

## OFFICIAL STATEMENT DATED MAY 20, 2019

THE DELIVERY OF THE CERTIFICATES IS SUBJECT TO THE OPINION OF BOND COUNSEL AS TO THE VALIDITY OF THE CERTIFICATES AND TO THE EFFECT THAT INTEREST ON THE CERTIFICATES IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND THE INTEREST ON THE CERTIFICATES IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE “LEGAL MATTERS” AND “TAX MATTERS” HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING A DESCRIPTION OF THE ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS.

The Certificates will be designated as “Qualified Tax-Exempt Obligations” for financial institutions. See “TAX MATTERS - Purchase of Tax-Exempt Obligations by Financial Institutions.”

NEW ISSUE: BOOK-ENTRY-ONLY

RATINGS: S&P Global Ratings ..... “AAA”

See “SALE AND DISTRIBUTION OF THE CERTIFICATES – Municipal Bond Ratings” herein.

**\$4,040,000**

### CITY OF WEST UNIVERSITY PLACE, TEXAS

(A political subdivision and home rule city of the State of Texas located within Harris County)

### CERTIFICATES OF OBLIGATION, SERIES 2019

Dated: June 1, 2019

Due: February 1, as shown below

Interest Accrues from Delivery Date

Principal of and interest on the \$4,040,000 City of West University Place, Texas (the “City”), Certificates of Obligation, Series 2019 (the “Certificates”) are payable by The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, the initial paying agent/registrant (the “Paying Agent/Registrar”). The Certificates are initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in principal denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Certificates. See “THE CERTIFICATES - Book-Entry-Only System” herein. Interest on the Certificates will accrue from the Delivery Date (defined below) and is payable on February 1 and August 1 of each year, commencing February 1, 2020, to the registered owners appearing on the registration books of the Paying Agent/Registrar on the 15th calendar day of the month preceding each interest payment date. See “THE CERTIFICATES – Description of the Certificates.”

#### MATURITY DATES, PRINCIPAL AMOUNTS, INTEREST RATES, YIELDS, AND CUSIP NUMBERS

| Maturity   | Principal | Interest | Initial    | CUSIP      | Maturity   | Principal | Interest | Initial    | CUSIP      |
|------------|-----------|----------|------------|------------|------------|-----------|----------|------------|------------|
| February 1 | Amount    | Rate     | Reoffering | Nos.       | February 1 | Amount    | Rate     | Reoffering | Nos.       |
|            |           |          | Yield (a)  | 956398 (b) |            |           |          | Yield (a)  | 956398 (b) |
| 2021       | \$100,000 | 3.00%    | 1.60%      | TN1        | 2028       | \$355,000 | 4.00%    | 1.95%      | TV3        |
| 2022       | 110,000   | 3.00     | 1.65       | TP6        | 2029       | 320,000   | 4.00     | 2.02       | TW1        |
| 2023       | 105,000   | 4.00     | 1.70       | TQ4        | 2030(c)    | 330,000   | 4.00     | 2.10       | TX9        |
| 2024       | 295,000   | 4.00     | 1.75       | TR2        | 2031(c)    | 345,000   | 4.00     | 2.16       | TY7        |
| 2025       | 310,000   | 4.00     | 1.80       | TS0        | 2032(c)    | 360,000   | 4.00     | 2.21       | TZ4        |
| 2026       | 315,000   | 4.00     | 1.85       | TT8        | 2033(c)    | 375,000   | 4.00     | 2.29       | UA7        |
| 2027       | 330,000   | 4.00     | 1.90       | TU5        | 2034(c)    | 390,000   | 4.00     | 2.34       | UB5        |

(a) The initial yields are established by and are the sole responsibility of the Underwriter (hereinafter defined), and may subsequently be changed. Initial yields are calculated to the earlier of maturity or the first optional call date.

(b) 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. CUSIP numbers have been included solely for the convenience of the owners of the Certificates. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the City, the Financial Advisor, nor the Underwriter, are responsible for the selection or correctness of the CUSIP numbers set forth herein.

(c) The Certificates maturing on February 1, 2030 and thereafter, are subject to redemption, in whole or from time to time in part, on February 1, 2029 or any date thereafter, at the option of the City, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. See “THE CERTIFICATES - Redemption Provisions.”

The Certificates are being issued pursuant to the Constitution and laws of the State of Texas (the “State”), particularly Subchapter C, Chapter 271, Texas Local Government Code and provisions of an ordinance (the “Ordinance”) adopted by the City Council of the City on May 20, 2019. Proceeds of the Certificates are being used to provide funds for the purpose of providing for the payment of contractual obligations to be incurred in connection with the design, purchase, construction, installation and equipment of a traffic surveillance and security system and to pay the costs of issuance of the Certificates. See “THE CERTIFICATES - Use of Proceeds.” The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of an annual ad valorem tax, levied within the limits prescribed by law, against taxable property within the City and from a limited pledge of the surplus revenues of the City's water and sewer system, but only to the extent of and not in an amount in excess of \$1,000, solely for the purpose of complying with legal requirements permitting the Certificates to be sold for cash.

The Certificates are offered when, as, and if issued and delivered to the underwriter listed below (the “Underwriter”) subject to the approving opinion of the Attorney General of the State of Texas and the legal opinion of Johnson Petrov LLP, Houston, Texas, Bond Counsel. See “LEGAL MATTERS.” Certain legal matters will be passed upon for the Underwriter by their counsel, Bracewell LLP, Houston, Texas. The Certificates are expected to be available for delivery on or about June 13, 2019 (the “Delivery Date”).

**SAMCO CAPITAL MARKETS, INC.**

No dealer, broker, salesman or other person has been authorized by the City to give any information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City.

This Official Statement is not to be used in an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. Any information and expressions 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 any implication that there has been no change in the condition of the City or other matters described herein since the date hereof.

NEITHER THE CITY, THE FINANCIAL ADVISOR, THE UNDERWRITER NOR BOND COUNSEL MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING DTC OR ITS BOOK-ENTRY-ONLY SYSTEM.

THE COVER PAGE CONTAINS CERTAIN INFORMATION FOR GENERAL REFERENCE ONLY AND IS NOT INTENDED AS A SUMMARY OF THIS OFFERING. INVESTORS SHOULD READ THIS ENTIRE OFFICIAL STATEMENT, INCLUDING THE ATTACHED APPENDICES, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

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

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

All information contained in this Official Statement is subject, in all respects, to the complete body of information contained in the original sources thereof and no guaranty, warranty, or other representation is made concerning the accuracy or completeness of the information herein. In particular, no opinion or representation is rendered as to whether any projection will approximate actual results, and all opinions, estimates and assumptions, whether or not expressly identified as such, should not be considered statements of fact.

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, and as part of, their responsibilities to investors under 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.

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 final official statement for purposes of, and as that term is defined in, Rule 15c2-12 of the United States Securities and Exchange Commission.

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## **INTRODUCTORY STATEMENT**

Information contained in this Official Statement, including APPENDIX A and APPENDIX B, has been obtained from the City of West University Place, Texas (the “City”) in connection with the offering by the City of its \$4,040,000 Certificates of Obligation, Series 2019 (the “Certificates”) identified on the cover page hereof.

This Official Statement and the information contained herein are subject to completion and amendment. Under no circumstances will this Official Statement constitute an offer to sell or the solicitation of an offer to buy, nor will there be any sale of these securities in any jurisdiction in which such offer, solicitation, or sale would be unlawful prior to registration or qualification under the securities laws of such jurisdiction.

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

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

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 will be filed with the Municipal Securities Rulemaking Board (“MSRB”) through its Electronic Municipal Market Access (“EMMA”) system. See “CONTINUING DISCLOSURE OF INFORMATION” herein for information regarding the EMMA system and for a description of the City’s undertaking to provide certain information on a continuing basis.

## **SALE AND DISTRIBUTION OF THE CERTIFICATES**

### **Underwriting**

The underwriter listed on the cover page hereof (the “Underwriter”) has agreed, subject to certain conditions, to purchase the Certificates from the City for \$4,566,514.85 (being the principal amount of the Certificates, plus a net premium of \$559,844.85 and less an Underwriter’s discount of \$33,330.00).

The Underwriter’s obligations are subject to certain conditions precedent, and they will be obligated to purchase all of the Certificates if any Certificates are purchased. The Certificates 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 and its affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Underwriter and its affiliates have, from time to time, performed, and may in the future perform, various investment banking services for the City for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriter and its affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (which may include bank loans and/or credit default swaps) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments. Such investment and securities activities may involve securities and instruments of the City.

## **Prices and Marketability**

The delivery of the Certificates is conditioned upon the receipt by the City of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Certificates stating the prices at which a substantial amount of the Certificates of each maturity have been sold to the public or the prices for which have been held as provided in the "Purchase Agreement" between the Underwriter and the City. Subject to certain restrictions, the City has no control over trading of the Certificates after a bona fide offering of the Certificates is made by the Underwriter at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The prices and other terms respecting the offering and sale of the Certificates may be changed from time to time by the Underwriter after the Certificates are released for sale, and the Certificates may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Certificates into investment accounts. IN CONNECTION WITH THE OFFERING OF THE CERTIFICATES, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

## **Securities Laws**

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

## **Municipal Bond Ratings**

In connection with the sale of the Certificates, the City has made application to S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), for a rating and a rating of "AAA" has been assigned to the Certificates. The City has furnished to S&P certain information and materials relating to the Certificates and the City, including certain information and materials which have not been included in this Official Statement.

An explanation of the significance of such rating may be obtained from the company furnishing the rating. The ratings reflect only the view of such organization and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such rating will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating company, if in the judgment of such rating company, circumstances so warrant. Any such downward revision or withdrawal of such rating may have an adverse effect on the market price of the Certificates.

*[Remainder of Page Intentionally Left Blank]*

## OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. **THE SUMMARY MUST NOT BE DETACHED AND MUST BE USED IN CONJUNCTION WITH MORE COMPLETE INFORMATION CONTAINED HEREIN. A FULL REVIEW MUST BE MADE OF THE ENTIRE OFFICIAL STATEMENT AND OF THE DOCUMENTS SUMMARIZED OR DESCRIBED THEREIN.**

|                                   |   |
|-----------------------------------|---|
| The City.....                     | The City of West University Place, Texas (the “City”) is a political subdivision and home rule city of the State of Texas (the “State”) located within Harris County. See “ADMINISTRATION OF THE CITY” and “APPENDIX A – General Information Regarding the City of West University Place” herein.   |
| The Certificates .....            | \$4,040,000 Certificates of Obligation, Series 2019 (the “Certificates”), are dated June 1, 2019, and mature February 1, 2021 through and including February 1, 2034. See “THE CERTIFICATES - Description of the Certificates.”   |
| Payment of Interest.....          | Interest on the Certificates accrues from the date of initial delivery, and is payable February 1, 2020 and on each August 1 and February 1 thereafter until maturity or prior redemption. See “THE CERTIFICATES – Description of the Certificates.” The Certificates are issued in fully registered form in integral multiples of \$5,000 of principal.  |
| Redemption Provisions.....        | The Certificates maturing on February 1, 2030 and thereafter are subject to redemption, in whole or from time to time in part, prior to their scheduled maturities on February 1, 2029, or any date thereafter, at the option of the City. See “THE CERTIFICATES - Redemption Provisions.”  |
| Paying Agent/Registrar.....       | The initial paying agent/registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”). The City intends to use the book-entry-only system of The Depository Trust Company, New York, New York (“DTC”), but reserves the right on its behalf or on behalf of the DTC to discontinue such system. See “THE CERTIFICATES - Book-Entry-Only System.”  |
| Source of Payment.....            | Principal of and interest on the Certificates are payable from the proceeds of a continuing, direct annual ad valorem tax, levied within the limits prescribed by law, against taxable property located within the City and from a limited pledge of the surplus revenues of the City's water and sewer system, but only to the extent of and in an amount not in excess of \$1,000, solely for the purpose of complying with legal requirements permitting the Certificates to be sold for cash. See “THE CERTIFICATES - Source of Payment.” |
| Use of Proceeds .....             | Proceeds of the Certificates are being used to provide funds for the purpose of providing for the payment of contractual obligations to be incurred in connection with the design, purchase, construction, installation and equipment of a traffic surveillance and security system and to pay the costs of issuance of the Certificates. See “THE CERTIFICATES – Use of Proceeds.”   |
| Qualified Tax-Exempt Obligations. | The City will designate the Certificates as “qualified tax-exempt obligations.” See “TAX MATTERS - Purchase of Tax-Exempt Obligations by Financial Institutions.”   |
| Ratings.....                      | S&P Global Ratings..... “AAA”<br>See “SALE AND DISTRIBUTION OF THE CERTIFICATES – Municipal Bond Ratings.”  |
| Payment Record.....               | The City has never defaulted on the timely payment of principal of and interest on its obligations.   |

- Selected Financial Information –  
(Unaudited)

|   |                        |
|---|------------------------|
| 2018 Certified Net Taxable Assessed Valuation .....                 | \$ 6,176,493,043 (a)   |
| (100% of Market Value as of January 1, 2018)                        |                        |
| Direct Debt:  |                        |
| Outstanding Tax Supported Debt (as of April 1, 2019).....           | \$ 30,460,000          |
| Plus: The Certificates .....  | 4,040,000              |
| Less: Self-Supporting Debt .....                                    | <u>(3,100,000) (b)</u> |
| Total Tax Supported Debt .....                                      | <u>\$ 31,400,000</u>   |
| Estimated Overlapping Debt.....                                     | <u>\$ 153,339,501</u>  |
| Total Direct and Estimated Overlapping Debt.....                    | <u>\$ 184,739,501</u>  |
| Debt Service Fund Balance (Unaudited as of December 31, 2018) ..... | <u>\$ 894,795</u>      |

|  | % of 2018<br>Certified Taxable<br>Assessed Valuation | Per Capita<br>(Estimated<br>Population: 15,741) |
|--|--|---|
| Debt Ratios:   |  |   |
| Direct Tax Supported Debt .....                              | 0.51%  | \$ 1,995  |
| Direct Tax Supported and Estimated<br>Overlapping Debt ..... | 2.99%  | \$ 11,736                                       |

|   |                    |
|---|--------------------|
| 2018 Tax Rate (per \$100 of Assessed Valuation) |                    |
| General Fund .....                              | \$ 0.192770        |
| Debt Service Fund .....                         | <u>0.124030</u>    |
| Total .....                                     | <u>\$ 0.316800</u> |

|                                       |              |
|---------------------------------------|--------------|
| Annual Debt Service Requirements:     |              |
| Average (Fiscal Years 2019-2034)..... | \$ 2,714,671 |
| Maximum (2020).....                   | \$ 7,806,600 |

|  |        |
|--|--------|
| Tax Collections:   |        |
| Arithmetic Average, Tax Years (2013-2017) - Current Year Collections ..... | 99.49% |
| - Total and Prior Years.....   | 99.65% |

- (a) Certified by the Harris County Appraisal District and is net of exemptions. Such value is further subject to change as additions, corrections, and deletions are made to the tax roll.
- (b) Includes ad valorem tax debt that the City treats as self-supporting debt payable from revenues of the City's water and sewer system pursuant to a policy determination by City Council, which is subject to change. To the extent that such self-supporting debt is not paid from available revenues, the City is obligated to levy and collect an ad valorem tax, within the limits prescribed by law, for the payment of debt service on such debt.

**OFFICIAL STATEMENT**  
**relating to**

**\$4,040,000**

**CITY OF WEST UNIVERSITY PLACE, TEXAS**  
(A home rule city of the State of Texas located within Harris County)  
**CERTIFICATES OF OBLIGATION, SERIES 2019**

**INTRODUCTION**

This Official Statement and Appendices A and B hereto provide certain information with respect to the issuance by the City of West University Place, Texas (the “City”) of its Certificates of Obligation, Series 2019 (the “Certificates”).

The Certificates are issued pursuant to the Texas Constitution, the general laws of the State of Texas, particularly Subchapter C, Chapter 271, Texas Local Government Code, and an Ordinance authorizing issuance of the Certificates (the “Ordinance”) adopted by the City Council of the City (the “Council” or “City Council”) on May 20, 2019.

There follows in this Official Statement descriptions of the Certificates, the plan of financing, and certain information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City upon request. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance, except as otherwise indicated herein.

**THE CERTIFICATES**

**Description of the Certificates**

The Certificates are dated June 1, 2019 and bear interest from the Delivery Date (as defined on the cover hereof) at the stated interest rates indicated on the cover page of this Official Statement, which interest is payable initially on February 1, 2020, and each August 1 and February 1 thereafter until the earlier of maturity or prior redemption. The Certificates are issued in fully registered form in principal denominations of \$5,000 each or any multiple thereof. Principal of the Certificates is payable at the principal payment office of The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”). Interest on the Certificates will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar. See “THE CERTIFICATES – Paying Agent/Registrar.”

The definitive Certificates will be initially registered only in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof.** Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Certificates. See “THE CERTIFICATES – Book-Entry-Only System” herein.

**Redemption Provisions**

The Certificates maturing on February 1, 2030 and thereafter are subject to optional redemption prior to maturity, in whole or from time to time in part, on February 1, 2029, or any date thereafter, at the option of the City at a price equal to the principal amount thereof plus accrued interest to the date of redemption. If less than all of the Certificates are redeemed at any time, the maturities of the Certificates to be redeemed will be selected by the City.

**Notice of Redemption**

At least 30 days prior to a redemption date for the Certificates, the City will cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar.

ANY NOTICE SO MAILED WILL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION WILL BECOME DUE AND PAYABLE ON THE



SPECIFIED REDEMPTION DATE, NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF WILL CEASE TO ACCRUE.

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

Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Certificates for redemption. See “THE CERTIFICATES – Book-Entry-Only System.”

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

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. Provision is made in the Ordinance for replacing the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar must, promptly upon the appointment of a successor deliver the Paying Agent/Registrar’s records to the successor paying agent/registrar (the “Successor Paying Agent/Registrar”), and the Successor Paying Agent/Registrar will act in the same capacity as the previous Paying Agent/Registrar. Any Successor Paying Agent/Registrar selected by the City must be a commercial bank or trust company organized under the laws of the United States or any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Certificates.

#### **Transfer, Exchange and Registration**

In the event the Book-Entry-Only System should be discontinued, the Certificates may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange will be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange or transfer.

Certificates may be assigned by the execution of an assignment form on the respective Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Certificates will be delivered by the Paying Agent/Registrar, in lieu of the Certificates being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Certificates to be canceled, and written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer will be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Certificates surrendered for exchange or transfer. See “THE CERTIFICATES – Book-Entry-Only System” herein for a description of the system to be utilized initially in regard to ownership and transferability of the Certificates.

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

The date for determining the person to whom interest is payable on the Certificates on any interest payment date is the close of business on the 15<sup>th</sup> calendar day of the preceding month (“Record Date”). In the event of a nonpayment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a “Special Record Date”) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (“Special Payment Date,” which will be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each owner of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

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

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

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

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

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

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

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

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

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

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

Redemption proceeds and principal and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable 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 or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds and principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the 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 City 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 City believes to be reliable, but the City takes no responsibility for the accuracy thereof.

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

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

#### **Source of Payment**

The Certificates are payable as to principal and interest from, and secured by, the proceeds of a continuing, direct annual ad valorem tax, levied within the limits prescribed by law, against taxable property within the City. The Certificates will also be further payable from a limited pledge of the surplus revenues of the City's water and sewer system, but only to the extent of and in an amount not in excess of \$1,000, solely for the purpose of complying with legal requirements permitting the Certificates to be sold for cash. In the Ordinance, the City covenants that while the Certificates are outstanding, it will levy, assess, and undertake to collect such tax. See also "REMEDIES IN THE EVENT OF DEFAULT."

#### **Perfection of Security**

Chapter 1208, Texas Government Code, applies to the issuance of the Certificates and the pledge of the ad valorem taxes pledged thereto, as well as the pledge of the pledged revenues additionally securing the Certificates, and such pledges are, therefore, valid, effective, and perfected. Should Texas law be amended at any time while the Certificates are outstanding and unpaid, the result of such amendment being that the pledge of the ad valorem taxes and/or pledged revenues is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Certificates a security interest in such pledge, the City agrees to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge or pledges to occur.

### **Authority for Issuance**

The Certificates are being issued pursuant to the applicable provisions of the Constitution and laws of the State, particularly Subchapter C, Chapter 271, Texas Local Government Code and the provisions of the Ordinance. Further reference to the Ordinance is hereby made. No election is required as a prerequisite to the sale and issuance of certificates of obligation, unless a petition signed by 5% of the qualified voters of the City is filed with the City Secretary protesting the issuance of such certificates prior to their authorization. In addition, there has been no bond election to authorize bonds for the purpose for which the Certificates are being issued within the last three years that has failed.

### **Defeasance**

The Ordinance provides for the defeasance of the Certificates when the payment of the principal of and premium, if any, on such Certificates, 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 the Paying Agent/Registrar, or other authorized escrow agent, in trust (1) money sufficient to make such payment or (2) Government Securities to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The Ordinance provides that "Government Securities" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of their acquisition or purchase by the City, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities for the Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid and will cease to be outstanding obligations secured by the Ordinance or treated as debt of the City for purposes of taxation or applying any limitation on the City's ability to issue debt or for any other purpose. After firm banking and financial arrangements for the discharge and final payment or redemption of the Certificates have been made as described above, all rights of the City to initiate proceedings to call the Certificates for redemption or take any other action amending the terms of the Certificates are extinguished; provided, however, that the right to call the Certificates for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Certificates for redemption; (ii) gives notice of the reservation of that right to the owners of the Certificates immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

### **Use of Proceeds**

Proceeds of the Certificates are being used to provide funds for the purpose of providing for the payment of contractual obligations to be incurred in connection with the design, purchase, construction, installation and equipment of a traffic surveillance and security system and to pay the costs of issuance of the Certificates. See "THE CERTIFICATES – Sources and Uses of Funds."

### **Future Debt**

The City has \$2,000,000 authorized but unissued bonds for park land acquisition from an election held November 7, 2006. The City does not intend to issue the authorized bonds from the November 7, 2006 election. Under State law, the City may issue certain obligations that are secured by ad valorem taxes without an election. Examples of such obligations include certificates of obligation, like the Certificates, and tax anticipation notes. Depending on the rate of development within the City, changes in assessed valuation, and the amounts, interest rates, maturities and the timing of issuance of any additional bonds, increases in the City's annual ad valorem tax rate may be required to provide for the payment of the principal of and interest on the City's outstanding bonds, the Certificates, and any such future bonds.

### **Tax Rate Limitations**

All taxable property within the City is subject to the assessment, levy and collection by the City of a continuing ad valorem tax sufficient to provide for the payment of principal of and interest on all ad valorem tax debt within the limits prescribed by law. Article XI, Section 5, of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 Taxable Assessed Valuation for all City purposes.

Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all general obligation debt service, as calculated at the time of issuance. Additionally, the Home Rule Charter of the City limits the total bonded indebtedness of the City secured by ad valorem taxes to an amount not to exceed 5% of the net taxable assessed valuation of property in the City.

### Sources and Uses of Funds

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

|                                      |                        |
|--------------------------------------|------------------------|
| SOURCES OF FUNDS:                    |                        |
| Principal Amount of the Certificates | \$ 4,040,000.00        |
| Net Premium on the Certificates      | <u>559,844.85</u>      |
| Total Sources of Funds               | <u>\$ 4,599,844.85</u> |
| USES OF FUNDS                        |                        |
| Deposit to Construction Fund         | \$ 4,500,000.00        |
| Expenses:                            |                        |
| Underwriter's Discount               | \$ 33,330.00           |
| Other Issuance Expenses (1)          | <u>66,514.85</u>       |
| Total Uses of Funds                  | <u>\$ 4,599,844.85</u> |

(1) Includes legal fees of the City, financial advisory fees, rating agency fees, fees of the Paying Agent/Registrar, contingency and other costs of issuance.

### REMEDIES IN THE EVENT OF DEFAULT

The Ordinance does not specify events of default with respect to the Certificates. If the City defaults in the payment of principal, interest, or redemption price on the Certificates when due, or if it fails to make payments into any fund or funds created in the Ordinance, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Certificates if there is no other available remedy at law to compel performance of the Certificates or Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Certificates in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Ordinance does not provide for the appointment of a trustee to represent the interest of the owners upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of governmental immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas Legislature has effectively waived the City's governmental immunity from a suit for money damages, Certificateholders may not be able to bring such a suit against the City for breach of the Certificates or covenants in the Ordinance. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates.

In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." The Local Government Immunity Waiver Act covers municipalities and relates to contracts entered into by municipalities for providing goods or services to school districts. The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings by local governments that relate to their borrowing powers are contracts covered by the Local Government Immunity Waiver Act.

On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) that governmental immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by a city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. In *Wasson*, the Court recognized that the distinction between governmental and proprietary functions is

not clear. Therefore, in considering municipal breach of contract cases, it is incumbent on the courts to determine whether a function is proprietary or governmental based upon the common law and statutory guidance. Issues related to the applicability of governmental immunity as they relate to the issuance of municipal debt have not been adjudicated. Each situation will be evaluated based on the facts and circumstances surrounding the contract in question.

In its decision, the Court held that since the Local Government Immunity Waiver Act waives governmental immunity in certain breach of contract claims without addressing whether the waiver applies to a governmental function or a proprietary function of a city, the Court could not reasonably read the Local Government Immunity Waiver Act to evidence legislative intent to restrict the waiver of immunity when a city performs a proprietary function. The Court remanded the case so that the appellate court could rule on whether the contract at issue was proprietary or governmental. *Wasson Interests, Ltd. v. City of Jacksonville*, 559 S.W.3d 142 (Tex. 2018). On remand, the appellate court found for the City of Jacksonville by holding the contract claim arose from the city's performance of a governmental function, and thus the claim was barred by immunity. After granting Wasson's petition for review of the appellate decision, the Court held that to determine if the city was engaged in a proprietary or governmental function, the focus of the inquiry is on the nature of the contract at the time of execution, not the nature of the breach at the time of the breach.

As noted above, the Certificateholders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract).

Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general certificate of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Certificateholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

## **REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE**

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

### **Legal Investments in Texas**

Pursuant to Section 9 of the Bond Procedures Act of 1981, as amended, Chapter 1201, Texas Government Code (the "Procedures Act"), all bonds issued by the City constitute negotiable instruments, and are investment securities governed by Chapter 8, Texas Uniform Commercial Code, notwithstanding any provisions of law or court decision to the contrary, and are legal and authorized investments for banks, savings banks, trust companies, building and loan associations, savings and loan associations, insurance companies, fiduciaries, and trustees, and for sinking funds of cities, towns, villages, school districts, and other political subdivisions or public agencies of the State of Texas. The Procedures Act further provides that the Certificates are eligible to secure deposits of public funds of the

state, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Certificates are legal investments for various institutions in those states.

## **INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY**

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

### **Legal Investments**

Under Texas law, the City is authorized to invest in (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (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 guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits (i) that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor or the National Credit Union Share Insurance Fund or its successor; or (ii) if (a) the funds invested in the banking deposits are invested through: (I) a broker with a main office or branch office in this state that the investing entity selects from a list the governing body or designated investment committee of the entity adopts as required by Section 2256.025; or (II) a depository institution with a main office or branch office in this state that the investing entity selects; (b) the broker or depository institution selected as described by subsection (a) arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the investing entity's account; (c) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (d) the investing entity appoints as the entity's custodian of the banking deposits issued for the entity's account: (I) the depository institution selected as described by subsection (a); (II) an entity described by Section 2257.041(d); or (III) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3); (8) certificates of deposit or share certificates (i) that are issued by or through a depository institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in accordance with Chapter 2257, Texas Government Code or in any other manner and amount provided by law for City deposits or, (ii) where (a) the funds are invested by the City through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the City as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the City; (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City; (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit issued for the account of the City; (9) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) certain bankers' acceptances with a stated maturity of 270 days or less, that will be, in accordance with their terms, liquidated in full at maturity; that are eligible for collateral for borrowing from a Federal Reserve Bank, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A 1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully

secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that provides the investing entity with a prospectus and other information required by the Securities Exchange Act of 1934 (15 U.S.C. Section 78a et seq.) or the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.), and comply with federal Securities and Exchange Commission Rule 2a-7; and (13) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; and have a duration of one year or more and are invested exclusively in obligations described in this paragraph or have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in certain guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks, in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described below; and is pledged to the City and deposited with the City or with a third party selected and approved by the City.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above other than the prohibited obligations described below, (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, clauses (11) through (13) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service if the governing body of the City authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

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

### **Investment Policies**

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

Under Texas law, City investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly, the investment officers of the City shall submit an investment report detailing: (1) the investment position of the City; (2) that all investment officers jointly prepared and signed the report; (3) the beginning market value, any additions and changes to market value and the ending value for each pooled fund group; (4) the book value and market value of each separately listed asset at the beginning and end of the reporting



period; (5) the maturity date of each separately invested asset; (6) the account or fund or pooled fund group for which each individual investment was acquired; and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the Mayor and City Council of the City.

The City’s policies require investments in accordance with applicable state law. The City’s Investment Policy and Investment Strategy excludes certain investments allowable under State law described above under “Legal Investments.” Investments prohibited by the City’s Investment Policy and Investment Strategy include (1) collateralized mortgage obligations, (2) commercial paper, including pools which invest in commercial paper, (3) all swaps including but not limited to even-basis swaps and interest rate swaps, (4) forwards and futures, (5) options, (6) foreign exchange, (7) planned amortization classes, (8) regular floaters tied to government securities, (9) investments with various interest rate caps floors and collars, (10) investment pools in which the City would own more than 10% of the market value of the pool, and (11) any other investments that are not on the authorized investment list. The City generally invests in obligations of the United States or its agencies and instrumentalities, fully collateralized demand deposit accounts and collateralized certificates of deposit.

**Current Investments**

State law and City ordinances authorize the City to invest in direct obligations of the U.S. Treasury with maturity dates of three years or less, obligations of agencies of the U.S. Government with maturity dates of three years or less, and certain investment pools. The City’s investment balances (unaudited) on February 28, 2019 were as follows:

|                       | Principal<br>Invested | Market<br>Value     |
|-----------------------|-----------------------|---------------------|
| Cash/Checking         | \$ 3,647,640          | \$ 3,647,640        |
| Investment Pools      | 10,536,092            | 10,536,092          |
| Government Securities | 16,931,853            | 16,914,052          |
| Total Portfolio       | <u>\$31,115,585</u>   | <u>\$31,097,784</u> |

**Additional Provisions**

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a written instrument by rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and recording any changes made to either its investment policy or investment strategies in the respective rule, order, ordinance or resolution; (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require any business organization offering to engage in an investment transaction with the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City’s investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City’s entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (6) provide specific investment training for the Treasurer, chief financial officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City’s monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

**CITY TAX DEBT**

**Tax Supported Debt Statement**

The following tables and calculations relate to the Certificates and to all Tax Debt of the City. The City and various other governmental entities which overlap all or a portion of the City are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of property within the City. See “- Estimated Overlapping Tax Debt.”

|   |                        |
|---|------------------------|
| 2018 Certified Net Taxable Assessed Valuation .....                     | \$ 6,176,493,043 (a)   |
| (100% of Market Value as of January 1, 2018)                            |                        |
| <br>Direct Debt:  |                        |
| Outstanding Tax Supported Debt (as of April 1, 2019) .....              | \$ 30,460,000          |
| Plus: The Certificates .....  | 4,040,000              |
| Less: Self-Supporting Debt .....  | <u>(3,100,000) (b)</u> |
| Total Tax Supported Debt .....  | <u>\$ 31,400,000</u>   |
| <br>Debt Service Fund Balance (Unaudited as of December 31, 2018) ..... | <br><u>\$ 894,795</u>  |

- 
- (a) Certified by the Harris County Appraisal District and is net of exemptions. Also such value is further subject to change as additions, corrections, and deletions are made to the tax roll.
  - (b) Includes ad valorem tax debt that the City treats as self-supporting debt payable from revenues of the City’s water and sewer system pursuant to a policy determination by City Council, which is subject to change. To the extent that such self-supporting debt is not paid from available revenues, the City is obligated to levy and collect an ad valorem tax, within the limits prescribed by law, for the payment of debt service on such debt.

*[Remainder of Page Intentionally Left Blank]*

**Tax Supported Debt Service Schedule**

The following schedule sets forth the principal and interest on the City’s Outstanding Tax Supported Debt, plus the principal and interest requirements on the Certificates.

| Fiscal Year Ending (12/31) | Current Debt Service Requirements | Plus: Certificates of Obligation, Series 2019 |                    |                    | Less: Self-Supporting Debt (a) | Total Debt Service Requirements |
|----------------------------|-----------------------------------|---|--------------------|--------------------|--------------------------------|---------------------------------|
|                            |                                   | Principal                                     | Interest           | Total              |                                |                                 |
| 2019                       | \$ 8,830,492                      |   |                    |                    | \$1,196,038                    | \$ 7,634,454                    |
| 2020                       | 8,810,016                         |   | \$ 180,767         | \$ 180,767         | 1,184,183                      | 7,806,600                       |
| 2021                       | 4,079,956                         | \$ 100,000                                    | 158,000            | 258,000            | 1,094,420                      | 3,243,536                       |
| 2022                       | 3,933,966                         | 110,000                                       | 154,850            | 264,850            | 954,137                        | 3,244,679                       |
| 2023                       | 2,988,291                         | 105,000                                       | 151,100            | 256,100            |                                | 3,244,391                       |
| 2024                       | 2,739,243                         | 295,000                                       | 143,100            | 438,100            |                                | 3,177,343                       |
| 2025                       | 2,736,846                         | 310,000                                       | 131,000            | 441,000            |                                | 3,177,846                       |
| 2026                       | 2,740,435                         | 315,000                                       | 118,500            | 433,500            |                                | 3,173,935                       |
| 2027                       | 2,737,356                         | 330,000                                       | 105,600            | 435,600            |                                | 3,172,956                       |
| 2028                       | 2,727,699                         | 355,000                                       | 91,900             | 446,900            |                                | 3,174,599                       |
| 2029                       |                                   | 320,000                                       | 78,400             | 398,400            |                                | 398,400                         |
| 2030                       |                                   | 330,000                                       | 65,400             | 395,400            |                                | 395,400                         |
| 2031                       |                                   | 345,000                                       | 51,900             | 396,900            |                                | 396,900                         |
| 2032                       |                                   | 360,000                                       | 37,800             | 397,800            |                                | 397,800                         |
| 2033                       |                                   | 375,000                                       | 23,100             | 398,100            |                                | 398,100                         |
| 2034                       |                                   | 390,000                                       | 7,800              | 397,800            |                                | 397,800                         |
| Totals                     | <u>\$42,324,299</u>               | <u>\$4,040,000</u>                            | <u>\$1,499,217</u> | <u>\$5,539,217</u> | <u>\$4,428,778</u>             | <u>\$43,434,738</u>             |

(a) Includes ad valorem tax debt that the City treats as self-supporting debt payable from revenues of the City’s water and sewer system pursuant to a policy determination by City Council, which is subject to change. To the extent that such self-supporting debt is not paid from available revenues, the City is obligated to levy and collect an ad valorem tax, within the limits prescribed by law, for the payment of debt service on such debt.

Average Annual Requirements (2019-2034)..... \$2,714,671  
 Maximum Annual Requirement (2020)..... \$7,806,600

Debt Service Payout (All Tax Supported Bonds)..... 63.73% in 5 years  
 95.29% in 10 years  
 100.00% in 15 years

## Estimated Overlapping Tax Debt

The following table indicates the outstanding Tax Debt of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. The information is based upon data secured from individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes. Expenditures of the various taxing entities within the territory of the City are paid out of ad valorem taxes levied by such entities on properties within the City. Such entities are independent of the City and may incur borrowings to finance their expenditures. Except for the amounts relating to the City, the City has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed may have issued additional Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated overlapping Tax Debt.

| Taxing Jurisdiction                         | Debt as of<br>March 1, 2019 | Percent | Overlapping |                      |
|---|-----------------------------|---------|-------------|----------------------|
|   |                             |         | Percent     | Amount               |
| Harris County                               | \$2,050,758,022             | 1.27%   |             | \$ 26,044,627        |
| Harris County Department of Education       | 6,320,000                   | 1.27    |             | 80,264               |
| Harris County Flood Control District        | 83,075,000                  | 1.27    |             | 1,055,053            |
| Harris County Hospital District             | 57,300,000                  | 1.27    |             | 727,710              |
| Houston Community College                   | 560,480,000                 | 2.99    |             | 16,758,352           |
| Houston Independent School District         | 3,018,890,000               | 3.35    |             | 101,132,815          |
| Port of Houston Authority                   | 593,754,397                 | 1.27    |             | <u>7,540,681</u>     |
| TOTAL ESTIMATED OVERLAPPING                 |                             | 100.00% |             | \$153,339,501        |
| The City (a)                                |                             |         |             | <u>31,400,000</u>    |
| Total Direct and Estimated Overlapping Debt |                             |         |             | <u>\$184,739,501</u> |

(a) Excludes ad valorem tax debt that the City treats as self-supporting debt payable from revenues of the City's water and sewer system pursuant to a policy determination by City Council, which is subject to change. To the extent that such self-supporting debt is not paid from available revenues, the City is obligated to levy and collect an ad valorem tax, within the limits prescribed by law, for the payment of debt service on such debt.

## Debt Ratios

|   | Direct<br>Tax Debt | Direct and Estimated<br>Overlapping Tax Debt |
|---|--------------------|--|
| Per 2018 Certified Net Assessed Valuation (\$6,176,493,043) | 0.51%              | 2.99%  |
| Per Capita (15,741)   | \$1,995            | \$11,736                                     |

## TAX DATA

### General

One of the City's principal sources of operational revenue and its principal source of funds for debt service payments is the receipts from ad valorem taxation. See "SELECTED FINANCIAL DATA." The following is a recapitulation of (a) the Texas Property Tax Code, including methodology, limitations, remedies and procedures; (b) historical analysis of collection and trends of tax receipts and provisions for delinquencies; (c) an analysis of the tax base, including relative property composition, principal taxpayers and adequacy of the tax base to service debt requirements; and (d) taxation that may add to the City's taxpayers' tax costs.

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

The appraisal of property within the City is the responsibility of the Harris County Appraisal District (the "Appraisal District"). Title I of the Texas Tax Code (the "Property Tax Code") establishes for each county in Texas a single appraisal district with responsibility for recording and appraising property for all taxing units within the county, and a single appraisal review board, with responsibility for reviewing and equalizing the values established by the appraisal district. The Property Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each

property owner whose property value is appraised higher than the prior tax year or the value rendered by the property owner or whose property was not on the appraisal roll the preceding year or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the City; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition, taxing units such as the City are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records or the grant in whole or in part of an exemption. A taxing unit may not, however, challenge the valuation of individual properties.

Although the City has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Tax Code the City does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Property Tax Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

### **Property Subject to Taxation by the City**

Except for certain exemptions provided by State law, all real and tangible personal property and certain categories of intangible personal property with a tax situs in the City are subject to taxation by the City; however, no effort is expected to be made by the Harris County Appraisal District to include on the tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include: property owned by the State or its political subdivisions, property used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; certain property owned by charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; most individually-owned automobiles; and property of disabled veterans, only to the extent of \$12,000 of taxable property. In addition, taxpayers who are disabled or over 65 years of age are entitled to apply for an additional exemption from market value of their residential homestead of \$185,000. The disabled persons and over 65 exemptions amounted to \$262,973,120 from the 2018 tax roll.

State law also mandates an additional property tax exemption for disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces; the exemption applies to either real or personal property with the amount of assessed valuation exempted ranging from \$5,000 to a maximum of \$12,000; provided, however, that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100% disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. The surviving spouse of a deceased veteran who had received a disability rating of 100% is entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. The surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. In addition, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferrable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The Texas Constitution permits local governments the option of granting homestead exemptions of up to 20% of market value thereafter. The City did not elect to grant this additional exemption for the 2018 tax year.

The Texas Constitution authorizes a property tax exemption for certain business personal property. The City Council has the option to take official action to override the exemption and to continue taxing the property exempted by the amendment. The City Council took such official action to tax the property and to disallow the exemption for 1995 and all future years. The City Council may elect to allow the exemption in subsequent years which could result in a reduction of the City's tax base.

Article VIII, section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property. The City has taken official action and determined not to grant a "goods-in-transit" exemption.

### **Notice and Hearing Procedures**

The Property Tax Code establishes procedures for providing notice and the opportunity for a hearing for taxpayers in the event of certain proposed tax increases and provides for taxpayer referenda which could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values over \$1,000, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

### **Levy and Collection of Taxes**

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The City has elected to have Harris County bill and collect taxes on behalf of the City. Before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City, the rate of taxation is set by the City Council based upon the valuation of property within the City as of the preceding January 1 and the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations.

The City Council may under certain circumstances be required to advertise and hold a public hearing within the City on a proposed tax rate before the City Council can hold a public meeting to vote on the tax rate. If the tax rate adopted exceeds by more than 8% the rate needed to pay debt service and certain contractual obligations and to produce, when applied to the property which was on the prior year's roll, the prior year's total taxes levied for purposes other than debt service and such contractual obligations (the "rollback rate"), such excess portion of the levy may, subject to constitutional restrictions on the impairment of existing obligations, be repealed at an election within the City held upon petition of 10% of the City's qualified voters and the tax rate adopted for the current year be reduced to the rollback rate.

The City is prohibited from adopting a tax rate that exceeds the lower of the rollback tax rate or the "effective tax rate" until it has held two (2) public hearings on the proposed tax rate and has otherwise complied with the Property Tax Code. Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates. Further, this section describes correct Texas law which may be subject to change from time to time by the Texas Legislature.

Taxes are due on receipt of the tax bill, and become delinquent after January 31 of the following year, or on the first day of the calendar month next following the expiration of twenty-one (21) days after the mailing of the tax bills, whichever occurs later. A delinquent tax account incurs an initial penalty of six percent (6%) of the amount of the tax and accrues an additional penalty of one percent (1%) per month up to July 1, at which time the total penalty becomes twelve percent (12%). In addition, delinquent taxes accrue interest at one percent (1%) per month until paid. If the tax is not paid by July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the City. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payments, partial payments of taxes and the postponement of the delinquency date of taxes under certain circumstances.

## Collection of Delinquent Taxes

Taxes levied by the City are a personal obligation of the property owner on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the City, having the power to tax the property. The City's tax lien is on a parity with tax liens of all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. In the event a taxpayer fails to make timely payment of taxes due the City, the City may file suit to foreclose its lien securing payment of the tax, to enforce personal liability for the tax, or both. Whether a lien of the United States is on a parity with or takes priority over a tax lien of the City is determined by applicable federal law. In the absence of such federal law, the City's tax lien takes priority over a tax lien of the United States. The ability of the City to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, the foreclosure sale price attributable to market conditions, the taxpayer's right to redeem the property within two years of foreclosure, or by bankruptcy proceedings which restrain the collection of a taxpayer's debts.

## Historical Analysis of Tax Collection

- Collection Ratios -

| Tax Year | Net Taxable Assessed Valuation (a) | Tax Rate Per \$100 of Assessed Valuation | Adjusted Tax Levy | % of Collections           |                   | Fiscal Year Ending 12-31 |
|----------|------------------------------------|--|-------------------|----------------------------|-------------------|--------------------------|
|          |                                    |  |                   | Current Year Collection    | Total Collections |                          |
| 2008     | \$3,747,914,916                    | \$0.35900                                | \$13,951,979      | 99.59%                     | 99.87%            | 2009                     |
| 2009     | 4,254,216,197                      | 0.35875                                  | 15,031,309        | 99.64                      | 99.86             | 2010                     |
| 2010     | 4,080,210,817                      | 0.37411                                  | 15,265,103        | 99.56                      | 99.85             | 2011                     |
| 2011     | 4,059,539,678                      | 0.37411                                  | 15,193,428        | 99.54                      | 99.81             | 2012                     |
| 2012     | 4,217,795,356                      | 0.37411                                  | 15,778,014        | 99.54                      | 99.82             | 2013                     |
| 2013     | 4,376,123,897                      | 0.37400                                  | 16,365,976        | 99.52                      | 99.82             | 2014                     |
| 2014     | 4,813,227,118                      | 0.36179                                  | 17,426,385        | 99.48                      | 99.77             | 2015                     |
| 2015     | 5,440,905,294                      | 0.33179                                  | 18,044,353        | 99.49                      | 99.68             | 2016                     |
| 2016     | 5,864,302,202                      | 0.31680                                  | 18,493,310        | 99.53                      | 99.53             | 2017                     |
| 2017     | 6,078,494,687                      | 0.31680                                  | 19,289,639        | 99.44                      | 99.47             | 2018                     |
| 2018     | 6,176,493,043                      | 0.31680                                  | 19,537,933        | (In Process of Collection) |                   | 2019                     |

(a) Certified by the Harris County Appraisal District and is net of exemptions. Also such value is further subject to change as additions, corrections, and deletions are made to the tax roll.

- Tax Rate Distribution -

|              | 2018              | 2017              | 2016            | 2015              | 2014              |
|--------------|-------------------|-------------------|-----------------|-------------------|-------------------|
| Maintenance  | \$0.192770        | \$0.192140        | \$0.185570      | \$0.183210        | \$0.193560        |
| Debt Service | 0.124030          | 0.124660          | 0.131230        | 0.148580          | 0.168230          |
| Total        | <u>\$0.316800</u> | <u>\$0.316800</u> | <u>0.316800</u> | <u>\$0.331790</u> | <u>\$0.361790</u> |

- Delinquent Tax Collection Procedures -

In addition to the legal procedures and penalties described under "Levy and Collection of Taxes," the City has contracted with Linebarger Goggan Blair & Sampson, LLP to act as Delinquent Tax Attorney, to file suit to collect delinquent taxes due the City.

## Analysis of Tax Base

### - Tax Base Distribution -

| Type of Property           | 2018 Tax Roll (a)      |         | 2017 Tax Roll (a)      |         | 2016 Tax Roll(a)       |         |
|----------------------------|------------------------|---------|------------------------|---------|------------------------|---------|
|                            | Amount                 | %       | Amount                 | %       | Amount                 | %       |
| Residential                | \$6,242,283,488        | 94.02%  | \$6,154,689,173        | 94.06%  | \$5,925,876,702        | 93.84%  |
| Vacant Lots/Tracts         | 82,339,771             | 1.24    | 77,493,653             | 1.18    | 77,867,906             | 1.23    |
| Commercial/Industrial      | 85,796,907             | 1.29    | 83,332,295             | 1.27    | 81,892,121             | 1.30    |
| Utilities                  | 17,876,013             | 0.27    | 17,680,987             | 0.27    | 17,641,358             | 0.28    |
| Personal Property          | 14,785,010             | 0.22    | 15,791,970             | 0.24    | 18,415,094             | 0.29    |
| Other                      | 196,494,773            | 2.96    | 194,410,227            | 2.97    | 192,927,208            | 3.06    |
| Total Market Value         | \$6,639,575,962        | 100.00% | \$6,543,398,305        | 100.00% | \$6,314,620,389        | 100.00% |
| Less: Exemption            | (463,082,919)          |         | (464,903,618)          |         | (450,318,187)          |         |
| Net Taxable Assessed Value | <u>\$6,176,493,043</u> |         | <u>\$6,078,494,687</u> |         | <u>\$5,864,302,202</u> |         |

(a) These values may differ from those shown elsewhere in this Official Statement due to subsequent additions, deletions and adjustments to the tax roll.

### - Principal Taxpayers -

| Principal Taxpayer                                      | Type of Property | 2018<br>Taxable<br>Assessed<br>Valuation | 2017<br>Taxable<br>Assessed<br>Valuation | 2016<br>Taxable<br>Assessed<br>Valuation |
|---|------------------|--|--|--|
| U West Marketplace Assoc.                               | Commercial       | \$11,719,254                             | \$11,693,250                             | \$11,689,814                             |
| AT&T  | Utility          | 9,860,343                                | 10,107,223                               | 10,024,188                               |
| Retail Fund I Houston Rice                              | Commercial       | 8,291,321                                | 8,320,076                                | 7,936,515                                |
| Webster Properties LP                                   | Commercial Land  | 6,171,187                                | 5,816,000                                | 6,167,415                                |
| University Shops Houston LP                             | Shopping Center  | 5,986,838                                | 6,054,269                                | (a)                                      |
| DKGA / WUC LP   | Commercial       | 5,564,600                                | 5,279,650                                | (a)                                      |
| Sanders, Don A.   | Residence        | 5,365,716                                | 5,550,716                                | (a)                                      |
| Biggio, Craig and Patricia                              | Residence        | 5,168,000                                | 5,168,000                                | 5,384,500                                |
| Donnell, James and Donna                                | Residence        | 5,166,583                                | (a)                                      | (a)                                      |
| Day, Timothy and Elaine                                 | Residence        | 5,096,814                                | (a)                                      | (a)                                      |
| Centerpoint Energy Inc.                                 | Utility          | (a)                                      | 6,035,034                                | 5,986,280                                |
| Pham, Cynthia   | Residence        | (a)                                      | 5,387,583                                | (a)                                      |
| Bass, Eric and Shanna                                   | Residence        | (a)                                      | (a)                                      | 5,200,000                                |
| Harvey, David Jr.                                       | Residence        | (a)                                      | (a)                                      | 5,109,000                                |
| Foshee, Douglas and Sarah                               | Residence        | (a)                                      | (a)                                      | 5,050,000                                |
| Baker, Steward and Julie                                | Residence        | (a)                                      | (a)                                      | 4,979,019                                |
| Total Ten Principal Taxpayers                           |                  | <u>\$68,390,656</u>                      | <u>\$69,411,801</u>                      | <u>\$67,526,731</u>                      |
| Percentage Ten Principal Taxpayers Comprise of Tax Roll |                  | <u>1.11%</u>                             | <u>1.14%</u>                             | <u>1.17%</u>                             |

(a) Not included as top ten taxpayer for respective tax year.

### - Tax Adequacy -

|   |             |
|---|-------------|
| Average Annual Debt Service Requirements (2019-2034) .....  | \$2,714,671 |
| Tax Rate of \$0.046 per \$100 assessed valuation against the 2018<br>Certified Assessed Valuation at 97% collection produces..... | \$2,755,951 |
| Maximum Annual Tax Debt Service Requirements (in the year 2020).....  | \$7,806,600 |
| Tax Rate of \$0.131 per \$100 assessed valuation against the 2018<br>Certified Assessed Valuation at 97% collection produces..... | \$7,848,470 |



## Estimated Overlapping Taxes

Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed, which lien is on a parity with any tax lien on such property in favor of the City. In addition to ad valorem taxes required to retire the aforementioned direct and estimated overlapping debt, certain taxing jurisdictions including those mentioned above in "CITY TAX DEBT - Estimated Overlapping Tax Debt" are also authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

| Taxing Jurisdiction                   | 2018 Total Tax<br>Rate Per \$100 |
|---------------------------------------|----------------------------------|
| The City                              | \$0.316800                       |
| Harris County                         | 0.418580                         |
| Harris County Flood Control District  | 0.028770                         |
| Harris County Department of Education | 0.005190                         |
| Harris County Hospital District       | 0.171080                         |
| Port of Houston Authority             | 0.011550                         |
| Houston Independent School District   | 1.206700                         |
| Houston Community College             | <u>0.100263</u>                  |
| Total                                 | <u>\$2.258933</u>                |

## Sales Tax

- Authority -

The City has adopted the provisions of Article 1066c, Vernon's Texas Civil Statutes, as amended, which grants the City the power to impose and levy a 1% sales tax. **The City may not and has not pledged the proceeds from the sales tax as security for the Certificates.**

- Collection History -

The State Comptroller, after deduction of a 2% service fee, currently remits the City's portion of sales tax collections monthly. By statute the Comptroller is required to remit at least twice annually. The following is an analysis of the collection history of the City's sales and use tax:

| Fiscal Year<br>Ended 12-31 | Sales and Use<br>Tax Receipts | Ad Valorem Tax Comparisons |                        |                         |
|----------------------------|-------------------------------|----------------------------|------------------------|-------------------------|
|                            |                               | Equivalent<br>Tax Year     | Tax Rate<br>Equivalent | % of Actual<br>Tax Levy |
| 2008                       | \$1,042,096                   | (2007)                     | \$0.030                | 7.47%                   |
| 2009                       | 946,726                       | (2008)                     | 0.025                  | 6.30                    |
| 2010                       | 1,050,079                     | (2009)                     | 0.026                  | 6.88                    |
| 2011                       | 997,318                       | (2010)                     | 0.025                  | 6.54                    |
| 2012                       | 1,003,897                     | (2011)                     | 0.025                  | 6.61                    |
| 2013                       | 957,658                       | (2012)                     | 0.023                  | 6.07                    |
| 2014                       | 1,051,890                     | (2013)                     | 0.024                  | 6.43                    |
| 2015                       | 1,117,336                     | (2014)                     | 0.023                  | 6.41                    |
| 2016                       | 1,051,361                     | (2015)                     | 0.019                  | 5.83                    |
| 2017                       | 1,064,672                     | (2016)                     | 0.018                  | 5.76                    |
| 2018(a)                    | 1,172,256                     | (2017)                     | 0.019                  | 6.08                    |

(a) Unaudited. As of December 31, 2018.

**SELECTED FINANCIAL DATA**

**Historical Operations of the City**

-General Fund-

The following is a condensed statement of revenues and expenses of the City's General Fund for the past five fiscal years. The inclusion of the following table is not intended to imply that any revenues of the City, other than receipts from ad valorem taxes as provided in the Ordinance, are pledged to pay principal and interest on the Certificates and the City's Outstanding Tax Supported Debt.

|   | Fiscal Year Ended December 31, |                     |                     |                     |                     |
|---|--------------------------------|---------------------|---------------------|---------------------|---------------------|
|   | 2018 (a)                       | 2017                | 2016                | 2015                | 2014                |
| <b>REVENUES</b>   |                                |                     |                     |                     |                     |
| General Property Taxes  | \$11,626,242                   | \$10,897,253        | \$ 9,967,606        | \$ 9,336,883        | \$ 8,600,509        |
| Sales Taxes (b)   | 1,172,256                      | 1,064,672           | 1,051,361           | 1,117,336           | 1,051,890           |
| Franchises Fees   | 1,128,060                      | 1,159,730           | 1,144,256           | 1,204,795           | 1,214,227           |
| Other Taxes   | -0-                            | 14,330              | 15,955              | 17,625              | 15,713              |
| Permits, Licenses and Fees  | 668,694                        | 542,903             | 482,362             | 602,956             | 666,887             |
| Fines & Forfeitures   | 218,175                        | 164,384             | 134,770             | 187,803             | 176,117             |
| Charges for Services  | 3,038,733                      | 2,959,471           | 2,638,584           | 2,607,192           | 2,448,489           |
| Intergovernmental   | 284,974                        | -0-                 | -0-                 | -0-                 | -0-                 |
| Interest Earnings   | 249,105                        | 43,227              | 79,585              | 67,032              | 43,766              |
| Other Revenue   | 539,125                        | 441,874             | 382,471             | 378,000             | 292,226             |
| <b>Total Revenues</b>   | <b>\$18,925,364</b>            | <b>\$17,287,844</b> | <b>\$15,896,950</b> | <b>\$15,519,622</b> | <b>\$14,509,824</b> |
| <b>EXPENDITURES</b>   |                                |                     |                     |                     |                     |
| General Government  | \$ 3,323,639                   | \$ 3,426,621        | \$ 2,919,287        | \$ 3,446,572        | \$ 3,086,980        |
| Public Safety   | 8,155,677                      | 8,072,917           | 7,626,200           | 7,012,054           | 6,271,557           |
| Public Works  | 3,018,322                      | 3,014,800           | 3,013,390           | 2,449,669           | 2,262,843           |
| Public Service  | 3,693,301                      | 3,597,756           | 3,545,655           | 2,864,683           | 2,761,282           |
| <b>Total</b>  | <b>\$18,190,939</b>            | <b>\$18,112,094</b> | <b>\$17,104,532</b> | <b>\$15,772,978</b> | <b>\$14,382,662</b> |
| Excess (Deficiency) Revenues<br>Over Expenditures                         | \$ 734,425                     | \$ (824,250)        | \$ (1,207,582)      | \$ (253,356)        | \$ 127,162          |
| Operating Transfers In  | \$ 1,530,048                   | \$ 1,604,900        | \$ 514,500          | \$ 1,560,000        | \$ 1,560,000        |
| Operating Transfers Out   | (200,000)                      | (500,000)           | (500,000)           | (79,300)            | (467,504)           |
| Other   | (103,320)                      | 1,802               | 6,276               | 850                 | -0-                 |
| Revenues and Other Sources<br>Over (Under) Expenditures<br>and Other Uses | \$ 1,961,153                   | \$ 282,452          | \$ (1,186,806)      | \$1,228,194         | \$ 1,219,658        |
| Beginning Fund Balance<br>(Restated)                                      | \$ 6,220,330                   | \$ 5,937,878        | \$ 7,124,684        | \$ 5,896,490        | \$ 4,676,832        |
| <b>General Fund Balance</b>   | <b>\$ 8,181,483</b>            | <b>\$ 6,220,330</b> | <b>\$ 5,937,878</b> | <b>\$ 7,124,684</b> | <b>\$ 5,896,490</b> |

(a) Unaudited. As of December 31, 2018.

(b) See "TAX DATA – Sales Tax."

Source: City's audited financial statements.

- Debt Service Fund -

|                           | Fiscal Year Ended December 31, |            |            |            |            |
|---------------------------|--------------------------------|------------|------------|------------|------------|
|                           | 2018 (a)                       | 2017       | 2016       | 2015       | 2014       |
| Debt Service Fund Balance | \$ 894,795                     | \$ 900,120 | \$ 912,718 | \$ 566,276 | \$ 167,039 |

(a) Unaudited. As of December 31, 2018.

Source: City's audited financial statements.

## **Pension Fund**

The City participates in the Texas Municipal Retirement System (“TMRS”), an agency operated by the State of Texas. Employees of municipal governmental entities who participate in TMRS contribute a fixed percentage, currently 7.0% of their gross pay, and the City currently contributes approximately 14.0% of such employees gross pay to TMRS. As employees leave municipal employment other than through retirement, they may withdraw from TMRS those funds they contributed, but forfeit their employer’s contributions. Each municipal employer’s requirements for current contributions are offset by the amounts of such forfeitures.

As of February 28, 2019, the City employed 116 full-time employees and 80 part-time employees. All full-time employees are covered by TMRS and both the City and the covered employees made the required contributions for the year ended December 31, 2018 which amounted to \$1,959,677, including amortization of prior service cost over 25 years. The City had an unfunded accrued liability for prior service benefits in the amount of approximately \$7,413,145 as of December 31, 2016. The liability for prior service benefits will be amortized over a period of twenty-five years or less by contributions from the City which are a level percentage of payroll. For information regarding the City’s participation in TMRS, see “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017, note C.”

## **Other Post-Employment Benefits**

The City maintains the City of West University Place Retiree Health Care Plan (“Plan”), which is a single employer defined benefits healthcare plan administered by the City. The Plan provides medical benefits to eligible retirees and their spouses. For information regarding the Plan, see “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED DECEMBER 31 2017, note D.”

The City participates in a cost-sharing multiple employer defined benefits group-term life insurance program operated by TMRS know as the Supplemental Death Benefits Fund (the “SDBF”). For information regarding the City’s participation in the SDBF, see “APPENDIX B – AUDITED FINANCIAL STATEMENTS OF THE CITY FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017, note D.”

## **Financial Statements**

A copy of the City's Financial Statements for the fiscal year ended December 31, 2017, is attached hereto in the APPENDIX B. The City has engaged Weaver and Tidwell LLP to prepare the Comprehensive Annual Financial Report for fiscal year ended December 31, 2018. Such report is expected to be available by June 30, 2019. Copies of such statements for preceding years are available, for a fee, upon request.

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## ADMINISTRATION OF THE CITY

### Mayor and City Council

Policy-making functions are the responsibility of and are vested in the Mayor and City Council for the City, under provisions of the Home Rule Charter of the City of West University Place (the “Charter”) adopted in 1940 and most recently revised in 2019. The Mayor and four City Council members are elected at large in odd-numbered years on the second Saturday in May. The Mayor is entitled to vote on all issues and has no power to veto City Council action. Members of the City Council are described below:

| <u>Council Members</u>                          | <u>Term</u> | <u>Term Expires<br/>May (b)</u> | <u>Occupation</u>       |
|---|-------------|---------------------------------|-------------------------|
| Susan Sample<br>Mayor                           | 2 Years     | 2019                            | Attorney                |
| Mardi Turner<br>Mayor Pro Tem<br>Council Member | 2 Years     | 2019                            | Retired                 |
| Bob Higley<br>Council Member                    | 2 Years     | 2021                            | Financial Advisor       |
| Kellye Burke<br>Council Member                  | 2 Years     | 2019                            | Business Consultant     |
| Kevin Boyle<br>Council Member                   | (a)         | 2019                            | Chief Financial Officer |

- (a) Mr. Boyle was appointed to fill a vacancy on the Council in November 2018. He will complete the remainder of the vacant term, which runs through May 2019.
- (b) On May 4, 2019, voters within the City elected the following Mayor and Council Members who will assume office on June 1, 2019:

|                                |                                |
|--------------------------------|--------------------------------|
| Bob Higley, Mayor              | Ed Sobash, Council Member      |
| Kevin Trautner, Council Member | John P. Barnes, Council Member |
| Lauri Lankford, Council Member |                                |

### Administration

Under provisions of the Charter, the City Council enacts local legislation, adopts budgets, determines policies and appoints the City Manager, who is charged with the duties of executing the laws and administering the government of the City. As the chief executive officer and head of the administrative branch of the City government, the City Manager is given the power and duties to:

- (1) Appoint and remove all department heads and all other employees in the administrative service of the City and may authorize the head of a department to appoint and remove subordinates in his respective department;
- (2) Prepare the budget annually, submit it to the City Council, and be responsible for its administration;
- (3) Prepare and submit to the City Council a complete report on the finances and administrative activities of the City;
- (4) Keep the City Council advised of the financial condition and future needs of the City and make appropriate recommendations; and
- (5) Perform such other necessary duties as prescribed by the Charter or required by the City Council.

Members of the administrative staff are described below:

| <u>Name</u>    | <u>Position</u>     | <u>Years with City</u> | <u>Years in Current Position</u> |
|----------------|---------------------|------------------------|----------------------------------|
| Dave Beach     | City Manager        | 14 Years               | 3 Months                         |
| Marie Kalka    | Director of Finance | 2 Years                | 2 Years                          |
| Alan Petrov    | City Attorney       | 12 Years               | 12 Years                         |
| Thelma Gilliam | City Secretary      | 10 Years               | 10 Years                         |

**Consultants**

The City has retained several consultants to perform professional services in connection with the independent auditing of its books and records and other City activities. Several of these consultants are identified below:

|  |  |
|--|--|
| Bond Counsel .....                     | Johnson Petrov LLP<br>Houston, Texas             |
| Certified Public Accountants (a) ..... | Belt Harris Pechacek, LLLP<br>Houston, Texas     |
| Financial Advisor .....                | BOK Financial Securities, Inc.<br>Houston, Texas |

(a) The City has engaged Weaver and Tidwell LLP to prepare the Comprehensive Annual Financial Report for fiscal year ended December 31, 2018. Such report is currently expected to be available by June 30, 2019.

**LEGAL MATTERS**

**Legal Opinions**

The delivery of the Certificates is subject to the approving opinion of the Attorney General of Texas to the effect that the Certificates are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City and will be further payable from a limited pledge of the surplus revenues of the City’s water and sewer system in an amount not to exceed \$1,000 and, the approving legal opinion of Johnson Petrov L.L.P., Bond Counsel to the City (“Bond Counsel”), in substantially the form attached as APPENDIX C. In connection with the issuance of the Certificates, Bond Counsel has represented only the City. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates.

Bond Counsel has reviewed the statements and information appearing in the Official Statement under the captions “SALE AND DISTRIBUTION OF THE CERTIFICATES – Securities Law” (first paragraph only), “THE CERTIFICATES” (except the subcaptions “Book-Entry-Only System,” “Use of Proceeds,” “Future Debt,” and “Sources and Uses of Funds,” as to which no opinion is expressed) “LEGAL MATTERS – Legal Opinions,” “TAX MATTERS,” “REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE” and “CONTINUING DISCLOSURE OF INFORMATION” (except the subcaption “Compliance With Prior Undertakings”) and such firm is of the opinion that the information relating to the Certificates and legal matters contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Certificates, such information conforms to the provisions of the Ordinance. Bond Counsel has not independently verified any of the factual information contained in this Official Statement nor have they conducted an investigation of the affairs of the City for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm’s limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the information contained herein. Bracewell LLP will pass on certain matters for the Underwriter. The legal fees to be paid to Bracewell LLP in connection with the issuance of the Certificates is contingent upon the sale and delivery of the Certificates.

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

### **No-Litigation Certificate**

The City will furnish to the Underwriter a certificate, dated as of the date of delivery of the Certificates, executed by appropriate City officials, to the effect that no litigation of any nature has been filed or is then pending or threatened, either in state or federal courts, contesting or attacking the Certificates; restraining or enjoining the issuance, execution or delivery of the Certificates; affecting the provisions made for the payment of or security for the Certificates; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Certificates; or affecting the validity of the Certificates.

### **No Material Adverse Change**

The obligations of the Underwriter to take and pay for the Certificates, and of the City to deliver the Certificates, are subject to the condition that, up to the time of delivery of and receipt of payment for the Certificates, there shall have been no material adverse change in the condition (financial or otherwise) of the City subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

## **TAX MATTERS**

### **Tax Exemption**

In the opinion of Johnson Petrov L.L.P., Bond Counsel (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Certificates is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Certificates is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

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

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

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Certificates. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Certificates will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Certificates being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Certificates. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or

not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Certificates may adversely affect the value of, or the tax status of interest on, the Certificates. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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

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

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

Bond Counsel's engagement with respect to the Certificates ends with the issuance of the Certificates, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Certificates in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Certificates for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Certificates, and may cause the City or the Beneficial Owners to incur significant expense.

#### **Purchase of Tax-Exempt Obligations by Financial Institutions**

Section 265(a) of the Code provides, in general, that a deduction for interest on indebtedness incurred to acquire or carry tax-exempt obligations is disallowed. Section 265(b) of the Code provides a specific complete disallowance of any deduction by a financial institution of its pro rata interest expense to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. Section 265(b) also provides an exception for financial institutions for tax-exempt obligations that are properly designated or deemed designated by an issuer as "qualified tax-exempt obligations."

The Certificates have been designated as "qualified tax-exempt obligations" based, in part, on the City's representation that the amount of the Certificates, when added to the amount of all other tax-exempt obligations (not including private activity bonds other than "qualified 501(c)(3) bonds" or any obligations issued to currently refund any obligation to the extent the amount of the refunding obligation did not exceed the outstanding amount of the refunded obligation) issued or reasonably anticipated to be issued by or on behalf of the City during 2018, is not expected to exceed \$10,000,000. Further, the City and entities aggregated with the City under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Certificates) during 2018.

Notwithstanding the designation of the Certificates as "qualified tax-exempt obligations" under this exception, financial institutions acquiring the Certificates will be subject to a 20% disallowance of allocable interest expense.

#### **CONTINUING DISCLOSURE OF INFORMATION**

In the Ordinance, the City has made the following agreement for the benefit of the beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial

information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). This information will be available at no charge via the MSRB's Electronic Municipal Market Access ("EMMA") system at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Annual Reports**

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under the headings "OFFICIAL STATEMENT SUMMARY - Selected Financial Information," "CITY TAX DEBT" (except for "Estimated Overlapping Debt"), "TAX DATA," "SELECTED FINANCIAL DATA," "INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY - Current Investments," and in APPENDIX B. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to the MSRB free of charge via EMMA.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the United States Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12"), as amended and in effect from time to time. The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not commissioned or are not available by the required time, the City will provide unaudited financial statements and 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 "B" or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is December 31. Accordingly, it must provide updated information by June 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change. If the City fails to provide updated information as described above, it will provide timely notice of the failure to the MSRB.

### **Notice of Certain Events**

The City will also provide timely notices of certain events to the MSRB. The City will provide notice in a timely manner not in excess of ten business days after the occurrence of the event of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to rights of holders of the Certificates, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City or other obligated person within the meaning of Rule 15c2-12; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material; (15) incurrence of a financial obligation of the City (as defined by Rule 15c2-12, which includes certain debt, debt-like and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the City, any of which reflect financial difficulties. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws.

Neither the Certificates nor the Ordinance make any provision for debt service reserves or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

### **Availability of Information**

The City has agreed to provide the foregoing information only to the MSRB. The information will be available to the public at [www.emma.msrb.org](http://www.emma.msrb.org).



## **Limitations and Amendments**

The City has agreed to update information and to provide notices of events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from a breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement. The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with Rule 15c2-12, taking into account any amendments or interpretations of Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the owners of a majority in aggregate principal amount of the outstanding Certificates consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Certificates. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of Rule 15c2-12 are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Certificates in the primary offering of the Certificates. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "ANNUAL REPORTS" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

## **Compliance With Prior Undertakings**

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

## **FINANCIAL ADVISOR**

BOK Financial Securities, Inc. is employed as Financial Advisor to the City in connection with the issuance of the Certificates. The Financial Advisor's fee for services rendered with respect to the sale of the Certificates is contingent upon the issuance and delivery of the Certificates. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

## **GENERAL CONSIDERATIONS**

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

The information contained in this Official Statement has been obtained primarily from the City and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the City.

The descriptions herein of the Certificates and the Ordinance do not purport to be complete and all such descriptions of references thereto are qualified in their entirety by reference to the complete form of the Ordinance. Statements made herein involving estimates or projections, whether or not expressly identified as such, should not be construed to be statements of fact or as representations that such estimates or projections will ever be attained or will approximate actual results. Any summaries or excerpts of constitutional provisions, statutes, ordinances, or other documents do not purport to be complete statements of same and are made subject to all of the provisions thereof. Reference should be made to such original sources in all respects.

### **Audited Financial Statements**

Belt Harris Pechacek, LLLP, has not reviewed, commented on, or approved, and is not associated with, this Official Statement. The report of Belt Harris Pechacek, LLLP relating to the City's financial statements for the fiscal year ended December 31, 2017 is included in this Official Statement in APPENDIX B; however, Belt Harris Pechacek, LLLP, has not performed any procedures on such financial statements since the date of such report, and has not performed any procedures on any other financial information of the City, including without limitation any of the information contained in this Official Statement, and has not been asked to consent to the inclusion of its report, or otherwise be associated with this Official Statement.

## **Weather Events**

The City is located near the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by rain events, hurricanes, tropical storms, and other tropical disturbances. If a weather-related event were to significantly damage all or part of the improvements within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the City's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the City will be covered by insurance (or property owners will choose to carry flood insurance), any insurance company will fulfill its obligations to provide insurance proceeds or that insurance proceeds will be used to rebuild or repair damaged improvements within the City. Even if insurance proceeds are available and improvements are rebuilt, there could be a period of time in which assessed values within the City would be adversely affected.

In August 2017, Hurricane Harvey, characterized as a Category 4 hurricane at its peak, made landfall on the Texas coast before stalling over the Houston-Galveston region (the "Region") and producing significant flooding. Many residences and commercial and industrial properties in the Region, including properties within the City, sustained varying degrees of damage. The cost of repairs and mitigation to affected City facilities are estimated to be approximately \$25,000. The City is coordinating with its insurance provider, as well as the Federal Emergency Management Agency (FEMA), to receive reimbursements of these costs. It is estimated that insurance and FEMA will reimburse up to 90% of costs associated with the repairs and mitigation.

As of the date of this Official Statement, the City does not expect the effects of Hurricane Harvey to have a material adverse effect on future taxable assessed valuations within the City or on its ability to pay debt service on the Certificates or its outstanding debt.

## **Forward Looking Statements**

The statements contained in this Official Statement, and in any other information provided to the reader by the City that are not purely historical, are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. It is important to note that the City's actual results could differ materially from those in such forward-looking statements.

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

## **CONCLUDING STATEMENT**

To the extent that any statements made in this Official Statement involve matters of opinion or estimates, whether or not expressly stated to be such, they are made as such and not as representations of fact or certainty and no representation is made that any of these statements have been or will be realized. Information in this Official Statement has been derived by the City from official and other sources and is believed by the City to be accurate and reliable. Information other than that obtained from official records of the City has not been independently confirmed or verified by the City and its accuracy is not guaranteed.

The City Council has delegated to an authorized officer of the City the authority to deem the Official Statement final as of its date. In connection with the approval of the sale of the Certificates the final Official Statement will be authorized and approved by the City Council of the City of West University Place, Texas as of its date.

/s/ Susan Sample  
Mayor  
City of West University Place, Texas

ATTEST:

/s/ Thelma Gilliam  
City Secretary  
City of West University Place, Texas

## APPENDIX A

### GENERAL INFORMATION REGARDING THE CITY OF WEST UNIVERSITY PLACE

The following information has been derived from various sources, including the Texas Municipal Reports, U.S. Census data, and City officials. While such sources are believed to be reliable, no representation is made as to the accuracy thereof.

#### - City Economics -

The City of West University Place (the "City"), located in Harris County, Texas encompasses a 1.9 square mile area located a few blocks south of U.S. Highway 59 (the "Southwest Freeway") and approximately five miles from the central business district of downtown Houston. Incorporated in 1925, the City became a Home-Rule City in 1940 and operates under the Council-Manager form of municipal government. The City, with a 2010 census population of 14,787, is a zoned residential area completely surrounded by the Cities of Houston, Bellaire and Southside Place. Primarily a residential area, its citizens are employed throughout the Houston urban area. Rice University and the Texas Medical Center complex are located about one mile east of the City in the adjoining City of Houston.

There is very little vacant and/or undeveloped land in the City; however, some commercial and townhouse development is occurring along the City's periphery. Residential construction generally involves rebuilding and remodeling. Home prices within the City are estimated to be from approximately \$800,000 to \$5,400,000 with an average home reported to be approximately \$1,140,000.

The largest taxpayers of the City include utility companies, office buildings, shopping centers, homebuilders, and homeowners. There have been few changes in the nature of the largest taxpayers, and few changes are anticipated in the future.

The City provides numerous recreational facilities for its citizens. They consist of nine parks provided with picnic-and-play facilities, including a baseball and softball complex with numerous fields available for various organized activities; five tennis courts; three handball/racquetball courts; two swimming pools; a community center, and a fitness center with six rooms for recreational activities. A branch of the Harris County Library is located in the City, which sponsors many reading programs, after school movies, family movies, and numerous other community-oriented cultural programs.

### ECONOMIC AND GROWTH INDICATORS

#### U.S. Census of Population

|      | City of West University Place |          | City of Houston |          | Harris County |          |
|------|-------------------------------|----------|-----------------|----------|---------------|----------|
|      | Number                        | % Change | Number          | % Change | Number        | % Change |
| 1930 | 1,322                         | ---      | 292,352         | +111.43% | 359,328       | +92.50%  |
| 1940 | 9,221                         | +597.50% | 384,514         | +31.52   | 528,961       | +47.20   |
| 1950 | 17,074                        | +85.16   | 596,163         | +55.04   | 806,701       | +52.51   |
| 1960 | 14,628                        | -14.33   | 938,219         | +57.38   | 1,243,158     | +54.10   |
| 1970 | 13,317                        | -8.96    | 1,232,802       | +31.40   | 1,741,912     | +40.12   |
| 1980 | 12,010                        | -9.81    | 1,573,630       | +27.65   | 2,409,544     | +38.33   |
| 1990 | 12,920                        | +7.58    | 1,630,553       | +3.62    | 2,818,199     | +16.96   |
| 2000 | 14,211                        | +9.99    | 1,953,631       | +19.81   | 3,400,578     | +20.66   |
| 2010 | 14,787                        | +4.05    | 2,099,451       | +7.46    | 4,092,459     | +20.35   |

**Employment Statistics****Harris County, Texas**

|             | <u>2019 (a)</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-------------|-----------------|-------------|-------------|-------------|-------------|
| Labor Force | 2,343,968       | 2,304,397   | 2,268,057   | 2,251,321   | 2,236,170   |
| Employed    | 2,244,720       | 2,203,924   | 2,153,104   | 2,131,500   | 2,132,542   |
| Unemployed  | 99,248          | 100,473     | 114,953     | 119,821     | 103,628     |
| Rate        | 4.2%            | 4.4%        | 5.1%        | 5.3%        | 4.6%        |

**City of Houston, Texas**

|             | <u>2019 (a)</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|-------------|-----------------|-------------|-------------|-------------|-------------|
| Labor Force | 1,176,657       | 1,156,707   | 1,137,890   | 1,139,056   | 1,139,966   |
| Employed    | 1,128,142       | 1,107,639   | 1,082,103   | 1,081,666   | 1,091,075   |
| Unemployed  | 48,515          | 49,068      | 55,787      | 57,390      | 48,891      |
| Rate        | 4.1%            | 4.2%        | 4.9%        | 5.0%        | 4.3%        |

(a) As of February 28, 2019.

Source: Texas Workforce Commission.

**APPENDIX B**  
**AUDITED FINANCIAL STATEMENTS OF THE CITY**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2017**

# CITY OF WEST UNIVERSITY PLACE, TEXAS

Comprehensive Annual Financial Report for  
the Fiscal Year Ended December 31, 2017



***COMPREHENSIVE  
ANNUAL FINANCIAL REPORT***

of the

**CITY OF WEST UNIVERSITY  
PLACE, TEXAS**

**For the Year Ended  
December 31, 2017**

**Officials Issuing Report:**

**M. Christopher Peifer  
City Manager**

**Marie F. Kalka  
Finance Director**



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***INTRODUCTORY SECTION***





# The City of West University Place

*A Neighborhood City*

June 15, 2018

The Honorable Mayor, City Council  
Members, and Citizens of the  
City of West University Place, Texas:

The Finance Department is pleased to submit the Comprehensive Annual Financial Report (CAFR) for the City of West University Place, Texas (the "City") for the fiscal year ended December 31, 2017. This report is published to provide the City Council (the "Council"), City staff, our citizens, our bondholders, and other interested parties with detailed information concerning the financial condition and activities of the City government. Management assumes responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures.

We believe the data presented is accurate in all material respects and is organized in a manner designed to present fairly the financial position and results of operations of the City as measured by the financial activity of its various funds. All disclosures necessary to enable the reader to gain the maximum understanding of the City's financial activities have been included.

Belt Harris Pechacek, LLLP, Certified Public Accountants, have issued an unmodified ("clean") opinion on the City's financial statements for the year ended December 31, 2017. The independent auditors' report is located at the front of the financial section of this report.

Management's Discussion and Analysis (MD&A) immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this letter of transmittal and should be read in conjunction with it.

## **PROFILE OF THE GOVERNMENT**

The City was incorporated in 1924 and became a Texas Home-Rule City in 1940. The City operates under the Council-Manager form of municipal government. The Council is comprised of the Mayor and four Council members, who are responsible for passing ordinances, adopting the budget, appointing board and committee members, and appointing the City Manager. The Mayor and Council are elected on an at-large, non-partisan basis for two-year terms. The City Manager is responsible for carrying out the policies and ordinances of the Mayor and Council, overseeing the day-to-day operations of the City, and appointing department heads.

The City provides a full range of municipal services. These services include police and fire protection, municipal court, streets, drainage, leisure services, water and sewer, solid waste collection and disposal, community development, and general administrative services. Based upon the criterion set forth in generally accepted accounting principles, the following organizations are included within the City's reporting entity:

| <u>Entity</u>                         | <u>Method of Inclusion</u> |
|---------------------------------------|----------------------------|
| Friends of West University Parks Fund | Blended                    |



## **LOCAL ECONOMY**

The City encompasses a two square mile area located a few blocks south of U.S. Highway 59 (the “Southwest Freeway”) and approximately five miles from downtown Houston, Texas. The City is an integral part of the Houston metropolitan area and is completely surrounded by the cities of Houston, Bellaire, and Southside Place. The City is primarily a residential area whose working inhabitants are employed throughout the Houston urban area. Rice University and the Texas Medical Center complex are located about one mile east of the City limits in the City of Houston.

There is almost no vacant and/or undeveloped land in the City, so construction generally involves rebuilding and remodeling. The City continues to enjoy a stable outlook, with property values at \$6.4 billion, up 243 percent since 1999. Among reasons for this strength are the City’s convenient proximities to the Texas Medical Center, downtown Houston, the Rice Village, and Rice University, as well as the Galleria area.

The City’s tax rate is one of the lowest in the Houston area and is projected to remain relatively stable into the future due to projected stability in taxable values, the political stability of the community, and the underlying strength in the Houston area economy. The strength and continued diversity of the Metro Houston market area has a positive impact on the City.

The City’s relative stability is the result of a desire for suburban families to live closer to work. The City’s low crime rate and hometown appeal have attracted many of these families. These factors have contributed, and continue to contribute, to the relative stability of property values in the City.

The value of real property in the City is expected to increase in 2018. Expenditures are expected to remain steady with considerations for the continued competitive pressure on personnel costs and potential continued increases in the cost of employee health benefits.

## **LONG-TERM FINANCIAL PLANNING AND MAJOR INITIATIVES**

The City Council has adopted a series of financial standards and policies for operating and debt management. Management of the City has made every effort to comply with these standards and policies and believes we are currently in compliance.

The City has recognized the long-term financial implications of its pension and retiree health benefits. Regarding pensions, in an effort to reduce the City’s unfunded liability and cost of the Texas Municipal Retirement System, the Council approved the elimination of the recurring cost-of-living adjustment for employees and retirees. For retiree healthcare, at the November 17, 2008 Council meeting, Council adopted a new personnel handbook, with modifications that included elimination of City funded healthcare coverage for employees hired January 1, 2009 and thereafter.

The City has refunded several outstanding debt obligations from 2010 through 2016, resulting in total debt savings of over \$4 million. At the July 10, 2017 Council meeting, the City Council authorized the issuance of General Obligation Refunding Bonds, Series 2017 to refund the outstanding higher interest rate debt for the Permanent Improvement and Refunding Bonds, Series 2009; Permanent Improvement Bonds, Series 2010; and Certificates of Obligation, Series 2010. This refunding will produce an interest cost savings of approximately \$743,000 over the next eleven years.

Capital expenditures are funded through annual allocations from the general fund, the water and sewer fund, or the Congestion Mitigation/Traffic Management agreement funds received from the Metropolitan Transit Authority of Harris County. The allocations are transferred to the capital improvements fund for

general capital projects, to the water and sewer capital reserve fund for water and sewer related projects, or to the transportation/drainage fund for qualifying projects.

General capital projects planned for the 2018 budget include the continuation of the virtual gate project, Westside concrete parking lot, public works maintenance parking lot/wash bay, emergency operations storage building, and completion of the animal control shelter.

Transportation/drainage projects planned for the 2018 budget include the Buffalo Speedway project, Kilmarnock retaining wall replacement, and miscellaneous drainage improvements to improve street drainage, repair damaged storm drains, and remove low spots from roadways.

Additional water and sewer related projects planned in 2018 are sewer inflow and infiltration detection/reduction, Wastewater Treatment Plant Weir replacement, Wastewater Treatment Plant floodwater protection, and water system chlorination upgrades.

These projects are listed specifically in the annual budget for each fiscal year in the capital project funds section.

### **RELEVANT FINANCIAL POLICIES**

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

In developing and maintaining the City's accounting system, consideration is given to the adequacy of the internal control structure. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing the financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City Charter (the "Charter") establishes the fiscal year as January 1 through December 31. The Charter requires the City Manager to submit a proposed budget and accompanying budget message to the Council each year. The proposed budget is reviewed by the Council and is formally adopted by the passage of a budget ordinance. The City Manager is authorized to transfer budgeted amounts between line items within a department within any fund; however, any revisions that alter the total expenditures of any fund or department must be approved by the Council.

Budgetary control has been established at the department level. Monthly financial reports for Council are produced showing budget and actual revenues and expenditures. Individual line items are reviewed and analyzed for budgetary compliance.

### **AWARDS AND ACKNOWLEDGEMENTS**

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its CAFR for the fiscal year ended December 31, 2016. This was the 33<sup>rd</sup> consecutive year the City has received this prestigious award. In order to be awarded a

Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the Finance Department. Appreciation is expressed to all City employees throughout the organization, especially to those who were instrumental in the successful completion of this report. Additionally, we thank the Mayor, Council, and City Manager for their support and for maintaining the highest standards of professionalism in the management of the City's finances.

Respectfully submitted,

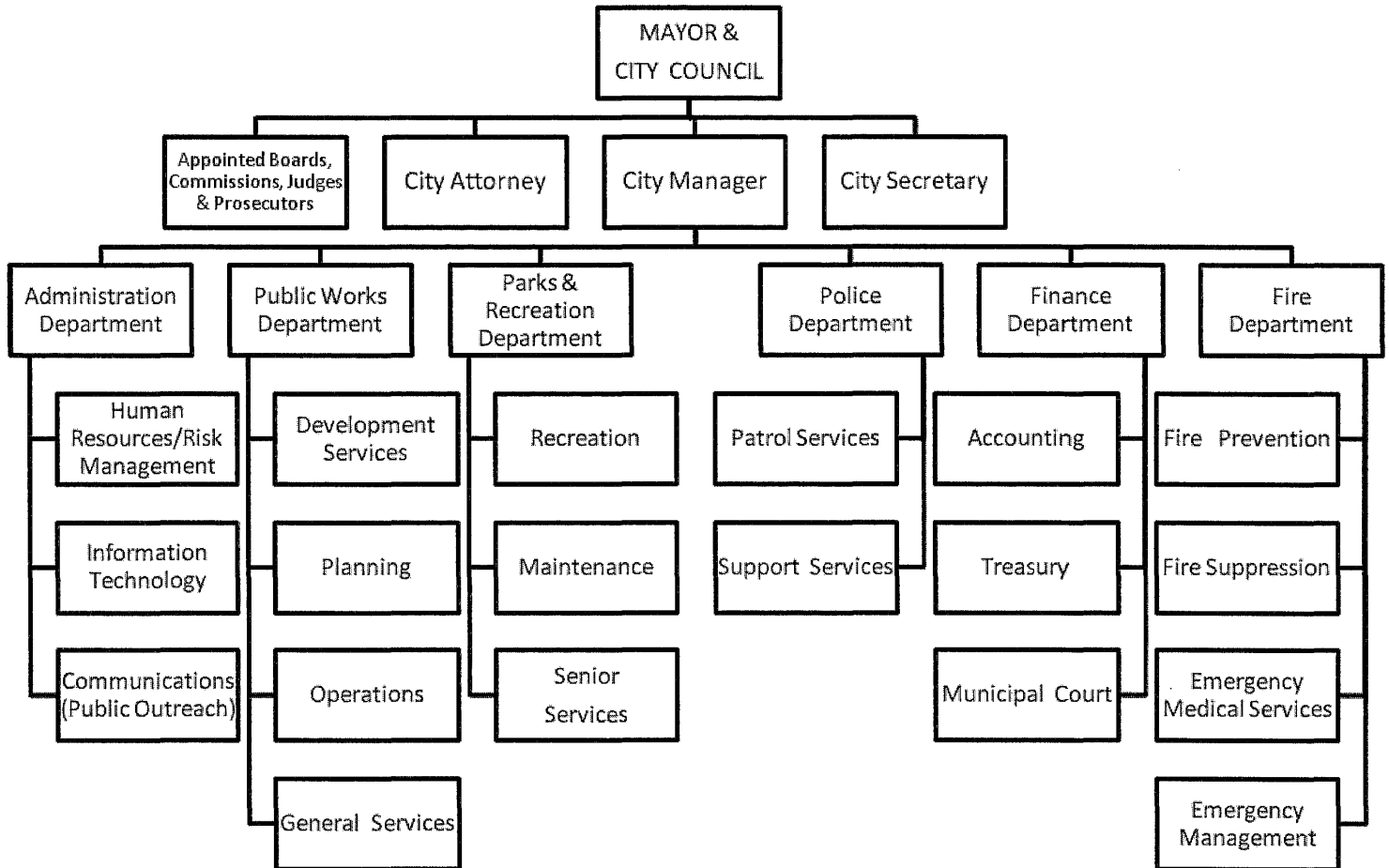
A handwritten signature in cursive script that reads "Marie Kalka".

Marie F. Kalka  
Finance Director

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## ORGANIZATIONAL CHART

December 31, 2017







**CITY OF WEST UNIVERSITY PLACE, TEXAS**

*CERTIFICATE OF ACHIEVEMENT FOR  
EXCELLENCE IN FINANCIAL REPORTING*



Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to  
**City of West University Place,  
Texas**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**December 31, 2016**

*Christopher P. Morrill*

Executive Director/CEO

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## PRINCIPAL OFFICIALS

December 31, 2017

| <u>City Officials</u> | <u>Elective Position</u> | <u>Term Expires</u> |
|-----------------------|--------------------------|---------------------|
| Susan Sample          | Mayor                    | 05/2019             |
| Wayne Franklin        | Mayor Pro Tem            | 05/2019             |
| Mardi Turner          | Council Member           | 05/2019             |
| Kelly Burke           | Council Member           | 05/2019             |
| Bob Higley            | Council Member           | 05/2019             |

| <u>Key Staff</u>      | <u>Position</u>                 |
|-----------------------|---------------------------------|
| M. Christopher Peifer | City Manager                    |
| Thelma Gilliam        | City Secretary                  |
| Wendy Standorf        | Human Resources Director        |
| Alan Petrov           | City Attorney                   |
| Marie F. Kalka        | Finance Director                |
| Robert Loper          | Municipal Court Judge           |
| Ken Walker            | Police Chief                    |
| Aaron Taylor          | Fire Chief                      |
| Susan White           | Parks and Recreation Director   |
| Gary McFarland        | Information Technology Director |
| Dave Beach            | Public Works Director           |

***FINANCIAL SECTION***

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## ***INDEPENDENT AUDITORS' REPORT***

To the Honorable Mayor and  
City Council Members of the  
City of West University Place, 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 the City of West University Place, Texas (the "City"), as of and for the year ended December 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

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

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

### **Auditors' Responsibility**

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

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

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

## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of December 31, 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 the Management's Discussion and Analysis, budgetary comparison information, schedule of changes in net pension liability and related ratios, schedule of contributions, and schedule of funding progress, identified as Required Supplementary Information on 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. We have applied certain limited procedures to the Required Supplementary Information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The introductory section, combining statements and schedules, and statistical section are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The combining statements and schedules 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 combining statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

*BELT HARRIS PECHACEK, LLLP*

Belt Harris Pechacek, LLLP  
*Certified Public Accountants*  
Houston, Texas  
June 15, 2018

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



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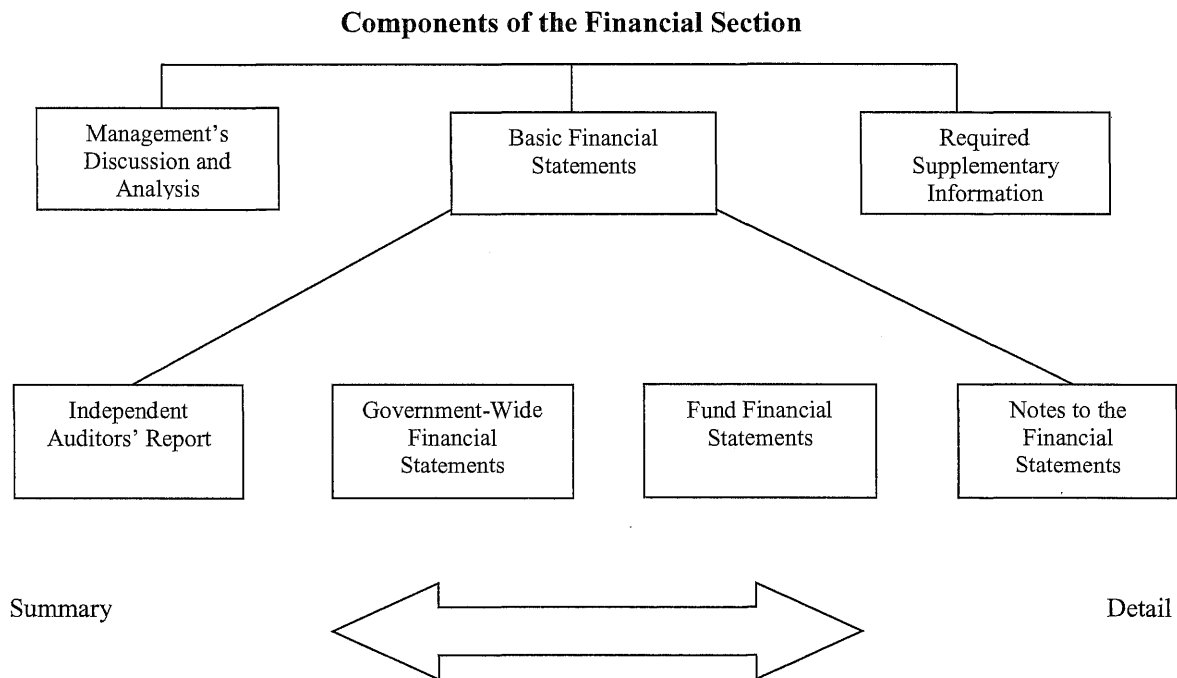
# CITY OF WEST UNIVERSITY PLACE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the Year Ended December 31, 2017

The purpose of the Management's Discussion and Analysis (MD&A) is to give the readers an objective and easily readable analysis of the financial activities of the City of West University Place, Texas (the "City") for the year ending December 31, 2017. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the transmittal letter at the front of this report and the City's basic financial statements, which follow this section.

### THE STRUCTURE OF OUR ANNUAL REPORT



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

#### **Government-Wide Financial Statements**

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

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

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2017

deteriorating. Other nonfinancial factors, such as the City's property tax base and the condition of the City's infrastructure, need to be considered in order to assess the overall health of the City.

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

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

1. *Governmental Activities* – Most of the City's basic services are reported here including general government (administration and finance), public safety (police and fire protection), public works (streets and drainage), and public services (leisure services and community development). Interest payments on the City's tax-supported debt are also reported here. Sales tax, property tax, franchise taxes, municipal court fines, and permit fees finance most of these activities.
2. *Business-Type Activities* – Services involving a fee for those services are reported here. These services include the City's water and sewer services and solid waste collection, as well as interest payments on debt issued for water and wastewater improvements.

The Friends of West University Parks Fund, although legally separate, functions for all practical purposes as a department of the City and, therefore, has been included as an integral part of the primary government.

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

## FUND FINANCIAL STATEMENTS

Funds may be considered as operating companies of the parent corporation, which is the City. They are usually segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal reporting requirements. The two categories of City funds are governmental and proprietary.

### Governmental Funds

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

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

The City maintains 11 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

# **CITY OF WEST UNIVERSITY PLACE, TEXAS**

## ***MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)***

**For the Year Ended December 31, 2017**

balances for the general fund and debt service fund, which are considered to be major funds for reporting purposes.

The City adopts an annual appropriated budget for its general fund, debt service fund, and select special revenue funds. Budgetary comparison schedules have been provided for these funds to demonstrate compliance with these budgets.

### **Proprietary Funds**

The City maintains two types of proprietary funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water distribution, wastewater collection/treatment, and solid waste operations. The proprietary fund financial statements provide separate information for the water and sewer and solid waste funds. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

The City also uses internal service funds to account for its vehicle and equipment replacement services and for expenses associated with health benefits and technology management. These internal service funds have been included within governmental activities in the government-wide financial statements.

### **Notes to Financial Statements**

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

### **Other Information**

In addition to basic financial statements, MD&A, and accompanying notes, this report also presents certain Required Supplementary Information (RSI). The RSI includes a budgetary comparison schedule for the general fund, schedule of changes in net pension liability and related ratios for the Texas Municipal Retirement System (TMRS), schedule of contributions for TMRS, and schedule of funding progress for other post employment healthcare benefits. RSI can be found after the notes to the basic financial statements.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. Assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$82,696,489 as of December 31, 2017. This compares with \$75,636,015 from the prior fiscal year. The largest portion of the City's net position, 83 percent, reflects its investments in capital assets (e.g., land, building, equipment, improvements, construction in progress, and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the assets themselves cannot be used to liquidate these liabilities.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2017

### Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

|   | Governmental<br>Activities |                      | Business-Type<br>Activities |                      | Total<br>Primary<br>Government |                      |
|---|----------------------------|----------------------|-----------------------------|----------------------|--------------------------------|----------------------|
|   | 2017                       | 2016                 | 2017                        | 2016                 | 2017                           | 2016                 |
| Current and other assets                        | \$ 38,826,831              | \$ 34,425,081        | \$ 3,932,567                | \$ 3,912,822         | \$ 42,759,398                  | \$ 38,337,903        |
| Capital assets, net                             | 93,510,336                 | 94,968,043           | 20,050,471                  | 21,128,592           | 113,560,807                    | 116,096,635          |
| <b>Total Assets</b>                             | <b>132,337,167</b>         | <b>129,393,124</b>   | <b>23,983,038</b>           | <b>25,041,414</b>    | <b>156,320,205</b>             | <b>154,434,538</b>   |
| Deferred charge on refunding                    | 1,592,164                  | 1,389,271            | -                           | -                    | 1,592,164                      | 1,389,271            |
| Deferred outflows - pensions                    | 3,288,175                  | 4,166,855            | 499,810                     | 633,947              | 3,787,985                      | 4,800,802            |
| <b>Total Deferred Outflows<br/>of Resources</b> | <b>4,880,339</b>           | <b>5,556,126</b>     | <b>499,810</b>              | <b>633,947</b>       | <b>5,380,149</b>               | <b>6,190,073</b>     |
| Long-term liabilities                           | 55,216,288                 | 62,058,785           | 1,302,695                   | 1,298,109            | 56,518,983                     | 63,356,894           |
| Other liabilities                               | 2,347,385                  | 2,010,127            | 733,018                     | 1,040,740            | 3,080,403                      | 3,050,867            |
| <b>Total Liabilities</b>                        | <b>57,563,673</b>          | <b>64,068,912</b>    | <b>2,035,713</b>            | <b>2,338,849</b>     | <b>59,599,386</b>              | <b>66,407,761</b>    |
| Property taxes                                  | 19,289,639                 | 18,580,835           | -                           | -                    | 19,289,639                     | 18,580,835           |
| Deferred inflows - pensions                     | 100,032                    | -                    | 14,808                      | -                    | 114,840                        | -                    |
| <b>Total Deferred Inflows<br/>of Resources</b>  | <b>19,389,671</b>          | <b>18,580,835</b>    | <b>14,808</b>               | <b>-</b>             | <b>19,404,479</b>              | <b>18,580,835</b>    |
| <b>Net Position:</b>                            |                            |                      |                             |                      |                                |                      |
| Net investment in<br>capital assets             | 48,398,572                 | 42,663,233           | 20,050,471                  | 21,128,592           | 68,449,043                     | 63,791,825           |
| Restricted                                      | 3,030,359                  | 2,543,238            | -                           | -                    | 3,030,359                      | 2,543,238            |
| Unrestricted                                    | 8,835,231                  | 7,093,032            | 2,381,856                   | 2,207,920            | 11,217,087                     | 9,300,952            |
| <b>Total Net Position</b>                       | <b>\$ 60,264,162</b>       | <b>\$ 52,299,503</b> | <b>\$ 22,432,327</b>        | <b>\$ 23,336,512</b> | <b>\$ 82,696,489</b>           | <b>\$ 75,636,015</b> |

A portion of the City's net position, \$3,030,359 or four percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$11,217,087 or 14 percent, may be used to meet the City's ongoing obligation to citizens and creditors.

The City's total net position increased by \$7,060,474 during the current fiscal year, an increase of nine percent in comparison to the prior year. This included an increase of \$7,964,659 in the governmental activities, which primarily was a result of increases in revenues related to operating and capital grants and contributions, ad valorem taxes, and transfers in from business-type activities. The decrease in business-type activities of \$904,185 is primarily a result of planned and budgeted transfers out to governmental activities.

As of December 31, 2017, the City reported deferred outflows and inflows of resources related to its pension plan of \$3,787,985 and \$114,840, respectively. Deferred outflows showed a decrease of \$1,012,817 and deferred inflows showed an increase of \$114,840 from the prior fiscal year. In addition, the City reported a net pension liability of \$7,413,145, which is part of the \$56,518,983 reported in long-term liabilities.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2017

### Statement of Activities:

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

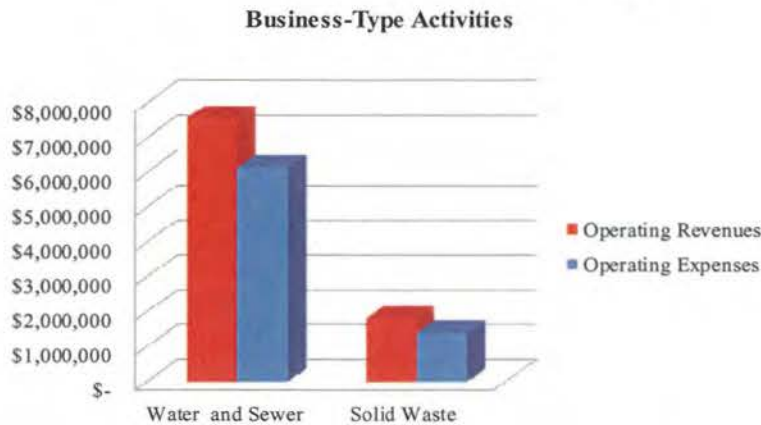
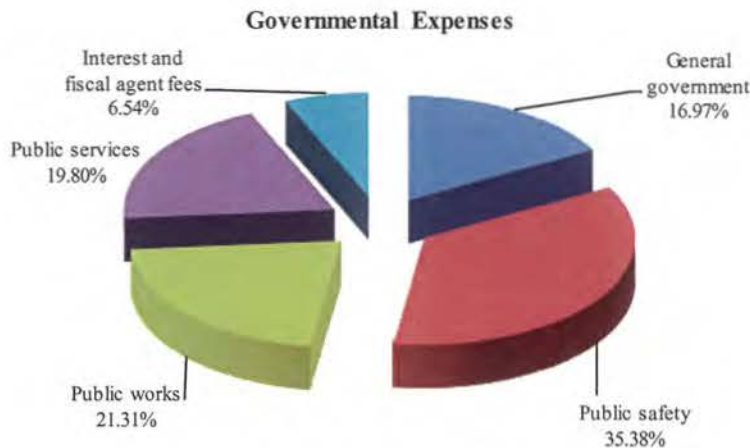
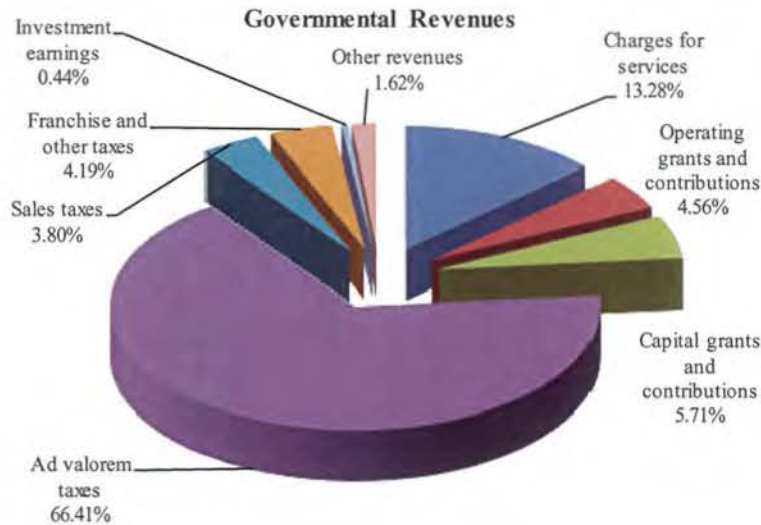
|  | Governmental<br>Activities |                      | Business-Type<br>Activities |                      | Total<br>Primary<br>Government |                      |
|--|----------------------------|----------------------|-----------------------------|----------------------|--------------------------------|----------------------|
|  | 2017                       | 2016                 | 2017                        | 2016                 | 2017                           | 2016                 |
| <b>Revenues</b>                                      |                            |                      |                             |                      |                                |                      |
| Program revenues:                                    |                            |                      |                             |                      |                                |                      |
| Charges for services                                 | \$ 3,722,210               | \$ 3,336,661         | \$ 9,326,936                | \$ 8,993,660         | \$ 13,049,146                  | \$ 12,330,321        |
| Operating grants and contributions                   | 1,278,517                  | 546,599              | -                           | -                    | 1,278,517                      | 546,599              |
| Capital grants and contributions                     | 1,600,000                  | 579,630              | 67,892                      | -                    | 1,667,892                      | 579,630              |
| General revenues:                                    |                            |                      |                             |                      |                                |                      |
| Ad valorem taxes                                     | 18,614,853                 | 18,106,906           | -                           | -                    | 18,614,853                     | 18,106,906           |
| Sales taxes  | 1,064,672                  | 1,051,361            | -                           | -                    | 1,064,672                      | 1,051,361            |
| Franchise taxes                                      | 1,159,730                  | 1,144,256            | -                           | -                    | 1,159,730                      | 1,144,256            |
| Other taxes  | 14,330                     | 15,955               | -                           | -                    | 14,330                         | 15,955               |
| Investment earnings                                  | 122,556                    | 116,798              | 17,706                      | 15,397               | 140,262                        | 132,195              |
| Other revenues                                       | 455,033                    | 775,392              | -                           | -                    | 455,033                        | 775,392              |
| <b>Total Revenues</b>                                | <u>28,031,901</u>          | <u>25,673,558</u>    | <u>9,412,534</u>            | <u>9,009,057</u>     | <u>37,444,435</u>              | <u>34,682,615</u>    |
| <b>Expenses</b>                                      |                            |                      |                             |                      |                                |                      |
| General government                                   | 3,880,070                  | 3,871,442            | -                           | -                    | 3,880,070                      | 3,871,442            |
| Public safety  | 8,090,377                  | 7,563,086            | -                           | -                    | 8,090,377                      | 7,563,086            |
| Public works   | 4,872,132                  | 4,603,321            | -                           | -                    | 4,872,132                      | 4,603,321            |
| Public services                                      | 4,527,049                  | 4,518,987            | -                           | -                    | 4,527,049                      | 4,518,987            |
| Interest and fiscal agent<br>fees on long-term debt  | 1,496,068                  | 1,767,154            | -                           | -                    | 1,496,068                      | 1,767,154            |
| Water and sewer                                      | -                          | -                    | 6,125,682                   | 6,582,306            | 6,125,682                      | 6,582,306            |
| Solid waste  | -                          | -                    | 1,392,583                   | 1,277,986            | 1,392,583                      | 1,277,986            |
| <b>Total Expenses</b>                                | <u>22,865,696</u>          | <u>22,323,990</u>    | <u>7,518,265</u>            | <u>7,860,292</u>     | <u>30,383,961</u>              | <u>30,184,282</u>    |
| <b>Increase in Net Position<br/>Before Transfers</b> | 5,166,205                  | 3,349,568            | 1,894,269                   | 1,148,765            | 7,060,474                      | 4,498,333            |
| Transfers in (out)                                   | 2,798,454                  | (1,337,756)          | (2,798,454)                 | 1,337,756            | -                              | -                    |
| <b>Change in Net Position</b>                        | 7,964,659                  | 2,011,812            | (904,185)                   | 2,486,521            | 7,060,474                      | 4,498,333            |
| Beginning net position                               | 52,299,503                 | 50,287,691           | 23,336,512                  | 20,849,991           | 75,636,015                     | 71,137,682           |
| <b>Ending Net Position</b>                           | <u>\$ 60,264,162</u>       | <u>\$ 52,299,503</u> | <u>\$ 22,432,327</u>        | <u>\$ 23,336,512</u> | <u>\$ 82,696,489</u>           | <u>\$ 75,636,015</u> |

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

### For the Year Ended December 31, 2017

Graphic presentations of selected data from the summary tables follow to assist in the analysis of the City's activities.



For the year ended December 31, 2017, revenues from governmental activities totaled \$28,031,901, compared with \$25,673,558 in the prior year. This increase of \$2,358,343 occurred primarily as the result of \$731,918

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2017

change in operating grants and contributions, \$1,020,370 increase in capital grants and contributions, as well as \$507,947 in additional property tax revenue. Operating grants and contributions increased due to additional contributions received for City parks. Capital grants and contributions increased as a result of donated land that the City received during the fiscal year. Increased property tax valuations throughout the City attributed to the increase in property tax revenue. Transfers in from business-type activities also contributed to the overall increase in net position for governmental activities. The increase was a result of reinstating the reduced portion of the 2016 administrative cost allocation.

For the year ended December 31, 2017, expenses for governmental activities totaled \$22,865,696, an increase of \$541,706 or two percent from last year. The overall increase is primarily due to increases in public safety and public works expenses, which can be attributable to higher costs related to salaries and wages, as well as the change in pension expense.

Charges for services for business-type activities increased \$333,276, which is an increase of four percent. Operating expenses for business-type activities decreased by \$342,027. This decrease is primarily due to a decrease in operating expenses during the year, as well as decreased expenses related to wages and benefits.

### FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

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

The City's governmental funds reflect a combined fund balance of \$11,599,743. Of this, \$184,871 is nonspendable, \$900,120 is restricted for debt service, \$51,364 is restricted for enabling legislation, \$1,519,691 is restricted for City parks, \$265,774 is restricted for METRO, \$19,948 is restricted for special projects, \$273,462 is restricted for governmental programming, \$119,000 is assigned for City operations, \$259,682 is assigned for tree replacement, and \$2,362,834 is assigned to capital projects funds.

There was an increase in the combined fund balance of \$1,477,280 compared to the prior year. This is largely attributable to increases in revenue from ad valorem taxes and contributions. In addition, expenditures decreased slightly overall for total governmental funds. The increase to transfers in also contributed to this overall change in combined fund balance.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$5,642,997, while total fund balance reached \$6,220,330. 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 31 percent of total general fund expenditures, while total fund balance represents 34 percent of the total general fund expenditures. The general fund demonstrated an overall increase of \$282,452 primarily due to increases in revenue and other financing sources related to ad valorem taxes, charges for services, other revenues, and transfers in.

The debt service fund has a total fund balance of \$900,120, all of which is restricted for the payment of debt service. Expenditures exceeded revenues by \$1,289,559, with an overall net decrease in fund balance after other funding sources for the year of \$12,598. This decrease in fund balance is primarily due to the net effect transfers



# CITY OF WEST UNIVERSITY PLACE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2017

in from the water and sewer fund for its portion of debt related to governmental activities, as well as the issuance of debt.

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

### GENERAL FUND BUDGETARY HIGHLIGHTS

There had been a planned decrease in budgeted fund balance in the amount of \$1,561,772 in the general fund. However, fund balance increased by \$282,452, resulting in a positive variance of \$1,844,224 from actual over budgeted as amended.

Actual general fund revenues were greater than the amended budgeted revenues by \$707,427 during 2017. This net variance includes the positive variances of \$657,921 for charges for services and \$82,834 for other revenues.

Actual expenditures were less than budgeted amounts in total by \$1,134,995 for the fiscal year. This net variance is due to positive variances of \$167,374 for general government, \$564,977 for public safety, \$258,000 for public works, and \$144,644 for public services.

### CAPITAL ASSETS

At the end of fiscal year 2017, the City's governmental and business-type activities funds had invested \$93,510,336 and \$20,050,471, respectively, in a variety of capital assets and infrastructure (net of accumulated depreciation). This represents net decreases of \$1,457,707 and \$1,078,121, respectively.

Major capital assets events during the year included the following:

- Donation of land for JEH Park for \$1,500,000
- Purchase of a chiller for City Hall/Fire Department roof for \$74,153
- Purchase of water and sewer fund equipment of \$161,434
- Completion of library renovation of \$93,170
- Construction in progress for various City projects in the amount of \$235,288

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

### LONG-TERM DEBT

At the end of the current year, the City had total bonds and certificates of obligation outstanding of \$46,140,000. Of this amount, \$40,095,000 was general obligation debt and \$6,045,000 was certificates of obligation debt. During the year, the City had a net decrease in long-term debt of \$6,837,911.

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

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

For the Year Ended December 31, 2017

Current underlying ratings on debt issues are as follows:

|                            | <u>Standard and<br/>Poor's</u> |
|----------------------------|--------------------------------|
| General obligation bonds   | AAA                            |
| Certificates of obligation | AAA                            |

### ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The City Council approved a \$37.94 million operating budget for fiscal year 2018. The budget maintains the property tax rate at \$0.31680 per \$100 of valuation. The City's tax rate is one of the lowest in the Houston area and is projected to remain relatively stable into the future due to projected stability in taxable values, the political stability of the community, and the underlying strength in the Houston area economy.

The City has carefully monitored the performance of utility services and increased rates as needed for the water and sewer fund. As of January 2016, the water and sewer fund had no direct debt. General obligation refunding bonds were issued in 2010 and 2016 to refund all the outstanding revenue bonds for substantial interest rate savings. Funds are transferred from the water and sewer fund to the debt service fund to cover the annual debt service requirement attributable to these refunded bonds. The adopted fiscal year 2018 budget maintains the 2017 water rates and slightly increases the sewer rates as recommended in the completed 2017 water and sewer rate study.

The strength and continued diversity of the Metro Houston market area has a positive impact on the City. There is almost no vacant and/or undeveloped land in the City, so construction generally involves rebuilding and remodeling. For the immediate future, the rate of growth is expected to remain steady with reconstruction continuing to impact the value of property well into the future, as well as the recapture of value that has been capped at ten percent per year. The City continues to enjoy a stable outlook, with property values at \$6.4 billion, up 243 percent since 1999. Among reasons for this strength are the City's convenient proximities to the Texas Medical Center, downtown Houston, the Rice Village, and Rice University, as well as the Galleria area. The City's low crime rate and hometown appeal have attracted many of these families. These factors have contributed, and continue to contribute, to the relative stability of property values in the City.

### CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of the City's finances. Questions concerning this report or requests for additional financial information should be directed to Marie F. Kalka, Finance Director, 3800 University Boulevard, West University Place, Texas, 77005; telephone 713.662.5816; or for general City information, visit the City's website at [www.westutx.gov](http://www.westutx.gov).

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***BASIC FINANCIAL STATEMENTS***

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# CITY OF WEST UNIVERSITY PLACE, TEXAS

## STATEMENT OF NET POSITION

December 31, 2017

|  | Primary Government         |                             |                      |
|--|----------------------------|-----------------------------|----------------------|
|  | Governmental<br>Activities | Business-Type<br>Activities | Total                |
| <b><u>Assets</u></b>                           |                            |                             |                      |
| Cash and equity in pooled cash and investments | \$ 23,974,656              | \$ 2,290,429                | \$ 26,265,085        |
| Cash with fiscal agent                         | 4,017,206                  | -                           | 4,017,206            |
| Cash and cash equivalents                      | 861,107                    | -                           | 861,107              |
| Investments                                    | 459,031                    | -                           | 459,031              |
| Receivables, net of allowances                 | 9,092,772                  | 1,642,138                   | 10,734,910           |
| Inventory                                      | 17,044                     | -                           | 17,044               |
| Prepays  | 405,015                    | -                           | 405,015              |
| Capital assets:                                |                            |                             |                      |
| Nondepreciable capital assets                  | 8,064,793                  | 235,789                     | 8,300,582            |
| Depreciable capital assets, net                | 85,445,543                 | 19,814,682                  | 105,260,225          |
| <b>Total Assets</b>                            | <b>132,337,167</b>         | <b>23,983,038</b>           | <b>156,320,205</b>   |
| <b><u>Deferred Outflows of Resources</u></b>   |                            |                             |                      |
| Deferred charge on refunding                   | 1,592,164                  | -                           | 1,592,164            |
| Deferred outflows - pensions                   | 3,288,175                  | 499,810                     | 3,787,985            |
| <b>Total Deferred Outflows of Resources</b>    | <b>4,880,339</b>           | <b>499,810</b>              | <b>5,380,149</b>     |
| <b><u>Liabilities</u></b>                      |                            |                             |                      |
| Accounts payable and accrued liabilities       | 1,650,348                  | 656,379                     | 2,306,727            |
| Unearned revenue                               | 295,302                    | 76,639                      | 371,941              |
| Accrued interest payable                       | 401,735                    | -                           | 401,735              |
| Noncurrent liabilities:                        |                            |                             |                      |
| Due within one year                            | 8,854,894                  | 134,431                     | 8,989,325            |
| Due in more than one year                      | 46,361,394                 | 1,168,264                   | 47,529,658           |
| <b>Total Liabilities</b>                       | <b>57,563,673</b>          | <b>2,035,713</b>            | <b>59,599,386</b>    |
| <b><u>Deferred Inflows of Resources</u></b>    |                            |                             |                      |
| Property taxes                                 | 19,289,639                 | -                           | 19,289,639           |
| Deferred inflows - pensions                    | 100,032                    | 14,808                      | 114,840              |
| <b>Total Deferred Inflows of Resources</b>     | <b>19,389,671</b>          | <b>14,808</b>               | <b>19,404,479</b>    |
| <b><u>Net Position</u></b>                     |                            |                             |                      |
| Net investment in capital assets               | 48,398,572                 | 20,050,471                  | 68,449,043           |
| Restricted for:                                |                            |                             |                      |
| Debt service                                   | 900,120                    | -                           | 900,120              |
| Enabling legislation                           | 51,364                     | -                           | 51,364               |
| City parks                                     | 1,519,691                  | -                           | 1,519,691            |
| METRO  | 265,774                    | -                           | 265,774              |
| Special projects                               | 19,948                     | -                           | 19,948               |
| Governmental programming                       | 273,462                    | -                           | 273,462              |
| Unrestricted                                   | 8,835,231                  | 2,381,856                   | 11,217,087           |
| <b>Total Net Position</b>                      | <b>\$ 60,264,162</b>       | <b>\$ 22,432,327</b>        | <b>\$ 82,696,489</b> |

See Notes to Financial Statements.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2017

| Functions/Programs                    | Expenses             | Program Revenues     |                                    |                                  |
|---------------------------------------|----------------------|----------------------|------------------------------------|----------------------------------|
|                                       |                      | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| <b>Primary Government</b>             |                      |                      |                                    |                                  |
| <b>Governmental Activities</b>        |                      |                      |                                    |                                  |
| General government                    | \$ 3,880,070         | \$ -                 | \$ 532,336                         | \$ -                             |
| Public safety                         | 8,090,377            | 174,386              | -                                  | -                                |
| Public works                          | 4,872,132            | 588,353              | -                                  | -                                |
| Public services                       | 4,527,049            | 2,959,471            | 746,181                            | 1,600,000                        |
| Interest on long-term debt            | 1,496,068            | -                    | -                                  | -                                |
| <b>Total Governmental Activities</b>  | <b>22,865,696</b>    | <b>3,722,210</b>     | <b>1,278,517</b>                   | <b>1,600,000</b>                 |
| <b>Business-Type Activities</b>       |                      |                      |                                    |                                  |
| Water and sewer                       | 6,125,682            | 7,544,895            | -                                  | 67,892                           |
| Solid waste                           | 1,392,583            | 1,782,041            | -                                  | -                                |
| <b>Total Business-Type Activities</b> | <b>7,518,265</b>     | <b>9,326,936</b>     | <b>-</b>                           | <b>67,892</b>                    |
| <b>Total Primary Government</b>       | <b>\$ 30,383,961</b> | <b>\$ 13,049,146</b> | <b>\$ 1,278,517</b>                | <b>\$ 1,667,892</b>              |

**General Revenues:**

- Ad valorem taxes
- Sales taxes
- Franchise taxes
- Other taxes
- Investment earnings
- Other revenues
- Transfers

**Total General Revenues and Transfers**

**Change in Net Position**

Beginning net position

**Ending Net Position**

See Notes to Financial Statements.

**Net Revenue (Expense) and Changes in Net Position**

| <b>Primary Government</b>          |                                     |                      |
|------------------------------------|-------------------------------------|----------------------|
| <b>Governmental<br/>Activities</b> | <b>Business-Type<br/>Activities</b> | <b>Total</b>         |
| \$ (3,347,734)                     | \$ -                                | \$ (3,347,734)       |
| (7,915,991)                        | -                                   | (7,915,991)          |
| (4,283,779)                        | -                                   | (4,283,779)          |
| 778,603                            | -                                   | 778,603              |
| (1,496,068)                        | -                                   | (1,496,068)          |
| <u>(16,264,969)</u>                | <u>-</u>                            | <u>(16,264,969)</u>  |
| -                                  | 1,487,105                           | 1,487,105            |
| -                                  | 389,458                             | 389,458              |
| -                                  | 1,876,563                           | 1,876,563            |
| <u>(16,264,969)</u>                | <u>1,876,563</u>                    | <u>(14,388,406)</u>  |
| 18,614,853                         | -                                   | 18,614,853           |
| 1,064,672                          | -                                   | 1,064,672            |
| 1,159,730                          | -                                   | 1,159,730            |
| 14,330                             | -                                   | 14,330               |
| 122,556                            | 17,706                              | 140,262              |
| 455,033                            | -                                   | 455,033              |
| 2,798,454                          | (2,798,454)                         | -                    |
| <u>24,229,628</u>                  | <u>(2,780,748)</u>                  | <u>21,448,880</u>    |
| 7,964,659                          | (904,185)                           | 7,060,474            |
| <u>52,299,503</u>                  | <u>23,336,512</u>                   | <u>75,636,015</u>    |
| <u>\$ 60,264,162</u>               | <u>\$ 22,432,327</u>                | <u>\$ 82,696,489</u> |



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# CITY OF WEST UNIVERSITY PLACE, TEXAS

## BALANCE SHEET

### GOVERNMENTAL FUNDS

December 31, 2017

|  | General              | Debt<br>Service     | Nonmajor<br>Governmental | Total<br>Governmental<br>Funds |
|--|----------------------|---------------------|--------------------------|--------------------------------|
| <b><u>Assets</u></b>   |                      |                     |                          |                                |
| Current assets:  |                      |                     |                          |                                |
| Cash and equity in pooled cash and investments                             | \$ 11,477,681        | \$ 3,830,304        | \$ 3,102,764             | \$ 18,410,749                  |
| Cash with fiscal agent   | 2,436,394            | 1,580,812           | -                        | 4,017,206                      |
| Cash and cash equivalents  | -                    | -                   | 861,107                  | 861,107                        |
| Investments  | -                    | -                   | 459,031                  | 459,031                        |
| Receivables, net   | 5,693,668            | 3,256,866           | 107,523                  | 9,058,057                      |
| Inventory  | 17,044               | -                   | -                        | 17,044                         |
| Prepaid costs  | 167,827              | -                   | -                        | 167,827                        |
| <b>Total Assets</b>  | <b>\$ 19,792,614</b> | <b>\$ 8,667,982</b> | <b>\$ 4,530,425</b>      | <b>\$ 32,991,021</b>           |
| <b><u>Liabilities</u></b>  |                      |                     |                          |                                |
| Accounts payable and accrued liabilities                                   | \$ 1,405,991         | \$ -                | \$ 51,132                | \$ 1,457,123                   |
| Unearned revenue   | 263,177              | -                   | -                        | 263,177                        |
| <b>Total Liabilities</b>   | <b>1,669,168</b>     | <b>-</b>            | <b>51,132</b>            | <b>1,720,300</b>               |
| <b><u>Deferred Inflow of Resources</u></b>                                 |                      |                     |                          |                                |
| Unavailable revenue - property taxes                                       | 11,903,116           | 7,767,862           | -                        | 19,670,978                     |
| <b><u>Fund Balances</u></b>  |                      |                     |                          |                                |
| Nonspendable:  |                      |                     |                          |                                |
| Inventory  | 17,044               | -                   | -                        | 17,044                         |
| Prepaid items  | 167,827              | -                   | -                        | 167,827                        |
| Restricted for:  |                      |                     |                          |                                |
| Debt service   | -                    | 900,120             | -                        | 900,120                        |
| Enabling legislation   | -                    | -                   | 51,364                   | 51,364                         |
| City parks   | -                    | -                   | 1,519,691                | 1,519,691                      |
| METRO  | -                    | -                   | 265,774                  | 265,774                        |
| Special projects   | -                    | -                   | 19,948                   | 19,948                         |
| Governmental programming   | 273,462              | -                   | -                        | 273,462                        |
| Assigned to:   |                      |                     |                          |                                |
| City operations  | 119,000              | -                   | -                        | 119,000                        |
| Tree replacement   | -                    | -                   | 259,682                  | 259,682                        |
| Capital projects funds   | -                    | -                   | 2,362,834                | 2,362,834                      |
| Unassigned:  |                      |                     |                          |                                |
| General fund   | 5,642,997            | -                   | -                        | 5,642,997                      |
| <b>Total Fund Balances</b>   | <b>6,220,330</b>     | <b>900,120</b>      | <b>4,479,293</b>         | <b>11,599,743</b>              |
| <b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b> | <b>\$ 19,792,614</b> | <b>\$ 8,667,982</b> | <b>\$ 4,530,425</b>      | <b>\$ 32,991,021</b>           |

See Notes to Financial Statements.

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**CITY OF WEST UNIVERSITY PLACE, TEXAS**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**

December 31, 2017

Total fund balances for governmental funds \$ 11,599,743

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.

|                                 |            |            |
|---------------------------------|------------|------------|
| Capital assets, nondepreciable  | 8,064,793  |            |
| Capital assets, net depreciable | 85,445,543 |            |
|                                 |            | 93,510,336 |

Other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds. 381,339

Internal service funds are used by management to charge the costs of certain capital assets to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.

|  |           |           |
|--|-----------|-----------|
| Internal service funds' net position   | 6,219,163 |           |
| Capital assets accounted for in capital assets used in governmental activities | (851,590) |           |
| Compensated absences accounted for in long-term liabilities                    | 65,485    |           |
| Deferred outflows - pensions accounted for in governmental activities          | (144,855) |           |
| Deferred inflows - pensions accounted for in governmental activities           | 4,935     |           |
| Net pension liability accounted for in long-term liabilities                   | 282,419   |           |
| Net OPEB obligation accounted for in long-term liabilities                     | 34,903    |           |
|  |           | 5,610,460 |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

|  |              |                      |
|--|--------------|----------------------|
| Accrued interest                                 | (401,735)    |                      |
| Deferred charge on refunding                     | 1,592,164    |                      |
| Deferred outflows - pensions                     | 3,288,175    |                      |
| Deferred inflows - pensions                      | (100,032)    |                      |
| Noncurrent liabilities due in one year           | (8,854,894)  |                      |
| Noncurrent liabilities due in more than one year | (46,361,394) |                      |
|  |              | (50,837,716)         |
| <b>Net Position of Governmental Activities</b>   |              | <b>\$ 60,264,162</b> |

See Notes to Financial Statements.

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**CITY OF WEST UNIVERSITY PLACE, TEXAS**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**

For the Year Ended December 31, 2017

|  | <u>General</u>      | <u>Debt<br/>Service</u> | <u>Nonmajor<br/>Governmental</u> | <u>Total<br/>Governmental<br/>Funds</u> |
|--|---------------------|-------------------------|----------------------------------|---|
| <b>Revenues</b>  |                     |                         |                                  |   |
| Ad valorem taxes   | \$ 10,897,253       | \$ 7,696,744            | \$ -                             | \$ 18,593,997                           |
| Sales taxes  | 1,064,672           | -                       | -                                | 1,064,672                               |
| Franchise taxes  | 1,159,730           | -                       | -                                | 1,159,730                               |
| Other taxes  | 14,330              | -                       | -                                | 14,330                                  |
| Permits, licenses, and fees  | 542,903             | -                       | 45,450                           | 588,353                                 |
| Fines and forfeitures  | 164,384             | -                       | 10,002                           | 174,386                                 |
| Charges for services   | 2,959,471           | -                       | -                                | 2,959,471                               |
| Intergovernmental  | -                   | -                       | 532,336                          | 532,336                                 |
| Contributions  | -                   | -                       | 746,181                          | 746,181                                 |
| Investment earnings  | 43,227              | 7,215                   | 29,718                           | 80,160                                  |
| Other revenues   | 441,874             | -                       | -                                | 441,874                                 |
| <b>Total Revenues</b>  | <u>17,287,844</u>   | <u>7,703,959</u>        | <u>1,363,687</u>                 | <u>26,355,490</u>                       |
| <b>Expenditures</b>  |                     |                         |                                  |   |
| <b>Current:</b>  |                     |                         |                                  |   |
| General government   | 3,426,621           | -                       | 73,399                           | 3,500,020                               |
| Public safety  | 8,072,917           | -                       | -                                | 8,072,917                               |
| Public works   | 3,014,800           | -                       | 209,884                          | 3,224,684                               |
| Public services  | 3,597,756           | -                       | 272,719                          | 3,870,475                               |
| <b>Capital outlay</b>  | -                   | -                       | 100,259                          | 100,259                                 |
| <b>Debt service:</b>   |                     |                         |                                  |   |
| Principal  | -                   | 7,485,000               | -                                | 7,485,000                               |
| Interest and fiscal agent fees                                       | -                   | 1,426,468               | -                                | 1,426,468                               |
| Bond issuance costs  | -                   | 82,050                  | -                                | 82,050                                  |
| <b>Total Expenditures</b>  | <u>18,112,094</u>   | <u>8,993,518</u>        | <u>656,261</u>                   | <u>27,761,873</u>                       |
| <b>Excess (Deficiency) of Revenues<br/>Over (Under) Expenditures</b> | <u>(824,250)</u>    | <u>(1,289,559)</u>      | <u>707,426</u>                   | <u>(1,406,383)</u>                      |
| <b>Other Financing Sources (Uses)</b>                                |                     |                         |                                  |   |
| Transfers in   | 1,604,900           | 1,193,554               | 1,200,000                        | 3,998,454                               |
| Transfers (out)  | (500,000)           | -                       | (700,000)                        | (1,200,000)                             |
| Sale of capital assets   | 1,802               | -                       | -                                | 1,802                                   |
| Debt issued  | -                   | 9,965,000               | -                                | 9,965,000                               |
| Payment to refunded bond escrow agent                                | -                   | (9,881,593)             | -                                | (9,881,593)                             |
| <b>Total Other Financing Sources</b>                                 | <u>1,106,702</u>    | <u>1,276,961</u>        | <u>500,000</u>                   | <u>2,883,663</u>                        |
| <b>Net Change in Fund Balances</b>                                   | 282,452             | (12,598)                | 1,207,426                        | 1,477,280                               |
| Beginning fund balances  | 5,937,878           | 912,718                 | 3,271,867                        | 10,122,463                              |
| <b>Ending Fund Balances</b>  | <u>\$ 6,220,330</u> | <u>\$ 900,120</u>       | <u>\$ 4,479,293</u>              | <u>\$ 11,599,743</u>                    |

See Notes to Financial Statements.

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**CITY OF WEST UNIVERSITY PLACE, TEXAS**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,**  
**AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ACTIVITIES**  
For the Year Ended December 31, 2017

Net changes in fund balances - total governmental funds \$ 1,477,280

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.

|                      |             |
|----------------------|-------------|
| Capital outlay       | 1,976,417   |
| Depreciation expense | (3,292,699) |

The issuance of long-term debt (e.g., bonds, certificates of obligation) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued; whereas, these amounts are deferred and amortized in the Statement of Activities.

|  |             |
|--|-------------|
| Principal payments                     | 7,485,000   |
| Amortization of premium                | 225,153     |
| Change in deferred charge on refunding | 202,893     |
| Bonds issued                           | (9,965,000) |
| Payment to refund bonds                | 9,245,000   |
| Change in accrued interest             | 220,997     |

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenue in the funds. 20,856

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                   | (46,649)  |
| OPEB obligation                        | (60,086)  |
| Change in net pension liability        | (26,136)  |
| Change in deferred outflows - pensions | (840,739) |
| Change in deferred inflows - pensions  | (95,097)  |

Internal service funds are used by management to charge the costs of certain capital assets to individual funds. The net revenue is reported with governmental activities. 1,437,469

**Change in Net Position of Governmental Activities** **\$ 7,964,659**

See Notes to Financial Statements.



# CITY OF WEST UNIVERSITY PLACE, TEXAS

## STATEMENT OF NET POSITION (Page 1 of 2)

### PROPRIETARY FUNDS

December 31, 2017

|  | Business-Type Activities - Enterprise Funds |                   |                              | Governmental                      |
|--|---|-------------------|------------------------------|-----------------------------------|
|  | Water and<br>Sewer                          | Solid<br>Waste    | Total<br>Enterprise<br>Funds | Activities<br>Internal<br>Service |
| <b>Assets</b>  |   |                   |                              |                                   |
| Current assets:  |   |                   |                              |                                   |
| Cash and equity in pooled cash<br>and investments                | \$ 1,750,355                                | \$ 540,074        | \$ 2,290,429                 | \$ 5,563,907                      |
| Accounts receivable, net   | 1,308,636                                   | 333,502           | 1,642,138                    | 34,715                            |
| Prepaid costs  | -   | -                 | -                            | 237,188                           |
| <b>Total Current Assets</b>                                      | <b>3,058,991</b>                            | <b>873,576</b>    | <b>3,932,567</b>             | <b>5,835,810</b>                  |
| Noncurrent assets:   |   |                   |                              |                                   |
| Capital assets:  |   |                   |                              |                                   |
| Land   | 193,875                                     | -                 | 193,875                      | -                                 |
| Construction in progress   | 41,914                                      | -                 | 41,914                       | -                                 |
| Buildings and improvements                                       | 459,625                                     | -                 | 459,625                      | -                                 |
| Machinery and equipment  | 2,278,208                                   | -                 | 2,278,208                    | 3,038,817                         |
| Water and sewer systems  | 56,437,682                                  | -                 | 56,437,682                   | -                                 |
| Less: accumulated depreciation                                   | (39,360,833)                                | -                 | (39,360,833)                 | (2,187,227)                       |
| <b>Total Capital Assets, Net of<br/>Accumulated Depreciation</b> | <b>20,050,471</b>                           | <b>-</b>          | <b>20,050,471</b>            | <b>851,590</b>                    |
| <b>Total Noncurrent Assets</b>                                   | <b>20,050,471</b>                           | <b>-</b>          | <b>20,050,471</b>            | <b>851,590</b>                    |
| <b>Total Assets</b>  | <b>\$ 23,109,462</b>                        | <b>\$ 873,576</b> | <b>\$ 23,983,038</b>         | <b>\$ 6,687,400</b>               |

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## STATEMENT OF NET POSITION (Page 2 of 2)

### PROPRIETARY FUNDS

December 31, 2017

|  | Business-Type Activities - Enterprise Funds |                   |                              | Governmental                      |
|--|---|-------------------|------------------------------|-----------------------------------|
|  | Water and<br>Sewer                          | Solid<br>Waste    | Total<br>Enterprise<br>Funds | Activities<br>Internal<br>Service |
| <b><u>Deferred Outflows of Resources</u></b> |   |                   |                              |                                   |
| Deferred outflows - pensions                 | \$ 371,676                                  | \$ 128,134        | \$ 499,810                   | \$ 144,855                        |
| <b>Total Deferred Outflows of Resources</b>  | <b>371,676</b>                              | <b>128,134</b>    | <b>499,810</b>               | <b>144,855</b>                    |
| <b><u>Liabilities</u></b>                    |   |                   |                              |                                   |
| Current liabilities:                         |   |                   |                              |                                   |
| Accounts payable and accrued liabilities     | 544,725                                     | 111,654           | 656,379                      | 193,225                           |
| Unearned revenue                             | 57,328                                      | 19,311            | 76,639                       | 32,125                            |
| Compensated absences                         | 115,650                                     | 18,781            | 134,431                      | -                                 |
| <b>Total Current Liabilities</b>             | <b>717,703</b>                              | <b>149,746</b>    | <b>867,449</b>               | <b>225,350</b>                    |
| Noncurrent liabilities:                      |   |                   |                              |                                   |
| Compensated absences                         | 12,850                                      | 2,087             | 14,937                       | 65,485                            |
| Net pension liability                        | 727,540                                     | 251,270           | 978,810                      | 282,419                           |
| Net OPEB obligation                          | 122,162                                     | 52,355            | 174,517                      | 34,903                            |
| <b>Total Noncurrent Liabilities</b>          | <b>862,552</b>                              | <b>305,712</b>    | <b>1,168,264</b>             | <b>382,807</b>                    |
| <b>Total Liabilities</b>                     | <b>1,580,255</b>                            | <b>455,458</b>    | <b>2,035,713</b>             | <b>608,157</b>                    |
| <b><u>Deferred Inflows of Resources</u></b>  |   |                   |                              |                                   |
|  | 11,184                                      | 3,624             | 14,808                       | 4,935                             |
| <b>Total Deferred Inflows of Resources</b>   | <b>11,184</b>                               | <b>3,624</b>      | <b>14,808</b>                | <b>4,935</b>                      |
| <b><u>Net Position</u></b>                   |   |                   |                              |                                   |
| Net investment in capital assets             | 20,050,471                                  | -                 | 20,050,471                   | 851,590                           |
| Unrestricted                                 | 1,839,228                                   | 542,628           | 2,381,856                    | 5,367,573                         |
| <b>Total Net Position</b>                    | <b>\$ 21,889,699</b>                        | <b>\$ 542,628</b> | <b>\$ 22,432,327</b>         | <b>\$ 6,219,163</b>               |

See Notes to Financial Statements.

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**CITY OF WEST UNIVERSITY PLACE, TEXAS**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION**  
**PROPRIETARY FUNDS**

For the Year Ended December 31, 2017

|  | <u>Business-Type Activities - Enterprise Funds</u> |                   |                      | <u>Governmental</u> |
|--|--|-------------------|----------------------|---------------------|
|  | <u>Water and</u>                                   | <u>Solid</u>      | <u>Total</u>         | <u>Activities</u>   |
|  | <u>Sewer</u>                                       | <u>Waste</u>      | <u>Enterprise</u>    | <u>Internal</u>     |
|  |  |                   | <u>Funds</u>         | <u>Service</u>      |
| <b><u>Operating Revenues</u></b>                 |  |                   |                      |                     |
| Charges for sales and services                   | \$ 7,544,895                                       | \$ 1,729,284      | \$ 9,274,179         | \$ 5,410,005        |
| Other revenues                                   | -  | 52,757            | 52,757               | 16,471              |
| <b>Total Operating Revenues</b>                  | <u>7,544,895</u>                                   | <u>1,782,041</u>  | <u>9,326,936</u>     | <u>5,426,476</u>    |
| <b><u>Operating Expenses</u></b>                 |  |                   |                      |                     |
| Costs of sales and services                      | 2,888,364  | 863,621           | 3,751,985            | 3,142,455           |
| Personnel  | 1,371,391  | 528,962           | 1,900,353            | 601,387             |
| Repairs and maintenance                          | -  | -                 | -                    | 83,340              |
| Depreciation                                     | 1,865,927  | -                 | 1,865,927            | 215,578             |
| <b>Total Operating Expenses</b>                  | <u>6,125,682</u>                                   | <u>1,392,583</u>  | <u>7,518,265</u>     | <u>4,042,760</u>    |
| <b>Operating Income</b>                          | <u>1,419,213</u>                                   | <u>389,458</u>    | <u>1,808,671</u>     | <u>1,383,716</u>    |
| <b><u>Nonoperating Revenues (Expenses)</u></b>   |  |                   |                      |                     |
| Investment earnings                              | 14,414   | 3,292             | 17,706               | 42,396              |
| Gain on sale of capital assets                   | -  | -                 | -                    | 11,357              |
| <b>Total Nonoperating Revenues</b>               | <u>14,414</u>                                      | <u>3,292</u>      | <u>17,706</u>        | <u>53,753</u>       |
| <b>Income Before Contributions and Transfers</b> | <u>1,433,627</u>                                   | <u>392,750</u>    | <u>1,826,377</u>     | <u>1,437,469</u>    |
| <b><u>Contributions and Transfers</u></b>        |  |                   |                      |                     |
| Capital contributions                            | 67,892   | -                 | 67,892               | -                   |
| Transfers (out)                                  | (2,739,054)  | (59,400)          | (2,798,454)          | -                   |
| <b>Change in Net Position</b>                    | <u>(1,237,535)</u>                                 | <u>333,350</u>    | <u>(904,185)</u>     | <u>1,437,469</u>    |
| Beginning net position                           | <u>23,127,234</u>                                  | <u>209,278</u>    | <u>23,336,512</u>    | <u>4,781,694</u>    |
| <b>Ending Net Position</b>                       | <u>\$ 21,889,699</u>                               | <u>\$ 542,628</u> | <u>\$ 22,432,327</u> | <u>\$ 6,219,163</u> |

See Notes to Financial Statements.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended December 31, 2017

|  | Business-Type Activities - Enterprise Funds |                   |                              | Governmental                      |
|--|---|-------------------|------------------------------|-----------------------------------|
|  | Water and<br>Sewer                          | Solid<br>Waste    | Total<br>Enterprise<br>Funds | Activities<br>Internal<br>Service |
| <b><u>Cash Flows from Operating Activities</u></b>                                   |   |                   |                              |                                   |
| Receipts from customers and users  | \$ 7,340,188                                | \$ 1,754,257      | \$ 9,094,445                 | \$ 2,502,486                      |
| Receipts from interfund charges for services   | -   | -                 | -                            | 2,921,400                         |
| Payments to suppliers  | (3,242,368)                                 | (817,339)         | (4,059,707)                  | (3,254,642)                       |
| Payments to employees  | (1,264,460)                                 | (482,362)         | (1,746,822)                  | (543,726)                         |
| <b>Net Cash Provided<br/>by Operating Activities</b>                                 | <b>2,833,360</b>                            | <b>454,556</b>    | <b>3,287,916</b>             | <b>1,625,518</b>                  |
| <b><u>Cash Flows from Noncapital Financing Activities</u></b>                        |   |                   |                              |                                   |
| Transfers (out)  | (2,739,054)                                 | (59,400)          | (2,798,454)                  | -                                 |
| <b>Net Cash (Used) by<br/>Noncapital Financing Activities</b>                        | <b>(2,739,054)</b>                          | <b>(59,400)</b>   | <b>(2,798,454)</b>           | <b>-</b>                          |
| <b><u>Cash Flows from Capital and Related<br/>Financing Activities</u></b>           |   |                   |                              |                                   |
| Acquisition, disposal, and<br>construction of capital assets                         | (719,914)                                   | -                 | (719,914)                    | (74,153)                          |
| Proceeds from sale of capital assets   | -   | -                 | -                            | 11,357                            |
| <b>Net Cash (Used) by Capital and<br/>Related Financing Activities</b>               | <b>(719,914)</b>                            | <b>-</b>          | <b>(719,914)</b>             | <b>(62,796)</b>                   |
| <b><u>Cash Flows from Investing Activities</u></b>                                   |   |                   |                              |                                   |
| Interest received  | 14,414                                      | 3,292             | 17,706                       | 42,396                            |
| <b>Net Cash Provided by Investing Activities</b>                                     | <b>14,414</b>                               | <b>3,292</b>      | <b>17,706</b>                | <b>42,396</b>                     |
| <b>Net Increase (Decrease) in Cash and<br/>Equity in Pooled Cash and Investments</b> | <b>(611,194)</b>                            | <b>398,448</b>    | <b>(212,746)</b>             | <b>1,605,118</b>                  |
| Beginning cash and equity in<br>pooled cash and investments                          | 2,361,549                                   | 141,626           | 2,503,175                    | 3,958,789                         |
| <b>Ending Cash and Equity in<br/>Pooled Cash and Investments</b>                     | <b>\$ 1,750,355</b>                         | <b>\$ 540,074</b> | <b>\$ 2,290,429</b>          | <b>\$ 5,563,907</b>               |

See Notes to Financial Statements.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## STATEMENT OF CASH FLOWS PROPRIETARY FUNDS (Page 2 of 2) For the Year Ended December 31, 2017

|   | Business-Type Activities - Enterprise Funds |                |                              | Governmental                      |
|---|---|----------------|------------------------------|-----------------------------------|
|   | Water and<br>Sewer                          | Solid<br>Waste | Total<br>Enterprise<br>Funds | Activities<br>Internal<br>Service |
| <b>Reconciliation of Operating Income</b>   |   |                |                              |                                   |
| <b>(Loss) to Net Cash Provided (Used)</b>   |   |                |                              |                                   |
| <b>by Operating Activities</b>  |   |                |                              |                                   |
| Operating income  | \$ 1,419,213                                | \$ 389,458     | \$ 1,808,671                 | \$ 1,383,716                      |
| Adjustments to reconcile operating income to net cash provided by operating activities: |   |                |                              |                                   |
| Depreciation  | 1,865,927                                   | -              | 1,865,927                    | 215,578                           |
| <b>Changes in Operating Assets and Liabilities:</b>                                     |   |                |                              |                                   |
| <b>(Increase) decrease in assets:</b>   |   |                |                              |                                   |
| Accounts receivable   | (204,707)                                   | (27,784)       | (232,491)                    | (34,715)                          |
| Prepaid costs   | -   | -              | -                            | (9,886)                           |
| Deferred outflows - pensions  | 99,499                                      | 34,638         | 134,137                      | 37,941                            |
| <b>Increase (decrease) in liabilities:</b>  |   |                |                              |                                   |
| Accounts payable and accrued liabilities  | (411,332)                                   | 26,971         | (384,361)                    | (18,961)                          |
| Unearned revenue  | 57,328                                      | 19,311         | 76,639                       | 32,125                            |
| Compensated absences  | (15,588)                                    | 3,587          | (12,001)                     | 10,926                            |
| Net pension liability   | 3,074                                       | 996            | 4,070                        | 1,356                             |
| Net OPEB obligation   | 8,762                                       | 3,755          | 12,517                       | 2,503                             |
| Deferred inflows - pensions   | 11,184                                      | 3,624          | 14,808                       | 4,935                             |
| <b>Net Cash Provided</b>  |   |                |                              |                                   |
| <b>by Operating Activities</b>  | \$ 2,833,360                                | \$ 454,556     | \$ 3,287,916                 | \$ 1,625,518                      |
| <br>Noncash investing, capital, and financing activities:                               |   |                |                              |                                   |
| Contributions of capital assets   | \$ 67,892                                   | \$ -           | \$ 67,892                    | \$ -                              |

See Notes to Financial Statements.

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# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2017

### I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### A. Reporting Entity

The City of West University Place, Texas (the "City") was incorporated in 1924. The City has operated under a "Home Rule Charter" since 1940, which provides for a Council-Manager form of government. A Mayor and four Council members are elected by voters of the City at large for two-year terms.

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

The City provides the following services: public safety to include police and fire services, municipal court, leisure services, streets, drainage, water and sewer services, solid waste collection and disposal, community development, and general administration.

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

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

#### **Blended Component Unit**

##### **Friends of West University Parks Fund**

Friends of West University Parks Fund (the "Corporation") has been included in the reporting entity as a blended component unit. The Corporation is a not-for-profit entity created to solicit private contributions for the beautification, improvement, and maintenance of the City's parkland. The Corporation's Board of Directors is appointed by, and serves at the discretion of, City Council. City Council approval is required for any projects of the Corporation that exceed \$1,000. In the event of dissolution, any assets of the Corporation will be transferred to the City.



# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

The operations of the Corporation are presented as a governmental fund type. Separate financial statements of the Corporation may be obtained from the Finance Department of the City.

### B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Activities) report information on all of the activities of the primary government. *Governmental activities*, which normally are supported by taxes, intergovernmental revenues, and other nonexchange transactions, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external customers for support.

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

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

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

### D. Basis of Presentation – Fund Financial Statements

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

The City reports the following governmental funds:

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

The *debt service fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest on all long-term debt of the City. The primary source of revenue for debt service is local property taxes. The debt service fund is considered a major fund for reporting purposes.

The *special revenue funds* are used to account for and report proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The special revenue funds are considered nonmajor funds for reporting purposes.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

The *capital projects funds* are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. The capital projects funds are considered nonmajor funds for reporting purposes.

The City reports the following enterprise funds:

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

Additionally, the City reports the following fund type:

*Internal service funds* account for services provided to other departments or agencies of the primary government, or to other governments, on a cost reimbursement basis. The vehicle replacement and equipment replacement funds are used to account for vehicle and equipment replacement and maintenance services. The healthcare benefits fund accounts for costs associated with retired or separated employees, as well as healthcare benefits. The technology management fund accounts for technology services.

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

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

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

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

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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

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

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

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

#### **1. Cash and Cash Equivalents**

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, balances in statewide investment pools (TexPool), and short-term investments with original maturities of three months or less from the date of acquisition. For the purpose of the statement of cash flows, the proprietary fund types consider temporary investments with maturity of three months or less when purchased to be cash equivalents.

The City maintains pooled cash and investment accounts. Each fund whose monies are deposited in the pooled cash and investment accounts has equity therein, and interest earned on the investment of these monies is allocated based upon relative equity at the previous month end. Amounts on deposit in interest bearing accounts and other investments are displayed on the combined balance sheet as "cash and equity in pooled cash and investments."

#### **2. Investments**

Investments, except for certain investment pools and commercial paper, are reported at fair value. The investment pool operates in accordance with appropriate state laws and regulations and is reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposit, are reported at cost.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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

- Direct obligations of the U.S. government
- Certificates of deposit that meet certain criteria
- Money market mutual funds that meet certain criteria
- Statewide investment pools

### 3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when the related liability is incurred (i.e., the purchase method).

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements. The cost of prepaid items is recorded as expenditures/expenses when consumed rather than when purchased.

### 4. Capital Assets

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

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

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

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

| <u>Asset Description</u> | <u>Estimated Useful Life</u> |
|--------------------------|------------------------------|
| Buildings                | 10 to 50 years               |
| Improvements             | 5 to 50 years                |
| Machinery and equipment  | 3 to 30 years                |
| Water and sewer system   | 5 to 60 years                |
| Infrastructure           | 50 years                     |

### 5. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of*

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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

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

### 6. Compensated Employee Absences

It is the City's policy to permit employees to accumulate earned but unused vacation, sick pay benefits, and compensatory time. Amounts accumulated, up to certain amounts, may be paid to employees upon termination of employment. The maximum amount of hours that can be carried from one year to the next is dependent on the number of years of service that the employee has with the City.

| <u>Length of Service<br/>(Months)</u> | <u>Maximum<br/>Vacation<br/>Leave Accrual</u> |
|---------------------------------------|---|
| 1-48                                  | 160 hours                                     |
| 49-144                                | 240 hours                                     |
| 145-240                               | 320 hours                                     |
| More than 240                         | 400 hours                                     |

The estimated amount of compensation for services provided that is expected to be liquidated with expendable, available financial resources is reported as an expenditure and a fund liability of the governmental fund that will pay it when it matures or becomes due. Amounts of vested or accumulated vacation leave that are not expected to be liquidated with expendable, available

# **CITY OF WEST UNIVERSITY PLACE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)***

**For the Year Ended December 31, 2017**

financial resources are maintained separately and represent a reconciling item between the fund and government-wide presentations.

### **7. Long-Term Obligations**

In 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 or business-type activities Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, if material. Bonds payable are reported net of the applicable bond premium or discount.

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

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

Assets acquired under the terms of a capital lease are recorded as liabilities and capitalized in the government-wide financial statements at the present value of net minimum lease payments at inception of the lease. In the year of acquisition, capital lease transactions are recorded as other financing sources and as capital outlay expenditures in the applicable fund. Lease payments representing both principal and interest are recorded as expenditures in the general fund upon payment with an appropriate reduction of principal recorded in the government-wide financial statements.

### **8. Net Position Flow Assumption**

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

### **9. Fund Balance Flow Assumptions**

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

# **CITY OF WEST UNIVERSITY PLACE, TEXAS**

## ***NOTES TO FINANCIAL STATEMENTS (Continued)***

**For the Year Ended December 31, 2017**

when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

### **10. Fund Balance Policies**

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

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

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

Amounts in the assigned fund balance classification are intended to be used by the City for specific purposes but do not meet the criteria to be classified as committed. The City Council has, by resolution, authorized the City's Finance Director to assign fund balance to a specific purpose as approved by the City's fund balance policy. Unlike commitments, assignments generally only exist temporarily. In other words, an additional action does not normally have to be taken for the removal of an assignment. Conversely, as discussed above, an additional action is essential to either remove or revise a commitment.

It is the City's policy to achieve and maintain an unassigned fund balance in the general fund equal to 20 percent of estimated revenue for the current annual budget. The general fund is the only fund that reports a positive unassigned fund balance. All other operating fund reserves will be maintained at ten percent of the estimated revenue for the current annual budget and will be reported as restricted, committed, or assigned. Balances of less than the prescribed levels shall only be allowed with specific approval of City Council.

### **11. Post Employment Healthcare Benefits**

The City provides post employment healthcare benefits as mandated by the Consolidated Omnibus Budget Reconciliation Act (COBRA). The requirements established by COBRA are fully funded by the employees who elect coverage under COBRA and the City incurs no direct costs.

For employees hired prior to January 1, 2009, the City provides continued healthcare coverage for eligible retirees until they become eligible for Medicare or other federal or state health insurance plans or if retirees become employed. The City pays 100 percent of the premium for the retirees. Spouses and dependents are eligible for continued coverage at the retirees' expense.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

### 12. Estimates

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

### 13. Pensions

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

## G. Revenues and Expenditures/Expenses

### 1. Program Revenues

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

### 2. Property Taxes

Property taxes are levied during October of each year and are due upon receipt of the City's tax bill. Taxes become delinquent, with an enforceable lien on property, on February 1 of the following year.

### 3. Proprietary Funds Operating and Nonoperating Revenues and Expenses

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

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

### II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP) except the capital projects funds, which adopt project length budgets. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control as defined by the charter in the approved budget is the department level in the general fund and all others are the fund level. The City Manager may transfer appropriations within a department without seeking the approval of City Council. Appropriations lapse at the end of the year, excluding capital project budgets. Supplemental budget appropriations were made for the year ended December 31, 2017. An annual budget is not adopted for the blended component unit, Friends of West University Parks Fund, or the emergency grant fund. The parks fund, tree replacement fund, court technology/security fund, and METRO grant fund are all special revenue funds that have adopted budgets.

Encumbrances represent the estimated amount of expenditures ultimately to result when unperformed contracts (in progress at year end) are completed. Such encumbrances do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year.

### III. DETAILED NOTES ON ALL FUNDS

#### A. Deposits and Investments

As of December 31, 2017, the City had the following investments:

| <u>Investment Types</u>               | <u>Value</u>         | <u>Weighted Average Maturity (Years)</u> |
|---------------------------------------|----------------------|--|
| U.S. agencies                         | \$ 10,928,338        | 0.85                                     |
| TexPool                               | 13,682,240           | 0.09                                     |
| Corporation's certificates of deposit | 459,031              | 0.02                                     |
| <b>Total</b>                          | <b>\$ 25,069,609</b> |  |
| Portfolio weighted average maturity   |                      | 0.42                                     |

#### Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. GASB Statement No. 72, *Fair Value Measurement and Application*, provides a framework for measuring fair value, which establishes a three-level fair value hierarchy that describes the inputs that are used to measure assets and liabilities.

- Level 1 inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices within Level 1 that are observable for an asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. If a price for an identical asset or liability is not observable, a government should measure fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. If the fair value of an asset or a liability is measured using inputs from more than one level of the fair value hierarchy, the measurement is considered to be based on the lowest priority level input that is significant to the entire measurement.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

Fair value is measured in a manner consistent with one of the three approaches: market approach, cost approach, and the income approach. The valuation methodology used is based upon whichever technique is the most appropriate and provides the best representation of fair value for that particular asset or liability. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or groups of assets and liabilities. The cost approach reflects the amount that would be required to replace the present service capacity of an asset. The income approach converts future amounts, such as cash flows, to a single current (discounted) amount.

As of December 31, 2017, the City had the following recurring fair value measurements:

|   | December 31,<br>2017 | Fair Value<br>Measurements<br>Using<br>Significant Other<br>Observable Inputs<br>(Level 1) |
|---|----------------------|--|
| <b>Investments by Fair Value Level</b>      |                      |  |
| <u>U.S. Government Agency Bonds/Notes</u>   |                      |  |
| Federal Home Loan Bank                      | \$ 4,978,508         | \$ 4,978,508   |
| Federal Home Loan Mortgage Corporation      | 1,990,810            | 1,990,810  |
| Federal Farm Credit Bank                    | 2,975,480            | 2,975,480  |
| Federal National Mortgage Association Notes | 983,540              | 983,540  |
| <b>Total</b>                                | \$ 10,928,338        | \$ 10,928,338  |

U.S. government agency bonds and notes are classified in Level 1 of the fair value hierarchy and are valued using the market approach.

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

*Credit risk.* The City's policy requires that investment pools must be rated no lower than "AAA" or "AAAm". United States agency investments must be issued in the United States and carry a rating of "AAA" or "AAAm" as provided by two of the top nationally recognized rating agencies. As of December 31, 2017, the City's investment in TexPool was rated "AAAm" and the City's investment in United States agencies was rated between "AA+" and "AAA" by Standard & Poor's. All other investments are guaranteed (either express or implied) by the full faith and credit of the United States Government or the issuing U.S. agency. More specifically, the U.S. agency securities held by the City as of December 31, 2017 consist of a variety of bonds and discount notes issued by the Federal Home Loan Bank, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, and the Federal Farm Credit Bank. These investments were rated not less than "Aaa" by Moody's and not less than "AA+" by Standard & Poor's.

*Custodial credit risk – deposits.* In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities. As of December 31, 2017, fair values of pledged securities and FDIC coverage exceeded bank balances for the City. The Corporation's fair values of pledged securities and FDIC coverage did not exceed bank balances. The Friends of West University Parks Fund was under collateralized by \$352,710.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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

### **TexPool**

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

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, the investment pool must transact at a stable net asset value per share and maintain certain maturity, quality, liquidity, and diversification requirements within TexPool. TexPool transacts at a net asset value of \$1.00 per share, has weighted average maturities of 60 days or less, and weighted average lives of 120 days or less. Investments held are highly rated by nationally recognized statistical rating organizations, have no more than five percent of portfolio with one issuer (excluding U.S. government securities), and can meet reasonably foreseeable redemptions. TexPool has a redemption notice period of one day and may redeem daily. TexPool's authority may only impose restrictions on redemptions in the event of a general suspension of trading on major securities markets, general banking moratorium, or national state of emergency that affects TexPool's liquidity.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

### B. Receivables

Amounts are aggregated into a single accounts receivable (net of allowance for uncollectibles) line for certain funds and aggregated columns. Below is the detail of receivables for the general fund, the debt service fund, the nonmajor governmental funds in the aggregate, the internal services funds in the aggregate, and the enterprise funds, including the applicable allowances for uncollectible accounts:

|                   | General             | Debt Service        | Nonmajor<br>Governmental | Internal<br>Service | Water and<br>Sewer  | Solid Waste       |
|-------------------|---------------------|---------------------|--------------------------|---------------------|---------------------|-------------------|
| Ad valorem taxes  | \$ 4,950,261        | \$ 3,256,866        | \$ -                     | \$ -                | \$ -                | \$ -              |
| Other taxes       | 352,882             | -                   | -                        | -                   | -                   | -                 |
| Accounts          | 119,865             | -                   | -                        | -                   | 1,426,516           | 348,031           |
| Intergovernmental | 263,177             | -                   | 107,523                  | 32,125              | 57,328              | 19,311            |
| Other             | 9,276               | -                   | -                        | 2,590               | 8,722               | 667               |
| Less allowance    | (1,793)             | -                   | -                        | -                   | (183,930)           | (34,507)          |
|                   | <u>\$ 5,693,668</u> | <u>\$ 3,256,866</u> | <u>\$ 107,523</u>        | <u>\$ 34,715</u>    | <u>\$ 1,308,636</u> | <u>\$ 333,502</u> |

### C. Capital Assets

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

|  | Primary Government   |                       |   |                      |
|--|----------------------|-----------------------|---|----------------------|
|  | Beginning<br>Balance | Increases             | (Decreases)                             |                      |
| <b>Governmental Activities:</b>                        |                      |                       |   |                      |
| Capital assets not being depreciated:                  |                      |                       |   |                      |
| Land   | \$ 6,298,042         | \$ 1,500,000          | \$ -                                    | \$ 7,798,042         |
| Construction in progress                               | 227,998              | 235,288               | (196,535)                               | 266,751              |
| Total capital assets not being depreciated             | <u>6,526,040</u>     | <u>1,735,288</u>      | <u>(196,535)</u>                        | <u>8,064,793</u>     |
| Other capital assets:                                  |                      |                       |   |                      |
| Buildings and improvements                             | 57,633,250           | 420,705               | -                                       | 58,053,955           |
| Machinery and equipment                                | 8,210,968            | 91,112                | (27,689)                                | 8,274,391            |
| Infrastructure   | 66,633,784           | -                     | -                                       | 66,633,784           |
| Total other capital assets                             | <u>132,478,002</u>   | <u>511,817</u>        | <u>(27,689)</u>                         | <u>132,962,130</u>   |
| Less accumulated depreciation for:                     |                      |                       |   |                      |
| Buildings and improvements                             | (16,292,407)         | (1,804,389)           | -                                       | (18,096,796)         |
| Machinery and equipment                                | (6,769,033)          | (371,212)             | 27,689                                  | (7,112,556)          |
| Infrastructure   | (20,974,559)         | (1,332,676)           | -                                       | (22,307,235)         |
| Total accumulated depreciation                         | <u>(44,035,999)</u>  | <u>(3,508,277)</u>    | <u>27,689</u>                           | <u>(47,516,587)</u>  |
| Other capital assets, net                              | <u>88,442,003</u>    | <u>(2,996,460)</u>    | <u>-</u>                                | <u>85,445,543</u>    |
| <b>Governmental Activities<br/>Capital Assets, Net</b> | <u>\$ 94,968,043</u> | <u>\$ (1,261,172)</u> | <u>\$ (196,535)</u>                     | <u>93,510,336</u>    |
|  |                      |                       | Less associated debt                    | (46,703,928)         |
|  |                      |                       | Plus deferred charge on refunding       | 1,592,164            |
|  |                      |                       | <b>Net Investment in Capital Assets</b> | <u>\$ 48,398,572</u> |

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

All capital assets constructed or paid for with funds of the component unit are titled in the City's name. Accordingly, component unit capital assets and construction in progress are recorded in the governmental activities totals.

Depreciation was charged to governmental functions as follows:

|   |           |                         |
|---|-----------|-------------------------|
| General government  | \$        | 477,958                 |
| Public safety   |           | 22,348                  |
| Public works  |           | 1,890,975               |
| Public service  |           | 901,418                 |
| Capital assets held by the City's internal service fund   |           | <u>215,578</u>          |
| <b>Total Governmental Activities Depreciation Expense</b> | <b>\$</b> | <b><u>3,508,277</u></b> |

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

|   | Primary Government          |                            |                                   |                          |
|---|-----------------------------|----------------------------|-----------------------------------|--------------------------|
|   | Beginning<br>Balance        | Increases                  | (Decreases)/<br>Reclassifications | Ending<br>Balance        |
| <b>Business-Type Activities:</b>                        |                             |                            |                                   |                          |
| Capital assets not being depreciated:                   |                             |                            |                                   |                          |
| Land  | \$ 193,875                  | \$ -                       | \$ -                              | \$ 193,875               |
| Construction in progress                                | <u>396,420</u>              | <u>41,914</u>              | <u>(396,420)</u>                  | <u>41,914</u>            |
| Total capital assets not<br>being depreciated           | <u>590,295</u>              | <u>41,914</u>              | <u>(396,420)</u>                  | <u>235,789</u>           |
| Other capital assets:                                   |                             |                            |                                   |                          |
| Buildings and improvements                              | 459,625                     | -                          | -                                 | 459,625                  |
| Water and sewer systems                                 | 55,809,838                  | 980,878                    | (353,034)                         | 56,437,682               |
| Machinery and equipment                                 | <u>2,116,774</u>            | <u>161,434</u>             | <u>-</u>                          | <u>2,278,208</u>         |
| Total other capital assets                              | <u>58,386,237</u>           | <u>1,142,312</u>           | <u>(353,034)</u>                  | <u>59,175,515</u>        |
| Less accumulated depreciation for:                      |                             |                            |                                   |                          |
| Buildings and improvements                              | (437,175)                   | (18,385)                   | -                                 | (455,560)                |
| Water and sewer systems                                 | (36,395,321)                | (1,740,987)                | 353,034                           | (37,783,274)             |
| Machinery and equipment                                 | <u>(1,015,444)</u>          | <u>(106,555)</u>           | <u>-</u>                          | <u>(1,121,999)</u>       |
| Total accumulated depreciation                          | <u>(37,847,940)</u>         | <u>(1,865,927)</u>         | <u>353,034</u>                    | <u>(39,360,833)</u>      |
| Other capital assets, net                               | <u>20,538,297</u>           | <u>(723,615)</u>           | <u>-</u>                          | <u>19,814,682</u>        |
| <b>Business-Type Activities<br/>Capital Assets, Net</b> | <b><u>\$ 21,128,592</u></b> | <b><u>\$ (681,701)</u></b> | <b><u>\$ (396,420)</u></b>        | <b><u>20,050,471</u></b> |

Depreciation was charged to business-type functions as follows:

|  |           |                         |
|--|-----------|-------------------------|
| Water and sewer  | \$        | 1,865,927               |
| <b>Total Business-Type Activities Depreciation Expense</b> | <b>\$</b> | <b><u>1,865,927</u></b> |

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

### D. Long-Term Debt

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

|                                       | Beginning<br>Balance | Additions            | Reductions           | Ending<br>Balance  | Amounts<br>Due Within<br>One Year |
|---------------------------------------|----------------------|----------------------|----------------------|--|-----------------------------------|
| <b>Governmental Activities:</b>       |                      |                      |                      |  |                                   |
| Bonds, notes and other payables:      |                      |                      |                      |  |                                   |
| General obligation bonds              | \$ 42,740,000        | \$ 9,965,000         | \$ 12,610,000        | \$ 40,095,000 **   | \$ 7,500,000                      |
| Certificates of obligation            | 10,165,000           | -                    | 4,120,000            | 6,045,000 **   | 270,000                           |
| Unamortized premiums and/or discounts | 789,081              | -                    | 225,153              | 563,928 **   | -                                 |
|                                       | <u>53,694,081</u>    | <u>9,965,000</u>     | <u>16,955,153</u>    | <u>46,703,928</u>  | <u>7,770,000</u>                  |
| Other liabilities:                    |                      |                      |                      |  |                                   |
| Compensated absences                  | 1,147,863            | 1,090,652            | 1,033,077            | 1,205,438  | 1,084,894                         |
| Net pension liability                 | 6,406,843            | 27,492               | -                    | 6,434,335  | -                                 |
| Net OPEB obligation                   | 809,998              | 62,589               | -                    | 872,587  | -                                 |
|                                       | <u>8,364,704</u>     | <u>1,180,733</u>     | <u>1,033,077</u>     | <u>8,518,160</u>   | <u>1,084,894</u>                  |
| <b>Total Governmental Activities</b>  | <u>\$ 62,058,785</u> | <u>\$ 11,145,733</u> | <u>\$ 17,988,230</u> | <u>\$ 55,216,288</u>   | <u>\$ 8,854,894</u>               |
|                                       |                      |                      |                      | <u>\$ 46,361,394</u>   |                                   |
|                                       |                      |                      |                      | <u>**Debt associated with governmental activities capital assets</u> | <u>\$ 46,703,928</u>              |
| <br>                                  |                      |                      |                      |  |                                   |
|                                       | Beginning<br>Balance | Additions            | Reductions           | Ending<br>Balance  | Amounts<br>Due Within<br>One Year |
| <b>Business-Type Activities:</b>      |                      |                      |                      |  |                                   |
| Other liabilities:                    |                      |                      |                      |  |                                   |
| Compensated absences                  | \$ 161,369           | \$ 133,231           | \$ 145,232           | \$ 149,368   | \$ 134,431                        |
| Net pension liability                 | 974,740              | 4,070                | -                    | 978,810  | -                                 |
| Net OPEB obligation                   | 162,000              | 12,517               | -                    | 174,517  | -                                 |
|                                       | <u>1,298,109</u>     | <u>149,818</u>       | <u>145,232</u>       | <u>1,302,695</u>   | <u>134,431</u>                    |
| <b>Total Business-Type Activities</b> | <u>\$ 1,298,109</u>  | <u>\$ 149,818</u>    | <u>\$ 145,232</u>    | <u>\$ 1,302,695</u>  | <u>\$ 134,431</u>                 |
|                                       |                      |                      |                      | <u>\$ 1,168,264</u>  |                                   |

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities in the governmental funds. The governmental activities compensated absences, net pension liability, and net other post employment benefits (OPEB) obligation are generally liquidated by the general fund. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

### Advanced Refunding

The City issued \$9,965,000 of general obligation refunding bonds, series 2017 to provide resources to purchase direct obligations of the United States of America, of which \$9,881,593 was placed in an irrevocable trust for the purpose of generating resources for a portion of future debt service payments of outstanding long-term debt issues in permanent improvement and refunding bonds, series 2009; permanent improvement bonds, series 2010; and certificates of obligation, series 2010. As a result, the refunded portion of these bonds is considered to be defeased and the pro-rata portion of the liability has been removed from the applicable governmental columns in the Statement of Net Position. The reacquisition price was less than the net carrying amount of the old debt by \$540,980. This amount is being netted against the new debt and amortized over the life of the new debt, which is equal to the life of the old debt. This debt refunding resulted in an economic gain of \$920,328 and a reduction of \$1,031,720 in future debt service payments. At December 31, 2017, \$3,595,000 of outstanding permanent improvement and refunding bonds, series 2009; \$2,375,000 of outstanding permanent improvement bonds, series 2010; and \$3,275,000 of outstanding certificates of obligation, series 2010 were considered defeased relating to the 2017 refunding.

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

| Description   | Interest Rates | Balance              |
|---|----------------|----------------------|
| <b><u>Governmental Activities</u></b>               |                |                      |
| <b>General Obligation Bonds</b>                     |                |                      |
| Permanent improvement                               |                |                      |
| Series 2010   | 2.00-4.00%     | \$ 2,310,000         |
| Permanent improvement and refunding                 |                |                      |
| Series 2009   | 2.50-4.50%     | 4,525,000            |
| Series 2010   | 2.00-4.00%     | 4,880,000            |
| Series 2011   | 2.00-3.00%     | 1,215,000            |
| Series 2012   | 2.00%          | 6,425,000            |
| Series 2013   | 0.34-1.75%     | 8,805,000            |
| General obligation refunding                        |                |                      |
| Series 2016   | 1.45%          | 1,970,000            |
| Series 2017   | 2.01%          | 9,965,000            |
| <b>Total General Obligation Bonds</b>               |                | <b>40,095,000</b>    |
| <b>Certificates of Obligation</b>                   |                |                      |
| Series 2009   | 2.50-4.50%     | 1,020,000            |
| Series 2010   | 2.00-4.00%     | 3,120,000            |
| Series 2010A  | 1.00-4.00%     | 1,115,000            |
| Series 2011   | 2.00-2.25%     | 790,000              |
| <b>Total Certificates of Obligation</b>             |                | <b>6,045,000</b>     |
| <b>Total Governmental Activities Long-Term Debt</b> |                | <b>\$ 46,140,000</b> |

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

The annual requirements to amortize general obligation bonds and certificates of obligation outstanding at year end were as follows:

| Year<br>Ending<br>Dec 31 | Governmental Activities |                     |                      |
|--------------------------|-------------------------|---------------------|----------------------|
|                          | Principal               | Interest            | Total                |
| 2018                     | \$ 7,770,000            | \$ 1,063,783        | \$ 8,833,783         |
| 2019                     | 7,910,000               | 920,492             | 8,830,492            |
| 2020                     | 8,060,000               | 750,016             | 8,810,016            |
| 2021                     | 3,475,000               | 604,956             | 4,079,956            |
| 2022                     | 3,445,000               | 488,966             | 3,933,966            |
| 2023-2027                | 12,785,000              | 1,157,171           | 13,942,171           |
| 2028                     | 2,695,000               | 32,699              | 2,727,699            |
| <b>Total</b>             | <b>\$ 46,140,000</b>    | <b>\$ 5,018,083</b> | <b>\$ 51,158,083</b> |

The City issues a variety of long-term debt instruments in order to acquire and/or construct major capital facilities (streets, drainage, public safety, water, and wastewater) and equipment for general government and enterprise fund activities. These instruments include general obligation bonds, certificates of obligation, and revenue bonds. Future ad valorem tax revenues, water and sewer system revenues, or liens on property and equipment secure these debt obligations.

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

### Federal Arbitrage

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

### **E. Interfund Transfers**

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

| Transfer Out    | Transfer In  | Amounts             |
|-----------------|--------------|---------------------|
| General         | Nonmajor     | \$ 500,000          |
| Nonmajor        | Nonmajor     | 700,000             |
| Water and sewer | Debt service | 1,193,554           |
| Water and sewer | General      | 1,545,500           |
| Solid waste     | General      | 59,400              |
|                 |              | <b>\$ 3,998,454</b> |



# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

Transfers to the general fund were subsidies for administrative expenditures. Other amounts transferred between funds related to amounts collected by the nonmajor governmental funds for various governmental expenditures. Transfers to the debt service fund are used to move revenues from the water and sewer fund with collection authorization as debt service principal and interest payments become due.

### F. Leases

The City is the lessor of approximately 1.0874 acres of its land to Goode Cook, Inc. (the "Company"). This lease agreement (the "Lease") is an operating lease with fixed minimum rental payments with annually adjusted rates. The Lease expires July 31, 2022; however, at any time after July 31, 2016, the City may terminate the Lease by giving the Company a minimum of nine months' written notice. Rental income is earned from leasing this parcel of land to the Company.

Minimum guaranteed income on all City noncancelable operating leases is as follows:

| Year<br>Ending<br>Dec 31 | Annual<br>Base Rent |
|--------------------------|---------------------|
| 2018                     | \$ 79,657           |
| 2019                     | 82,051              |
| 2020                     | 84,517              |
| 2021                     | 87,055              |
| 2022                     | 51,660              |
| Total                    | <u>\$ 384,940</u>   |

## IV. OTHER INFORMATION

### A. Risk Management

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

### B. Contingent Liabilities

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

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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

### C. Pension Plan

#### Texas Municipal Retirement System

##### Plan Description

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

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

##### Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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 percent of the member's deposits and interest.

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

|  | <u>2017</u>                  | <u>2016</u>                  |
|--|------------------------------|------------------------------|
| Employee deposit rate  | 7.00%                        | 7.00%                        |
| Matching ratio (City to employee)                                    | 2 to 1                       | 2 to 1                       |
| Years required for vesting   | 5                            | 5                            |
| Service requirement eligibility<br>(expressed as age/yrs of service) | 60/5, 0/20                   | 60/5, 0/20                   |
| Updated service credit   | 100% Repeating,<br>Transfers | 100% Repeating,<br>Transfers |
| Annuity increase (to retirees)                                       | 70% of CPI Repeating         | 70% of CPI Repeating         |

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

### Employees Covered by Benefit Terms

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

|  |            |
|--|------------|
| Inactive employees or beneficiaries currently receiving benefits | 105        |
| Inactive employees entitled to, but not yet receiving, benefits  | 86         |
| Active employees   | 117        |
| <b>Total</b>   | <b>308</b> |

### Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rate for the City was 12.83 percent and 13.55 percent in calendar years 2016 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended December 31, 2017 were \$1,255,853, which were equal to the required contributions.

### Net Pension Liability

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

### Actuarial Assumptions

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

|                           |  |
|---------------------------|--|
| Inflation                 | 2.50% per year   |
| Overall payroll growth    | 3.00% per year   |
| Investment rate of return | 6.75%, net of pension plan investment expense, including inflation |

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

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

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 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 weighing the expected future real rates of return by the target allocation percentage and by adding expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, the actuary focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

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

### Discount Rate

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

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

### Changes in the NPL

|   | Increase (Decrease)  |                      |                     |
|---|----------------------|----------------------|---------------------|
|   | Total Pension        | Plan Fiduciary       | Net Pension         |
|   | Liability            | Net Position         | Liability           |
|   | (A)                  | (B)                  | (A) - (B)           |
| Changes for the year:   |                      |                      |                     |
| Service cost  | \$ 1,441,040         | \$ -                 | \$ 1,441,040        |
| Interest  | 3,051,656            | -                    | 3,051,656           |
| Changes in benefit terms                                      | -                    | -                    | -                   |
| Difference between expected and actual experience             | (154,304)            | -                    | (154,304)           |
| Changes in assumptions  | -                    | -                    | -                   |
| Contributions - employer                                      | -                    | 1,139,861            | (1,139,861)         |
| Contributions - employee                                      | -                    | 621,904              | (621,904)           |
| Net investment income   | -                    | 2,575,734            | (2,575,734)         |
| Benefit payments, including refunds of employee contributions | (2,039,745)          | (2,039,745)          | -                   |
| Administrative expense  | -                    | (29,101)             | 29,101              |
| Other changes   | -                    | (1,568)              | 1,568               |
| <b>Net Changes</b>  | <b>2,298,647</b>     | <b>2,267,085</b>     | <b>31,562</b>       |
| Balance at December 31, 2015                                  | 45,509,078           | 38,127,495           | 7,381,583           |
| <b>Balance at December 31, 2016</b>                           | <b>\$ 47,807,725</b> | <b>\$ 40,394,580</b> | <b>\$ 7,413,145</b> |

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

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

|                              | 1% Decrease in<br>Discount Rate<br>(5.75%) | Discount Rate<br>(6.75%) | 1% Increase in<br>Discount Rate<br>(7.75%) |
|------------------------------|--|--------------------------|--|
| City's Net Pension Liability | \$ 13,874,453                              | \$ 7,413,145             | \$ 2,075,893                               |

### Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended December 31, 2017, the City recognized net pension expense of \$2,415,070.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

As of December 31, 2017, the City reported deferred outflows and inflows of resources related to pensions from the following sources:

|   | Deferred<br>Outflows of<br>Resources | Deferred<br>Inflows of<br>Resources |
|---|--------------------------------------|-------------------------------------|
| Differences between expected and actual economic experience | \$ 326,553                           | \$ 114,840                          |
| Changes in actuarial assumptions                            | 429,476                              | -                                   |
| Difference between projected and actual investment earnings | 1,776,103                            | -                                   |
| Contributions subsequent to the measurement date            | 1,255,853                            | -                                   |
| <b>Total</b>  | <b>\$ 3,787,985</b>                  | <b>\$ 114,840</b>                   |

\$1,255,853 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending December 31, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized as pension expense as follows:

| Year Ended<br>December 31: | Pension<br>Expense  |
|----------------------------|---------------------|
| 2018                       | \$ 1,082,313        |
| 2019                       | 842,745             |
| 2020                       | 492,659             |
| 2021                       | (425)               |
| 2022                       | -                   |
| Thereafter                 | -                   |
| <b>Total</b>               | <b>\$ 2,417,292</b> |

### D. Other Post Employment Benefits

#### 1. Healthcare Plan

##### Plan Description

The City of West University Place Retiree Health Care Plan (the “Plan”) is a single employer defined benefit healthcare plan administered by the City. The Plan provides medical benefits to eligible retirees and their spouses.

##### Employees Hired January 1, 2009 and Thereafter

A retiree and his or her covered dependent(s) may be eligible for continued coverage through COBRA according to regulatory requirements. Retirees may not add dependents after retiring. Retirees are responsible for all costs, including premiums and administrative fees, associated with COBRA benefits. Retiree/dependent COBRA benefits will be terminated if the City (or the City’s third-party administrator) does not receive the required contributions by the date due.

##### Employees Hired Prior to January 1, 2009

Non-exempt Employees – If a non-exempt employee retires through TMRS and has been employed full-time by the City for at least ten years immediately preceding the date of retirement, the employee may continue to be covered through the City’s Plan.

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

Exempt Employees – If an exempt employee retires through TMRS and has a minimum of ten years of service credit with TMRS, of which three years immediately preceding the date of retirement were with the City, the employee may continue to be covered through the City’s Plan. The benefit includes basic medical coverage, excluding accidental death, life, disability, and dental.

The City pays 100 percent of the premium for the retiree. Spouses and dependents are eligible for continued coverage. Retirees are responsible for all costs associated with spouse and dependent benefits. Surviving spouses of deceased retirees are eligible for continued coverage through COBRA according to regulatory requirements. All benefits terminate when the retiree becomes eligible for Medicare or other federal or state health insurance plans or if the retiree becomes employed.

Employees who retire under a disability retirement are eligible for retiree health benefits if they have met the eligibility for a regular retirement upon their disability. The TMRS retirement requirement is five years of service at age 60 or 20 years of service regardless of age.

### Funding Policy

The contribution requirements of Plan members and the City are established and may be amended by the Council. Funding is provided on a pay-as-you-go basis.

### Annual Other Post Employment Employee Benefit Cost

The City’s annual Other Post Employment Benefits (OPEB) cost (expense) 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 excess) over a period not to exceed 30 years.

The annual OPEB cost for the fiscal year ending December 31, 2017 is as follows:

|  |    |              |
|--|----|--------------|
| Annual required contribution               | \$ | 280,784      |
| Interest on net OPEB obligation            |    | 43,740       |
| Adjustment to annual required contribution |    | (58,369)     |
| Annual OPEB cost (expense)                 |    | 266,155      |
| Contributions made                         |    | (191,049)    |
| Increase in net OPEB obligation            |    | 75,106       |
| Net OPEB obligation-beginning of year      |    | 971,998      |
| Net OPEB obligation-end of year            |    | \$ 1,047,104 |

The City’s annual OPEB cost, the amount contributed by the City, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for fiscal year ending December 31, 2017 and the two preceding fiscal years are as follows:

| Fiscal Year | Annual<br>OPEB Cost | Employer<br>Amount<br>Contributed | Percentage of<br>Annual OPEB<br>Cost Contributed | Net OPEB Obligation |              |
|-------------|---------------------|-----------------------------------|--|---------------------|--------------|
|             |                     |                                   |  | Beginning           | Ending       |
| 2015        | \$ 267,936          | \$ 228,676                        | 85.30%   | \$ 853,653          | \$ 892,913   |
| 2016        | \$ 267,345          | \$ 188,260                        | 70.42%   | \$ 892,913          | \$ 971,998   |
| 2017        | \$ 266,155          | \$ 191,049                        | 71.78%   | \$ 971,998          | \$ 1,047,104 |

# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

### Funded Status

As of December 31, 2014, the most recent actuarial valuation date, the City's Plan was zero percent funded with an estimated actuarial accrued liability exceeding actuarial assets by \$2,633,126. The annual covered payroll as of that date was \$7,803,300, and the ratio of the unfunded actuarial accrued liability to annual covered payroll was 33.7 percent.

### Actuarial Methods and Assumptions

The Projected Unit Credit Cost method is used to calculate the GASB ARC for the City's Plan. Using the Plan benefits, the present health premiums and a set of actuarial assumptions, the anticipated future payments are projected. The actuarial costs 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 its 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:

|                            |   |
|----------------------------|---|
| Actuarial Cost Method      | Projected unit credit   |
| Amortization Method        | Level dollar  |
| Amortization Period        | 30 year, open amortization  |
| Investment Rate of Return  | 4.50%, net of expenses  |
| Inflation rate             | 3.00% per year  |
| Healthcare Cost Trend Rate | Initial rate of 7.25% declining to an ultimate rate of 4.50% after 14 years |

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events in the future. Amounts determined regarding the funded status and the ARC of the City's 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 RSI, provides multi-year trend information that shows whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

## **2. TMRS Supplemental Death Benefits Fund**

### Plan Description

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

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month



# CITY OF WEST UNIVERSITY PLACE, TEXAS

## NOTES TO FINANCIAL STATEMENTS (Continued)

For the Year Ended December 31, 2017

period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "Other Post Employment Benefit," or OPEB. For the year ended December 31, 2017, the City offered the supplemental death benefit to both active and retired employees.

### Contributions

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

The City's contributions to the TMRS SDBF for the years ended December 31, 2017, 2016, and 2015 were \$4,634, \$4,442, and \$3,507, respectively, which equaled the required contributions each year.

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

|                                 | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---------------------------------|-------------|-------------|-------------|
| Annual Req. Contrib. (Rate)     | 0.05%       | 0.05%       | 0.04%       |
| Actual Contribution Made (Rate) | 0.05%       | 0.05%       | 0.04%       |
| Percentage of ARC Contrib.      | 100.00%     | 100.00%     | 100.00%     |

**APPENDIX C**  
**FORM OF BOND COUNSEL OPINION**

[FORM OF BOND COUNSEL OPINION]

June \_\_\_\_, 2019

Ladies and Gentlemen:

WE HAVE ACTED as Bond Counsel for the City of West University Place, Texas (the "City"), in connection with the issuance of the following described Certificates of Obligation (the "Certificates"):

"City of West University Place, Texas, Certificates of Obligation, Series 2019," dated June 1, 2019, in the aggregate principal amount of \$ 4,040,000.

The Certificates mature, bear interest, and may be transferred and exchanged as set out in the Certificates and in the ordinance of the City Council of the City authorizing the Certificates, dated May 20, 2019 (the "Certificate Ordinance"). The Certificates are fully registered and are issued in multiples of \$5,000. The Certificates with a Stated Maturity on or after February 1, 2030 may be redeemed at the option of the City, in whole or in part, in integral multiples of \$5,000 principal or any other authorized denomination any time after February 1, 2029.

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

WE ARE OF THE OPINION, based on the foregoing, that the proceedings authorizing the issuance of the Certificates show lawful authority for such issuance under the Constitution and laws of the State of Texas. The Certificates have been authorized, issued, and delivered in accordance with State law, the State Constitution, and the provisions of the Certificate Ordinance.

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

prescribed by law, and a limited pledge of the net revenues of the City's park system, as provided in the Certificate Ordinance.

WE ARE OF THE OPINION, based upon the foregoing that, pursuant to the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance by the City after the date hereof with the provisions of the Certificate Ordinance relating to sections 141 through 150 of the Code, interest on the Certificates is excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes pursuant to section 103 of the Code, and will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or corporations, except as provided below, for federal income tax purposes.

WE CALL TO YOUR ATTENTION TO THE FACT THAT interest on all tax-exempt obligations, such as the Certificates, owned by a corporation, other than an "S" corporation or a qualified mutual fund, real estate mortgage investment conduit (REMIC), real estate investment trust (REIT), a financial asset securitization investment trust (FASIT) will be included in its adjusted current earnings for purposes of calculating its alternative minimum taxable income. A corporation's alternative minimum taxable income is the basis on which is computed such corporation's alternative minimum tax imposed by section 55 of the Code.

WE EXPRESS NO OTHER OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Certificates. Ownership of tax-exempt obligations such as the Certificates may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, "S" corporations with "subchapter C" earnings and profits, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, 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, taxpayers owning an interest in a FASIT that holds tax-exempt obligations and individuals otherwise qualified for the earned income tax credit. For the foregoing reasons, prospective purchasers should consult their tax advisors as to the consequences of investing in the Certificates.

The Certificate Ordinance provides that the City reserves the right to issue additional bonds, including additional parity bonds subject only to certain conditions as set forth in the Certificate Ordinance, and, when issued and sold, said additional parity bonds will be in all respects on a parity with the Certificates.

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

WE ASSUME NO DUTY TO update or supplement our opinions to reflect any facts or circumstances that may come to our attention after the issuance of the Certificates or to reflect any changes in any law that may become effective after the issuance of the Certificates. The opinions

expressed herein should not be construed as a guarantee or result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of the transcript of proceedings relating to the issuance of the Certificates, certain other materials, and existing law that we, in our sole discretion, deemed relevant to such opinions and in reliance upon the representations and covenants referenced above.

Very truly yours,