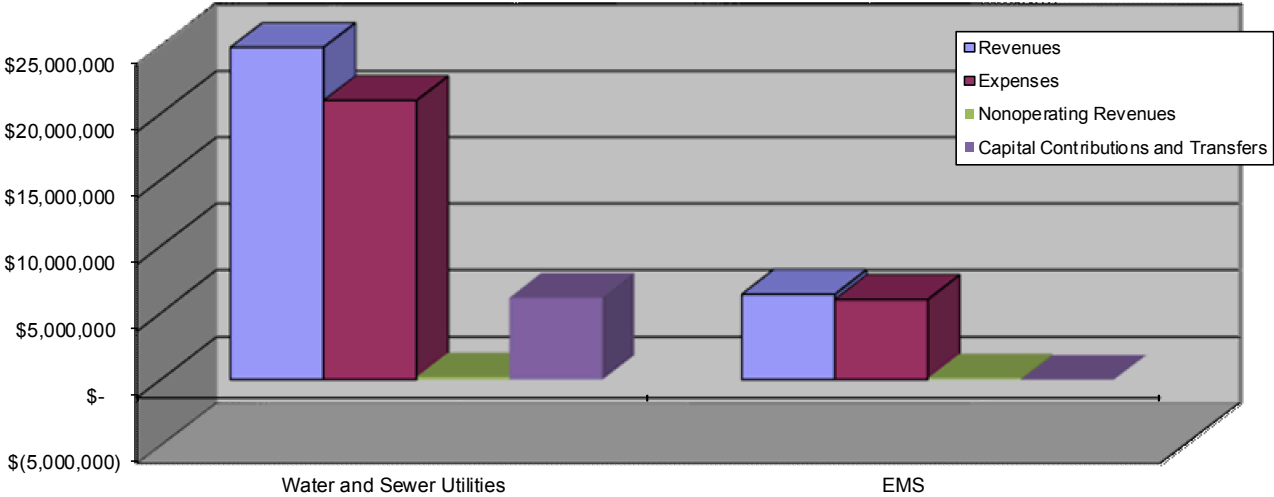
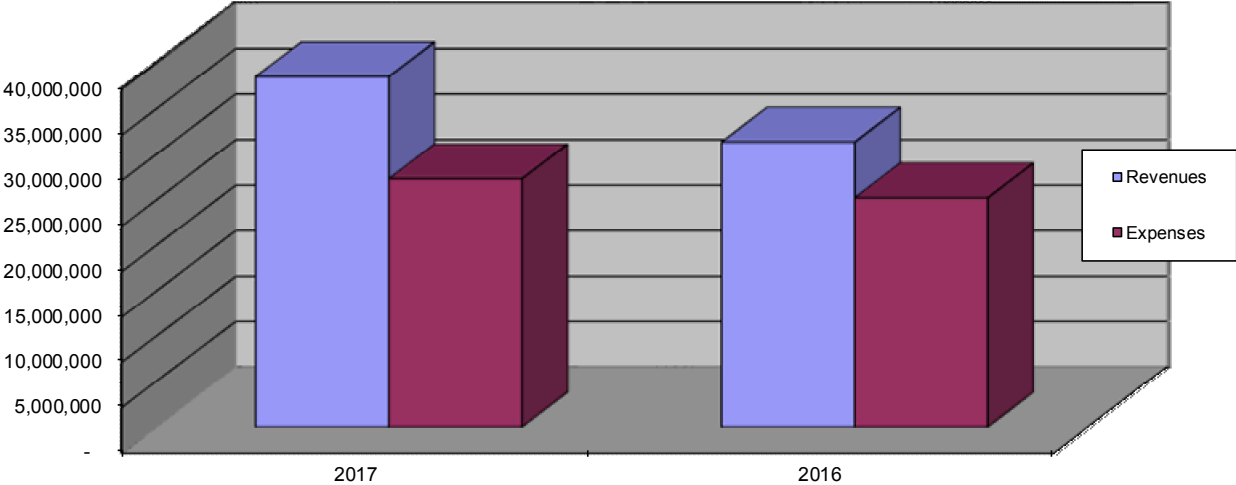
### Revenues-Governmental Activities (Continued)

#### General Revenue by Source - Governmental Activities



**Business-Type Activities**

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





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

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

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

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

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

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

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

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

## **General Fund Budgetary Highlights**

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

## CAPITAL ASSET AND DEBT ADMINISTRATION

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

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

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

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

**TABLE A-4**

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

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

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

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, City of Schertz, 1400 Schertz Parkway, Schertz, Texas 78154.



## BASIC FINANCIAL STATEMENTS

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

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

See Accompanying notes to basic financial statements.

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

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

See Accompanying notes to basic financial statements.

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

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

**General Revenues:**

Taxes:

Ad Valorem

Sales

Franchise Fees

Hotel/Motel

Mixed Drink

Investment Earnings

Miscellaneous

**Total General Revenues**

Transfers

Change in Net Position

Net Position at Beginning of Year

Net Position at End of Year

See Accompanying notes to basic financial statements.



Net (Expense) Revenue and  
Changes in Net Position

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

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

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

See Accompanying notes to basic financial statements.

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



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

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

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





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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

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

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

See accompanying notes to basic financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

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

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



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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

B. Government-Wide and Fund Financial Statements

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

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Nonexchange revenues that are measurable but not available are recorded as unavailable revenue (a deferred inflow of resources). These revenues are generally property taxes and warrants outstanding. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The City reports the following major governmental funds:

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

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

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

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

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

The government reports the following major proprietary funds:

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the water and sewer enterprise fund and the EMS enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

D. Cash and Cash Equivalents

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

E. Investments

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

F. Receivables and Payables

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

G. Inventories and Prepaid Items

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

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

H. Restricted Assets

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

I. Capital Assets

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

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Deferred Inflows/Outflows of Resources

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

K. Compensated Absences

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

L. Pensions

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

M. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums, discounts, and losses on defeasance are amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Losses on defeasance are reported as deferred outflows of resources. Bond issuance costs are expensed as incurred.

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

N. Fund Equity

Fund balances in governmental funds are classified as follows:

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Fund Equity (Continued)

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

Committed – Represents amounts that can only be used for a specific purpose because of a formal action by the government’s highest level of decision making authority: an ordinance adopted by City Council prior to the end of the fiscal year. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

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

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

O. Net Position

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

P. Estimates

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

Q. Budgetary Information

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

R. Reclassifications

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

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

NOTE 2 - CASH, CASH EQUIVALENTS AND INVESTMENTS

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

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

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

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

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

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

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

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

NOTE 3 - FAIR VALUE MEASUREMENT

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

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

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

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

NOTE 4 - PROPERTY TAX

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

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

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



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

NOTE 4 - PROPERTY TAX (Continued)

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

NOTE 5 - RECEIVABLES

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

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

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

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

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

NOTE 6 - INTERFUND BALANCES AND TRANSFERS

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

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

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

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

NOTE 7 - CAPITAL ASSETS

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

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

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

NOTE 7 - CAPITAL ASSETS (Continued)

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

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

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

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

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

NOTE 8 - OPERATING LEASE

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

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

NOTE 9 - CAPITAL LEASE

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

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

Future minimum lease payments are as follows:

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

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

NOTE 10 - LONG TERM DEBT

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

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

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

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

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

NOTE 10 - LONG-TERM DEBT (Continued)

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

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

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

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

NOTE 10 - LONG-TERM DEBT (Continued)

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

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

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

NOTE 11 - RETIREMENT PLAN

**Plan Description**

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

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

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

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Benefits Provided**

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

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

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

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

**Contributions**

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

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

**Net Pension Liability**

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



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

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Actuarial Assumptions**

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

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

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

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

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

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

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

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Actuarial Assumptions (Continued)**

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

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	4.15%
Real Return	10.00%	4.15%
Real Estate	10.00%	4.75%
Absolute Return	10.00%	4.00%
Private Equity	5.00%	7.75%
	<u>100.00%</u>	

**Discount Rate**

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

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

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

**Changes in the Net Pension Liability**

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

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

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

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

**Pension Plan Fiduciary Net Position**

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

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

NOTE 11 - RETIREMENT PLAN (Continued)

Texas Municipal Retirement System (Continued)

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

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

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

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

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

C. Other Post-Employment Benefits

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

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

NOTE 11 - RETIREMENT PLAN (Continued)

C. Other Post-Employment Benefits (Continued)

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

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

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

NOTE 12 – RETIREE HEALTH INSURANCE PLAN

A. Plan Description

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

B. Contributions

The City's annual other post-employment benefits (OPEB) cost is calculated based on the annual required contribution (ARC) of the employer, an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of accrual that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excesses) over a period not to exceed thirty years. The City's annual OPEB cost for the fiscal year ending September 30, 2017 is as follows:

Annual Required Contribution	\$ 139,515
Interest on OPEB obligation	17,912
Adjustment to ARC	<u>(21,183)</u>
Annual OPEB cost	136,244
Contributions	<u>(24,107)</u>
Increase in net OPEB obligation	112,137
Beginning Net OPEB Obligation	<u>543,618</u>
Ending Net OPEB Obligation	<u><u>\$ 655,755</u></u>

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

NOTE 12 – RETIREE HEALTH INSURANCE PLAN (Continued)

B. Contributions (Continued)

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

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

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

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

Inflation Rate	2.5%
Investment Rate of Return	4.0%, net of expenses
Actuarial Cost Method	Projected Unit of Credit
Amortization Method	Level as a percent of payroll
Amortization Period	30-year open period
Payroll Growth	3.0%
Medical Trend	Initial rate of 7.50%, declining to an ultimate rate of 4.25% after 15 years

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

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

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

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

NOTE 13 - JOINT VENTURES

*Schertz/Seguin Local Government Corporation*

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

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

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

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

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

NOTE 13 - JOINT VENTURES (Continued)

*Cibolo Valley Local Government Corporation*

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

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

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

*Cibolo Creek Municipal Authority*

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



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

NOTE 13 - JOINT VENTURES (Continued)

*Cibolo Creek Municipal Authority (Continued)*

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

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES

*Tax Increment Financing (the "Zone")*

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

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

*380 Agreements*

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

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

*Economic Development Incentive Agreements*

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

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

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

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

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

*Service Concession Arrangements*

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

*Litigation*

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

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

NOTE 14 - COMMITMENTS AND CONTINGENCIES (Continued)

*Construction Commitments*

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

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

*Risk Management*

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

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**APPENDIX F**

**REGIONAL WASTEWATER TREATMENT CONTRACT  
(SOUTHERN WASTEWATER TREATMENT PLANT PROJECT)**

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**FINAL**

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REGIONAL WASTEWATER TREATMENT CONTRACT

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September 11, 2014

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between

CIBOLO CREEK MUNICIPAL AUTHORITY

and

CITY OF SCHERTZ, TEXAS

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SOUTHERN WASTEWATER TREATMENT PLANT PROJECT

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## **REGIONAL WASTEWATER TREATMENT CONTRACT**

THIS REGIONAL WASTEWATER TREATMENT CONTRACT (this “Contract”) dated as of the September 11, 2014 (the “Contract Date”) is between the CIBOLO CREEK MUNICIPAL AUTHORITY, a regional conservation and reclamation district created under and essential to accomplish the purposes of Article XVI, Section 59 of the Constitution of the State of Texas and Chapter 8166, Texas Special District Laws and Codes (the “Authority”) and the CITY OF SCHERTZ, TEXAS, a home rule municipality (as the “Original Participating Members”, which, together with any Additional Participating Members as hereinafter defined, are collectively or individually referred to herein as “Participating Members”).

### **PREAMBLE AND WITNESSETH:**

WHEREAS, the Act (hereinafter defined) provides that the Authority is vested with and has the right to exercise all of the rights, powers, privileges, authority, and functions conferred by the general laws of the State of Texas applicable to a river authority pursuant to Chapter 30, Texas Water Code, as amended, and to municipal utility districts, including without limitation those conferred by Chapter 54, Title 4, Texas Water Code, as amended; and

WHEREAS, the Authority’s boundaries currently include all of the territory located in the service area of its members as provided in their respective certificates of convenience and necessity issued by the Texas Commission on Environmental Quality (the “Commission”); and

WHEREAS, the Authority plans to acquire, construct, build, own, expand, improve, renovate, equip, operate, and maintain a regional wastewater treatment facility (known as Southern Wastewater Treatment Plant Project) as a regional wastewater treatment facility and certain related transmission lines (the “Project”) for the purpose of receiving, treating, and transmitting certain of the wastewater delivered pursuant to certain contracts now in force or to be entered into in the future; and

WHEREAS, the Authority intends to acquire, build, own, operate, and maintain (i) a regional wastewater treatment facility and (ii) certain related transmission lines and related facilities, for the purpose of receiving, treating, and transmitting certain wastewater delivered pursuant to certain contracts now in force or to be entered into in the future; and

WHEREAS, to finance the costs of the acquisition, construction, and equipping of the Project, the Authority intends to issue one or more series of its contract revenue bonds or other debt obligations (the “Bonds”), pursuant to a public, competitive, or negotiated sale, to be secured by and payable from revenues received by the Authority pursuant to this Contract; and

WHEREAS, for and in consideration of the Authority to receive wastewater for treatment as provided herein, the Participating Members are willing and have agreed to contract with the Authority as hereinafter provided to deliver wastewater to the Project and to pay the costs of the Project by assisting in the amortization of the principal of and interest on the Bonds and paying the Authority’s Operation and Maintenance Expenses (hereinafter defined); and

WHEREAS, the Authority and the Participating Members are authorized to enter into this Contract pursuant to the Authority’s enabling statute, Chapter 8166, Texas Special District Laws and Codes, as amended (the “Act”) and Chapter 791, Texas Government Code, as amended (the “Interlocal Cooperation Act”), and other applicable laws; and

WHEREAS, the Authority agrees that the Participating Members shall continue to own their respective Certificates of Convenience and Necessity issued by the Commission, shall continue to own and operate their respective utility systems, and any respective wastewater treatment facilities currently owned by each of the Participating Members; and

WHEREAS, each of the Participating Members under this Contract proposes to pay its share of costs of the Project and the Bonds based upon a rate methodology to be developed by the Authority or in proportion to the respective amounts of wastewater each has agreed to deliver under this Contract; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and subject to the terms and conditions hereinafter set forth, the Authority and each of the Participating Members agree and contract as follows:

ARTICLE I  
Definitions

Section 1.01 Definitions.

The following terms and expressions as used in this Contract, unless the context clearly shows otherwise, shall have the following meanings:

- (1) “Act” means Chapter 8166, Texas Special District Laws and Codes, as amended.
- (2) “Additional Participating Member(s)” means any entity or entities hereafter agreeing pursuant to Section 6.01 of this Contract to be bound by the terms of this Contract, as it may be amended from time to time.
- (3) “Adjusted Annual Payment” means the Annual Payment as adjusted by the Board during or after an Annual Payment Period, as provided by this Contract.
- (4) “Annual Payment” means the amount of money to be paid to the Authority by each Participating Member during each Annual Payment Period as its share of the Annual Requirement.
- (5) “Annual Payment Period” means the Authority’s Fiscal Year, which currently begins on October 1 of each calendar year and ends on September 30 of the next following calendar year, but which may be any twelve consecutive month period fixed by the Authority.
- (6) “Annual Requirement” means, during an Annual Payment Period, the total amount required to pay all Operation and Maintenance Expenses of the Authority and the Project, including Project Costs, and all costs and payments due and payable, including the Bond Payment, for the amortization of the Bonds.
- (7) “Authority” means the Cibolo Creek Municipal Authority, a regional conservation and reclamation district created under and essential to accomplish the purposes of Article XVI, Section 59 of the Constitution of the State of Texas and created in accordance with the Act. Except as otherwise noted herein, actions required or permitted to be taken by the Authority under this Contract may be taken by the General Manager on behalf of the Authority.

(8) “Authority Service Rules and Policies” means the Authority’s Schedule for Rates, Fees, Charges, and Orders (including, but not limited to, the Authority Industrial Waste Order) related to the System, as amended by the Authority Board of Directors from time to time.

(9) “Board” or “Board of Directors” means the governing body of the Authority.

(10) “Boardmembers” means a member or members of the Board.

(11) “Bond Resolution” means any order or other financing documents of the Authority which authorizes any Bonds.

(12) “Bond Payment” means the amount of money to be paid to the Authority by the Participating Members from the revenues of the Participating Members’ utility system as an operating and maintenance expenses of the Participating Members’ utility system pursuant to Chapter 1502, as amended, Texas Government Code, or other applicable law, at the times and in the amounts required herein and also as set forth in Sections 3.02, 5.03, 5.04, 7.05, and 7.06 of this Contract.

(13) “Bonds” means all bonds, notes, or other debt obligations payable from and secured, in whole or in part, from the payments to the Authority under this Contract, and the interest thereon, hereafter issued by the Authority to finance the costs to acquire, construct, expand, renovate, improve, and equip the Project, and/or all bonds, notes, or other obligations issued subsequently to finance costs to improve and extend the Project, and any bonds or other obligations issued to refund any other bonds, notes, or other obligations to refund any other refunding bonds or other obligations.

(14) “Code” means the Internal Revenue Code of 1986, and any amendments thereto, as in force and effect on the date of delivery of any series of Bonds.

(15) “Commission” means the Texas Commission on Environmental Quality or any successor entity thereto.

(16) “Contract” means this Regional Wastewater Treatment Contract (Southern Wastewater Treatment Plant Project), as initially executed and as it may be amended from time to time.

(17) “Credit Agreement” means any credit agreement, as defined in and authorized by the provisions of Chapter 1371, as amended, Texas Government Code which the Authority enters into relating to its obligations with respect to the Bonds.

(18) “EMMA” means the MSRB’s Electronic Municipal Market Access system, accessible by the general public, without charge, on the internet through the uniform resource locator (URL) <http://www.emma.msrb.org>.

(19) “Fiscal Year” means the Authority’s fiscal year, which currently begins on October 1 of each year and ends on September 30 of the following year, as it may be changed from time to time by the Authority with notice to the Participating Members.

(20) “Force Majeure” means such term only as it is defined in Section 5.04 of this Contract.

(21) “General Manager” means the general manager of the Authority’s operations, including any party or entity that the Authority enters into a management contract to provide these services.

(22) “Land Interests” means the easements, right-of-way, and other interests in real property necessary for the acquisition, construction, and operation of the Project.

(23) “MSRB” means the Municipal Securities Rulemaking Board and any successor to its duties.

(24) “Operation and Maintenance Expenses” means, during an Annual Payment Period, all direct costs and expenses incurred by the Authority for its operation and maintenance, including but not limited to, the operation and maintenance of the Project, including (for greater certainty but without limiting the generality of the foregoing) amounts payable under any contract with any federal, state, or local agency for the construction, operation, and/or wastewater treatment facilities or any contribution or payment in lieu of taxes or any fee or charge by any government authority relating to the Authority’s treatment of wastewater hereunder, the costs of utilities, supervision, engineering, accounting, auditing, legal services, insurance premiums, supplies, services, and administration of the Project, Overhead Expenses, and costs of operating, repairing, maintaining, and replacing equipment for proper operation and maintenance of the Project. The term “Operation and Maintenance Expenses” does not include depreciation charges or such portion of the above-described costs to the extent such costs are paid pursuant to an agreement other than this Contract.

(25) “Original Participating Members” means the City of Schertz, Texas.

(26) “Overhead Expenses” means the Authority’s reasonable and necessary costs and expenses incurred and directly related to the issuance and servicing of the Bonds, the acquisition of Land Interests required for the Project, if any, the design, permitting, financing, acquisition, construction, and ownership of the Project and any other activities required of or involving the Authority in connection with or attributable to the Project or the Bonds, including, but not limited to:

(a) per diem and reimbursable expenses incurred by the Board for special meetings of the Board related to the Project,

(b) services of the professional, technical skilled and unskilled persons and firms engaged by or associated with the Authority, other than Authority staff personnel, together with their reimbursable expenses paid or required to be paid by the Authority;

(c) salaries of the Authority’s staff attributable to the Project or the Bonds based on time expended, as documented or reasonably estimated by the General Manager of the Authority, times an overhead factor of two (2), which factor shall be subject to adjustment by the Authority from time to time in response to actual or reasonably projected overhead expenses of the Authority;

(d) the costs of preparing applications for and obtaining all approvals and authorizations required for the Project or the Bonds from the regulatory authorities having jurisdiction;

(e) the cost of property casualty and public liability insurance; including any insurance deductible charged to or required to be paid by the Authority;

(f) all costs incurred in litigation involving or relating to the Project; and

(g) any and all other costs and expenses, including out-of-pocket expenses, incurred by the Authority attributable to the Project or the Bonds, whether enumerated above or not and whether or not included in the definition or as a part of Project Costs.

(27) “Participating Member(s)” means certain of the Original Participating Members and all Additional Participating Members from time to time subject to this Contract.

(28) “Permitted Liens” means:

(a) Minor irregularities, charges, liens, encumbrances, defects, easements, licenses, rights-of-way, servitudes, restrictions, mineral rights, and clouds on title which, in the opinion of counsel to the Authority, do not materially impair the use of the Project for the purposes for which it is designed.

(b) Easements for roads (as used in this Contract, the term “roads” shall include, without limitation, streets, curbs, gutters, drains, ditches, sewers, conduits, canals, mains, aqueducts, aerators, connections, ramps, docks, viaducts, alleys, driveways, parking areas, walkways, and trackage), utilities (which for purposes of this Contract shall include, without limitation, water, sewer, electricity, gas, telephone, pipeline, railroad, and other collection, transportation, light, heat, power, and communication systems) and similar easements and other easements, rights-of-way, rights of flowage, flooding, diversion or outfall, licenses, restrictions, and obligations relating to the operation of the Project which, in the opinion of counsel to the Authority, do not materially impair the use of the Project for the purposes for which it is designed.

(c) Rights of the United States or any state or political subdivision thereof, or other public or governmental authority or agency or any other entity vested with the power of eminent domain to take or control property or to terminate any right, power, franchise, grant, license, or permit previously in force.

(29) “Point(s) of Delivery” means the point or points designated in Exhibit B to this Contract or by subsequent agreement where wastewater will be delivered to the Authority by Participating Members concerning the Project.

(30) “Prohibited Wastes” means those substances and waste prohibited from being discharged into the System as described in the Authority Service Rules and Policies.

(31) “Project” means the “Project” as defined in the preamble of this Contract.

(32) “Project Costs” means and includes, without limitation, the following costs incurred for the Project by or on behalf of the Authority:

(a) the cost of acquisition of the Land Interests, including appraisals, closing costs and title insurance policies;

(b) the cost of acquisition, construction, repair, replacement, or improvement of any structure, item of equipment, or other item, used for, or in connection with, the Project;

(c) the cost of site preparation of the Land Interests, including demolition or removal of structures and improvements as necessary or incident to accomplishing the Project;

(d) the cost of engineering, legal, architectural or other related services;

(e) the preparation cost of plans, specifications, studies, surveys, cost estimates, and other expenses necessary or incident to planning, providing, or financing the Project;

(f) the cost of machinery, equipment, furnishings, and facilities necessary or incident to placing the Project in operation;

- (g) finance charges and interest before, during, and after construction;
- (h) costs incurred in connection with financing the Project, including, without limitation:
  - a. financing, legal, accounting, financial advisory, rating agency, and auditing fees, expenses and disbursements;
  - b. the costs of a Credit Agreement;
  - c. the cost of printing, engraving, and reproduction services; and
  - d. the cost of a trustee's or paying agent's initial or acceptance fee and subsequent fees.
- (i) all costs, fees and expenses of litigation of all kinds;
- (j) the cost of property casualty and public liability insurance;
- (k) the Authority's Overhead Expenses; and
- (l) other costs generally recognized as a part of project construction costs.

(33) "Rule" means SEC Rule 15c2-12, as amended from time to time.

(34) "SEC" means the United States Securities and Exchange Commission and any successor to its duties.

(35) "Sale and Offering Documents" means any official notice of sale, official bid form, preliminary official statement, official statement, application to the Texas Water Development Board, or other offering document for the Bonds.

(36) "State" means the State of Texas.

(37) "System" means the Authority's separate enterprise fund consisting of the works, improvements, facilities, plants, equipments, appliances, property, easements, leaseholds, licenses, privileges, right of use or enjoyment, contract rights or other interests in property comprising the regional wastewater treatment facility designated as the "Southern Wastewater Treatment Plant Project" of the Authority now owned or to be hereafter purchased, constructed or otherwise acquired whether by deed, contract or otherwise, together with any additions or extensions thereto or improvements and replacements thereof, including the Project, except the facilities which the Authority may purchase or acquire with the proceeds of the sale of Special Project Bonds, so long as such Special Project Bonds are outstanding, notwithstanding that such facilities may be physically connected with the System; provided, however, that System shall not include any other enterprise fund currently owned, operated, and maintained by the Authority.

(38) "Wastewater Impact Fee" means a charge imposed per connection for wastewater services pursuant to Chapter 395 of the Local Government Code for funding the costs of wastewater capital improvements or facility expansions necessary to serve the Participating Member in the amount set forth in the Authority Service Rules and Policies and as amended from time to time by the Authority's Board of Directors.

Section 1.02 Construction. Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice



versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa. This Contract and all the terms and provisions hereof shall be constructed to effectuate the purposes set forth herein and to sustain the validity of this Contract.

ARTICLE II  
Representations and Warranties

Section 2.01 Representations and Warranties of Authority. The Authority hereby represents and warrants that it has full power and authority to treat wastewater delivered by the Participating Members in accordance with the terms of this Contract and the execution and delivery of this Contract by the Authority and the performance by the Authority of the provisions hereof do not and will not conflict with or constitute on the part of the Authority a breach or a default of any provision of any other contract or agreement of the Authority.

Section 2.02 Representations and Warranties of Participating Members. Each of the Participating Members hereby represents and warrants that it has full power and authority to delivery wastewater to the Authority in accordance with the terms of this Contract; and the execution and delivery of this Contract by each Participating Member and the performance of the provisions hereof by each Participating Member do not and will not conflict with or constitute on the part of such Participating Member a breach or a default of any provision of any other contract or agreement of such Participating Member.

ARTICLE III  
Construction of Project and Issuance of Bonds

Section 3.01 Construction of Project. The Authority agrees that the acquisition, construction, improvement, and equipping of the Project by the Authority will be accomplished in accordance with generally accepted engineering practices and, subject to the issuance of the Bonds pursuant to Section 3.02 to provide a source of funds, with all practical dispatch.

Section 3.02 Issuance of Bonds.

A. The Authority may issue its Bonds, payable from and secured by a pledge of the Annual Payments from this Contract to finance the costs of acquiring, owning, constructing, extending, enlarging, repairing, renovating, equipping, and otherwise improving the Project.

B. Each Bond Resolution of the Authority shall specify the exact principal amount of the Bonds to be issued thereunder, which Bonds shall mature within the maximum allowable period or such shorter period as determined by the Authority and shall bear interest not exceeding the maximum allowable rates, all as permitted by law, and each Bond Resolution shall contain such other terms and provisions pertaining to the security and payment of Bonds and the operation and maintenance of the Project as may be necessary for the marketing and sale of the Bonds. The Authority may from time to time issue its Bonds in such amounts as are within its judgment and discretion sufficient to achieve full implementation of the Project.

C. Prior to the final adoption of a Bond Resolution or any amendment of a Bond Resolution by the Authority's Board of Directors, a draft of the proposed Bond Resolution, and the Sale and Offering Documents shall be presented to the Participating Member for review and approval. The Participating Members shall adopt a resolution approving the issuance of Bonds and delegate to an

authorized representative the approval of the final terms and provisions of the Bonds, including the principal amount, as reflected in the final Bond Resolution.

D. Upon the Participating Member approval of (i) each form of Bond Resolution hereafter adopted by the Authority, (ii) any amendments to any Bond Resolution, and (iii) the Sale and Offering Documents and the delivery to the Authority of a certification signed by the authorized representative of the Participating Member to the effect that the Bond Resolution and the Sale and Offering Documents comply with this Contract, then upon the adoption and approval of the Bond Resolution in such final form by the Authority's Board of Directors, the execution of an approval certificate by the authorized representatives of each of the Participating Members approving the final terms and provisions of the Bonds and the Bond Resolution, and the issuance and delivery of the Bonds to the purchaser thereof, the Bond Resolution shall for all purposes be considered approved by the Authority and deemed to be in compliance with this Contract in all respects, and the Bonds issued thereunder will constitute Bonds as defined in this Contract for all purposes. Any owner of Bonds is entitled to rely fully and unconditionally on any such approval.

E. All covenants and provisions in the Bond Resolution affecting, or purporting to bind, the Participating Member, shall, upon the delivery of the Bonds, become absolute, unconditional, valid, and binding covenants and obligations of the Participating Member so long as said Bonds and interest thereon are outstanding and unpaid, and may be enforced as provided in this Contract and the Bond Resolution. Particularly, the obligation of the Participating Member to make, promptly when due, all Annual Payments specified in this Contract and all payments described in Section 5.03 hereof shall be absolute and unconditional, and said obligation may be enforced as provided in this Contract. In addition, subject to the approval of the Participating Member, the Authority may enter into Credit Agreements, to the extent permitted by law, for the purpose of achieving the lowest financing costs for the Project.

Section 3.03 Liens. Neither the Participating Members nor the Authority will create or permit or suffer to exist any lien, encumbrance, or charge upon the Project or any interest therein at any time, except Permitted Liens.

Section 3.04 Tax-Exempt Bonds. The parties hereto understand and agree that the Authority will use its best efforts to provide for, but will not be liable for a failure to produce, the lowest overall debt service cost for the Bonds to be issued for the Project. In connection therewith, the parties intend that the Authority will issue Bonds the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes. The parties hereto acknowledge their understanding that the federal income tax laws impose certain restrictions on the use and investment of proceeds of such tax-exempt bonds and on the use of the property financed therewith and the output produced therefrom. Accordingly, the parties agree and covenant that if the Bonds are offered to investors with the understanding that the interest will be exempt from federal income taxation, then the parties, their assigns and agents, will take such action to assure, and refrain from such action which will adversely affect the treatment of such Bonds as obligations described in section 103 of the Code. Should either party fail to comply with such covenant, the effect of which being that the Bonds no longer qualify as obligations described in the Code, such defaulting party shall be liable for all costs resulting from the loss of the tax-exempt status of the Bonds. The parties hereby agree and covenant to comply with all of the representations and covenants relating to such exemption which are set out in any Bond Resolution. The parties further agree and covenant that in the event the Bonds issued are to be tax-exempt, they will modify such agreements, make such filings, restrict the yield on investments, and take such other action necessary to fulfill the applicable provisions of the Code. For these purposes, the parties may rely on the respective opinion of any firm of nationally-recognized bond attorneys selected by them. In the

event that a conflict arises in the opinions of the respective firms of each of the parties, the parties will identify a different firm, that is mutually acceptable to both parties, in order to resolve the conflict of opinion.

Section 3.05 Payment to Rebate Fund. In the event that tax-exempt Bonds are issued as provided in Section 3.04, the Authority hereby covenants and agrees to make the determinations and to pay any deficiency into a rebate fund, at the times and as described in the Bond Resolution to comply with the provisions of section 148(f)(2) of the Code. In any event, if the amount of cash held in the rebate fund shall be insufficient to permit the trustee or paying agent to make payment to the United States of America of any amount due on any date under section 148(f)(2) of the Code, the Authority forthwith shall pay the amount of such insufficiency on such date to the trustee or paying agent in immediately available funds for such purpose.

Section 3.06 Sale and Offering Documents. At the request of the Authority, the Participating Members shall provide to the Authority current and historical information concerning their respective utility systems, general fund information, the financial conditions results, and prospects of the Participating Members, and such other information concerning the Participating Members as the Authority shall deem advisable for inclusion in the Sale and Offering Documents for the Bonds of each series and shall certify to the Authority and the underwriters of any offering of Bonds to be made by means of such Sale and Offering Documents when and if the Participating Members deem such Sale and Offering Documents to be complete and final for purposes of the Rule. The Participating Members represent and warrant that all statements concerning the Participating Members (including, without limitation, their financial condition, results, and prospects, their utility system, and any demographic and economic information concerning the area served by their utility system) that are contained in any Sale and Offering Document shall be true in all material respects and shall not omit to state any material fact necessary to make the statements made in such Sale and Offering Document, in the light of the circumstances in which they are made, not misleading.

Section 3.07 Authority's Rights Assigned to Trustee. The Participating Members are advised and recognize that as security for the payment of the Bonds, the Authority may assign to a trustee, pursuant to one or more trust indentures to be authorized by the Bond Resolution, the Authority's rights under this Contract, including the right to receive the Annual Payments hereunder and the amounts described in Section 5.03 hereof. The Participating Members herewith assent to such assignment and will make the Annual Payments and the payments described in Section 5.03 hereof directly to the trustee without defense or set-off by reason of any dispute between the Participating Members and the Authority or the trustee. All rights against the Participating Members arising under this Contract or the Bond Resolution and assigned to the trustee may be enforced by the trustee, or the owners of the Bonds, to the extent provided in the Bond Resolution, and the trustee, or the owners of the Bonds, shall be entitled to bring any suit, action, or proceeding against the Participating Members, to the extent provided in the Bond Resolution, for the enforcement of this Contract, and it shall not be necessary in any such suit, action, or proceeding to make the Authority a party thereto.

#### ARTICLE IV Treatment of Wastewater; Operating Requirements

Section 4.01 Wastewater Quality. The quality of wastewater delivered to the System shall comply with applicable provisions of the Authority Service Rules and Policies. Wastewater delivered to the System shall not include Prohibited Wastes.

Section 4.02 Wastewater Delivery. The Participating Members hereby agree to pay the Authority for the delivery and treatment of wastewater and the Authority hereby agrees to receive from the Participating Members all of the wastewater to be treated by the Authority at the Project subject to the terms and provisions of this Contract or other contracts which generate System revenues.

Section 4.03 Points of Delivery. Each Participating Member agrees to deliver wastewater at the Point(s) of Delivery for such Participating Member set forth in Exhibit B hereto. Modification of such Points of Delivery may be mutually agreed to in writing between each Participating Member, respectively, and the Authority. The Authority will maintain ownership of the connection (being any device, including welded pipe connections, wastewater installations, valves, meter vaults, or similar devices) between the Authority's System and the utility system of the Participating Members.

Section 4.04 Metering Equipment. The Authority will furnish, install, operate, and maintain at its expense the necessary equipment and devices (including a meter house or pit) of standard type required for measuring the quantity of wastewater delivered by the Participating Member to the Authority under this Contract at the Point or Points of Delivery. Such meters and other equipment so installed shall be the property of the Authority. The Authority shall inspect, calibrate, and adjust its meters at least annually as necessary to maintain accurate measurements of the quantity of wastewater being delivered. Each Participating Member shall have access to the metering equipment at all reasonable times for inspection and examination, but the reading, calibration, and adjustment thereof shall be done only by employees or agents of the Authority. If requested, a Participating Member may witness such reading, calibration, and adjustment of meters. Any measuring device which fails to function or which functions incorrectly shall promptly be adjusted, repaired or replaced by a like device having the required accuracy. A meter registering not more than five percent (5%) above or below the test results shall be deemed to be accurate. The previous readings of any meter disclosed by tests to be inaccurate shall be corrected for one-half (1/2) the period elapsed since the next preceding meter test but in no event to exceed six (6) months in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of wastewater furnished during such period shall be deemed to be the amount of wastewater delivered in the corresponding period immediately prior to the failure, unless the Authority and the Participating Member shall agree upon a different amount. All readings of meters will be entered upon proper books of record maintained by the Authority. Any Participating Member may have access to said record books during normal business hours.

Section 4.05 Participating Member Responsible for Retail Connections. The Participating Member will be solely responsible for providing retail wastewater service within its boundaries. The Participating Member shall not provide wastewater services received under this Contract to any entity, private or public, other than the Participating Member's retail customers located within its boundaries. The Participating Member will be solely responsible for ensuring compliance by its retail customers with the applicable terms of this Contract, for the applicable provisions of the Authority Service Rules and Policies and for the proper and lawful application of Participating Member's policies and regulations governing connection to the System.

Section 4.06 Authority Treatment and Reuse of Wastewater. The Authority may treat the wastewater delivered by the Participating Member pursuant to this Contract and dispose of or reuse the effluent generated thereby in such manner as may be provided in the Authority's permit or other Commission authorization in its sole discretion

Section 4.07 Right of Entry. The Participating Member agrees to provide Authority the right of entry and access to the Participating Member's utility system at all reasonable times upon prior notice

in order to inspect facilities, to investigate the source of operational or maintenance problems, for preventive purposes intended to detect, minimize, or avert operational or maintenance problems, or for any other purpose reasonably related to the provision of wastewater services pursuant to this Contract.

Section 4.08 Wastewater Impact Fees.

(a) The Participating Member shall be obligated to pay Authority a Wastewater Impact Fee for each new retail wastewater customer that connects to the System and receives wastewater service provided under this Contract. For the term of this Contract, the Wastewater Impact Fee will be the amount established from time to time in the Authority Service Rules and Policies, provided that no increase in the Wastewater Impact Fee will become effective for the Participating Member until the Authority has given at least 60 days' prior written notice of the change to the Participating Member, and any such increases shall be applied to connections in accordance with Chapter 395, Texas Local Government Code, in order to allow the Participating Member adequate time to make corresponding changes to its rate order. The Wastewater Impact Fee paid for each new retail wastewater connection to the System shall be due and payable to Authority within 45 days after the end of the calendar month in which the new retail wastewater connection is made.

(b) Within 45 days after the end of each calendar month, Participating Member shall submit a monthly report to Authority, reflecting the new customer(s), service address(es), meter size(s) and an estimated quantity of wastewater flows for which payment of a Wastewater Impact Fee is being made. The Authority reserves the right to audit all Participating Member submitted data and recalculate the estimated quantity of wastewater flows in accordance with the Authority Service Rules and Policies. If no new connections have been made, the monthly report will still be required, but will reflect that there have been no changes from the prior reporting period. If the Participating Member fails to submit any report within the time period required by this Contract, Authority may assess the Participating Member a \$50 late charge per customer account not reported. Unless changed by written notice in accordance with Section 8.02 hereof, the Wastewater Impact Fees and monthly reports required by the Section 4.08 will be submitted to the following address:

Cibolo Creek Municipal Authority  
P.O. Box 930  
Schertz, Texas 78154  
Attention: General Manager

(c) The Wastewater Impact Fee has been designed to fund or recover all or a part of the costs of the System for capital improvements or facility expansions intended to serve "new development" (as that term is defined in the Texas Impact Fee Law, Chapter 395 of the Texas Local Government Code) in the Authority's service area and, upon payment, the Participating Member will have a guaranteed reservation of capacity in the System for the quantity of wastewater flows for which a Wastewater Impact Fee has been paid.

(d) The Authority specifically acknowledges and agrees that Wastewater Impact Fees may be paid by other third parties on behalf of the Participating Member.

ARTICLE V  
Fiscal Provisions

Section 5.01 Annual Requirement. Subject to the terms and provisions of this Contract, the Authority will provide and pay for the cost of the Project through the issuance of the Bonds. It is acknowledged and agreed that payments by the Participating Members to the Authority under this Contract will be the sole or primary source of funds available to the Authority to provide the Annual

Requirement. Each Participating Member shall be obligated to pay the full amount of its Annual Requirement notwithstanding that it may elect not to deliver wastewater under this Contract. In compliance with the Authority's duty to fix and from time to time to revise the rates and charges for services rendered under this Contract, the Annual Requirement may change from time to time. Each such Annual Requirement shall be allocated among the Participating Members and the Authority based upon a rate methodology to be developed by the Authority or according to their respective amount of wastewater delivered pursuant to the terms of this Contract, and the Annual Requirement for each Annual Payment Period shall be identified in each annual budget and shall at all times be not less than an amount sufficient to pay or provide for the payment of the following:

- A. all Operation and Maintenance Expenses; and
- B. an amount to fund a special reserve for the Operation and Maintenance Expenses or for additional capital improvements to the Project; the total amount to be accumulated for such operating and additional capital improvements reserve shall not exceed 25% of the annual Operation and Maintenance Expenses (estimated to be approximately three (3) months' expenses); and
- C. when the Authority and the Participating Members agree to issue Bonds to finance the costs of the Project, a capital component, including principal, interest, premium, reserve funds, and other funds established or required by any Bond Resolution and to pay the principal of and interest on the Bonds.

Section 5.02 Annual Budget. Each annual budget for the acquisition and/or operation and maintenance of the Project shall always provide for amounts sufficient to pay the Annual Requirement. Each Participating Member will be furnished a copy of such annual budget, and each Participating Member hereby acknowledges its ability to pay its share of the Annual Requirement from available funds budgeted therefor. On or before July 15 of each year thereafter commencing July 15, 2015, the Authority shall furnish to each Participating Member a preliminary estimate of the Annual Payment required from each Participating Member for the next following Annual Payment Period.

Not less than 60 days before the commencement of each Annual Payment Period beginning in Fiscal Year 2014-2015, the Authority shall cause to be prepared a preliminary budget for the Project for the next ensuing Annual Payment Period. A copy of such preliminary budget shall be filed with each Participating Member before action by the Board. Any Participating Member may submit comments about the preliminary budget directly to the Board. The Board may adopt the preliminary budget or make such amendments thereof as to it may seem proper; provided, however, no change or amendment to the preliminary budget will be made by the Board after such preliminary budget has been submitted to the Participating Members which change or amendment would in effect increase the Annual Requirement without resubmitting such amended preliminary budget to the Participating Members. The Board shall thereupon approve the annual budget. With respect to budgetary matters, the Participating Members shall have the right only to comment on the preliminary budget; their approval of the preliminary or final annual budget shall not be required. The annual budget thus approved by the Board shall be the annual budget for the next ensuing Annual Payment Period. The annual budget, including the first annual budget, may be amended by the Authority at any time to transfer funds from one account or fund to another account or fund, provided such transfer will not increase the total budget and the transfer of funds is attributable to the costs of the Project or to the Project's maintenance and operation. Subject to notification to the Participating Members, the amount for any account or fund, or the amount for any purpose, in the annual budget may be increased through formal action by the Board even though such action might cause the total amount of the annual budget for the Project to be exceeded; provided,

however, such action shall be taken only in the event of an emergency or special circumstances which shall be clearly stated in the notice to the Participating Members and in the resolution at the time such action is taken by the Board.

Notwithstanding anything herein to the contrary, no failure of the Authority to estimate, and no mistake by the Authority in any estimate of, the amount of or schedule for Annual Payments due from the Participating Members in any Fiscal Year shall relieve the Participating Members from (or defer) their absolute and unconditional obligation to make all Annual Payments in full when due.

Section 5.03 Payments by Participating Members.

A. Each Participating Member agrees to pay a connection fee for each Point of Delivery equal to the total cost of material, labor, and equipment required to implement such connection.

B. For wastewater delivered by the Participating Members to the Authority under this Contract (whether or not the Participating Members delivers such wastewater), each of the Participating Members agrees to pay, at the time and in the manner hereinafter provided, its share of the Annual Requirement. Each of the Participating Members shall pay its part of the Annual Requirement for each Annual Payment Period directly to the Authority (or its assigns), in monthly installments in accordance with the schedule of payments furnished by the Authority, as hereinafter provided.

C. Each Participating Member shall pay a proportionate share of the Annual Requirement according to a rate methodology to be developed by the Authority or based upon the relative amount of wastewater delivered by each Participating Member and set forth on Exhibit A, as amended from time to time. The Authority shall charge each Participating Member its share of pumping costs according to the amount of wastewater actually delivered to the Authority.

D. Each Participating Member's allocated share of the Annual Requirement for each Annual Payment Period shall be made in accordance with a written schedule of payments for the appropriate Annual Payment Period which will be supplied to each of the Participating Members by the Authority.

E. Notwithstanding the foregoing, the Annual Requirement, and each Participating Member's share thereof, shall be redetermined, after consultation with each of the Participating Members, at any time during any Annual Payment Period, to the extent deemed necessary or advisable by the Authority, if:

- (1) unusual, extraordinary, or unexpected Operation and Maintenance Expenses are required which are not provided for in the Authority's annual budget or reserves for the Project;
- (2) Operation and Maintenance Expenses of the Project are substantially less than estimated;
- (3) a Participating Member's interest under this Contract is terminated as provided herein or Additional Participating Members become subject to this Contract;
- (4) the Authority issues Bonds for the Project; or
- (5) the Authority receives either significantly more or significantly less revenues or other amounts than those anticipated.

F. Each Participating Member hereby agrees that it will make payments to the Authority required by this Contract at the Authority's offices within 15 days of the date a bill for service is deposited in the United States mail. If any Participating Member at any time disputes the amount to be paid by it to the Authority, such complaining party shall nevertheless promptly make such payment or payments; but if it is subsequently determined by agreement or by appropriate administrative, board, agency, or court decision that such disputed payments should have been less, or more, the Authority shall promptly revise and reallocate the charges in such manner that the Participating Member will recover its overpayment or the Authority will recover the amount due it. All amounts due and owing to the Authority by each Participating Member or due and owing to any Participating Member by the Authority shall, if not paid when due, bear interest at the maximum lawful nonusurious rate of interest per annum from the date when due until paid.

G. The Authority shall, to the extent permitted by law, suspend the delivery of services or the acceptance of wastewater to the Project by any Participating Member which remains delinquent in any payments due under the preceding paragraph for a period of thirty (30) days, and shall not resume delivery of services or the acceptance of wastewater to the Project while such Participating Member is so delinquent. The Authority also retains the right to charge a reconnection fee or other appropriate charges prior to commencing utility service to the delinquent Participating Member. The Authority shall pursue all legal remedies against any such delinquent Participating Member to enforce and protect the rights of the Authority, the other Participating Members, and the holders of the Bonds, if Bonds have been issued or incurred. The delinquent Participating Member shall not be relieved of the liability to the Authority for the payment of all amounts which would have been due hereunder had no default occurred or the percentage had not been redetermined as provided in this Section. It is understood that the foregoing provisions are for the benefit of the Authority and holders of the Authority's Bonds, if Bonds have been issued or incurred, so as to insure that all of the Annual Requirement will be paid by the non-delinquent Participating Members and the Authority during each Annual Payment Period regardless of the delinquency of a particular Participating Member. If any amount due and owing the Authority by any Participating Member is placed with an attorney for collection, such Participating Member shall pay to the Authority all attorneys' fees, in addition to all other payments provided for herein, including interest.

H. If, during any Annual Payment Period, any Participating Member's Annual Payment is redetermined in any manner as provided or required in this Section, the Authority will promptly furnish such Participating Member with an updated schedule of monthly payments reflecting such redetermination.

#### Section 5.04 Unconditional Payments.

A. Notwithstanding any provision of this Contract to the contrary, while this Contract remains in effect each of the Participating Members agrees to pay its share of the total cost of the Project and the Bonds. Initially, the Participating Members agree to pay 100% of the Annual Requirement, including, but not limited to, the Bond Payment.

B. Recognizing that the Participating Members urgently require the facilities and services of the Project, and that such facilities and services are essential and necessary for actual use and for standby purposes, and further recognizing the fact that the Authority will use payments received from the Participating Members to pay and secure the Bonds, it is hereby agreed that each of the Participating Members shall be unconditionally obligated to pay, without offset or counterclaim, its share of the Annual Requirement, as provided and determined in this Contract, regardless of whether or not the Authority actually acquires, constructs, or completes the Project or is actually receives wastewater at the



Project from any Participating Member hereunder, or whether or not any Participating Member actually delivers wastewater to the Project whether due to Force Majeure or any other reason whatsoever, regardless of any other provisions of this or any other contract or agreement between any of the parties hereto. This covenant by the Participating Members shall be for the benefit of and enforceable by the holders of the Bonds as well as the Authority.

C. If by reason of Force Majeure a Participating Member or the Authority shall be rendered unable wholly or in part to carry out its obligations under this Contract, other than the obligation of each Participating Member to make the payments required under Section 5.03 of this Contract, then if such party shall give notice and full particulars of such Force Majeure in writing to the other Participating Members and/or the Authority, as appropriate, within a reasonable time after occurrence of the event or cause relied on, the obligation of the Participating Member or the Authority giving such notice, so far as it is affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and such Participating Member or the Authority shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas, or any civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquake, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of wastewater delivery facilities, or on account of any other causes not reasonable within the control of the party claiming such inability.

#### ARTICLE VI Additional Participating Members

Section 6.01 Additional Participating Members. If capacity at the Plant is available, the Authority and the Original Participating Members agree that additional entities may become subject to the provisions of this Contract as Additional Participating Members by providing the following to the Authority and the then Participating Members:

- A. an executed signature page to this Contract in form satisfactory to the Authority;
- B. to the extent any representation contained in this Contract relating to Participating Members does not correctly describe such entity, a revision of such representations satisfactory in form and content to the Authority in the Authority's sole discretion to be included on Exhibit C to this Contract;
- C. a revised Exhibit A to this Contract satisfactory to the Authority and all then Participating Members;
- D. a revised Exhibit B to this Contract setting forth the Point(s) of Delivery for such entity which shall be satisfactory to the Authority;
- E. a completed Exhibit C to this Contract to the extent applicable to such entity and in form satisfactory to the Authority; and
- F. such other certifications and information as may be reasonably requested by the Authority and the then Participating Members.

ARTICLE VII  
Special Conditions

Section 7.01 Operation and Maintenance of the Project. The Authority will continuously operate and maintain the Project in an efficient manner and in accordance with good business and engineering practices, and at reasonable cost and expense. The Authority recognizes its right and duty to operate the Project in the most prudent and economical manner for the benefit of all Participating Members.

Section 7.02 Project Schedule. It is the intent of the parties that the Project be placed in operation as soon as practicable, and the Authority agrees to proceed diligently with the evaluation of feasibility, the securing of regulatory permits, and the design and construction of the Project to meet such schedule, subject to the other terms and conditions in this Contract.

Section 7.03 Permits, Financing, and Applicable Laws. Any obligations on the part of the Authority to acquire, construct, and complete the Project and related facilities and to treat wastewater at the Project from the Participating Members shall be (i) conditioned upon the Authority's ability to obtain all necessary permits, material, labor, and equipment; (ii) subject to the Authority's final determination of feasibility of transportation of the wastewater to the Project; (iii) conditioned upon the ability of the Authority to finance the cost of the Project through the sale of the Bonds; and (iv) subject to all present and future valid laws, orders, rules, and regulations of the United States of America, the State of Texas, the Commission, and any regulatory body having jurisdiction.

Section 7.04 Title to Wastewater; Indemnification. Title to all wastewater delivered by each Participating Member shall be in the Participating Member up to the Point of Delivery for such Participating Member, at which point title shall pass to the delivering Participating Member to the Authority. The Authority and each of the Participating Members shall, to the extent permitted by law, save and hold each other harmless from all claims, demands, and causes of action which may be asserted by anyone on account of the transportation and delivery of this wastewater while title remains in such party.

Section 7.05 Payments Solely From Revenues. The Authority shall never have the right to demand payment by any Participating Member of any obligations assumed by it or imposed on it under and by virtue of this Contract from funds raised or to be raised by taxes, and the obligations under this Contract shall never be construed to be a debt of such kind as to require any of the Participating Members to levy and collect a tax to discharge such obligation. Nonetheless, any Participating Member may make payments from its utility system revenues, or from any other lawful source, including ad valorem taxes, if lawfully available to such Participating Member.

Section 7.06 Operating Expenses. Each of the Participating Members represents and covenants that, to the extent payments under this Contract are made with utility system revenues, such payments shall constitute reasonable and necessary "operating expenses" of its utility system, as defined in Chapter 1502, as amended, Texas Government Code, and that all such payments will be made from the revenues of its utility system or any other lawful source. Each Participating Member represents and has determined that the wastewater to be treated at the Project by the Authority is absolutely necessary and essential to the present and future operation of its utility system and that the Project represents a long-term plan for the treatment of the Participating Member wastewater to meet current and projected needs of the Participating Member's utility system and facilities, and, accordingly, all payments required by this Contract to be made by each Participating Member shall constitute reasonable and necessary operating expenses of its utility system as described above, with the effect that such payments

from revenues of such systems shall be deducted from gross revenues of the system in the same manner as other system operating and maintenance expenses for purposes of determining net revenues available to pay bonds or other similar obligations heretofore or hereafter issued by such Participating Member, which obligations are payable from and secured by a pledge of the revenues of the system or facilities after deduction of maintenance and operating expenses.

Section 7.07 Rates for Wastewater. Each of the Participating Members agrees throughout the term of this Contract to continuously operate and maintain its utility system and to fix and collect such rates and charges for utility services to be supplied by its system as aforesaid as will produce revenues in an amount equal to at least (i) all of the expenses of operation and maintenance expenses of such system, including specifically, its Annual Payment under this Contract, and (ii) all other amounts as required by law and the provisions of the ordinance or resolutions authorizing its revenue bonds or other obligations now or hereafter outstanding, including the amounts required to pay all principal of and interest on such bonds and other obligations.

Section 7.08 Use of Funds and System. The Authority covenants and agrees that neither the proceeds from the sale of the Bonds, nor the money paid pursuant to this Contract, nor any earnings from the investment of any of the foregoing, will be used for any purposes, except those directly relating to the Project and the Bonds as provided in this Contract.

Section 7.09 Rights-of-Way.

A. Each Participating Member hereby grants to the Authority without additional cost to the Authority, the use of the streets, easements, rights-of-way, and pipelines under its control for the construction, emergency repairs, operation, and maintenance of the Project and the provision and transmission of wastewater hereunder; provided, however, such grant of the use of streets, easements, rights-of-way, and pipelines to the Authority is subject to and conditioned on the Authority (i) complying with all applicable policies, practices, and regulations of the Participating Members governing and regulating such use of the streets, easements, rights-of-way, and pipelines and (ii) paying all costs, if any, of restoring such streets, easements, rights-of-way, and pipelines to substantially the same state of condition that existed prior to the Authority's use.

B. To the extent they have such ownership authority, each Participating Member agrees that, with prior written approval, the Authority may use streets, alleys, and public rights-of-way within the Participating Member's boundaries for pipeline purposes.

Section 7.10 Insurance. The Authority agrees to carry and arrange for fire, casualty, public liability, and/or other insurance, including self-insurance, on the Project for purposes and in amounts which, as determined by the Authority, ordinarily would be carried by a privately owned utility company owning and operating such facilities, except that the Authority shall not be required to provide liability insurance except to insure itself against risk of loss due to claims for which it can, in the opinion of the Authority's legal counsel, be liable under the Texas Tort Claims Act or any similar law or judicial decision. Such insurance will provide, to the extent feasible and practicable, for the restoration of damaged or destroyed properties and equipment, to minimize the interruption of the services of such facilities. Premiums for such insurance that relate directly to the Project or, under generally accepted cost accounting practices, is allocable to the Project, shall constitute an Operation and Maintenance Expense.

Section 7.11 Additional Special Provisions. The parties hereto acknowledge and agree to the Special Provisions, if any, which are set forth in Exhibit C hereto. The Special Provisions for this

Contract reflect circumstances or issues for specific Participating Members which may be different from those of other Participating Members and therefore constitute a modification of or requirement in addition to the standard provisions otherwise contained in this Contract. To the extent of any conflict between any Special Provision and any other provision of this Contract, the Special Provision shall control.

ARTICLE VIII  
Continuing Disclosure

Section 8.01 Annual Reports. The Authority (and each Participating Member if required by the Rule in its Approval Certificate for any series of Bonds) shall file annually with the MSRB, (1) within six months after the end of each Fiscal Year of the Authority ending in or after 2014, financial information and operating data with respect to the Authority of the general type included in the Sale and Offering Documents authorized by Section 33 of the Bond Resolution, being the information described in Exhibit C to the Bond Resolution, and (2) if not provided as part of such financial information and operating data, audited financial statements of the Authority, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in Exhibit C to the Bond Resolution, or such other accounting principles as the Authority may be required to employ from time to time pursuant to state law or regulation, and (ii) audited, if the Authority commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within such period, then the Authority shall file unaudited financial statements within such period and audited financial statements for the applicable Fiscal Year to the MSRB, when and if the audit report on such financial statements becomes available. The Authority must have its records and accounts audited annually and shall have an annual financial statement prepared based on the audit. The annual financial statement, including the auditor's opinion on the statement, shall be filed in the office of the Secretary, Board of Directors, within 180 days after the last day of the Authority's Fiscal Year. Additionally, upon the filing of this financial statement and the annual audit, these documents are subject to the Texas Open Records Act, as amended, Texas Government Code, Chapter 552.

If the Authority changes its Fiscal Year, it will file notice of such change (and of the date of the new Fiscal Year end) with the MSRB prior to the next date by which the Authority otherwise would be required to provide financial information and operating data pursuant to this Section.

Section 8.02 Material Event Notices. The Authority shall file notice of any of the following events with respect to the Bonds to the MSRB in a timely manner and not more than 10 business days after occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other

material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

- (7) Modifications to rights of holders of the Bonds, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership, or similar event of the Authority, which shall occur as described below;
- (13) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional paying agent/registrars or the change of name of a paying agent/registrars, if material.

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

The Authority shall file notice with the MSRB, in a timely manner, of any failure by the Authority to provide financial information or operating data in accordance with this Section by the time required by this Section.

Section 8.03 Limitations, Disclaimers, and Amendments. The Authority shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the Authority remains an “obligated person” with respect to the Bonds within the meaning of the Rule, except that the Authority in any event will give notice of any deposit that causes the Bonds to be no longer Outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Authority undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that

may be relevant or material to a complete presentation of the Authority's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The Authority does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE AUTHORITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE AUTHORITY, WHETHER NEGLIGENT OR WITH OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the Authority in observing or performing its obligations under this Section shall constitute a breach of or default under this Contract for purposes of any other provision of this Contract.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the Authority under federal and state securities laws.

The provisions of this Section may be amended by the Authority 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 Authority, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Contract that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the Authority (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The Authority may also repeal or amend the provisions of this Section if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Authority also may amend the provisions of this Section in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds, giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the Authority so amends the provisions of this Section, the Authority shall include with any amended financial information or operating data next provided in accordance with this Section an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

Section 8.04 Information Format – Incorporation by Reference. The Authority information required under this Section shall be filed with the MSRB through EMMA in such format and accompanied by such identifying information as may be specified from time to time thereby. Under the current rules of the MSRB, continuing disclosure documents submitted to EMMA must be in word-searchable portable document format (PDF) files that permit the document to be saved, viewed, printed, and retransmitted by electronic means and the series of obligations to which such continuing disclosure documents relate must be identified by CUSIP number or numbers.

Financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public through EMMA or filed with the SEC.

Section 8.05 Term of Contract. This Contract shall be effective on and from the Contract Date, and shall continue in force and effect for forty (40) years; provided, however, the term of this Contract and the expiration date may be extended for succeeding five (5) year periods at the option of one or more of the Participating Members. It is understood and agreed by the Authority and each Participating Member that the delivery of wastewater hereunder shall continue throughout any renewals or extension of this Contract. The Authority's obligation to provide wastewater services hereunder shall commence from the date the Project becomes operational and functional as certified by the consulting engineers for the Project.

Section 8.06 Approval and Consent. Unless otherwise provided herein, any approval or consent required by the provisions of this Contract by a Participating Member or the Authority shall be evidenced by a written resolution adopted by the governing body of the party giving such approval or consent (or by the General Manager on behalf of the Authority when permitted). Upon receipt of such written resolution duly certified by the appropriate party, the Authority or the Participating Member can conclusively act on the matter requiring such approval.

Section 8.07 Modification and Amendment.

A. No change, amendment, or modification of this Contract shall be made or be effective which will affect adversely the prompt payment when due of all money required to be paid by any Participating Member under this Contract or any similar contract, and no such change, amendment, or modification shall be made or be effective which would cause a violation of any provisions of any Bond Resolution.

B. This Contract may be amended upon the written consent of the Authority and all then Participating Members; provided, however, no amendment to this Contract shall impair the rights of any holder of any of the Authority's Bonds.

Section 8.08 Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply, or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made or accepted by any party to any other party must be in writing and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same to an officer of such party, or by prepaid telegram when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner hereinabove described shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties hereto shall, until changed as hereinafter provided, be as follows:

A. If to the Authority, to:

Cibolo Creek Municipal Authority  
100 Dietz Road  
Schertz, Texas 78154

B. If to the City of Schertz, Texas to:

City of Schertz, Texas  
1400 Schertz Parkway  
Schertz, Texas 78154

The parties hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days' written notice to the other parties hereto.

Section 8.09 State or Federal Laws, Rules, Orders, or Regulations. This Contract is subject to all applicable federal and state laws and any applicable permits, ordinances, rules, orders, and regulations of any local, state, or federal governmental authority having or asserting jurisdiction, but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule, or regulation in any forum having jurisdiction.

Section 8.10 Remedies Upon Default. It is not intended hereby to specify (and this Contract shall not be considered as specifying) an exclusive remedy for any default, but all such other remedies (other than termination) existing at law or in equity may be availed of by any party hereto and shall be cumulative. Recognizing, however, that the Authority's undertaking to provide and maintain the Project is an obligation, failure in the performance of which cannot be adequately compensated in money damages alone, the Authority agrees, in the event of any default on its part, that each Participating Member shall have available to it the equitable remedy of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination) which may also be available. Recognizing that failure in the performance of any Participating Member's obligations hereunder could not be adequately compensated in money damages alone, each Participating Member agrees in the event of any default on its part that the Authority shall have available to it the equitable remedy of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination) which may also be available to the Authority. Notwithstanding anything to the contrary contained in this Contract, any right or remedy or any default hereunder, except the right of the Authority to receive the Annual Payment which shall never be determined to be waived, shall be deemed to be conclusively waived unless asserted by a proper proceeding at law or in equity within two (2) years plus one (1) day after the occurrence of such default. No waiver or waivers of any breach or default (or any breaches or defaults) by any party hereto or of performance by any other party of any duty or obligation hereunder shall be deemed a waiver thereof in the future, nor shall any such waiver or waivers be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, character, or description, under any circumstance.

Section 8.11 Severability. The parties hereto specifically agree that in case any one or more of the sections, subsections, provisions, clauses, or words of this Contract or the application of such sections, subsections, provisions, clauses, or words to any situation or circumstance should be, or should be held to be, for any reason, invalid or unconstitutional, under the laws of the State or the United States of America, or in contravention of any such laws, such invalidity, unconstitutionality, or contravention shall not affect any other sections, subsections, provisions, clauses, or words of this Contract or the application of such sections, subsections, provisions, clauses, or words to any other situation or circumstance, and it is intended that this Contract shall be severable and shall be construed and applied as if any such invalid or unconstitutional section, subsection, provision, clause or word had not been included herein, and the rights and obligations of the parties hereto shall be construed and remain in force accordingly.



Section 8.12 Venue. All amounts due under this Contract, including, but not limited to, payments due under this Contract or damages for the breach of this Contract, shall be paid and be due in Guadalupe County, Texas, which is the County in which the principal administrative offices of the Authority are located. It is specifically agreed among the parties to this Contract that Guadalupe County, Texas, is the place of performance of this Contract; and in the event that any legal proceeding is brought to enforce this Contract or any provision hereof, the same shall be brought in Guadalupe County, Texas.

Section 8.13 Assignment. Neither the Authority nor any Participating Member may assign any interest it may have under this Contract without the prior written consent of the other parties hereto; provided, however, the foregoing restriction shall not prevent the Authority from taking any action in connection with the issuance of the Bonds to secure the payment of the Bonds with amounts to be received by the Authority under this Contract.

Section 8.14 Entire Agreement. This Contract constitutes the entire agreement among the parties with respect to the delivery of wastewater to the Plant for treatment by the Authority for the benefit of the Participating Members.

Section 8.15 Applicable Law. This Contract shall be governed by and construed in accordance with the laws of the State, and the obligations, rights, and remedies of the parties hereunder shall be determined in accordance with such laws without reference to the laws of any other state or jurisdiction, except for applicable federal laws, rules, and regulations.

Section 8.16 No Sale, Lease, or Other Transfer of Participating Members' Utility System. Pursuant to the terms of this Contract, a Participating Member, to the extent permitted by law, shall not sale, lease, or otherwise transfer any substantial interest in such Participating Member's utility system without the written consent of the Authority.

Section 8.17 Counterparts. This Contract may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 8.18 Goods and Services; Waiver of Sovereign Immunity; Limitation on Damages. The Participating Members under the Contract agree that the mutual commitment stated in the Contract to provide wastewater treatment services and funding for utility system improvements constitute an agreement by each party for providing goods and services to the other parties, and that the Contract, as amended, is subject to Chapter 271, Subchapter I, of the Texas Local Government Code.

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

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IN WITNESS WHEREOF, the parties hereto acting under authority of their respective governing bodies have caused this Contract to be duly executed as of the day and year first above written.

CIBOLO CREEK MUNICIPAL  
AUTHORITY

By: \_\_\_\_\_  
President, Board of Directors

ATTEST:

\_\_\_\_\_  
Secretary, Board of Directors

(AUTHORITY SEAL)

CITY OF SCHERTZ, TEXAS

By: \_\_\_\_\_  
Mayor

ATTEST:

\_\_\_\_\_  
City Secretary

(CITY SEAL)

Exhibit A

Rate Methodology Established Pursuant to the Authority's Service Rules and Policies

TO BE DETERMINED, BUT THE ANNUAL REQUIREMENT  
SHALL BE THE SOLE RESPONSIBILITY OF THE  
CITY OF SCHERTZ, TEXAS, UNTIL ANOTHER  
PARTICIPATING MEMBER IS APPROVED  
PURSUANT TO THE TERMS OF THE CONTRACT

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Exhibit B

Points of Delivery

TO BE DETERMINED

(this page intentionally left blank)



Exhibit C

Special Provisions

NONE

(this page intentionally left blank)



Financial Advisory Services  
Provided By:

**SAMCO CAPITAL MARKETS, INC.**