

**OFFICIAL NOTICE OF SALE, OFFICIAL BID FORM
and
PRELIMINARY OFFICIAL STATEMENT**

CITY OF DAYTON, TEXAS

(A Political Subdivision of the State of Texas located in Liberty County, Texas)

\$2,500,000*

**COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF
OBLIGATION, SERIES 2019
(THE "CERTIFICATES")**

<p>To be Designated by the City as "QUALIFIED TAX-EXEMPT OBLIGATIONS"</p>
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**Bids due
Monday, August 19, 2019
at
11:00 A.M., Central Time**

*Preliminary, subject to change based on bid structures. See "THE CERTIFICATES - MATURITY SCHEDULE" and "THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT" in the Official Notice of Sale relating to the Certificates.

This Official Notice of Sale does not alone constitute an invitation for bids but is merely notice of sale of the Certificates defined and described herein. The invitation for bids on the Certificates is being made by means of this Official Notice of Sale, the Official Bid Form and the Preliminary Official Statement.

The Issuer will designate the Certificates as “Qualified Tax-Exempt Obligations” for financial institutions.

OFFICIAL NOTICE OF SALE

\$2,500,000*

CITY OF DAYTON, TEXAS

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

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019

CERTIFICATES OFFERED FOR SALE AT COMPETITIVE BID: The City Council (the “City Council”) of the City of Dayton, Texas (the “City” or the “Issuer”) is offering for sale at competitive bid its \$2,500,000 Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (the “Certificates”).

BIDS BY INTERNET: Interested bidders may, at their option and risk, submit their bid by electronic media, as described below, by 11:00 A.M., Central Time, on Monday, August 19, 2019. Bidders submitting a bid by internet shall not be required to submit signed Official Bid Forms prior to the award. Any prospective bidder that intends to submit an electronic bid must submit its electronic bid via the facilities of the i-Deal, LLC Parity System (“PARITY”) and should, as a courtesy, register with PARITY by 9:00 A.M., Central Time, on Monday, August 19, 2019 indicating their intent to submit a bid by internet.

In the event of a malfunction in the electronic bidding process, bidders may submit their bids by email to mmcliney@samcocapital.com. If there is a malfunction of the electronic bidding process and a bidder submits a bid via email please call 210-832-9760 to notify the Financial Advisor (defined below) of the incoming bid. Any bid received after the scheduled time for their receipt will not be accepted.

The official time for the receipt of bids shall be the time maintained by PARITY. All electronic bids shall be deemed to incorporate the provisions of this Official Notice of Sale, Official Bid Form and the Preliminary Official Statement. To the extent that any instructions or directions set forth in PARITY conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. For further information about the PARITY System, potential bidders may contact PARITY, c/o Ipreo Holdings LLC, 1359 Broadway, New York, New York 10018, 212-849-5021.

An electronic bid made through the facilities of PARITY shall be deemed an irrevocable offer to purchase the Certificates on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder as if made by a signed sealed bid delivered to the City. The City shall not be responsible for any malfunction or mistake made by, or as a result of the use of PARITY, the use of such facilities being at the sole risk of the prospective bidder.

OPENING OF BIDS: Bids will be opened and publicly read at 11:00 A.M., Central Time, on Monday, August 19, 2019, following which the bids will be evaluated by SAMCO Capital Markets, Inc. (the “Financial Advisor”) and the City Council shall provide final approval of the award at a City Council meeting later that evening. The Mayor of the City or his representative shall award the Certificates as described in the section entitled “AWARD AND SALE OF THE CERTIFICATES” below.

AWARD AND SALE OF THE CERTIFICATES: By 12:00 P.M. (noon) Central Time, on the date set for receipt of bids, the Mayor of the City or his representative shall award the Certificates to the **low qualified bidder (the “Winning Bidder”)**, as described in the section entitled “CONDITIONS OF SALE – Basis of Award” herein subject to final approval of the City Council which will take action to adopt an ordinance (the “Ordinance”) authorizing the issuance and awarding sale of the Certificates or will reject all bids promptly at a scheduled meeting to commence at 6:00 P.M. Central Time on Monday, August 19, 2019. The City reserves the right to reject any or all bids and to waive any irregularities, except time of filing.

*Preliminary, subject to change based on bid structures. See “THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES” herein.

THE CERTIFICATES

DESCRIPTION OF CERTAIN TERMS OF THE CERTIFICATES: The Certificates will be dated August 1, 2019 (the "Dated Date") with interest to accrue from the Dated Date and be payable initially on February 1, 2020, and semiannually on each August 1 and February 1 thereafter until the earlier of stated maturity or prior redemption. The Certificates will be issued as fully registered Certificates in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository (the "Securities Depository"). Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent/Registrar, to the Securities Depository, which will in turn remit such principal and interest to its Participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" in the Preliminary Official Statement.) The Certificates will be stated to mature on February 1 in each of the following years in the following amounts:

MATURITY SCHEDULE (Due February 1)

Stated Maturity	Principal Amount*	Stated Maturity	Principal Amount*
2020	\$20,000	2030	\$120,000
2021	265,000	2031	125,000
2022	90,000	2032	130,000
2023	95,000	2033	135,000
2024	95,000	2034	135,000
2025	100,000	2035	140,000
2026	105,000	2036	145,000
2027	105,000	2037	150,000
2028	110,000	2038	155,000
2029	115,000	2039	165,000

ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$2,500,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

SERIAL CERTIFICATES AND/OR TERM CERTIFICATES: Bidders may provide that all of the Certificates be issued as serial maturities or may provide that any two or more consecutive annual principal amounts be combined into one or more term certificates, not to exceed five term certificates (the "Term Certificates").

MANDATORY SINKING FUND REDEMPTION: If the Winning Bidder designates principal amounts to be combined into one or more Term Certificates, each such Term Certificate will be subject to mandatory sinking fund redemption commencing on February 1 of the first year which has been combined to form such Term Certificate and continuing on February 1 in each year thereafter until the stated maturity date of that Term Certificate. The amount redeemed in any year will be equal to the principal amount for such year set forth in the table above under the caption "MATURITY SCHEDULE". Certificates to be redeemed in any year by mandatory sinking fund redemption will be redeemed at par and will be selected by lot from among the Certificates then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Certificates of the maturity then subject to redemption which have been purchased and canceled by the City or have been optionally redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

OPTIONAL REDEMPTION: The City reserves the right, at its option, to redeem the Certificates maturing on or after February 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest as further described in the Official Statement.

SECURITY FOR PAYMENT: The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council on August 19, 2019, and the

*Preliminary, subject to change. See "THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES".

City's Home Rule Charter and are payable primarily from an annual ad valorem taxes levied against all taxable property therein, within the limits prescribed by law, and are further secured by a lien on and pledge of the Pledged Revenues being a limited amount of the Net Revenues derived from the operation of the Issuer's combined utility system (the "System") not to exceed \$1,000 during the entire period the Certificates or interest thereon remain outstanding, such lien and pledge, however, being subordinate and inferior to the lien on and pledge of the Net Revenues that may be pledged to the payment of any Prior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations (each as described and defined in the Ordinance) hereafter issued by the Issuer. The City previously authorized the issuance of the currently outstanding Limited Pledge Obligations (as described and defined in the Ordinance) which are payable, in part, from and secured by a lien on and pledge of a limited amount of the Net Revenues in the manner provided in the ordinances authorizing the issuance of the currently outstanding Limited Pledge Obligations. In the Ordinance the City retains the right to issue Prior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Additional Limited Pledge Obligations, while the Certificates are Outstanding, without limitations as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise.

OTHER TERMS AND COVENANTS: Other terms of the Ordinance and the various covenants of the City contained in the Ordinance are described in the Official Statement, to which reference is made for all purposes.

SUCCESSOR PAYING AGENT/REGISTRAR: The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. In the Ordinance, the City covenants to provide a Paying Agent/Registrar at all times while the Certificates are outstanding, and any Paying Agent/Registrar selected by the City shall be a commercial bank or trust company organized under the laws of the United States and any state and duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Certificates. The Paying Agent/Registrar will maintain the Security Register containing the names and addresses of the registered owners of the Certificates.

In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar, selected at the sole discretion of the City, shall be qualified as described in the Preliminary Official Statement. Upon a change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause written notice thereof to be sent to each registered owner of the Certificates by United States mail, first-class, postage prepaid.

CONDITIONS OF SALE

TYPES OF BIDS AND INTEREST RATES: The Certificates will be sold in one block on an "All or None" basis, and at a price of not less than their par value, plus accrued interest on the Certificates from the Dated Date of the Certificates to the date of Initial Delivery (defined herein) of the Certificates. **No bid producing a cash premium on the Certificates that results in a dollar price of less than 102% nor greater than 107% will be considered; provided, however, that any bid is subject to adjustment as described under the caption "ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS"**. Bidders are invited to name the rate(s) of interest to be borne by the Certificates, provided that each rate bid must be in a multiple of 1/8 of 1% or 1/20 of 1% and the net effective interest for the Certificates (calculated in the manner required by Chapter 1204, as amended, Texas Government Code) must not exceed 15%. **The highest rate bid may not exceed the lowest rate bid by more than 300 basis points (or 3% in rate). No limitation is imposed upon bidders as to the number of rates or changes which may be used.** All Certificates of one stated maturity must bear one and the same rate. No bids involving supplemental interest rates will be considered.

BASIS OF AWARD: The sale of the Certificates will be awarded to the bidder making a bid that conforms to the specifications herein (the "Winning Bidder" or "Purchaser") and which produces the lowest True Interest Cost (defined herein) rate to the City. The "True Interest Cost" rate is that rate which, when used to compute the total present value as of the Dated Date of all debt service payments on the Certificates on the basis of semi-annual compounding, produces an amount equal to the sum of the par value of the Certificates plus the premium bid, (but not interest accrued from the Dated Date to the date of their initial delivery to the Purchaser). In the event of a bidder's error in interest cost rate calculations, the interest rates, and premium, set forth in the Official Bid Form will be considered as the intended bid.

In order to provide the City with information required to enable it to comply with certain conditions of the Internal Revenue Code of 1986, as amended (the "Code") to the date of initial delivery of the Certificates, relating to the excludability of interest on the Certificates from the gross income of their owners, the Purchaser will be required to complete, execute, and deliver to the City (on or before the date of initial delivery of the Certificates) a certification as to their initial offering prices of the Certificates (the "Issue Price Certificate") substantially in the form and to the effect attached hereto or accompanying this Official Notice of Sale (see "ESTABLISHMENT OF ISSUE PRICE" herein).

ESTABLISHMENT OF ISSUE PRICE:

(a) The Winning Bidder shall assist the City in establishing the issue price of the Certificates and shall execute and deliver to the City by the Delivery Date an "issue price" or similar certificate setting forth the reasonably expected initial offering price to the public, together with the supporting pricing wires or equivalent communications, such issue price certificate substantially in the form attached hereto, with such modifications as may be appropriate or necessary, in the reasonable judgment of the Winning Bidder, the City, and Norton Rose Fulbright US LLP, the City's Bond Counsel (but not to the extent that would preclude the establishment of issue price of the Certificates under applicable federal regulations). All actions to be taken by the City under this Official Notice of Sale to establish the issue price of the Certificates may be taken on behalf of the City by the City's Financial Advisor and any notice or report to be provided to the City may be provided to the City's Financial Advisor.

(b) The City intends that the provisions of Treasury Regulation Section 1.148-1(f)(3)(i) (defining "competitive sale" for purposes of establishing the issue price of the Certificates) will apply to the initial sale of the Certificates (the "competitive sale requirements") because:

- (1) the City shall disseminate this Official Notice of Sale to potential underwriters (defined below) in a manner that is reasonably designed to reach potential underwriters;

- (2) all bidders shall have an equal opportunity to bid;
- (3) the City may receive bids from at least three underwriters of municipal bonds who have established industry reputations for underwriting new issuances of municipal bonds; and
- (4) the City anticipates awarding the sale of the Certificates to the bidder who submits a firm offer to purchase the Certificates at the highest price (or lowest interest cost), as set forth in this Official Notice of Sale.

Any bid submitted pursuant to this Official Notice of Sale shall be considered a firm offer for the purchase of the Certificates, as specified in the bid.

(c) In the event that the competitive sale requirements are not satisfied, the City shall so advise the Winning Bidder. In such event, the City intends to treat the initial offering price to the public (defined below) as of the sale date (defined below) of each maturity of the Certificates as the issue price of that maturity (the "hold-the-offering-price rule"). The City shall promptly advise the Winning Bidder, at or before the time of award of the Certificates, if the competitive sale requirements were not satisfied, in which case the hold-the-offering-price rule shall apply to the Certificates. **Bids will not be subject to cancellation in the event that the competitive sale requirements are not satisfied and the hold-the-offering-price rule applies.** In the event that the competitive sale requirements are not satisfied, resulting in the application of the hold-the-price rule, the issue price certificate shall be modified as necessary in the reasonable judgment of Bond Counsel and the City.

(d) By submitting a bid, the Winning Bidder shall (i) confirm that the underwriters have offered or will offer the Certificates to the public on or before the date of award at the offering price or prices (the "initial offering price"), or at the corresponding yield or yields, set forth in the bid submitted by the Winning Bidder and (ii) agree, on behalf of the underwriters participating in the purchase of the Certificates, that the underwriters will neither offer nor sell unsold Certificates of any maturity to which the hold-the-offering-price rule applies to any person at a price that is higher than the initial offering price to the public during the period starting on the sale date and ending on the earlier of the following:

- (1) the close of the fifth (5th) business day after the sale date; or
- (2) the date on which the underwriters have sold at least 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

The Winning Bidder will advise the City promptly after the close of the fifth (5th) business day after the sale date whether it has sold 10% of that maturity of the Certificates to the public at a price that is no higher than the initial offering price to the public.

(e) The City acknowledges that, in making the representations set forth above, the Winning Bidder will rely on (i) the agreement of each underwriter to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in an agreement among underwriters and the related pricing wires, (ii) in the event a selling group has been created in connection with the initial sale of the Certificates to the public, the agreement of each dealer who is a member of the selling group to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in a selling group agreement and the related pricing wires, and (iii) in the event that an underwriter or dealer who is a member of the selling group is a party to a third-party distribution agreement that was employed in connection with the initial sale of the Certificates to the public, the agreement of each broker-dealer that is a party to such agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule, if applicable to the Certificates, as set forth in the third-party distribution agreement and the related pricing wires. The City further acknowledges that each underwriter shall be solely liable for its failure to comply with its agreement regarding the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering price rule, if applicable to the Certificates, and that no underwriter shall be liable for the failure of any other underwriter, or of any dealer who is a member of a selling group, or of any broker-dealer that is a party to a third-party distribution agreement to comply with its corresponding agreement to comply with the requirements for establishing issue price of the Certificates, including, but not limited to, its agreement to comply with the hold-the-offering-price rule as applicable to the Certificates.

(f) By submitting a bid, each bidder confirms that: (i) any agreement among underwriters, any selling group agreement and each third-party distribution agreement (to which the bidder is a party) relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter, each dealer who is a member of the selling group, and each broker-dealer that is a party to such third-party distribution agreement, as applicable, to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder and as set forth in the related pricing wires, (ii) any agreement among underwriters or selling group agreement relating to the initial sale of the Certificates to the public, together with the related pricing wires, contains or will contain language obligating each underwriter or dealer that is a party to a third-party distribution agreement to be employed in connection with the initial sale of the Certificates to the public to require each broker-dealer that is a party to such third-party distribution agreement to comply with the hold-the-offering-price rule, if applicable, if and for so long as directed by the Winning Bidder or the underwriter and as set forth in the related pricing wires.

(g) Sales of any Certificates to any person that is a related party (defined below) to an underwriter shall not constitute sales to the public for purposes of this Official Notice of Sale. Further, for purposes of this section of the Official Notice of Sale entitled "ESTABLISHMENT OF ISSUE PRICE":

- (1) "public" means any person other than an underwriter or a related party,
- (2) "underwriter" means (A) any person that agrees pursuant to a written contract with the City (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Certificates to the public and (B) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (A) to participate in the initial sale of the Certificates to the public (including a member of a selling group or a party to a third party distribution agreement participating in the initial sale of the Certificates to the public),
- (3) a purchaser of any of the Certificates is a "related party" to an underwriter if the underwriter and the purchaser are subject, directly or indirectly, to (i) more than 50% common ownership of the voting power or the total value of their stock, if both entities are corporations (including direct ownership by one corporation of another), (ii) more than 50% common ownership of their capital interests or profits interests, if both entities are partnerships (including direct ownership by one partnership of another), or (iii) more than 50% common ownership of the value of the outstanding stock of the corporation or the capital interests or profit interests of the partnership, as applicable, if one entity is a corporation and the other entity is a partnership (including direct ownership of the applicable stock or interests by one entity of the other), and
- (4) "sale date" means the date that the Certificates are awarded by the City to the Winning Bidder.

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: See "THE CERTIFICATES – ADJUSTMENT OF PRINCIPAL AMOUNT AND MATURITY SCHEDULE FOR THE CERTIFICATES" for a description of the City's reservation of the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities.

GOOD FAITH DEPOSIT: A bank cashier's check payable to the order of "City of Dayton, Texas" in the amount of \$50,000, which is 2% of the par value of the Certificates (the "Good Faith Deposit"), is required. The Good Faith Deposit will be retained uncashed by the City until the Certificates are delivered, and at that time it will be returned to the Purchaser uncashed on the date of delivery of the Certificates; however, should the Purchaser fail or refuse to take up and pay for the Certificates, said Good Faith Deposit is to be cashed by the City and the proceeds accepted as full and complete liquidated damages. The above mentioned Good Faith Deposit may accompany the bid, or it may be submitted separately; however, if submitted separately, it shall be made available to the City prior to the opening of the bids and shall be accompanied by instructions from the bank on which it is drawn which will authorize its use as a Good Faith Deposit by the Purchaser who shall be named in such instructions. No interest will be paid or allowed on any Good Faith Deposit. The checks accompanying all other bids will be returned immediately after the bids are opened and the award of the sale of the Certificates has been made.

ADDITIONAL CONDITION OF AWARD — DISCLOSURE OF INTERESTED PARTY FORM:

It is the obligation of the City to receive information from winning bidder if bidder is not a publicly traded business entity (a "Privately Held Bidder"). Effective January 1, 2018, pursuant to Texas Government Code Section 2252.908 (the "Interested Party Disclosure Act"), the City may not award the Certificates to a winning bidder which is a Privately Held Bidder unless such party submits a Certificate of Interested Parties Form 1295 (the "Disclosure Form") to the City as prescribed by the Texas Ethics Commission ("TEC"). In the event that a Privately Held Bidder's bid for the Certificates is the best bid received, the City, acting through its financial advisor, will promptly notify the winning Privately Held Bidder. That notification will serve as the City's conditional verbal acceptance of the bid, and will obligate the winning Privately Held Bidder to establish (unless such winning Privately Held Bidder has previously so established) an account with the TEC, and promptly file a completed Disclosure Form, as described below, in order to allow the City to complete the award.

Process for completing the Disclosure Form. For purposes of illustration, the Disclosure Form is attached hereto, and reference should be made to such form for the following information needed to complete it: (a) item 2 - name of the governmental entity (City of Dayton, Texas) and (b) item 3 - the identification number assigned to this contract by the City (Dayton CO2019 – Bid Form) and description of the goods or services (Purchase of the City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019). The Interested Party Disclosure Act and the rules adopted by the TEC with respect thereto (the "Disclosure Rules") require a non-publicly traded business entity contracting with the City to complete the Disclosure Form electronically at <https://www.ethics.state.tx.us/main/file.htm>, print, sign, and deliver, in physical form, the certified Disclosure Form that is generated by the TEC's "electronic portal" to the City. The executed Disclosure Form must be sent by email to the City's financial advisor at mmcliney@samcocapital.com, as soon as possible following the notification of conditional verbal acceptance and prior to the final written award. Upon receipt of the final written award, the Disclosure Form with original signatures must be submitted by mail to Clay Binford, c/o Norton Rose Fulbright US LLP, 300 Convent Street, Suite 2100, San Antonio, Texas 78205, along with a PDF executed version sent to clayton.binford@nortonrosefulbright.com.

Preparations for completion, and the significance of, the reported information. In accordance with the Interested Party Disclosure Act, the information reported by the winning Privately Held Bidder must be declared by an authorized agent of the Privately Held Winning Bidder. No exceptions may be made to that requirement. The Interested Party Disclosure Act and the Disclosure Form provides that such acknowledgment is made "under penalty of perjury." Consequently, a winning Privately Held Bidder should take appropriate steps prior to completion of the Disclosure Form to familiarize itself with the Interested Party Disclosure Act, the Disclosure Rules and the Disclosure Form. Time will be of the essence in submitting the form to the City, and no final award will be made by the City regarding the sale of the Certificates until a completed Disclosure Form is received. If applicable, the City reserves the right to reject any bid that does not satisfy the requirement of a completed

Disclosure Form, as described herein. Neither the City nor its consultants have the ability to verify the information included in a Disclosure Form, and neither party has an obligation nor undertakes responsibility for advising any bidder with respect to (1) the bidder's obligation to submit the Disclosure Form or (2) the proper completion of the Disclosure Form. Consequently, an entity intending to bid on the Certificates should consult its own advisors to the extent it deems necessary and be prepared to submit the completed form, if required, promptly upon notification from the City that its bid is the conditional winning bid. Instructional videos on logging in and creating a certificate are provided on the TEC's website at https://www.ethics.state.tx.us/whatsnew/elf_info_form1295.htm.

ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE: Each bidder, through submittal of an executed Official Bid Form, represents that it and its parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, do not boycott Israel and, to the extent the Official Notice of Sale and Official Bid Form is a contract for goods or services, will not boycott Israel during the term of this agreement. The foregoing verification is made solely to comply with Section 2270.002, Texas Government Code, and to the extent such Section does not contravene applicable Texas or Federal law. As used in the foregoing verification, 'boycott Israel' means refusing to deal with, terminating business activities with, or otherwise taking any action that is intended to penalize, inflict economic harm on, or limit commercial relations specifically with Israel, or with a person or entity doing business in Israel or in an Israeli-controlled territory, but does not include an action made for ordinary business purposes. Each bidder, through submittal of an executed Official Bid Form, understands 'affiliate' to mean an entity that controls, is controlled by, or is under common control with our company and exists to make a profit.

Each bidder, through submittal of an executed Official Bid Form, represents that neither it nor any parent company, wholly- or majority-owned subsidiaries, and other affiliates is a company identified on a list prepared and maintained by the Texas Comptroller of Public Accounts under Section 2252.153 or Section 2270.0201, Texas Government Code, and posted on any of the following pages of such officer's internet website: <https://comptroller.texas.gov/purchasing/docs/sudan-list.pdf>; <https://comptroller.texas.gov/purchasing/docs/iran-list.pdf>, or <https://comptroller.texas.gov/purchasing/docs/fto-list.pdf>. The foregoing representation is made solely to comply with Section 2252.152, Texas Government Code, and to the extent such Section does not contravene applicable Texas or Federal law and excludes our company and each parent company, wholly- or majority-owned subsidiaries, and other affiliates, if any, that the United States government has affirmatively declared to be excluded from its federal sanctions regime relating to Sudan or Iran or any federal sanctions regime relating to a foreign terrorist organization. Each bidder, through submittal of an executed Official Bid Form, understands "affiliate" to mean any entity that controls, is controlled by, or is under common control with our company and exists to make a profit.

IMPACT OF BIDDING SYNDICATE ON AWARD: For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

OFFICIAL STATEMENT

To assist the Purchaser in complying with Rule 15c2-12, as amended (the "Rule"), of the United States Securities and Exchange Commission ("SEC"), the City and the Purchaser contract and agree, by the submission and acceptance of the winning bid, as follows:

COMPLIANCE WITH RULE: The City has approved and authorized distribution of the accompanying Preliminary Official Statement for dissemination to potential purchasers of the Certificates, but does not presently intend to prepare any other document or version thereof for such purpose, except as described below. Accordingly, the City deems the accompanying Preliminary Official Statement to be final as of its date, within the meaning of the Rule, except for information relating to the offering prices, interest rates, final debt service schedule, selling compensation, identity of the Purchaser and other similar information, terms and provisions to be specified in the competitive bidding process. The Purchaser shall be responsible for promptly informing the City of the initial offering yields of the Certificates.

The City agrees to provide, or cause to be provided, to the Purchaser, the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the Municipal Securities Rulemaking Board ("MSRB"). The City consents to the distribution of such documents in a "designated electronic format." Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the applicable MSRB rules.

The City will complete and authorize distribution of the Official Statement identifying the Purchaser and containing information omitted from the Preliminary Official Statement. The City does not intend to amend or supplement the Official Statement otherwise, except to take into account certain subsequent events, if any, as described below. By delivering the final Official Statement or any amendment or supplement thereto in the requested quantity to the Purchaser on or after the sale date, the City intends the same to be final as of such date, within the meaning of Section 15c2-12(b)(3) of the Rule. Notwithstanding the foregoing, the City makes no representation concerning the absence of material misstatements or omissions from the Official Statement, except only as and to the extent under "CERTIFICATION OF THE OFFICIAL STATEMENT" as described below. To the best knowledge and belief of the City, the Official Statement contains information, including financial information or operating data, concerning every entity, enterprise, fund, account, or person that is material to an evaluation of the offering of the Certificates.

FINAL OFFICIAL STATEMENT: In addition to delivering the Official Statement in a "designated electronic format", the City will furnish to the Purchaser, within seven (7) days after the sale date, an aggregate maximum of fifty (50) copies of the Official Statement, together with information regarding interest rates and other terms relating to the reoffering of the Certificates, in accordance with Section 15c2-12(b)(3) of the Rule. The Purchaser may arrange, at its own expense, to have the Official Statement reproduced and printed if it requires more than 50 copies and may also arrange, at its own expense and responsibility, for completion and perfection of the first or cover page of the Official Statement so as to reflect interest rates and other terms and information related to the reoffering of the Certificates. The Purchaser will be responsible for providing information concerning the City and the Certificates to subsequent purchasers of the Certificates, and the City will

undertake no responsibility for providing such information other than to make the Official Statement available to the Purchaser as provided herein. The City agrees to provide, or cause to be provided, to the Purchaser the Preliminary Official Statement and the Official Statement and any amendments or supplements thereto in a "designated electronic format" (or printed format with respect to the final Official Statement) as may be required for the Purchaser to comply with the Rule or the rules of the MSRB. The City consents to the distribution of such documents in a "designated electronic format". Upon receipt, the Purchaser shall promptly file the Official Statement with the MSRB in accordance with the MSRB Rule G-32. The City's obligation to supplement the Official Statement to correct key representations determined to be materially misleading, after the date of the Official Statement, shall terminate upon initial delivery of the Certificates to the Purchaser, unless the Purchaser notifies, in writing, the City that less than all of the Certificates have been sold to ultimate customers on or before such date, in which case the obligation will extend for an additional period of time (but not more than 90 days after the sale date) until all of the Certificates have been sold to ultimate customers.

CHANGES TO OFFICIAL STATEMENT: If, subsequent to the date of the Official Statement, the City learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Purchaser of any adverse event which causes the Official Statement to be materially misleading, and unless the Purchaser elects to terminate its obligation to purchase the Certificates, as described below under "DELIVERY AND ACCOMPANYING DOCUMENTS - CONDITIONS TO DELIVERY", the City will promptly prepare and supply to the Purchaser an appropriate amendment or supplement to the Official Statement satisfactory to the Purchaser and in a "designated electronic format"; provided, however, that the obligation of the City to do so will terminate when the City delivers the Certificates to the Purchaser, unless the Purchaser notifies the City on or before such date that less than all of the Certificates have been sold to ultimate customers, in which case the City's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the City delivers the Certificates) until all of the Certificates have been sold to ultimate customers.

CERTIFICATION OF THE OFFICIAL STATEMENT: At the time of payment for and delivery of the hereinafter defined Initial Certificate (the "Delivery Date"), the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefore, and on the date of the initial delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since the date of the last financial statements of the City appearing in the Official Statement. The Official Statement and Official Notice of Sale will be approved as to form and content and the use thereof in the offering of the Certificates will be authorized, ratified and approved by the City Council of the City on the date of sale, and the Purchaser will be furnished, upon request, at the time of payment for and the delivery of the Certificates, a certified copy of such approval, duly executed by the proper officials of the City.

CONTINUING DISCLOSURE AGREEMENT: The City will agree in the Ordinance to provide certain periodic information and notices of certain events in accordance with the Rule, as described in the Official Statement under "CONTINUING DISCLOSURE OF INFORMATION". The Purchaser's obligation to accept and pay for the Certificates is conditioned upon delivery to the Purchaser or its agent of a certified copy of the Ordinance containing the agreement described under such heading.

COMPLIANCE WITH PRIOR UNDERTAKINGS: Except as described below, during the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule.

On June 13, 2014, S&P Global Ratings ("S&P") upgraded the City's existing general obligation debt from "A+" to "AA-" and the City filed notice of this upgrade and failure to timely file with EMMA on September 17, 2014. The City has instituted internal procedures to ensure timely filing prospectively (See "CONTINUING DISCLOSURE OF INFORMATION – Compliance with Prior Agreements" in the Preliminary Official Statement).

DELIVERY AND ACCOMPANYING DOCUMENTS

INITIAL DELIVERY OF INITIAL CERTIFICATES: The initial delivery of the Certificates to the Purchaser on the "Delivery Date", will be accomplished by the issuance of either (i) a single fully registered Certificate in the total principal amount of \$2,500,000 (preliminary, subject to change) payable in stated installments to the Purchaser and numbered T-1, or (ii) as one (1) fully registered Certificate for each year of stated maturity in the applicable principal amount and denomination, to be numbered consecutively from R-1 and upward (in either case, the "Initial Certificate"), signed by manual or facsimile signature of the Mayor and the City Secretary approved by the Attorney General of Texas, and registered and manually signed by an authorized representative of the Comptroller of Public Accounts of the State of Texas. Initial Delivery (defined below) of the Certificates will be at the corporate trust office of the Paying Agent/Registrar. Upon delivery of the Initial Certificate, they shall be immediately canceled and one Certificate for each stated maturity will be registered in the name of Cede & Co. and deposited with DTC in connection with DTC's Book-Entry-Only System. Payment for the Initial Certificate must be made in immediately available funds for unconditional credit to the City, or as otherwise directed by the City. The Purchaser will be given six (6) business days' notice of the time fixed for delivery of the Certificates. It is anticipated that Initial Delivery of the Initial Certificate can be made on or about September 11, 2019, but if for any reason the City is unable to make delivery by September 11, 2019, then the City shall immediately contact the Purchaser and offer to allow the Purchaser to extend for an additional thirty (30) days its obligation to take up and pay for the Certificates. If the Purchaser does not so elect within six (6) business days thereafter, then the Good Faith Deposit will be returned, and both the City and the Purchaser shall be relieved of further obligation. In no event shall the City be liable for any damages by reason of its failure to deliver the Certificates, provided such failure is due to circumstances beyond the City's reasonable control.

EXCHANGE OF INITIAL CERTIFICATES FOR DEFINITIVE CERTIFICATES: Upon payment for the Initial Certificate at the time of such delivery, the Initial Certificate is to be canceled by the Paying Agent/Registrar and registered definitive Certificates delivered in lieu thereof, in multiples of \$5,000 for each stated maturity, in accordance with written instructions received from the Purchaser and/or members of the Purchaser's syndicate. Such Certificates shall be registered by the Paying Agent/Registrar. It shall be the duty of the Purchaser and/or members of the Purchaser's syndicate to furnish to the Paying Agent/Registrar, at least five days prior to the delivery of the Initial Certificate, final written

instructions identifying the names and addresses of the registered owners, the stated maturities, interest rates, and denominations. The Paying Agent/Registrar will not be required to accept changes in such written instructions after the five day period, and if such written instructions are not received by the Paying Agent/Registrar five days prior to the delivery, the cancellation of the Initial Certificate and delivery of registered definitive Certificates may be delayed until the fifth day next following the receipt of such written instructions by the Paying Agent/Registrar.

CUSIP NUMBERS: It is anticipated that CUSIP identification numbers will be printed on the Certificates, but neither the failure to print such number on any Certificate nor any error with respect thereto shall constitute cause for a failure or refusal by the Purchaser to accept delivery of and pay for the Certificates in accordance with the terms of the Official Bid Form and this Official Notice of Sale. All expenses in relation to the printing of CUSIP numbers on the Certificates shall be paid by the City; however, the CUSIP Service Bureau's charge for the assignment of the numbers shall be paid by the Purchaser.

CONDITIONS TO DELIVERY: The obligation to take up and pay for the Certificates is subject to the following conditions: the issuance of an approving opinion of the Attorney General of Texas, the Purchaser's acknowledgment of the receipt of the Initial Certificate, the Purchaser's receipt of the legal opinions of Bond Counsel and the no-litigation certificate, and the non-occurrence of the events described below under the caption "No Material Adverse Change", all as described below. In addition, if the City fails to comply with its obligations described under "OFFICIAL STATEMENT- Final Official Statement" above, the Purchaser may terminate its contract to purchase the Certificates by delivering written notice to the City within five (5) days thereafter.

NO MATERIAL ADVERSE CHANGE: The obligation of the Purchaser to take up and pay for the Certificates, and of the City to deliver the Initial Certificate, are subject to the condition that, up to the time of delivery of and receipt of payment for the Initial Certificate, there shall have been no material adverse change in the affairs of the City subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of delivery.

LEGAL OPINIONS: The Certificates are offered when, as and if issued, subject to the approval of certain legal matters by the Attorney General of the State of Texas and Bond Counsel (see discussion "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" in the Preliminary Official Statement).

CHANGE IN TAX-EXEMPT STATUS: At any time before the Certificates are tendered for initial delivery to the Purchaser, the Purchaser may withdraw its bid if the interest on obligations such as the Certificates shall be declared to be includable in the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes, either by U.S. Treasury regulations, by ruling or administrative guidance of the Internal Revenue Service, by a decision of any federal court, or by the terms of any federal income tax legislation enacted subsequent to the date of this Official Notice of Sale.

QUALIFIED TAX-EXEMPT OBLIGATIONS: The City will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions (see discussion under "TAX MATTERS – Qualified Tax-Exempt Obligations" in the Preliminary Official Statement).

GENERAL CONSIDERATIONS

FUTURE REGISTRATION: The Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificates or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk, and expense. 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 (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered owner or its duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and interest rate as the Certificates surrendered for exchange or transfer.

RECORD DATE: The record date ("Record Date") for determining the party to whom the semiannual interest on the Certificates is payable on any interest payment date is the fifteenth day of the month next preceding such interest payment date.

RATING: A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Rating" in the Preliminary Official Statement). An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the City makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not be revised downward or withdrawn entirely by S&P, if, in the judgment of such company, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

SALE OF ADDITIONAL OBLIGATIONS: The City currently has no plans to issue additional ad valorem tax supported debt in 2019, except potentially issuing refunding bonds for debt service savings.

REGISTRATION AND QUALIFICATION OF CERTIFICATES FOR SALE: No registration statement relating to the Certificates has been filed with the SEC under the Securities Act of 1933, as amended (the "Act"), in reliance upon exemptions provided in such Act. The Certificates have not been approved or disapproved by the SEC, nor has the SEC passed upon the accuracy or adequacy of the Official Statement. Any representation to the contrary is a criminal offense. The Certificates have not been registered or qualified under the Securities Act of Texas in reliance upon 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 sold, assigned, pledged, hypothecated 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.

It is the obligation of the Purchaser to register or qualify the sale of the Certificates under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Purchaser's written request and expense and within reasonable limits, in registering or qualifying the Certificates, or in obtaining an exemption from registration or qualification in any state where such action is necessary, but will in no instance execute a general consent to service of process in any state that the Certificates are offered for sale.

ADDITIONAL COPIES: Subject to the limitations described herein, an electronic copy of this Official Notice of Sale, the Official Bid Form, and the Official Statement may be obtained from www.samccapital.com.

The City Council of the City has approved the form and content of the Official Notice of Sale, the Official Bid Form, and the Official Statement and authorized the use thereof in its initial offering of the Certificates. On the date of the sale, the Certificates will, in the Ordinance authorizing the issuance of the Certificates, reconfirm its approval of the form and content of the Official Statement, and any addenda, supplement, or amendment thereto, and authorize its further use in the reoffering of the Certificates by the Purchaser.

/s/ Caroline Wadzeck

Mayor,
City of Dayton, Texas

ATTEST:

/s/ Jennifer Billings

City Secretary,
City of Dayton, Texas

August 12, 2019

OFFICIAL BID FORM

Honorable Mayor and City Council
 City of Dayton
 117 Cook Street
 Dayton, Texas 77535

August 19, 2019

Dear Ladies and Gentlemen:

Subject to the terms of your Official Notice of Sale and Preliminary Official Statement dated August 12, 2019, which terms are incorporated by reference to this proposal (and which are agreed to as evidenced by our submission of this bid), we hereby submit the following bid for \$2,500,000 (preliminary, subject to change) CITY OF DAYTON, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019, dated August 1, 2019 (the "Certificates").

For said legally issued Certificates, we will pay you \$_____ (being a price of no less than 102% and no more than 107% of par value) plus accrued interest from their date to the date of delivery to us for Certificates maturing February 1 and bearing interest per annum as follows:

Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %	Year of Stated Maturity	Principal Amount at Stated Maturity	Coupon %
2020	\$20,000		2030*	\$120,000	
2021	265,000		2031*	125,000	
2022	90,000		2032*	130,000	
2023	95,000		2033*	135,000	
2024	95,000		2034*	135,000	
2025	100,000		2035*	140,000	
2026	105,000		2036*	145,000	
2027	105,000		2037*	150,000	
2028	110,000		2038*	155,000	
2029	115,000		2039*	165,000	

**Maturities available for Term Certificates.*

Our calculation (which is not part of this bid) of the True Interest Cost from the above is: _____%

ADJUSTMENT OF INITIAL PRINCIPAL AMOUNTS: As a condition to our submittal of this bid for the Certificates, we acknowledge the following: The City reserves the right to increase or decrease the principal (maturity) amount of any maturity of the Certificates, including the elimination of a maturity or maturities; provided, however, that the aggregate principal (denominational) amount of the Certificates shall not exceed \$2,500,000. Notice of any such changes shall be given to the successful bidder as soon as practicable following the notification of award, as described below, and this Official Notice of Sale may be amended at the sole discretion of the City to reflect such increase or decrease. The City will attempt to maintain total per bond underwriter spread when adjusting maturities. No such adjustment will have the effect of altering the basis upon which the best bid is determined. The successful bidder may not withdraw its bids or change the rates bid or any initial reoffering prices as a result of any changes made to the principal (denominational) amounts.

Of the principal maturities set forth in the table above, we have created term certificates (the "Term Certificates") as indicated in the following table (which may include no more than five Term Certificates. For those years which have been combined into a Term Certificate, the principal amount shown in the table shown on page ii of the Official Notice of Sale will be the mandatory sinking fund redemption amounts in such years except that the amount shown in the year of the Term Certificate maturity date will mature in such year. The Term Certificates created are as follows:

Term Certificate Maturity Date February 1	Year of First Mandatory Redemption	Principal Amount of Term Certificate	Interest Rate
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____
_____	_____	_____	_____

The Initial Certificate shall be registered in the name of _____, which will, upon payment for the Certificates, be cancelled by the Paying Agent/Registrar. The Certificates will then be registered in the name of Cede & Co. (DTC's partnership nominee), under the Book-Entry-Only System.

Cashier's Check of the _____ Bank, _____, Texas, in the amount of \$50,000, which represents our Good Faith Deposit (is attached hereto) or (has been made available to you prior to the opening of this Bid), and is submitted in accordance with the terms as set forth in the Official Notice of Sale, said check is to be returned to the Purchaser.

We agree to accept delivery of the Certificates utilizing the Book-Entry-Only System through DTC and make payment for the Initial Certificate in immediately available funds at the Corporate Trust Division, UMB Bank, N.A., Austin Texas, not later than 10:00 A.M., Central Time, on Wednesday, September 11, 2019, or thereafter on the date the Certificates are tendered for delivery, pursuant to the terms set forth in the Official Notice of Sale. It will be the obligation of the purchaser of the Certificates to complete and file the DTC Eligibility Questionnaire. The undersigned agrees to the provisions of the Official Notice of Sale under the heading "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" and, as evidenced thereof, agrees to complete, execute, and deliver to the City, by the Delivery Date, a certificate relating to the "issue price" of the Certificates in the form and to the effect attached to or accompanying the Official Notice of Sale, with such changes thereto as may be acceptable to Bond Counsel for the City. (See "CONDITIONS OF SALE – ESTABLISHMENT OF ISSUE PRICE" in the Official Notice of Sale.)

Through submittal of this executed Official Bid Form, the undersigned verifies that, except to the extent otherwise required by applicable Texas or Federal law, it does not and will not "boycott Israel" and is not a company on the Texas Comptroller's list concerning "foreign terrorist organizations" prepared and maintained thereby under applicable Texas law, all as more fully provided in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD - COMPLIANCE WITH H.B. 89 AND S.B. 252, 85TH TEXAS LEGISLATURE".

For purposes of contracting for the sale of the Certificates, the entity signing the bid form as Purchaser shall be solely responsible for the payment of the purchase price of the Certificates. The Purchaser may serve as a syndicate manager and contract under a separate agreement with other syndicate members. However, the City is not a party to that agreement and any information provided regarding syndicate managers would be for informational purposes only.

Upon notification of conditional verbal acceptance, the undersigned will, if required by applicable Texas law as described in the Official Notice of Sale under the heading "ADDITIONAL CONDITION OF AWARD – DISCLOSURE OF INTERESTED PARTY FORM", complete an electronic form of the Certificate of Interested Parties Form 1295 (the "Disclosure Form") through the Texas Ethics Commission's (the "TEC") electronic portal and the resulting certified Disclosure Form that is generated by the TEC's electronic portal will be printed, signed, and sent by email to the City's financial advisor at mmcliney@samccapital.com and Bond Counsel at clayton.binford@nortonrosefulbright.com. The undersigned understands that the failure to provide the certified Disclosure Form will prohibit the City from providing final written award of the enclosed bid.

By: _____
 Authorized Representative

 Telephone Number

 E-mail Address

ACCEPTANCE CLAUSE

The above and foregoing bid is hereby in all things accepted by the City of Dayton, Texas, subject to and in accordance with the Official Notice of Sale and Official Bid Form, this 19th day of August 2019.

/s/ _____
 Mayor,
 City of Dayton, Texas

ATTEST:

/s/ _____
 City Secretary,
 City of Dayton, Texas

\$2,500,000*
CITY OF DAYTON, TEXAS
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION,
SERIES 2019

ISSUE PRICE CERTIFICATE

The undersigned, on behalf of _____, _____, _____ (the "Purchaser"), hereby certifies as set forth below with respect to the sale of the above-captioned obligations (the "Obligations") of the City of Dayton, Texas (the "Issuer").

1. Reasonably Expected Initial Offering Price.

(a) As of the Sale Date, the reasonably expected initial offering prices of the Obligations to the Public by _____ are the prices listed in Schedule A (the "Expected Offering Prices"). The Expected Offering Prices are the prices for the Maturities of the Obligations used by the "Purchaser" in formulating its bid to purchase the Obligations. Attached as Schedule B is a true and correct copy of the bid provided by the "Purchaser" to purchase the Obligations.

(b) _____ was not given the opportunity to review other bids prior to submitting its bid.

(c) The bid submitted by _____ constituted a firm offer to purchase the Obligations.

2. Defined Terms.

(a) *Maturity* means Obligations with the same credit and payment terms. Obligations with different maturity dates, or Obligations with the same maturity date but different stated interest rates, are treated as separate Maturities.

(b) *Public* means any person (including an individual, trust, estate, partnership, association, company, or corporation) other than an Underwriter or a related party to an Underwriter. The term "related party" for purposes of this certificate generally means any two or more persons who have greater than 50 percent common ownership, directly or indirectly.

(c) *Sale Date* means the first day on which there is a binding contract in writing for the sale of a Maturity of the Obligations. The Sale Date of the Obligations is August 19, 2019.

(d) *Underwriter* means (i) any person that agrees pursuant to a written contract with the Issuer (or with the lead underwriter to form an underwriting syndicate) to participate in the initial sale of the Obligations to the Public, and (ii) any person that agrees pursuant to a written contract directly or indirectly with a person described in clause (i) of this paragraph to participate in the initial sale of the Obligations to the Public (including a member of a selling group or a party to a retail or other third-party distribution agreement participating in the initial sale of the Obligations to the Public).

The representations set forth in this certificate are limited to factual matters only. Nothing in this certificate represents the Purchaser's interpretation of any laws, including specifically sections 103 and 148 of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder. The undersigned understands that the foregoing information will be relied upon by the Issuer with respect to certain of the representations set forth in the tax certificate with respect to the Obligations and with respect to compliance with the federal income tax rules affecting the Obligations, and by Norton Rose Fulbright US LLP in connection with rendering its opinion that the interest on the Obligations is excluded from gross income for federal income tax purposes, the preparation of the Internal Revenue Service Form 8038-G, and other federal income tax advice that it may give to the Issuer from time to time relating to the Obligations.

By: _____
Name: _____
Title: _____

Dated: _____

*Preliminary, subject to change.

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SCHEDULE A
EXPECTED OFFERING PRICES

(this page intentionally left blank)

SCHEDULE B

COPY OF UNDERWRITER'S BID

(this page intentionally left blank)

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

NEW ISSUE - BOOK-ENTRY-ONLY

Rating: S&P: "Applied For"
(See: "OTHER PERTINENT INFORMATION-Rating")

PRELIMINARY OFFICIAL STATEMENT
August 12, 2019

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

The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions.

\$2,500,000*
CITY OF DAYTON, TEXAS
(A political subdivision of the State of Texas located in Liberty County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019

Dated Date: August 1, 2019

Due: February 1, as shown on inside cover

The \$2,500,000* City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (the "Certificates") are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City of Dayton, Texas (the "City" or the "Issuer") on August 19, 2019, and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

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

Interest on the Certificates will accrue from August 1, 2019 (the "Dated Date") as shown above and will be payable on February 1 and August 1 of each year, commencing February 1, 2020, until the earlier of stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Certificates will be issued as fully registered obligations in book-entry form only and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository. Book-entry interests in the Certificates will be made available for purchase in the principal amount of \$5,000 or any integral multiple thereof. Purchasers of the Certificates ("Beneficial Owners") will not receive physical delivery of certificates representing their interest in the Certificates purchased. So long as DTC or its nominee is the registered owner of the Certificates, the principal of and interest on the Certificates will be payable by UMB Bank, N.A., Austin, Texas, as Paying Agent Registrar to the securities depository, which will in turn remit such principal and interest to its participants, which will in turn remit such principal and interest to the Beneficial Owners of the Certificates. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and landscaping incidental thereto; (2) constructing, improving, and equipping a new Public Works Facility, (3) constructing, remodeling, renovating, improving, and equipping the existing City Hall and Municipal Complex, (4) making City-wide technology improvements, (5) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (6) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

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

The Certificates are offered for delivery, when, as and if issued and received by the initial purchaser thereof at a competitive sale (the "Purchaser") and subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will be printed on, or attached to, the Certificates. (See "LEGAL MATTERS - Legal Opinions and No-Litigation Certificate" and "APPENDIX C - Form of Legal Opinion of Bond Counsel" herein). It is expected that the Certificates will be available for initial delivery through DTC on or about September 11, 2019.

* Preliminary, subject to change

BIDS DUE MONDAY, AUGUST 19, 2019, BY 11:00 A.M., CENTRAL TIME

\$2,500,000*
CITY OF DAYTON, TEXAS
(A political subdivision of the State of Texas located in Liberty County, Texas)
COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019

MATURITY SCHEDULE*
(Due February 1)

CUSIP Prefix No. 240082⁽¹⁾

Stated				CUSIP	Stated				CUSIP
Maturity	Principal	Interest	Initial	No.	Maturity	Principal	Interest	Initial	No.
<u>2/1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix</u> ⁽¹⁾	<u>2/1</u>	<u>Amount</u>	<u>Rate</u>	<u>Yield</u>	<u>Suffix</u> ⁽¹⁾
2020	\$ 20,000				2030	\$ 120,000			
2021	265,000				2031	125,000			
2022	90,000				2032	130,000			
2023	95,000				2033	135,000			
2024	95,000				2034	135,000			
2025	100,000				2035	140,000			
2026	105,000				2036	145,000			
2027	105,000				2037	150,000			
2028	110,000				2038	155,000			
2029	115,000				2039	165,000			

(Interest to accrue from Dated Date)

The Issuer reserves the right to redeem the Certificates maturing on or after February 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest as further described herein. Additionally, the Purchaser may select certain consecutive maturities of the Certificates to be grouped together as a "Term Certificate" and such "Term Certificates" would also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

* Preliminary, subject to change.

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

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CITY OF DAYTON TEXAS
117 Cook Street
Dayton, Texas 77535
Telephone: (936) 258-2642

ELECTED OFFICIALS

Name	Years Served	Term Expires (May)	Occupation
Caroline Wadzeck Mayor	Newly Elected	2021	Retired
Dr. John S. Johnson Mayor Pro-Tem	6	2021	Retired
Wendell Null Councilmember, Position 1	1	2020	Retired
Sherial L. Lawson Councilmember, Position 2	7	2020	Registered Nurse
Alvin Burress Councilmember, Position 3	1	2020	Fire Safety Consultant
Troy Barton Councilmember, Position 4	4	2021	Commercial Pump Tech

ADMINISTRATION

Name	Position	Length of Service (Years)
Theo Melancon	City Manager	2
Rudy Zepeda	Assistant City Manager	5
Jennifer Billings	City Secretary	7 months

CONSULTANTS AND ADVISORS

Bond CounselNorton Rose Fulbright US LLP
San Antonio, Texas

Certified Public AccountantsBelt Harris Pechacek LLP
Houston, Texas

Financial AdvisorSAMCO Capital Markets, Inc.
San Antonio, Texas

For Additional Information Please Contact:

Mr. Rudy Zepeda
Assistant City Manager
City of Dayton
117 Cook Street
Dayton, Texas 77535
Telephone: (936) 258-2642
rzepeda@cityofdayontx.com

Mr. Mark M. McLiney
Mr. Andrew T. Friedman
SAMCO Capital Markets, Inc.
1020 Northeast Loop 410, Suite 640
San Antonio, Texas 78209
Telephone: (210) 832-9760
mmcliney@samcocapital.com
afriedman@samcocapital.com

USE OF INFORMATION IN THE OFFICIAL STATEMENT

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

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

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

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

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

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

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

SELECTED DATA FROM THE OFFICIAL STATEMENT

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

The Issuer

The City of Dayton, Texas (the "City" or "Issuer") is in southwest Liberty County, Texas approximately 39 miles northeast of the City of Houston. The City became an incorporated municipality in 1911 after originally being considered part of the original town of Liberty, founded in 1831. The City operates under the council-mayor form of government and as a home rule municipality. The City Manager, appointed by the City Council, is the chief administrative and executive officer of the City. (See "APPENDIX B - General Information Regarding the City of Dayton and Liberty County, Texas" herein.)

The Certificates

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State"), particularly the Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064, Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City, on August 19, 2019 and the City's Home Rule Charter. (See "THE CERTIFICATES - Authority for Issuance" herein.)

Paying Agent/Registrar

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

Security

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

Redemption Provisions of the Certificates

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature on or after February 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof, on February 1, 2028, or any date thereafter, at the redemption price of par plus accrued interest to the date fixed for redemption. Additionally, the Purchaser may select certain consecutive maturities of the Certificates to be grouped together as a "Term Certificate" and such "Term Certificates" would also be subject to mandatory sinking fund redemption. (See "THE CERTIFICATES - Redemption Provisions of the Certificates" herein.)

Tax Matters

In the opinion of Bond Counsel, the interest on the Certificates will be excludable from gross income of the owners thereof for purposes of federal income taxation under existing statutes, regulations, published rulings and court decisions, subject to matters discussed herein under "TAX MATTERS" and will not be included in calculating the alternative minimum taxable income of the owners thereof. (See "TAX MATTERS" and "APPENDIX C - Form of Opinion of Bond Counsel" herein.)

Qualified Tax-Exempt Obligations

The Issuer will designate the Certificates as "Qualified Tax-Exempt Obligations" for financial institutions. (See "TAX MATTERS - Qualified Tax-Exempt Obligations" herein.)

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and landscaping incidental thereto; (2) constructing, improving, and equipping a new Public Works Facility, (3) constructing, remodeling, renovating, improving, and equipping the existing City Hall and Municipal Complex, (4) making City-wide technology improvements, (5) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (6) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects. (See "THE CERTIFICATES - Use of Certificate Proceeds" herein.)

Rating

A municipal bond rating application has been made to S&P Global Ratings ("S&P"). The outcome of the results will be made available to the Purchaser as soon as possible. (See "OTHER PERTINENT INFORMATION - Rating" herein.)

Payment Record

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

Future Debt Issues

The Issuer does not anticipate the issuance of any additional ad valorem tax debt in 2019, except potentially issuing refunding bonds for debt service savings.

Delivery

When issued, anticipated on or about September 11, 2019.

Legality

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

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PRELIMINARY OFFICIAL STATEMENT

relating to

\$2,500,000*

CITY OF DAYTON, TEXAS

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

COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019

INTRODUCTORY STATEMENT

This Official Statement provides certain information in connection with the issuance by the City of Dayton, Texas (the "City" or the "Issuer") of its \$2,500,000* Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019 (the "Certificates") identified on the cover page.

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

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

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

THE CERTIFICATES

General Description of the Certificates

The Certificates will be dated August 1, 2019 (the "Dated Date"), will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page 2 of this Official Statement. The Certificates will be registered and issued in denominations of \$5,000 or any integral multiple thereof. The Certificates will bear interest from the Dated Date, or from the most recent date to which interest has been paid or duly provided for, and will be paid semiannually on February 1 and August 1 of each year, commencing February 1, 2020, until stated maturity or prior redemption. Principal of and interest on the Certificates are payable in the manner described herein under "BOOK-ENTRY-ONLY SYSTEM". In the event the Book-Entry-Only System is discontinued, the interest on the Certificates payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by UMB Bank, N.A., Austin, Texas as the initial Paying Agent/Registrar, as of the Record Date (defined below), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Certificates will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

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

Authority for Issuance

The Certificates are being issued pursuant to the Constitution and general laws of the State of Texas (the "State") particularly Certificate of Obligation Act of 1971 (Sections 271.041 through 271.064 Texas Local Government Code, as amended), Chapter 1502, as amended, Texas Government Code, an ordinance (the "Ordinance") to be adopted by the City Council of the City (the "City Council") on August 19, 2019, and the City's Home Rule Charter.

Security for Payment

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

*Preliminary, subject to change.

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

Redemption Provisions of the Certificates

The Issuer reserves the right, at its sole option, to redeem Certificates stated to mature, on or after February 1, 2029, in whole or in part, in principal amounts of \$5,000 or any integral multiple thereof on February 1, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Two or more consecutive maturities of the Certificates may be grouped together as a "Term Certificate" by the Purchaser, and such "Term Certificates" would also be subject to mandatory sinking fund redemption. If less than all of the Certificates within a stated maturity are to be redeemed, the particular Certificates to be redeemed shall be selected by lot or by other customary random method by the Paying Agent/Registrar.

Notice of Redemption

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

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

The Paying Agent/Registrar and the Issuer, so long as a Book-Entry-Only System is used for the Certificates, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Certificates only to DTC. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the Beneficial Owner, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice. Redemption of portions of the Certificates by the Issuer will reduce the outstanding principal amount of such Certificates held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, a redemption of such Certificates held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement a redemption of such Certificates from the Beneficial Owners. Any such selection of Certificates to be redeemed will not be governed by the Ordinance and will not be conducted by the Issuer or the Paying Agent/Registrar. Neither the Issuer nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Certificates or the providing of notice to DTC participants, indirect participants, or Beneficial Owners of the selection of portions of the Certificates for redemption. (See "BOOK-ENTRY-ONLY SYSTEM" herein.)

Selection of Certificates to be Redeemed

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

Use of Certificate Proceeds

Proceeds from the sale of the Certificates will be used for the purpose of paying contractual obligations of the City to be incurred for making permanent public improvements and for other public purposes, to-wit: (1) constructing street improvements (including utilities repair, replacement, and relocation), curbs, gutters, and sidewalk improvements, including drainage and landscaping incidental thereto; (2) constructing, improving, and equipping a new Public Works Facility, (3) constructing, remodeling, renovating, improving, and equipping the existing City Hall and Municipal Complex, (4) making City-wide technology improvements, (5) the purchase of materials, supplies, equipment, machinery, landscaping, land, and rights-of-way for authorized needs and purposes relating to the aforementioned capital improvements; and (6) payment for professional services relating to the design, construction, project management, and financing of the aforementioned projects.

Sources and Uses

Sources	
Par Amount of the Certificates	\$ _____
Accrued Interest on the Certificates	_____
[Net] Reoffering Premium	_____
Total Sources of Funds	=====
Uses	
Project Fund Deposit	\$ _____
Purchaser's Discount	_____
Certificate Fund Deposit	_____
Costs of Issuance	_____
Total Uses	_____

Payment Record

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

Amendments

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

Defeasance

The Ordinance provides for the defeasance of the Certificates when payment of the principal amount of the Certificates plus interest accrued on the Certificates to their due date (whether such due date be by reason of stated maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, or other authorized escrow agent, in trust (1) money in an amount sufficient to make such payment, and/or (2) Government Securities (defined below), to mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Certificates. The foregoing deposits shall be certified as to sufficiency by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified financial institution (as provided in the Ordinance). The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Government Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Government Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Certificates. Current State law permits defeasance with the following types of securities: (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date of the purchase thereof, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that on the date the governing body of the City adopts or approves the proceedings authorizing the financial arrangements have been refunded and are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (d) any additional securities and obligations hereafter authorized by State

law as eligible for use to accomplish the discharge of obligations such as the Certificates. City officials are authorized to restrict such eligible securities as deemed appropriate. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Certificates, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current State law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of these securities identified in clauses (a) through (c) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Certificates ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Certificates, registered owners of Certificates are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under State law as permissible defeasance securities.

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

Default and Remedies

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

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

In *Wasson Interests, Ltd., v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) ("*Wasson*") the Texas Supreme Court (the "Court") addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that "a city's proprietary functions are not done pursuant to the 'will of the people'" and protecting such municipalities "via the [S]tate's immunity is not an efficient way to ensure efficient allocation of [S]tate resources". While the Court recognized that the distinction between government and proprietary functions is not clear, the *Wasson* opinion held that Proprietary-Governmental Dichotomy applies in contract-claims context. The Court reviewed *Wasson* again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance and definitions found in the Texas Civil Practice and Remedies Code.

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

If a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Certificates. As noted above, the Ordinance provides that Certificate holders may exercise the remedy of mandamus to enforce the obligations of the City under the Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which

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

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

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

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

Record Date

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

Special Record Date for Interest Payment

In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Certificate appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

Future Registration

In the event the Certificates are not in the Book-Entry-Only System, the Certificates may be transferred, registered, and assigned on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar, and such registration and transfer shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Certificate may be assigned by the execution of an assignment form on the Certificate or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Certificate or Certificates will be delivered by the Paying Agent/Registrar in lieu of the Certificates being transferred or exchanged at the corporate trust office of the Paying Agent/Registrar, or sent by United States registered mail to the new registered owner at the registered owner's request, risk and expense. New Certificates issued in an exchange or transfer of Certificates will be delivered to the registered owner or assignee of the registered owner in not more than three (3) business days after the receipt of the Certificates to be canceled in the exchange or transfer and the written instrument of transfer or request for exchange duly executed by the registered

owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Certificates registered and delivered in an exchange or transfer shall be in denominations of \$5,000 for any one stated maturity or any integral multiple thereof and for a like aggregate principal amount and rate of interest as the Certificate or Certificates surrendered for exchange or transfer. (See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized in regard to ownership and transferability of the Certificates.)

Limitation on Transfer of Certificates

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

Replacement Certificates

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

Redemption proceeds, principal, and interest payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to Issuer or Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, physical certificates are required to be printed and delivered. The Issuer may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, physical certificates will be printed and delivered to the holder of such Certificates and will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under "REGISTRATION, TRANSFER AND EXCHANGE" hereinabove.

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Certificates are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest

in the Certificates, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, payment or notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Effect of Termination of Book-Entry-Only System

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

INVESTMENT POLICIES

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

Legal Investments

Under State law, the Issuer is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, or otherwise meeting the requirements of the Texas Public Funds Investment Act; (8) certificates of deposit and share certificates that (i) are issued by or through an institution that has its main office or a branch in Texas and (a) are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund or their respective successors, (b) are secured as to principal by obligations described in clauses (1) through (7) above, or (c) secured in any other manner and amount provided by law for Issuer deposits, or (ii) certificates of deposit where (a) the funds are invested by the Issuer through a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Issuer as required by law, or a depository institution that has its main office or a branch office in the State of Texas that is selected by the Issuer; (b) the broker or the depository institution selected by the Issuer arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Issuer, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Issuer appoints the depository institution selected under (a) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the United States Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 as custodian for the Issuer with respect to the certificates of deposit issued for the account of the Issuer; (9) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1), (iii) require the securities being purchased by the Issuer or cash held by the Issuer to be pledged to the Issuer, held in the Issuer’s name and deposited at the time the investment is made with the Issuer or with a third party selected and approved by the Issuer, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time, and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than “A” or its equivalent or (c) cash invested in obligations described in clauses (1) through (7) above and clauses (12) through (15) below, (ii) securities held as collateral under a loan are pledged to the Issuer, held in the Issuer’s name and deposited at the time the investment is made with the Issuer or a third party designated by the Issuer, (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas, and (iv) the agreement to lend securities has a term of one year or less; (11) certain bankers’ acceptances if the bankers’ acceptance (i) has a stated maturity of 270 days or fewer from the date of issuance, (ii) will be, in accordance with its terms, liquidated in full at maturity, (iii) is eligible for collateral for borrowing from a Federal Reserve Bank, and (iv) is accepted by a State or Federal bank, if the short-term obligations of the accepting bank or its holding company (if the accepting bank is the largest subsidiary) are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with (i) a stated maturity of 270 days or less from the date of issuance, and (ii) a rating of at least “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (13) no-load money market mutual funds that are (i) registered with and regulated by the United States Securities and Exchange Commission, (ii) provide the Issuer with a prospectus and other information required by the Securities and Exchange Act of 1934; and (iii) comply with Federal Securities and Exchange Commission Rule 2a-7; (14) no-load mutual funds that are (i) registered with the United States Securities and Exchange Commission, (ii) have an average weighted maturity of less than two years, and (iii) either (a) have a duration of one year or more and are invested exclusively in obligations described in this paragraph, or (b) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities;

(15) investment pools if the Issuer has authorized investment in the particular pool and the pool invests solely in investments permitted by the Texas Public Funds Investment Act, and is continuously rated no lower than “AAA” or “AAA-m” or at an equivalent rating by at least one nationally recognized rating service; and (16) guaranteed investment contracts that (i) have a defined termination date, (ii) are secured by obligations which meet the requirements of the Texas Public Funds Investment Act in an amount at least equal to the amount of bond proceeds invested under such contract, and (iii) are pledged to the Issuer and deposited with the Issuer or with a third party selected and approved by the Issuer.

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

Investment Policies

Under State law, the Issuer is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for Issuer funds, the maximum allowable stated maturity of any individual investment and the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, requirements for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the Texas Public Funds Investment Act. All Issuer funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each fund’s investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

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

Additional Provisions

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

As of May 31, 2019 the City held investments as follows:

<u>Type of Security</u>	<u>Market Value</u>	<u>Percentage of Total</u>
Prosperity Bank	\$ 1,575,010	43.90%
TexPool	2,012,920	56.10%
Total	<u>\$ 3,587,930</u>	<u>100.00%</u>

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

⁽¹⁾ Unaudited.

AD VALOREM TAX PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the "Tax Code") provides for county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district and an appraisal review board responsible for appraising property for all taxable units within the county. The Liberty County Appraisal District (the "Appraisal District") is responsible for appraising property within the City generally as of January 1 of each year. The appraisal values set by the Appraisal District are subject to review and change by the Liberty County Appraisal Review Board (the "Appraisal Review Board") which is appointed by the Appraisal District.

Valuation of Property for Taxation

In determining the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. Oil and gas reserves are assessed on the basis of pricing information contained in either the standard edition of the Annual Energy Outlook or, if the most recently published edition of the Annual Energy Outlook was published before December 1 of the preceding calendar year, the Short-Term Energy Outlook report published in January of the current calendar year. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the property's market value in the most recent tax year in which the market value was determined by the appraisal district or (2) the sum of (a) 10% of the property's appraised value in the preceding tax year, plus (b) the property's appraised value the preceding tax year, plus (c) the market value of all new improvements to the property. The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board for the Appraisal District, the members of which are appointed by the Board of Directors of the Appraisal District. Such appraisal rolls, as approved by the Appraisal Review Board, are used by the City in establishing its tax roll and tax rate.

The Appraisal District is required to review the value of property within its jurisdiction at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Property Subject to Taxation by the Issuer

Reference is made to the Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes. Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

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

certain classes of intangible property. Owners of agricultural and open space land, under certain circumstances, may request valuation of such land on the basis of productive capacity rather than market value.

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

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

Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal.

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

Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit", which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. The City took official action before April 1, 1990 to tax freeport property. On October 23, 2007 the City adopted an ordinance that continued the taxation of all goods-in-transit for the tax year 2008 and beyond. Senate Bill 1, passed by the 82nd Texas Legislature, 1st Called Session, requires again that the governmental entities take affirmative action after October 1 of the prior year but before January 1 of the first tax year in which the governing body proposes to tax goods-in-transit in the 2012 tax year and beyond. On October 3, 2011, the City adopted an ordinance to continue the taxation of goods-in-transit.

Residential Homestead Exemptions

The State of Texas approved a constitutional amendment authorizing counties, cities, towns or junior college districts to establish, on a local option basis, an ad valorem "tax freeze" on residence homesteads of the disabled and persons sixty-five years of age or older. This "tax freeze" can be implemented by official action of a governing body, or pursuant to an election called by the governing body upon receipt of a petition signed by 5% of registered voters of the political subdivision. On November 2, 2014 the City approved an election granting the "tax freeze."

If the tax limitation is established, the total amount of ad valorem taxes imposed by the City on a homestead that receives the exemption may not be increased while it remains the residence homestead of that person or that person's spouse who is disabled or sixty-five years of age or older, except to the extent the value of the homestead is increased by improvements other than repairs. If a disabled or elderly person dies in a year in which the person received a residence homestead exemption, the total amount of ad valorem taxes imposed on the homestead by the taxing unit may not be increased while it remains the residence homestead of that person's surviving spouse if the spouse is (1) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (2) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse, and (3) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse. In addition, the Texas Legislature by general law may provide for the transfer of all or a proportionate amount of the tax limitation applicable to a person's homestead to be transferred to the new homestead of such person if the person moves to a different residence within the taxing unit. Once established, the governing body of the taxing unit may not repeal or rescind the tax limitation.

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

1. An exemption of not less than \$3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision. The City has elected to grant \$20,000 for persons 65 years of age or older and \$3,000 for the disabled.
2. An exemption of up to 20% of the market value of residence homesteads; minimum exemption \$5,000. The City has elected to grant this additional exemption in the amount of 10% or a minimum of \$5,000.

After the exemption described in (1) above is authorized, such exemption may be repealed or decreased or increased in amount (a) by the governing body of the political subdivision or (b) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number

of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value. An eligible disabled person who is 65 or older may not receive both a disabled and an elderly residence homestead exemption but may choose either.

The surviving spouse of an individual who qualifies for the exemption listed in (1) above for the residence homestead of a person 65 or older (but not the disabled) is entitled to an exemption for the same property in an amount equal to that of the exemption for which the deceased spouse qualified if (i) the deceased spouse died in a year in which the deceased spouse qualified for the exemption, (ii) the surviving spouse was at least 55 years of age at the time of the death of the individual's spouse and (iii) the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse.

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

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

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

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

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

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

Tax Abatement

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

Pursuant to the terms of the tax abatement agreement with Hiller Carbon, LLC ("Hiller"), the City has agreed to abate ad valorem taxation on any increase in assessed valuation from the 2016 tax year in the following amounts: 100 percent (100%) in tax years 2017 and 2018, 80 percent (80%) in tax year 2019, forty percent (40%) in tax year 2020, and twenty percent (20%) in tax year 2021. As a condition to this tax abatement, Hiller agreed to spend a minimum of \$2,750,000 on new improvements on the property and create at least nine full time jobs that pay prevailing wages for similar jobs in the county and State. If at any time during the term of this tax abatement agreement Hiller should fail to comply with the terms of the agreement, Hiller will be liable to the City for the value of all taxes abated since the agreement commenced.

Tax Increment Reinvestment (Financing) Zones

The City, by action of the City Council, may create one or more tax increment reinvestment zones ("TIRZs") within the City, and in doing so, other overlapping taxing entities may agree to contribute taxes levied against the "Incremental Value" in the TIRZ to finance or pay for public improvements or projects within the TIRZ. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value of taxable real property in the TIRZ is known as the "Incremental Value", and during the existence of the TIRZ, all or a portion (as determined by the City) of the taxes levied by the City against the Incremental Value in the TIRZ are restricted to paying project and financing costs within the TIRZ and are not available for the payment of other obligations of the City.

Economic Development Programs of Grants and Loans

The City is also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however no obligations secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. The City has entered into various 380 agreements with businesses in the City. These agreements involve rebates of future ad valorem taxes and/or sales taxes and should not have a significant impact on current tax in future years. Once the terms of the 380 agreements expire, the tax base of the City will be increased to include the new businesses of the City. The City has a Chapter 380 Agreement with Jess-John, Inc. (the "Developer"). The Jess-John, Inc. Agreement allows the City to provide City Grant Payments, less City Service Retainage, to the Developer in order to pay for up to one half (1/2) of actual costs of Public Improvements not to exceed \$674,530. This Agreement shall be in force and effect from the date of execution, November 17, 2014, for a term expiring the earlier of 15 years thereafter, or on the date that all payments required have been made.

Issuer and Taxpayer Remedies

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

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

The Financial Institutions Act of 1989

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

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

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

Levy and Collection of Taxes

The Issuer is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. Generally, before the later of September 30th or the 60th day after the date the certified appraisal roll is received by the taxing unit, the rate of taxation is set by the Issuer based upon the valuation of property within the City as of the preceding January 1. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent

(12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the Issuer. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. Certain taxpayers, including the disabled, persons 65 years or older, disabled veterans, and first responders who qualified for certain tax exemptions are permitted by State law to pay taxes on homesteads in four installments with the first due before February 1 of each year and the final installment due before August 1. The Tax Code also makes provision, on a local option basis, for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances. The Issuer does not allow split payments but does allow discounts for early payment.

Issuer's Rights in the Event of Tax Delinquencies

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

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

Industrial Districts in Extraterritorial Jurisdiction

Pursuant to Section 42.044, as amended, Texas Local Government Code, the City is authorized to designate any area within its extraterritorial jurisdiction as an "Industrial District" and contract with the Industrial District to guarantee the continuation of the District's extraterritorial status for a period not to exceed 15 years. In lieu of annexation, and the tax burden such annexation would impose, the landowners within an Industrial District typically agree to pay a lesser portion of those property taxes which they would have paid if the property within the District had been within the City limit. The City currently has two such Industrial Districts.

Nufab Rebar-Dayton, LLC ("Nufab") has entered into a non-annexation agreement with the City, which agreement will terminate on December 31, 2019, unless terminated earlier by the terms of the contract or extended. Pursuant to this agreement, the City has pledged not to annex any property identified in the agreement, owned by Nufab, for the term of the agreement. Nufab in return has agreed to pay an increasingly larger portion of the ad valorem taxes it would have paid if it were located within the City limits. For years 2016 through 2019, Nufab will pay the City an amount equivalent to 55% of the ad valorem taxes it would have paid upon all taxable property within the industrial development district based upon the land's value on January 1 of the prior calendar year. Nufab will pay the City in monthly installments, on the 15th day of each month, for the term of the agreement.

Kinder Morgan Texas Pipeline LLC ("Kinder Morgan") has also entered into a non-annexation agreement with the City, which will terminate December 31, 2022, unless terminated earlier by the terms of the contract or extended. Pursuant to this agreement, the City has pledged not to annex any property identified in the agreement, owned by Kinder Morgan, for the term of the agreement. Kinder Morgan in return has agreed to pay an increasingly larger portion of the ad valorem taxes it would have paid if it were located within the City limit. For the year 2018, Kinder Morgan will pay the City an amount equivalent to 56% of the ad valorem taxes it would have paid upon all taxable property within the industrial development district based upon the land's value on January 1 of the prior calendar year. For years 2019 through 2022, the percentage will increase to 58%. Kinder Morgan will pay the City in annual installments, on or before September 30 of each year, for the term of the agreement.

TAX RATE LIMITATIONS

General

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

requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collection. The issuance of the Certificates does not violate this constitutional provision or the Texas Attorney General's administrative policy.

The Property Tax Code

The following terms as used in this section have the meanings provided below:

“adjusted” means lost values are not included in the calculation of the prior year’s taxes and new values are not included in the current year’s taxable values.

“de minimis rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year’s taxable value, plus the debt service tax rate.

“effective tax rate” means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year’s total tax levy (adjusted) from the current year’s total taxable values (adjusted).

“no-new-revenue tax rate” means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year’s total tax levy (adjusted) from the current year’s total taxable values (adjusted).

“rollback tax rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted) multiplied by 1.08, plus the debt service tax rate.

“special taxing unit” means a city for which the maintenance and operations tax rate proposed for the current tax year is 2.5 cents or less per \$100 of taxable value.

“unused increment rate” means the cumulative difference between a city’s voter-approval tax rate and its actual tax rate for each of the tax years 2020 through 2022, which may be applied to a city’s tax rate in tax years 2021 through 2023 without impacting the voter-approval tax rate.

“voter-approval tax rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax levy (adjusted) from the current year’s values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the “unused increment rate”.

The City’s tax rate consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the “maintenance and operations tax rate”), and (2) a rate for funding debt service in the current year (the “debt service tax rate”). Under State law, the assessor for the City must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the City to the City Council by August 1 or as soon as practicable thereafter.

For the 2019 tax year, the procedures in this paragraph apply. After the assessor submits the appraisal roll, a designated officer or employee of the City is required to calculate its “rollback tax rate” and “effective tax rate”. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, and may not adopt a tax rate that exceeds the lower of its “rollback tax rate” or “effective tax rate” (as such terms are defined below) until it has held two public hearings on the proposed increase following notice to the taxpayers and otherwise complied with the Property Tax Code. The Property Tax Code provides that if the adopted tax rate exceeds the rollback tax rate, qualified voters of the city, by petition, may require that an election be held to determine whether or not to reduce the adopted tax rate to the rollback tax rate. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-effective tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

Effective January 1, 2020, the terms rollback tax rate and effective tax rate will be replaced, respectively, with the terms “voter-approval tax rate” and “no-new-revenue tax rate”. Beginning with the 2020 tax year, the procedures in this paragraph and the following paragraphs apply. A city must annually calculate its “voter-approval tax rate” and “no-new-revenue tax rate” (as such terms are defined above) in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its “de minimis rate”, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the voter-approval tax rate, that city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

For cities with a population less than 30,000 as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the greater of (i) the voter-approval tax rate or (ii) the de minimis rate, the city must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. However, for any tax year during which a city has a population of less than 30,000 as of the most recent federal decennial census and does not qualify as a special taxing unit, if a city's adopted tax rate is equal to or less than the de minimis rate but greater than both (a) the no-new-revenue tax rate, multiplied by 1.08, plus the debt service tax rate or (b) the city's voter-approval tax rate, then a valid petition signed by at least three percent of the registered voters in the city would require that an election be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate.

Any city located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its "voter-approval tax rate" using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such city's total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

State law provides cities and counties in the State the option of assessing a maximum one-half percent (1/2%) sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the no-new-revenue tax rate and voter-approval tax rate must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

The calculations of the no-new-revenue tax rate and voter-approval tax rate do not limit or impact the City's ability to set a debt service tax rate in each year sufficient to pay debt service on all of the City's tax-supported debt obligations, including the Certificates.

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.

TAX MATTERS

Tax Exemption

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

In rendering the foregoing opinions, Bond Counsel will rely upon the representations and certifications of the Issuer made in a certificate of even date with the initial delivery of the Certificates pertaining to the use, expenditure, and investment of the proceeds of the Certificates and will assume continuing compliance with the provisions of the Ordinance by the Issuer subsequent to the issuance of the Certificates. The Ordinance contains covenants by the Issuer with respect to, among other matters, the use of the proceeds of the Certificates and the facilities financed or refinanced therewith by persons other than state or local governmental units, the manner in which the proceeds of the Certificates are to be invested, if required, the calculation and payment to the United States Treasury of any arbitrage "profits" and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Certificates to be includable in the gross income of the owners thereof from the date of the issuance of the Certificates.

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

the Certificates. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates during the pendency of the audit, regardless of its ultimate outcome.

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Certificates

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

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

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

Tax Accounting Treatment of Premium Certificates

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

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

Qualified Tax-Exempt Obligations

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

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

CONTINUING DISCLOSURE OF INFORMATION

The City in the Ordinance has made the following agreement for the benefit of the holders and beneficial owners of the Certificates. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Certificates. Under the agreement, the City will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). This information will be available to the public free of charge from the MSRB via the Electronic Municipal Market Access ("EMMA") system at www.emma.msrb.org, as further described below under "Availability of Information".

Annual Reports

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

The Issuer will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the Issuer of the general type included in Table 1 of the Official Statement and in Tables 1-14 of APPENDIX A to this Official Statement and in APPENDIX D. The Issuer will update and provide this information within six months after the end of each fiscal year in or after 2019. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

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

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

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Certificates to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3)

unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates, as the case may be; (7) modifications to rights of holders of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional paying agent/registrant or the change of name of a paying agent/registrant, if material; (15) incurrence of a Financial Obligation of the City (as defined by the Rule, 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 any such 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 any such Financial Obligation of the City, any of which reflect financial difficulties. In the Ordinance, the City will adopt policies and procedures to ensure timely compliance of its continuing disclosure undertakings. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports." Neither the Certificates nor the Ordinance make provision for credit enhancement, liquidity enhancement, or debt service reserves.

For these purposes, (a) any event described in clause (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City, and (b) the City intends the words used in the immediately preceding clauses (15) and (16) and in the definition of Financial Obligation above to have the meanings ascribed to them in SEC Release No. 34-83885 dated August 20, 2018. Neither the Certificates nor the Ordinance make any provision for debt service reserve funds, credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice described in this paragraph to the MSRB.

Availability of Information

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

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

Limitations and Amendments

The City has agreed to update information and to provide notices of certain specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Certificates may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell Certificates in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Certificates consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Certificates. If the City amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent any Purchasers from lawfully purchasing or selling Certificates, respectively, in the primary offering of the Certificates.

Compliance with Prior Agreements

Except as described below, during the past five years, the City has complied in all material respects with its previous continuing disclosure agreements made in accordance with the Rule.

On June 13, 2014, S&P Global Ratings ("S&P") upgraded the City's existing general obligation debt from "A+" to "AA-" and the City filed notice of this upgrade and failure to timely file with EMMA on September 17, 2014. The City has instituted internal procedures to ensure timely filing prospectively. (See "OTHER PERTINENT INFORMATION – Rating" herein).

LEGAL MATTERS

Legal Opinions and No-Litigation Certificate

The Issuer will furnish the Purchaser with a complete transcript of proceedings incident to the authorization and issuance of the Certificates, including the unqualified approving legal opinion of the Attorney General of the State of Texas to the effect that the Initial Certificate is a valid and legally binding obligation of the Issuer, and based upon examination of such transcript of proceedings, the approval of certain legal matters by Bond Counsel, to the effect that the Certificates, issued in compliance with the provisions of the Ordinance, are valid and legally binding obligations of the Issuer and, subject to the qualifications set forth herein under "TAX MATTERS", the interest on the Certificates is exempt from federal income taxation under existing statutes, published rulings, regulations, and court decisions. Though it represents the Financial Advisor from time to time in matters unrelated to the issuance of the Certificates, Bond Counsel was engaged by, and only represents, the City in connection with the issuance of the Certificates. In its capacity as Bond Counsel, Norton Rose Fulbright US LLP, San Antonio, Texas has reviewed (except for numerical, statistical or technical data) the information under the captions "THE CERTIFICATES" (except under the subcaptions "Use of Certificate Proceeds", "Sources and Uses" "Payment Record", and "Default and Remedies", as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE", "TAX RATE LIMITATIONS -General", "TAX MATTERS", "CONTINUING DISCLOSURE OF INFORMATION" (except under the subheading "Compliance with Prior Undertakings" as to which no opinion is expressed), "LEGAL MATTERS—Legal Investments and Eligibility to Secure Public Funds in Texas", and "OTHER PERTINENT INFORMATION—Registration and Qualification of Certificates for Sale" in the Official Statement and such firm is of the opinion that the information relating to the Certificates and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Certificates or which would affect the provision made for their payment or security, or in any manner questioning the validity of the Certificates will also be furnished. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of Certificates are contingent on the sale and initial delivery of the Certificates. The legal opinion of Bond Counsel will accompany the Certificates deposited with DTC or will be printed on the definitive Certificates in the event of the discontinuance of the Book-Entry-Only System.

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

Litigation

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

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

Legal Investments and Eligibility to Secure Public Funds in Texas

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

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

FORWARD LOOKING STATEMENTS

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

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

OTHER PERTINENT INFORMATION

Registration and Qualification of Certificates for Sale

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

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

Rating

A municipal bond rating application for the Certificates has been made to S&P Global Ratings ("S&P"). The outcome of the result will be made available as soon as possible. An explanation of the significance of such a rating may be obtained from S&P. The rating of the Certificates by S&P reflects only the view of S&P at the time the rating is given, and the Issuer makes no representations as to the appropriateness of the rating. There is no assurance that the rating will continue for any given period of time, or that the rating will not

be revised downward or withdrawn entirely by S&P, if, in the judgment of S&P, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

Authenticity of Financial Information

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

Financial Advisor

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

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

Winning Bidder

After requesting competitive bids for the Certificates, the City accepted the bid of _____ (previously defined as the "Purchaser" or the "Initial Purchaser") to purchase the Certificates at the interest rates shown on the page 2 of this Official Statement at a price of par, plus a [net] reoffering premium of \$_____, less a Purchaser's discount of \$_____, plus accrued interest on the Certificates from their Dated Date to their date of initial delivery. The City can give no assurance that any trading market will be developed for the City after their sale by the City to the Purchaser. The City has no control over the price at which the Certificates are subsequently sold and the initial yield at which the Certificates will be priced and reoffered will be established by and will be the responsibility of the Purchaser.

Certification of the Official Statement

At the time of payment for and delivery of the Initial Certificates, the Purchaser will be furnished a certificate, executed by proper officials of the City, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, for the Certificates, on the date of such Official Statement, on the date of sale of said Certificates and the acceptance of the best bid therefor, and on the date of the delivery thereof, were and are true and correct in all material respects; (b) insofar as the City and its affairs, including its financial affairs, are concerned, such Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; (c) insofar as the descriptions and statements including financial data, of or pertaining to entities, other than the City, and their activities contained in such Official Statement are concerned, such statements and data have been obtained from sources which the City believes to be reliable and the City has no reason to believe that they are untrue in any material respect, and (d) there has been no material adverse change in the financial condition of the City, since September 30, 2018, the date of the last financial statements of the City appearing in the Official Statement.

Information from External Sources

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12.

Concluding Statement

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

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

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

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

CITY OF DAYTON, TEXAS

/s/ _____
Mayor
City of Dayton, Texas

ATTEST:

/s/ _____
City Secretary
City of Dayton, Texas

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APPENDIX A

**FINANCIAL INFORMATION RELATING TO
THE CITY OF DAYTON, TEXAS**

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FINANCIAL INFORMATION OF THE ISSUER

ASSESSED VALUATION

TABLE 1

2019 Actual Certified Market Value of Taxable Property (100% of Market Value)	\$ 1,033,285,638
Less Exemptions:	
Over-65 or Disabled Exemption	\$ 21,943,980
Veterans' Exemption	5,636,411
Productivity Value Loss	77,093,503
Abatement Loss	15,315,080
Homestead	36,345,059
10% Per Year Cap on Res. Homesteads	778,857
TOTAL EXEMPTIONS	<u>157,112,890</u>
2019 Assessed Value of Taxable Property	<u>\$ 876,172,748</u>
Freeze Taxable	52,039,724
Transfer Adjustment	86,805
Freeze Adjusted Taxable Value	<u>\$ 824,046,219</u>

Source: Liberty County Appraisal District.

GENERAL OBLIGATION BONDED DEBT ⁽¹⁾

(as of August 1, 2019)

General Obligation Debt Principal Outstanding

General Obligation Bonds, Series 2008	\$ 780,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2015	6,305,000
General Obligation Refunding Bonds, Series 2016	5,770,000
General Obligation Refunding Bonds, Series 2017	7,865,000
Tax Notes, Series 2017	350,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018	6,270,000
The Certificates	<u>2,500,000</u> *
Total Gross General Obligation Debt	<u>\$ 29,840,000</u> *
Less: Self Supporting Debt	
General Obligation Refunding Bonds, Series 2016(100% Utility System)	\$ 5,770,000
Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 (67.76% Utility System)	<u>4,280,000</u>
Total Self-Supporting Debt	<u>\$ 10,050,000</u>
Total Net General Obligation Debt Outstanding	<u>\$ 19,790,000</u> *
2019 Net Assessed Valuation	\$ 876,172,748
Ratio of Total Gross General Obligation Debt Principal to 2019 Certified Net Taxable Assessed Valuation	3.41% *
Ratio of Net General Obligation Debt to 2015 Certified Net Taxable Assessed Valuation	2.26% *
Population: 1990 - 5,151; 2000 - 5,7019; 2010 - 7,242; est. 2019 - 8,200	
Per Capita Certified Net Taxable Assessed Valuation - \$106,850.34	
Per Capita Gross General Obligation Debt Principal - \$3,639.02	
Per Capita Net General Obligation Debt Principal - \$2,413.41	

* Preliminary, subject to change.

DEBT OBLIGATIONS - CAPITAL LEASE AND NOTES PAYABLE

TABLE 2

Annual debt service requirements to retire outstanding capital leases are as follows:

FYE 9/30	Principal	Interest
2019	\$ 37,507	\$ 5,752
2020	39,334	3,925
2021	<u>41,249</u>	<u>2,009</u>
Totals	<u>\$ 118,090</u>	<u>\$ 11,686</u>

Source: The City's Comprehensive Annual Report for Fiscal Year Ending September 30, 2019.

GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

(as of August 1, 2019)

Fiscal Year Ending 9-30	Current Total	The Certificates*			Combined Debt Service*	Less: Self	Total Net Debt Service*
	Outstanding Debt ^(a)	Principal	Interest ^(b)	Total		Supporting Debt	
2019	\$ 3,010,099				\$ 3,010,099	\$ 1,087,323	\$ 1,922,777
2020	2,987,594	\$ 20,000	\$ 83,747	\$ 103,747	3,091,341	1,077,163	2,014,178
2021	2,847,579	265,000	82,163	347,163	3,194,742	1,075,888	2,118,854
2022	2,853,793	90,000	75,950	165,950	3,019,743	1,078,288	1,941,455
2023	2,729,321	95,000	72,713	167,713	2,897,033	1,076,138	1,820,896
2024	2,733,361	95,000	69,388	164,388	2,897,748	1,079,188	1,818,561
2025	2,725,130	100,000	65,975	165,975	2,891,105	1,071,413	1,819,692
2026	2,727,525	105,000	62,388	167,388	2,894,913	1,074,363	1,820,550
2027	2,725,069	105,000	58,713	163,713	2,888,781	1,072,663	1,816,119
2028	2,729,848	110,000	54,950	164,950	2,894,798	1,074,463	1,820,336
2029	1,014,856	115,000	51,013	166,013	1,180,869	280,863	900,006
2030	1,012,022	120,000	46,900	166,900	1,178,922	278,613	900,309
2031	1,015,013	125,000	42,613	167,613	1,182,625	282,163	900,463
2032	1,017,388	130,000	38,150	168,150	1,185,538	280,206	905,331
2033	1,022,300	135,000	33,513	168,513	1,190,813	282,731	908,081
2034	1,019,513	135,000	28,788	163,788	1,183,300	280,013	903,288
2035	1,019,881	140,000	23,975	163,975	1,183,856	281,894	901,963
2036	305,025	145,000	18,988	163,988	469,013	283,288	185,725
2037	300,313	150,000	13,825	163,825	464,138	279,263	184,875
2038	300,163	155,000	8,488	163,488	463,650	279,813	183,838
2039	-	165,000	2,888	167,888	167,888	-	167,888
Total	\$ 36,095,790	\$ 2,500,000	\$ 935,122	\$ 3,435,122	\$ 39,530,912	\$ 13,575,729	\$ 25,955,183

^(a) Includes self-supporting debt.

^(b) Interest calculated at an assumed rate for illustrative purposes only.

* Preliminary, subject to change.

TAX ADEQUACY (Includes Self-Supporting Debt)

2019 Certified Freeze Adjusted Net Taxable Assessed Valuations	\$ 876,172,748
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2021)	\$ 3,194,742 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	\$ 0.3573

* Includes the Certificates, preliminary and subject to change.

TAX ADEQUACY (Excludes Self-Supporting Debt)

2019 Certified Freeze Adjusted Net Taxable Assessed Valuations	\$ 876,172,748
Maximum Annual Debt Service Requirements (Fiscal Year Ending 9-30-2021)	\$ 2,118,854 *
Indicated required I&S Fund Tax Rate at 98% Collections to produce Maximum Debt Service requirements	0.23699401

* Includes the Certificates, preliminary and subject to change.

GENERAL OBLIGATION PRINCIPAL REPAYMENT SCHEDULE

(as of August 1, 2019)

Fiscal Year Ending 9-30	Principal Repayment Schedule			Principal Unpaid at End of Year*	Percent of Principal Retired (%)*
	Currently Outstanding ^(a)	The Certificates*	Total*		
2019			\$ -	\$ 29,840,000	0.00%
2020	\$ 2,225,000	\$ 20,000	2,245,000	27,595,000	7.52%
2021	2,140,000	265,000	2,405,000	25,190,000	15.58%
2022	2,195,000	90,000	2,285,000	22,905,000	23.24%
2023	2,125,000	95,000	2,220,000	20,685,000	30.68%
2024	2,190,000	95,000	2,285,000	18,400,000	38.34%
2025	2,245,000	100,000	2,345,000	16,055,000	46.20%
2026	2,315,000	105,000	2,420,000	13,635,000	54.31%
2027	2,385,000	105,000	2,490,000	11,145,000	62.65%
2028	2,465,000	110,000	2,575,000	8,570,000	71.28%
2029	800,000	115,000	915,000	7,655,000	74.35%
2030	820,000	120,000	940,000	6,715,000	77.50%
2031	850,000	125,000	975,000	5,740,000	80.76%
2032	885,000	130,000	1,015,000	4,725,000	84.17%
2033	920,000	135,000	1,055,000	3,670,000	87.70%
2034	945,000	135,000	1,080,000	2,590,000	91.32%
2035	975,000	140,000	1,115,000	1,475,000	95.06%
2036	280,000	145,000	425,000	1,050,000	96.48%
2037	285,000	150,000	435,000	615,000	97.94%
2038	295,000	155,000	450,000	165,000	99.45%
2039	-	165,000	165,000	-	100.00%
Total	\$ 27,340,000	\$ 2,500,000	\$ 29,840,000		

^(a) Includes self-supporting debt.

* Preliminary, subject to change.

TAXABLE ASSESSED VALUATION FOR TAX YEARS 2010-2019

TABLE 3

Tax Year	Net Taxable		Change From Preceding Year	
	Assessed Valuation	Amount (\$)	Amount (\$)	Percent
2010	\$ 623,519,729	---	---	---
2011	720,041,512	96,521,783		15.48%
2012	688,138,456	(31,903,056)		-4.43%
2013	655,652,364	(32,486,092)		-4.72%
2014	714,940,898	59,288,534		9.04%
2015	749,905,833	34,964,935		4.89%
2016 ⁽¹⁾	658,247,341	(91,658,492)		-12.22%
2017	755,333,201	97,085,860		14.75%
2018	796,480,291	41,147,090		5.45%
2019	876,172,748	79,692,457		10.01%

Source: Liberty County Appraisal District.

⁽¹⁾ Decrease in taxable assessed value due to decline in oil and gas prices and City's concentration of oil and gas industry businesses located in the railyard (See "PRINCIPAL TAXPAYERS 2018 - Table 4" below). The City expects taxable assessed value to continue to fluctuate with oil prices as well as value of rolling stock within the railyard at time of annual appraisal by Liberty CAD.

PRINCIPAL TAXPAYERS 2018

TABLE 4

Name	Type of Business/Property	% of Total 2018	
		2018 Net Taxable Assessed Valuation	Assessed Valuation
Exxon Chemical Americas	Oil and Gas	\$ 72,108,610	8.23%
Equistar Chemicals LP	Oil and Gas	57,511,500	6.56%
Total Petrochemicals USA	Oil and Gas	41,804,360	4.77%
TRT Leaseco LLC	Energy	20,300,410	2.32%
Global Tubing	Wire Products	17,776,710	2.03%
Oxy Vinyls LP	Oil and Gas	16,244,650	1.85%
Insteel Wire Products Co	Wire Products	14,270,540	1.63%
Braskem America Inc	Manufacturer/Supplier	9,634,880	1.10%
SAM's East Inc.,	Retail	8,201,810	0.94%
Chevron Phillips Chemical	Oil and Gas	7,979,410	0.91%
		<u>\$ 265,832,880</u>	<u>30.34%*</u>

Source: Liberty County Appraisal District.

* As shown in the table above, the top ten taxpayers in the City account for in excess of 30% of the City's tax base. Adverse developments in economic conditions, especially in a particular industry in which any one of these large taxpayers participates, could adversely impact these businesses and, consequently, the tax values in the City, resulting in less local tax revenue. If any major taxpayer, or a combination of top taxpayers, were to default in the payment of taxes, the ability of the City to make timely payment of debt service on the Certificates may be dependent on its ability to enforce and liquidate its tax lien, which is a time consuming process that may only occur annually. See "THE CERTIFICATES- Default and Remedies" and "AD VALOREM TAX PROCEDURES- Issuer's Rights in the Event of Tax Delinquencies" in this Official Statement.

CLASSIFICATION OF ASSESSED VALUATION

TABLE 5

	2019	% of Total	2018	% of Total	2017	% of Total
Real, Residential, Single-Family	\$ 315,319,822	30.52%	\$ 288,926,439	30.18%	\$ 281,653,345	31.44%
Real, Residential, Multi-Family	26,747,950	2.59%	23,380,860	2.44%	22,031,780	2.46%
Real, Vacant Lots/Tracts	17,776,227	1.72%	17,921,342	1.87%	17,887,135	2.00%
Real, Acreage (Land Only)	79,378,853	7.68%	67,081,404	7.01%	64,662,923	7.22%
Real, Farm and Ranch Improvements	30,334,998	2.94%	27,727,940	2.90%	27,125,156	3.03%
Real, Commercial and Industrial	182,722,879	17.68%	166,884,129	17.43%	139,627,872	15.59%
Oil and Gas	97,300	0.01%	32,081	0.00%	44,322	0.00%
Real & Tangible, Personal Utilities	26,294,330	2.54%	25,043,330	2.62%	25,753,160	2.87%
Tangible Personal Business	348,014,054	33.68%	334,134,671	34.90%	310,889,357	34.70%
Tangible Personal, Mobile Homes	6,520,455	0.63%	6,111,881	0.64%	5,949,094	0.66%
Special Inventory	78,770	0.01%	253,440	0.03%	218,410	0.02%
Total Appraised Value	\$ 1,033,285,638	100.00%	\$ 957,497,517	100.00%	\$ 895,842,554	100.00%
Less:						
Over-65 or Disabled Exemption	\$ 21,943,980		\$ 21,683,560		\$ 21,155,350	
Veterans' Exemption	5,636,411		5,084,721		3,973,381	
Productivity Value Loss	77,093,503		65,203,726		62,862,308	
Abatement Loss	15,315,080		34,139,890		16,747,960	
Homestead	36,345,059		33,570,811		30,012,110	
10% Per Year Cap on Res. Homesteads	778,857		1,334,518		5,758,244	
Net Taxable Assessed Valuation	\$ 876,172,748		\$ 796,480,291		\$ 755,333,201	

Source: Liberty County Appraisal District.

TAX DATA

TABLE 6

Tax Year	Net Taxable Assessed Valuation	Tax Rate	Tax Levy	% of Collections		Year Ended
				Current	Total	
2008	\$ 700,487,207	\$ 0.634900	\$ 4,447,393	97.03	98.44	9/30/2009
2009	659,540,328	0.725600	4,785,625	96.21	97.54	9/30/2010
2010	623,519,729	0.724500	4,517,400	95.69	99.61	9/30/2011
2011	720,041,512	0.630400	4,539,142	97.03	99.66	9/30/2012
2012	688,138,456	0.685300	4,715,813	97.87	102.17	9/30/2013
2013	655,652,364	0.722900	4,739,711	97.22	103.15	9/30/2014
2014	714,940,898	0.690000	4,933,092	96.55	98.24	9/30/2015
2015	749,905,833	0.680000	5,099,360	98.72	101.08	9/30/2016
2016	658,247,341	0.685300	4,510,969	98.09	101.94	9/30/2017
2017	755,333,201	0.670000	5,060,732	98.25	101.78	9/30/2018
2018	796,480,291	0.682100	5,432,792	91.99	92.01	9/30/2019 *
2019	876,172,748					

* Collections as of May 31, 2019.

TAX RATE DISTRIBUTION

TABLE 7

	2018	2017	2016	2015	2014
General Fund	\$ 0.424900	\$ 0.429500	\$ 0.497100	\$ 0.451000	\$ 0.444000
Interest and Sinking Fund	0.257200	0.240500	0.188200	0.229000	0.246000
Total	\$ 0.682100	\$ 0.670000	\$ 0.685300	\$ 0.680000	\$ 0.690000

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Liberty County Appraisal District, the Issuer's Comprehensive Annual Financial Report for the Fiscal Year Ended September 30, 2018, and information supplied by the Issuer.

MUNICIPAL SALES TAX COLLECTIONS

TABLE 8

The Issuer has adopted the provisions of Chapter 321, as amended, Texas Tax Code. In addition, some issuers are subject to a property tax relief and/or an economic and industrial development sales tax. The City's approved a 1/2 cent sales tax for property relief to be effective 10/1/96. The City has an additional 1/2 of 1 cent for its Economic Development Corporation (4B). Collections on calendar year basis are as follows:

Calendar Year	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2009	\$ 1,304,057	29.32%	\$ 0.186
2010	1,267,417	26.48%	0.192
2011	1,518,814	33.62%	0.244
2012	1,923,649	42.38%	0.267
2013	2,061,560	43.72%	0.300
2014	2,633,398	55.56%	0.402
2015	2,581,859	52.34%	0.361
2016	2,121,260	41.60%	0.283
2017	2,209,675	48.98%	0.336
2018	2,518,247	49.76%	0.333
2019	1,189,544	(As of July, 2019)	

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

OVERLAPPING DEBT INFORMATION

(as of August 1, 2019)

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. Expenditures of the various taxing bodies overlapping the territory of the Issuer are paid out of ad valorem taxes levied by these taxing bodies on properties overlapping the Issuer. These political taxing bodies are independent of the Issuer and may incur borrowings to finance their expenditures. The following statements of direct and estimated overlapping ad valorem tax bonds was developed from information contained in the "Texas Municipal Reports" published by the Municipal Advisory Council of Texas. Except for the amounts relating to the Issuer, the Issuer has not independently verified the accuracy or completeness of such information, and no person should rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have authorized or issued additional bonds since the date stated below, and such entities may have programs requiring the authorization and/or issuance of substantial amounts of additional bonds, the amount of which cannot be determined.

Taxing Body	Gross Debt (As of 8/1/19)	% Overlapping	Amount Overlapping
Dayton ISD	\$ 85,025,000	42.89%	\$ 36,467,223
Liberty County	10,065,000	14.91%	1,500,692
Liberty ISD	39,745,000	0.05%	19,873
Total Gross Overlapping Debt			<u>\$ 37,987,787</u>
Dayton, City of			\$ 29,840,000 *
Total Gross Direct and Overlapping Debt			<u>\$ 67,827,787 *</u>
Ratio of Direct and Overlapping Debt to Net Assessed Valuation			7.74% *
Per Capita Direct and Overlapping Debt			\$8,271.68 *

Note: The above figures show Gross General Obligation Debt for the City of Dayton, Texas. The Issuer's Net General Obligation Debt is \$19,790,000. Calculations on the basis of Net General Obligation Debt would change the above figures as follows:

Total Direct and Overlapping Debt	\$ 57,777,787 *
Ratio of Direct and Overlapping Debt to Net Assessed Valuation	6.59% *
Per Capita Direct and Overlapping Debt	\$7,046.07 *

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

* Preliminary, subject to change.

ASSESSED VALUATION AND TAX RATE OF OVERLAPPING ISSUERS

Governmental Subdivision	2018 Assessed Valuation	% of Actual	2018 Tax Rate
Dayton ISD	\$ 1,799,362,919	100%	\$ 1.370000
Liberty County	6,071,290,406	100%	0.579000
Liberty ISD	927,141,001	100%	1.394000

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

AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS OF DIRECT AND OVERLAPPING GOVERNMENTAL SUBDIVISIONS

Issuer	Date of Authorization	Amount Authorized	Amount Issued to Date	Amount Unissued
Dayton ISD	None			
Liberty County	None			
Liberty ISD	5/9/2015	\$ 33,500,000	\$ 33,359,370	\$ 140,630

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

GENERAL FUND COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES

TABLE 9

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

	Fiscal Year Ended				
	9/30/2018 ⁽²⁾	9/30/2017 ⁽¹⁾	9/30/2016	9/30/2015	9/30/2014
Fund Balance - Beginning of Year	\$ 3,533,987	\$ 7,123,392	\$ 7,304,444	\$ 7,335,994	\$ 6,461,853
Revenues	\$ 6,627,462	\$ 5,731,182	\$ 6,329,676	\$ 6,494,811	\$ 6,114,807
Expenditures	7,516,430	7,483,170	6,775,728	5,876,361	5,240,666
Excess (Deficit) of Revenues Over Expenditures	\$ (888,968)	\$ (1,751,988)	\$ (446,052)	\$ 618,450	\$ 874,141
Other Financing Sources (Uses):					
Operating Transfers In	\$ 1,008,033	\$ 3,000,000	\$ 265,000	\$ -	\$ -
Operating Transfers Out	(745,867)	(5,412,417)	-	(650,000)	-
Debt Issued	-	575,000	-	-	-
Capital Leases	-	-	-	-	-
Proceeds from the Sale of Capital Assets	-	-	-	-	-
Total Other Financing Sources (Uses):	\$ 262,166	\$ (1,837,417)	\$ 265,000	\$ (650,000)	\$ -
Prior Period Adjustment	-	-	-	-	-
Fund Balance - End of Year	\$ 2,907,185 ⁽³⁾	\$ 3,533,987	\$ 7,123,392	\$ 7,304,444	\$ 7,335,994

Source: The City's Comprehensive Annual Report for Fiscal Year Ending September 30, 2019.

⁽¹⁾ Fund balance was drawn down deliberately to fund expansion of the City's Law Enforcement Center (\$2,500,000) as well as cover a one-time revenue shortfall of \$700,000 from decreased tax revenues related to the City's railyard and suppressed oil and gas prices .

⁽²⁾ The City drewdown fund balance as a result unreimbursed expenses related to Hurrican Harvey, payout related to the removal of the City's police chief and professional services of the interim police chief, \$100,000 loss resulting from failed rollback tax election and the revenue loss resulting from the Community Center that was used as the National Guard's base of operations during Hurrican Harvey recovery.

⁽³⁾ The City anticipated ending the fiscal year 2019 with an unaudited general fund balance of \$2,947,885.

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 the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com. All eligible employees of the city are required to participate in TMRS.

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee's contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12,24,or 36 monthly payments, which cannot exceed 75% 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 Retirement Eligibility	60/5, 0/20	60/5, 0/20
Updated service Credit	100%	100%
	Transfers	Transfers
Annuity Increase (to retirees)	70% of CPI repeating	70% of CPI repeating

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	36
Inactive employees entitled to but not yet receiving benefits	60
Active employees	87
Total	183

Contributions

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

Employees for the City of Dayton, Texas, were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City of Dayton, Texas, were 7.41% and 6.25% in calendar years 2017 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017, were \$296,886, and were equal to the required contributions.

Net Pension Liability

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

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, 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 Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 Disabled Retiree Mortality Table with Blue Collar Adjustment are used with male rates multiplied by 109 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 to the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a Mortality Experience Investigation Study covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013 valuation, along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. No additional changes were made for the 2014 valuation. After the Asset Allocation Study analysis and experience investigation study, the Board amended the long-term expected rate of return on pension plan investments from 7.00 percent to 6.75 percent. 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 needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. In determining their best estimate of 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</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	100.0%	

Discount Rate

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

Changes in the Net Pension Liability

	Total Pension Liability (a)	Increase(Decrease)	
		Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Changes for the year:			
Service cost	\$ 490,826	\$ -	\$ 490,826
Interest	474,157	-	474,157
Difference between Expected and Actual Experience	-	-	-
Changes of assumptions	54,782		54,782
Contributions - Employer	-	239,287	(239,287)
Contributions - Employee	-	268,002	(268,002)
Net Investment Income	-	393,037	(393,037)
Benefit Payments, Including			
Refunds of Employee Contributions	(267,708)	(267,708)	-
Administrative Expense		(4,449)	4,449
Other Changes	-	(240)	240
Net Changes	752,057	627,929	124,128
Balance at 12/31/2014	6,912,988	5,827,872	1,085,116
Balance at 12/31/2015	\$ 7,665,045	\$ 6,455,801	\$ 1,209,244

Sensitivity of the net pension liability to changes in the discount rate.

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)
City's net pension liability	\$ 2,277,709	\$ 1,209,244	\$ 326,810

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

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

For the year ended September 30, 2017, the City of Dayton, Texas, recognized pension expense of \$472,261.

EMPLOYEE'S PENSION PLAN AND OTHER POST-EMPLOYMENT BENEFITS

TABLE 10

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

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual economic experience	\$ 59,864	\$ (4,148)
Changes in actuarial assumptions	104,835	
Difference between projected and actual investment earnings	258,383	-
Contributions subsequent to the measurement date	238,643	-
Total	\$ 661,725	\$ (4,148)

\$238,643 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 net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended <u>12/31</u>	Pension Expense <u>Amount</u>
2018	\$ 165,091
2019	161,380
2020	90,414
2021	2,049
Total	\$ 418,934

TMRS Supplemental Death Benefit Fund

Plan Description

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

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

Contributions

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all 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 contribution to the TMRS SDBF for the fiscal years ended 2017, 2016, and 2014 were \$1,660, \$1,568, and \$1,466, respectively. 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)	0.04%	0.04%	0.03%
Actual Contributions Made	0.04%	0.04%	0.03%
Percentage of ARC Contrib.	100.00%	100.00%	100.00%

UTILITY SYSTEM PLANT IN OPERATION

TABLE 11

	<u>FYE 9/30/2018</u>
Land	\$ 107,408
Construction in Progress	-
Machinery and Equipment	2,340,983
Buildings and Improvements	3,086,121
Water and Sewer System	<u>28,487,766</u>
Total Capital Assets	\$ 34,022,278
Less: Accumulated Depreciation	<u>(19,358,324)</u>
Net Capital Assets	<u>\$ 14,663,954</u>

Source: The Issuer's Annual Financial Report for fiscal year ended September 30, 2018.

WATERWORKS SYSTEM OPERATING SYSTEM

TABLE 12

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

	Fiscal Year Ended				
	<u>9/30/2018</u>	<u>9/30/2017</u>	<u>9/30/2016</u>	<u>9/30/2015</u>	<u>9/30/2014</u>
Revenues	\$ 4,168,214	\$ 3,810,885	\$ 3,403,231	\$ 3,214,972	\$ 3,127,657
Expenses	<u>2,202,489</u>	<u>1,920,234</u>	<u>1,856,547</u>	<u>1,741,922</u>	<u>1,682,620</u>
Net Revenue Available for Debt Service	\$ 1,965,725	\$ 1,890,651	\$ 1,546,684	\$ 1,473,050	\$ 1,445,037
Customer Count:					
Water	2,730	2,774	2,573	3,097	3,176
Sewer	2,365	2,380	2,297	2,512	2,842

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

WATER RATES

TABLE 13

New Rates	
Effective July 1, 1017	
<u>Gallons</u>	<u>Rates</u>
Base Rate	\$18.00 to \$21.00
First 2,000	\$21.00
Old Rates	
Effective July 1, 2016	
<u>Gallons</u>	<u>Rates</u>
Base Rate	\$15.00 to \$18.00
First 2,000	\$21.00

New Rates	
Effective July 1, 2017	
Gallons	Rates
Base Rate	\$18.00 to \$21.00
First 2,000 gallons	\$21.00

Old Rates	
Effective July 1, 2016	
Gallons	Rates
Base Rate	\$15.66 to \$16.68
First 2,000 gallons	\$21.00

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APPENDIX B

**GENERAL INFORMATION REGARDING THE CITY OF DAYTON
AND LIBERTY COUNTY, TEXAS**

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GENERAL INFORMATION

City of Dayton

The City of Dayton (the “City”) is located in southwest Liberty County where State Highway 146 meets U.S. Highway 90. The City was recorded as an incorporated municipality on May 3, 1911.

The City provides a full range of municipal services including public safety, residential solid waste sanitation services, water and wastewater services, public improvements, repair and maintenance of infrastructure, recreational and community activities, and general administrative services. As an independent political subdivision of the State of Texas governed by an elected Mayor and Council, the City is considered a primary government.

The City continued its commitment to the Rosewood Water Well Rebuild project. This multi-year capital improvement project will provide a long-term water solution for our ever-growing community. Analysis of its estimated capacity, once completed, indicates that the City will have the ability to double its current population, without further infrastructure commitments, within the next 15 to 20 years.

2018 PRINCIPAL EMPLOYERS

<u>Employer</u>	<u>Employees</u>
Dayton Independent School District	765
Global Tubing	191
Huntsman Corporation	100
Dayton Lease and Pipeline Services	90
Insteel Wire Products	86
Harris Rear, LLC	64
Sam’s Distribution Center	60
Fabrications and Construction Services	52
Campbell Concrete and Materials	50
McCoy’s Building Supply	<u>42</u>
Total	<u><u>1,500</u></u>

Dayton Independent School District

The Dayton Independent School District (the “District”) is located 34 miles northeast of the City of Houston, Texas in Liberty County, Texas. A small portion of the District extends into Harris County, Texas. The economy is based on mineral production, agriculture, and lumbering. Since the industries of the Baytown area and the industries along the Houston Ship Channel are within easy driving range, many of the residents of the District commute to industrial jobs. The City of Dayton, Texas is the principal retail center of the District, located on U.S. Highway 90.

<u>School</u>	<u>Grade</u>	<u>Enrollment</u> <u>2017-18</u>	<u>Enrollment</u> <u>2016-17</u>	<u>Enrollment</u> <u>2015-16</u>	<u>Enrollment</u> <u>2014-15</u>
Colbert Elementary	Pre K	220	225	228	203
Stephen F. Austin Elementary	K-1st	895	857	786	806
Dr. E.R. Richter Elementary	2nd-3rd	762	763	812	769
Kimmie M. Brown Elementary	4th-5th	787	796	808	772
Woodrow Wilson Junior High School	7th-8th	1,210	1,223	1,192	799
Dayton High School	9th-12th	1,511	1,524	1,480	1,448
Total		5,385	5,388	5,306	4,797

Liberty County

Liberty County, is located in southeast Texas on U.S. Highway 90 halfway between Beaumont and Houston. The County occupies an area of approximately 1,176 square miles and serves a population of approximately 76,000. City of Liberty is the County seat. The County's economy is diversified and has historically been based on mineral production (Oil and gas), agriculture, and lumber. The cities within the County offer many recreational and cultural opportunities.

Liberty County produces diversified crops including rice, sorghum, soybeans, corn, grains, fruits and vegetables. Beef cattle, sheep, poultry, hogs, and goats are raised and honey is produced commercially. Natural resources include timber, oil, natural gas, lignite, sulfur, iron ore, lime, salt, brick clay, and glass sand. Manufacturing facilities include chemicals and machinery.

Labor Force Statistics ⁽¹⁾

	<u>2019⁽²⁾</u>	<u>2018⁽³⁾</u>	<u>2017⁽³⁾</u>	<u>2016⁽³⁾</u>	<u>2015⁽³⁾</u>
Civilian Labor Force	32,371	32,303	32,014	31,553	30,972
Total Employed	31,041	30,414	29,732	29,181	28,837
Total Unemployed	1,330	1,889	2,282	2,372	2,135
% Unemployment	4.1%	5.8%	7.1%	7.5%	6.9%
Texas Unemployment	2.9%	3.9%	4.3%	4.6%	4.4%

(1) Source: Texas Workforce Commission.

(2) As of May, 2019.

(3) Average Annual Statistics.

APPENDIX C

FORM OF LEGAL OPINION OF BOND COUNSEL

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Norton Rose Fulbright US LLP
300 Convent Street, Suite 2100
San Antonio, Texas 78205-3792
United States

Tel +1 210 224 5575
Fax +1 210 270 7205
nortonrosefulbright.com

DRAFT 7/15/19

IN REGARD to the authorization and issuance of the “City of Dayton, Texas Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2019” (the *Certificates*), dated August 1, 2019 in the aggregate principal amount of \$_____ we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Dayton, Texas (the *Issuer*). The Certificates are issuable in fully registered form only in denominations of \$5,000 or any integral multiple thereof (within a Stated Maturity). The Certificates have Stated Maturities of February 1 in each of the years 2020 through 2039, unless redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Certificates. Interest on the Certificates accrues from the dates, at the rates, in the manner, and is payable on the dates as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Certificates. Capitalized terms used herein without definition shall have the meanings ascribed thereto in the Ordinance.

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

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

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

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

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF DAYTON, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019”

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

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

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

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of “CITY OF DAYTON, TEXAS COMBINATION TAX AND LIMITED PLEDGE REVENUE CERTIFICATES OF OBLIGATION, SERIES 2019”

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

Norton Rose Fulbright US LLP

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APPENDIX D

FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2018

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

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Dayton, Texas (the "City"), as of and for the year ended September 30, 2018, 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, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of September 30, 2018, 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.

Emphasis of Matter

Change in Accounting Principle

In 2018, the City adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

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, schedules of changes in net pension and total other postemployment benefits liability and related ratios, schedule of the City's proportionate share of net pension liability, and schedules of contributions, 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 fund 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
July 15, 2019

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



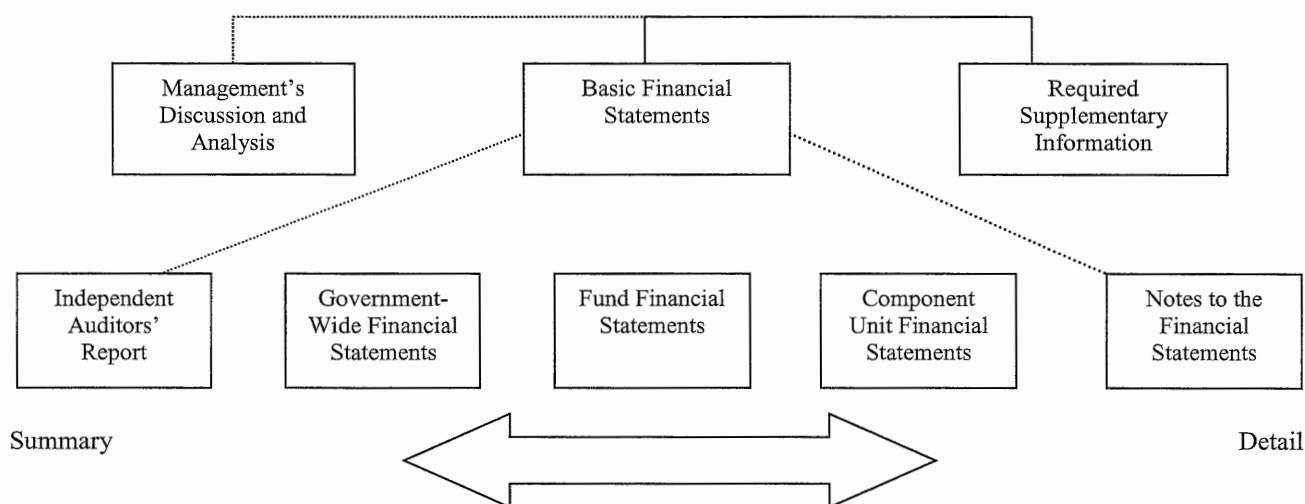
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CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Year Ended September 30, 2018

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 Dayton, Texas (the "City") for the year ending September 30, 2018. The analysis is based on currently known facts, decisions, or economic conditions. It presents short and long-term analysis of the City's activities, compares current year results with those of the prior year, and discusses the positive and negative aspects of that comparison. Please read the MD&A in conjunction with the City's financial statements, which follow this section.

THE STRUCTURE OF OUR ANNUAL REPORT

Components of the Financial Section



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

Government-Wide Statements

The government-wide statements report information for the City as a whole. These statements include transactions and balances relating to all assets, including infrastructure capital assets. These statements are designed to provide information about cost of services, operating results, and financial position of the City as an economic entity. The Statement of Net Position and the Statement of Activities, 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 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

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

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 public safety (police, fire, and EMS), public works (street and park maintenance), culture and recreation, community enhancement, and general administration (City manager, City secretary, finance, human resources, and information technology). Interest payments on the City's debt are also reported here. Sales tax, property tax, franchise fees, 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 distribution, wastewater collection/treatment, and refuse services.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate community development corporation for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

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 government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The City maintains five individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, debt service fund, and capital projects fund, which are considered to be major funds for reporting purposes.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

The City adopts an annual appropriated budget for its general fund, debt service fund, and hotel and motel tax fund. 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 and internal service 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, water and sewer impact, water construction operations, and refuse services. The proprietary fund financial statements provide separate information for the water and sewer fund and refuse fund. The basic proprietary fund financial statements can be found in the basic financial statements of this report.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses an internal service fund to account for its employees benefit program. Because these services predominantly benefit governmental rather than business-type functions, this fund has 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 the 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 and schedules of changes in net pension and total other postemployment benefits liability and related ratios, schedule of the City's proportionate share of the net pension liability, and schedules of contributions for the Texas Municipal Retirement System and the Texas Emergency Services Retirement System. RSI can be found after the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of the City's financial position. For the City, assets and deferred outflows of resources exceed liabilities and deferred inflows of resources by \$26,652,440, as of September 30, 2018 for the primary government.

A portion of the City's net position, \$16,402,126, reflects its investments in capital assets (e.g., land, City hall, police station, streets, and drainage systems, as well as the public works facilities), less any debt used to acquire those assets that is still outstanding. 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 DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Statement of Net Position:

The following table reflects the condensed Statement of Net Position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total	Governmental Activities	Business-Type Activities	Total
Current and other assets	\$ 12,495,126	\$ 5,763,691	\$ 18,258,817	\$ 7,201,190	\$ 4,854,092	\$ 12,055,282
Capital assets, net	26,719,089	14,663,954	41,383,043	26,894,787	15,797,601	42,692,388
Total Assets	39,214,215	20,427,645	59,641,860	34,095,977	20,651,693	54,747,670
Deferred charge on refunding	187,870	-	187,870	206,577	-	206,577
Deferred outflows - pensions	337,293	73,376	410,669	548,656	122,205	670,861
Deferred outflows - OPEB	14,558	-	14,558	1,287	-	1,287
Total Deferred Outflows of Resources	539,721	73,376	613,097	756,520	122,205	878,725
Current liabilities	1,299,817	490,038	1,789,855	980,241	409,248	1,389,489
Long-term liabilities	24,644,776	6,976,652	31,621,428	19,352,512	7,637,379	26,989,891
Total Liabilities	25,944,593	7,466,690	33,411,283	20,332,753	8,046,627	28,379,380
Deferred inflows - pensions	160,141	31,093	191,234	2,979	983	9,454
Total Deferred Inflows of Resources	160,141	31,093	191,234	2,979	983	9,454
Net Position:						
Net investment in capital assets	8,539,396	7,862,730	16,402,126	9,583,333	8,404,755	17,988,088
Restricted	2,546,588	-	2,546,588	2,158,771	-	2,158,771
Unrestricted	2,563,218	5,140,508	7,703,726	2,774,661	4,321,533	7,096,194
Total Net Position	\$ 13,649,202	\$ 13,003,238	\$ 26,652,440	\$ 14,516,765	\$ 12,726,288	\$ 27,243,053

A portion of the City's net position, \$2,546,588 or 9.6 percent, represents resources that are subject to external restriction on how they may be used. The remaining balance of unrestricted net position, \$7,703,726, may be used to meet the City's ongoing obligation to citizens and creditors. The City's total net position decreased by \$590,613 as compared to the prior year.

Compared to the prior year, current assets increased by \$6,203,535 while noncurrent assets decreased by \$1,309,345. These variances are largely attributable the issuance of debt related to capital projects. The increase in current assets was mainly attributed to increased cash holdings from the issuance of debt. Current liabilities increased \$400,366 compared to the prior year due to increases in accounts payable and other short-term payable items. Long-term liabilities increased \$4,631,537 due to the issuance of debt.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Statement of Activities:

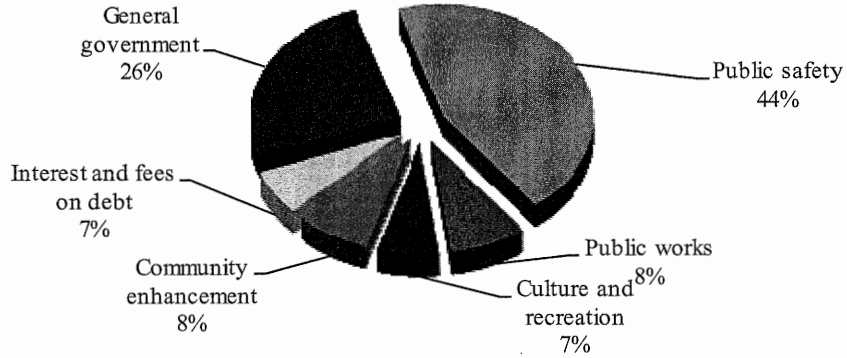
The following table provides a summary of the City's changes in net position:

	2018			2017		
	Governmental Activities	Business-Type Activities	Total Primary Government	Governmental Activities	Business-Type Activities	Total Primary Government
Revenues						
Program revenues:						
Charges for services	\$ 677,027	\$ 5,491,730	\$ 6,168,757	\$ 438,116	\$ 4,925,811	\$ 5,363,927
Grants and contributions	313,512	-	313,512	438,513	-	438,513
General revenues:						
Property taxes	4,828,060	-	4,828,060	4,503,923	-	4,503,923
Sales taxes	1,657,378	-	1,657,378	1,455,191	-	1,455,191
Franchise fees and local taxes	901,297	-	901,297	844,839	-	844,839
Investment income	54,284	39,535	93,819	59,747	17,968	77,715
Other revenues	147,162	13,689	160,851	152,087	72,973	225,060
Total Revenues	8,578,720	5,544,954	14,123,674	7,892,416	5,016,752	12,909,168
Expenses						
General government	2,574,650	-	2,574,650	2,292,956	-	2,292,956
Public safety	4,461,434	-	4,461,434	2,338,072	-	2,338,072
Public works	841,397	-	841,397	1,407,482	-	1,407,482
Culture and recreation	670,821	-	670,821	656,111	-	656,111
Community enhancement	824,133	-	824,133	1,034,674	-	1,034,674
Interest and fees on debt	656,507	-	656,507	669,299	-	669,299
Water and sewer	-	3,683,436	3,683,436	-	3,431,061	3,431,061
Refuse	-	1,001,909	1,001,909	-	1,040,464	1,040,464
Total Expenses	10,028,942	4,685,345	14,714,287	8,398,594	4,471,525	12,870,119
Change in Net Position Before Transfers						
Transfers	(1,450,222)	859,609	(590,613)	(506,178)	545,227	39,049
Transfers	582,659	(582,659)	-	176,796	(176,796)	-
Total Transfers	582,659	(582,659)	-	176,796	(176,796)	-
Change in Net Position	(867,563)	276,950	(590,613)	(329,382)	368,431	39,049
Beginning net position	14,516,765	12,726,288	27,243,053	14,846,147	12,357,857	27,204,004
Ending Net Position	\$ 13,649,202	\$ 13,003,238	\$ 26,652,440	\$ 14,516,765	\$ 12,726,288	\$ 27,243,053

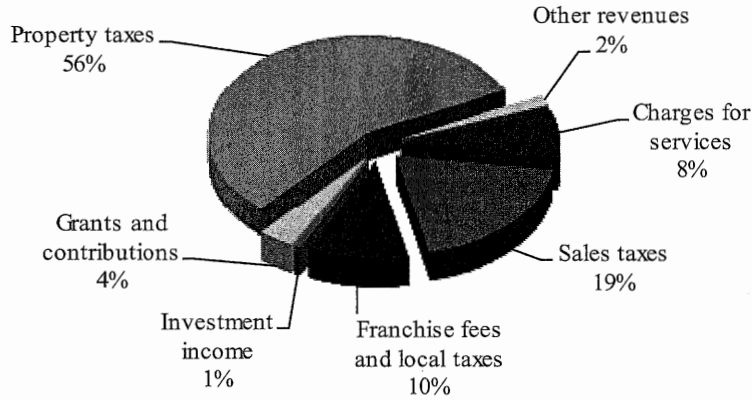
CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

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

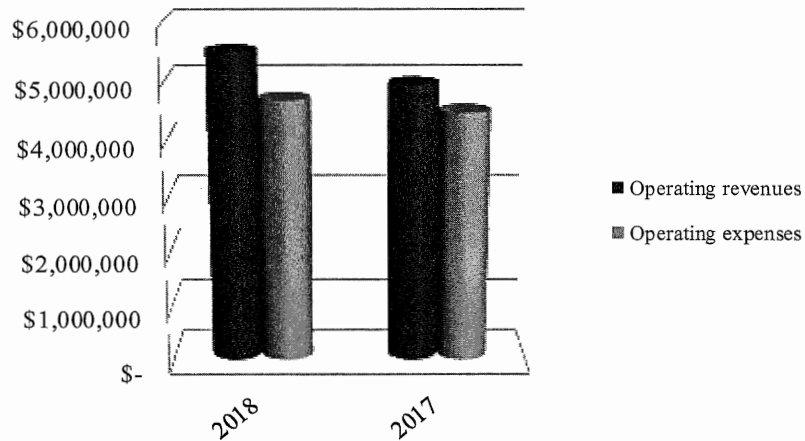
Governmental Activities - Expenses



Governmental Activities - Revenues



Business-Type Activities - Revenues and Expenses



CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

For the year ended September 30, 2018, revenues from governmental activities totaled \$8,578,720. Compared to the prior year, governmental revenues increased by \$686,304. This increase was largely due to an increase in property tax revenues, which was the result of an increase in property tax valuations, sales tax revenues received, and an increase in charges for services resulting from the number of citations issued along with the number of licenses and permits issued.

For the year ended September 30, 2018, expenses from governmental activities totaled \$10,028,942, which was an increase of \$1,630,348 compared to the prior year. This increase is primarily due to an increase in personnel-related costs, pension expense, and noncapital projects across several functions.

For the year ended September 30, 2018, charges for services related to business-type activities totaled \$5,491,730. This is an increase of \$565,919 from the previous year due to an increase in water rates, as well as consumption. Business-type expenses totaled \$4,685,345, which is an increase of \$213,820 from the prior year. This increase is largely due to an increase in personnel costs and repairs and maintenance projects.

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.

As of the end of the year, the City's governmental funds reflect a combined fund balance of \$10,617,204. Of this, \$9,899 is nonspendable for prepaid items and inventory, and \$7,807,332 is restricted for various purposes. Unassigned fund balance totaled \$2,799,973 as of year end. There was a combined increase in governmental fund balances of \$5,006,664 from the prior year.

The general fund is the chief operating fund of the City. At the end of the current year, unassigned fund balance of the general fund was \$2,799,973, while total fund balance reached \$2,907,185. 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 and total fund balance represents approximately 37 percent and 39 percent, respectively, of total general fund expenditures.

Compared to the prior year, general fund revenues increased \$896,280. This increase is primarily due to an increase in property tax revenue based on higher property valuations and a higher maintenance and operations tax rate. The City also had increases in revenues from sales taxes, franchise fees, licenses and permits, grant reimbursements, and citations issued. Expenditures increased \$33,260 compared to the prior year. This increase is primarily due to an increase in personnel costs and public safety expenditures.

The debt service fund has a total fund balance of \$2,265,712, all of which is restricted for the payment of debt service. The net increase in fund balance during the current year was \$424,288. This increase can be attributed to a transfer in from the water and sewer fund.

The capital projects fund has a total fund balance of \$5,272,583, all of which is restricted for capital projects. The net increase in fund balance during the fiscal year was \$5,167,895 due to the issuance of new debt.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

Proprietary Funds – The City's proprietary funds 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 \$1,193,880 in the general fund. The net change in the general fund balance was a decrease of \$626,802. Actual general fund revenues were more than the amended budgeted revenues by \$4,421 during 2018 due primarily to positive budget variances in licenses and permits and intergovernmental revenues. Actual expenditures were less than total budgeted amounts by \$54,748. Positive expenditure budget variances were recognized by all departments. The positive budget variances were due to several factors including the City's practice of budgeting personnel costs conservatively high.

The original budgetary revenues were amended to reflect an increase in revenues related to insurance reimbursement proceeds and grant proceeds. The administration department's budgeted expenditures were amended to reflect an increase in miscellaneous expenditures, supplies and materials, travel, and training costs. The expenditures budgeted for the police department, fire/ambulance department, and community enhancement department were amended to reflect an increase in capital outlay. The streets department budget was amended for previously planned capital outlay expenditures that were never incurred during the fiscal year. Transfers to/from other funds were amended to reflect the actual amounts of interfund activities during the fiscal year.

CAPITAL ASSETS

As of the end of the year, the City's governmental and business-type activities had invested \$41,383,043 in a variety of capital assets and infrastructure, net of accumulated depreciation. This represents a net decrease of \$1,309,345.

Major capital asset events during the year include the following:

- Current year costs for the Public safety facility complex project of \$272,633
- New ladder fire truck for \$107,600
- New backhoe for \$82,837
- New tractor and attachments for \$84,620
- New construction equipment (skid steer and excavator) for water and sewer infrastructure for \$133,766
- Three new street department trucks for \$77,256

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 general obligation bonds, certificates of obligation, tax anticipation notes, and capital leases outstanding of \$29,608,090. Of this amount, \$15,815,000 was general obligation debt, certificates of obligation accounted for \$13,090,000, \$585,000 for tax anticipation notes, and capital leases totaled \$118,090.

CITY OF DAYTON, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)
For the Year Ended September 30, 2018

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

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For fiscal year 2019, the City approved a \$20,328,448 revenue budget and a \$19,880,615 expense/expenditure budget. General fund revenues were budgeted at \$7,617,450 while expenditures were budgeted at \$7,573,250. The water and sewer fund revenues were budgeted at \$4,441,400 while the expenses were budgeted at \$4,285,165. The property tax rate will increase to \$0.6821. Property tax revenues were budgeted at \$5,330,919 for fiscal year 2019.

The City's financial stability remains strong and City management and Council are in constant review of the City's fund balance to ensure that there are sufficient funds always on hand to cover any unplanned events.

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 Rudy Zepeda, Director of Finance, City of Dayton, 117 Cook Street, Dayton, Texas 77535.

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BASIC FINANCIAL STATEMENTS



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CITY OF DAYTON, TEXAS

STATEMENT OF NET POSITION

September 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	DCDC
<u>Assets</u>				
Cash and cash equivalents	\$ 6,156,862	\$ 3,016,369	\$ 9,173,231	\$ 1,177,280
Investments	6,011,850	802,076	6,813,926	1,496,410
Receivables, net	1,192,382	891,992	2,084,374	146,362
Internal balances	(880,607)	880,607	-	-
Due from component unit	4,740	-	4,740	-
Inventories	5,420	59,915	65,335	-
Prepaid items	4,479	-	4,479	-
Restricted assets:				
Cash and cash equivalents	-	112,732	112,732	-
Capital assets:				
Nondepreciable	1,384,811	107,408	1,492,219	-
Net depreciable capital assets	25,334,278	14,556,546	39,890,824	-
Total Assets	39,214,215	20,427,645	59,641,860	2,820,052
<u>Deferred Outflows of Resources</u>				
Deferred charge on refunding	187,870	-	187,870	-
Deferred outflows - pensions (TMRS)	315,791	73,376	389,167	14,436
Deferred outflows - pensions (TESRS)	21,502	-	21,502	-
Deferred outflows - OPEB (TMRS)	14,558	-	14,558	-
Total Deferred Outflows of Resources	539,721	73,376	613,097	14,436
<u>Liabilities</u>				
Accounts payable and accrued liabilities	1,150,672	346,686	1,497,358	137,982
Due to primary government	-	-	-	4,740
Customer deposits	-	112,732	112,732	-
Accrued interest payable	149,145	30,620	179,765	-
Noncurrent liabilities:				
Due within one year	1,705,199	574,552	2,279,751	-
Due in more than one year	22,939,577	6,402,100	29,341,677	30,876
Total Liabilities	25,944,593	7,466,690	33,411,283	173,598
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pensions (TMRS)	160,141	31,093	191,234	6,541
Total Deferred Inflows of Resources	160,141	31,093	191,234	6,541
<u>Net Position</u>				
Net investment in capital assets	8,539,396	7,862,730	16,402,126	-
Restricted for:				
Debt service	2,265,712	-	2,265,712	-
Capital projects	15,682	-	15,682	-
PEG Fees	93,470	-	93,470	-
Tourism	171,724	-	171,724	-
Economic development	-	-	-	2,654,349
Unrestricted	2,563,218	5,140,508	7,703,726	-
Total Net Position	\$ 13,649,202	\$ 13,003,238	\$ 26,652,440	\$ 2,654,349

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF ACTIVITIES

For the Year Ended September 30, 2018

Functions/Programs	Expenses	Program Revenues	
		Charges for Services	Operating Grants and Contributions
Primary Government			
Governmental Activities			
General government	\$ 2,574,650	\$ -	\$ 1,911
Public safety	4,461,434	519,874	4,704
Public works	841,397	157,153	306,897
Culture and recreation	670,821	-	-
Community enhancement	824,133	-	-
Interest and fees on debt	656,507	-	-
Total Governmental Activities	10,028,942	677,027	313,512
Business-Type Activities			
Water and sewer	3,683,436	4,154,525	-
Refuse	1,001,909	1,337,205	-
Total Business-Type Activities	4,685,345	5,491,730	-
Total Primary Government	\$ 14,714,287	\$ 6,168,757	\$ 313,512
Component Unit			
Dayton Community Development Corporation	\$ 1,187,733	\$ -	\$ -

General Revenues:

- Taxes
 - Property taxes
 - Sales taxes
 - Franchise fees and local taxes
- Investment income
- Other revenues
- Transfers

Total General Revenues and Transfers

Change in Net Position

Beginning net position

Ending Net Position

See Notes to Financial Statements.

Net (Expense) Revenue and Changes in Net Position

Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	DCDC
\$ (2,572,739)	\$ -	\$ (2,572,739)	\$ -
(3,936,856)	-	(3,936,856)	-
(377,347)	-	(377,347)	-
(670,821)	-	(670,821)	-
(824,133)	-	(824,133)	-
(656,507)	-	(656,507)	-
<u>(9,038,403)</u>	<u>-</u>	<u>(9,038,403)</u>	<u>-</u>
-	471,089	471,089	-
-	335,296	335,296	-
-	806,385	806,385	-
<u>(9,038,403)</u>	<u>806,385</u>	<u>(8,232,018)</u>	<u>-</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,187,733)</u>
\$ 4,828,060	\$ -	\$ 4,828,060	\$ -
1,657,378	-	1,657,378	828,690
901,297	-	901,297	-
54,284	39,535	93,819	15,293
147,162	13,689	160,851	-
582,659	(582,659)	-	-
<u>8,170,840</u>	<u>(529,435)</u>	<u>7,641,405</u>	<u>843,983</u>
(867,563)	276,950	(590,613)	(343,750)
14,516,765	12,726,288	27,243,053	2,998,099
<u>\$ 13,649,202</u>	<u>\$ 13,003,238</u>	<u>\$ 26,652,440</u>	<u>\$ 2,654,349</u>

CITY OF DAYTON, TEXAS

BALANCE SHEET

GOVERNMENTAL FUNDS

September 30, 2018

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor Funds</u>
<u>Assets</u>				
Cash and cash equivalents	\$ 1,331,670	\$ 2,146,435	\$ 2,524,302	\$ 153,690
Investments	2,001,472	-	4,010,378	-
Receivables, net	920,213	243,429	-	27,752
Due from component unit	4,740	-	-	-
Due from other funds	835,510	135,610	-	-
Prepaid items	4,479	-	-	-
Inventory	5,420	-	-	-
Total Assets	\$ 5,103,504	\$ 2,525,474	\$ 6,534,680	\$ 181,442
<u>Liabilities</u>				
Accounts payable and accrued liabilities	\$ 828,335	\$ 16,333	\$ 296,286	\$ 9,718
Due to other funds	885,916	-	965,811	-
Total Liabilities	1,714,251	16,333	1,262,097	9,718
<u>Deferred Inflows of Resources</u>				
Unavailable revenue - property taxes	482,068	243,429	-	-
<u>Fund Balances</u>				
Nonspendable:				
Prepaid items	4,479	-	-	-
Inventory	5,420	-	-	-
Restricted:				
Debt service	-	2,265,712	-	-
Capital projects	3,843	-	5,272,583	-
PEG fees	93,470	-	-	-
Tourism	-	-	-	171,724
Unassigned	2,799,973	-	-	-
Total Fund Balances	2,907,185	2,265,712	5,272,583	171,724
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	\$ 5,103,504	\$ 2,525,474	\$ 6,534,680	\$ 181,442

**Total
Governmental
Funds**

\$ 6,156,097
6,011,850
1,191,394
4,740
971,120
4,479
5,420
\$ 14,345,100

\$ 1,150,672
1,851,727
3,002,399

725,497

4,479
5,420

2,265,712
5,276,426
93,470
171,724
2,799,973
10,617,204

\$ 14,345,100

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CITY OF DAYTON, TEXAS
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE
STATEMENT OF NET POSITION
September 30, 2018

Total fund balances – total governmental funds \$ 10,617,204

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

Capital assets used in governmental activities are not current financial resources and, therefore, not reported in the governmental funds.

Capital assets - nondepreciable	1,384,811	
Capital assets - net depreciable	<u>25,334,278</u>	26,719,089

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

725,497

An internal service fund is used by management to charge the costs of employee benefits to individual funds. The assets and liabilities of the internal service fund are included in the governmental activities in the Statement of Net Position.

1,753

Some deferred outflows, deferred inflows, and liabilities, including bonds payable, net pension liability, and total other postemployment benefits liability, are not reported as liabilities in the governmental funds.

Accrued interest payable	(149,145)	
Noncurrent liabilities due in one year	(1,705,199)	
Noncurrent liabilities due in more than one year	(22,939,577)	
Deferred outflows - pensions	337,293	
Deferred outflows - OPEB	14,558	
Deferred inflows - pensions	(160,141)	
Deferred charge on refunding	<u>187,870</u>	

(24,414,341)

Net Position of Governmental Activities

\$ 13,649,202

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS

For the Year Ended September 30, 2018

	General	Debt Service	Capital Project	Nonmajor Funds
Revenues				
Property tax	\$ 3,037,745	\$ 1,753,448	\$ -	\$ -
Sales tax	1,657,378	-	-	-
Franchise fees and local taxes	490,753	-	-	118,736
Licenses and permits	157,153	-	-	-
Intergovernmental	296,528	-	-	10,369
Fines and forfeitures	372,588	-	-	-
Charges for services	147,286	-	-	-
Investment income	27,150	15,419	10,830	582
Contributions and donations	1,911	-	-	-
Payments in lieu of taxes	291,808	-	-	-
Other revenue	147,162	-	-	-
Total Revenues	6,627,462	1,768,867	10,830	129,687
Expenditures				
Current:				
General government	2,475,116	-	-	-
Public safety	3,042,478	-	1,788,802	-
Public works	890,614	-	-	-
Culture and recreation	407,351	-	-	-
Community enhancement	286,122	-	-	10,369
Community center	371,490	-	-	-
Tourism promotion	-	-	-	78,035
Debt service:				
Principal	35,764	1,220,000	-	-
Interest and fiscal charges	7,495	460,025	-	-
Debt issuance costs	-	1,500	128,172	-
Total Expenditures	7,516,430	1,681,525	1,916,974	88,404
Excess (Deficiency) of Revenues Over (Under) Expenditures	(888,968)	87,342	(1,906,144)	41,283
Other Financing Sources (Uses)				
Transfers in	1,008,033	336,946	245,867	-
Transfers (out)	(745,867)	-	-	-
Bonds issued	-	-	6,595,000	-
Premium on bonds issued	-	-	233,172	-
Total Other Financing Sources	262,166	336,946	7,074,039	-
Net Change in Fund Balances	(626,802)	424,288	5,167,895	41,283
Beginning fund balances	3,533,987	1,841,424	104,688	130,441
Ending Fund Balances	\$ 2,907,185	\$ 2,265,712	\$ 5,272,583	\$ 171,724

See Notes to Financial Statements.

**Total
Governmental
Funds**

\$ 4,791,193
1,657,378
609,489
157,153
306,897
372,588
147,286
53,981
1,911
291,808
147,162

8,536,846

2,475,116
4,831,280
890,614
407,351
296,491
371,490
78,035

1,255,764
467,520
129,672

11,203,333

(2,666,487)

1,590,846
(745,867)
6,595,000
233,172

7,673,151

5,006,664

5,610,540

\$ 10,617,204

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CITY OF DAYTON, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2018

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

Net changes in fund balances - total governmental funds	\$	5,006,664
<p>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.</p>		
Capital outlay		1,020,967
Depreciation expense		(1,196,665)
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
		36,867
<p>An internal service fund is used by management to charge the costs of employee benefits to individual funds. The net revenue (expense) is reported with governmental activities.</p>		
		1,269
<p>The issuance of long-term debt (e.g., bonds, leases, 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 they are first issued; whereas, these amounts are deferred and amortized in the Statement of Activities. The net pension liability and total other postemployment benefits (OPEB) liability and deferred outflows and deferred inflows related to the net pension liability and total OPEB liability are not reported in the governmental funds.</p>		
Accrued interest		(70,440)
Debt issued		(6,595,000)
Premium on bonds issued		(203,340)
Principal expenditures		1,255,764
Deferred charges		(18,707)
Net pension liability		296,802
Total OPEB liability		(30,545)
Deferred outflows - pensions		(13,241)
Deferred outflows - OPEB		13,271
Deferred inflows - pensions		(355,284)
Compensated absences		(15,945)
Change in Net Position of Governmental Activities	\$	<u>(867,563)</u>

See Notes to Financial Statements.

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CITY OF DAYTON, TEXAS

STATEMENT OF NET POSITION

PROPRIETARY FUNDS

September 30, 2018

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
<u>Assets</u>				
Current Assets				
Cash and cash equivalents	\$ 1,679,102	\$ 1,337,267	\$ 3,016,369	\$ 765
Investments	802,076	-	802,076	-
Restricted assets - customer deposits	112,732	-	112,732	-
Receivables, net	674,371	217,621	891,992	988
Due from other funds	933,337	-	933,337	-
Inventories	59,915	-	59,915	-
Total Current Assets	4,261,533	1,554,888	5,816,421	1,753
Noncurrent Assets				
Capital assets:				
Nondepreciable	81,223	26,185	107,408	-
Net depreciable capital assets	14,295,259	261,287	14,556,546	-
Total Noncurrent Assets	14,376,482	287,472	14,663,954	-
Total Assets	18,638,015	1,842,360	20,480,375	1,753
<u>Deferred Outflows of Resources</u>				
Deferred outflows - pensions	69,553	3,823	73,376	-
<u>Liabilities</u>				
Current Liabilities				
Accounts payable and accrued liabilities	181,420	165,266	346,686	-
Due to other funds	51,954	776	52,730	-
Customer deposits	112,732	-	112,732	-
Accrued interest payable	30,620	-	30,620	-
Current portion of compensated absences	9,552	-	9,552	-
Current portion of bonds payable, net	565,000	-	565,000	-
Total Current Liabilities	951,278	166,042	1,117,320	-
Noncurrent Liabilities				
Compensated absences	1,061	-	1,061	-
Bonds payable, net	6,236,224	-	6,236,224	-
Net pension liability	148,683	16,132	164,815	-
Total Liabilities	7,337,246	182,174	7,519,420	-
<u>Deferred Inflows of Resources</u>				
Deferred inflows - pensions	31,093	-	31,093	-
<u>Net Position</u>				
Net investment in capital assets	7,575,258	287,472	7,862,730	-
Unrestricted	3,763,971	1,376,537	5,140,508	1,753
Total Net Position	\$ 11,339,229	\$ 1,664,009	\$ 13,003,238	\$ 1,753

See Notes to Financial Statements.

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CITY OF DAYTON, TEXAS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION PROPRIETARY FUNDS

For the Year Ended September 30, 2018

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
<u>Operating Revenues</u>				
Water and sewer charges	\$ 4,154,525	\$ -	\$ 4,154,525	\$ -
Sanitation	-	1,337,205	1,337,205	-
Other services	13,689	-	13,689	908,082
Intergovernmental	-	-	-	-
Total Operating Revenues	4,168,214	1,337,205	5,505,419	908,082
<u>Operating Expenses</u>				
Personnel services	1,086,114	56,880	1,142,994	907,116
Services	336,100	889,178	1,225,278	-
Supplies	85,943	2,667	88,610	-
Utilities	352,645	3,994	356,639	-
Repairs and maintenance	335,884	10,569	346,453	-
Depreciation	1,336,096	33,183	1,369,279	-
Miscellaneous	5,803	5,438	11,241	-
Total Operating Expenses	3,538,585	1,001,909	4,540,494	907,116
Operating Income	629,629	335,296	964,925	966
<u>Nonoperating Revenues (Expenses)</u>				
Investment income	29,550	9,985	39,535	303
Interest and fiscal agent charges	(144,851)	-	(144,851)	-
Total Nonoperating Revenues (Expenses)	(115,301)	9,985	(105,316)	303
Income Before Transfers	514,328	345,281	859,609	1,269
<u>Transfers and Capital Contributions</u>				
Capital contribution	262,320	-	262,320	-
Transfers in	500,000	-	500,000	-
Transfers (out)	(1,118,813)	(226,166)	(1,344,979)	-
Total Transfers and Capital Contributions	(356,493)	(226,166)	(582,659)	-
Change in Net Position	157,835	119,115	276,950	1,269
Beginning net position	11,181,394	1,544,894	12,726,288	484
Ending Net Position	\$ 11,339,229	\$ 1,664,009	\$ 13,003,238	\$ 1,753

See Notes to Financial Statements.

CITY OF DAYTON, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 1 of 2)

For the Year Ended September 30, 2018

	Water and Sewer	Refuse	Total Proprietary Funds	Governmental Activities Internal Service
<u>Cash Flows from Operating Activities</u>				
Receipts from customers	\$ 3,247,157	\$ 1,303,875	\$ 4,551,032	\$ -
Receipts from interfund charges	-	-	-	908,082
Payments to suppliers	(1,088,502)	(835,981)	(1,924,483)	(908,082)
Payments to employees	(1,079,877)	(52,809)	(1,132,686)	-
Net Cash Provided by Operating Activities	1,078,778	415,085	1,493,863	-
<u>Cash Flows from Noncapital Financing Activities</u>				
Transfer from other funds	500,000	-	500,000	-
Transfer to other funds	(1,118,813)	(226,166)	(1,344,979)	-
Net Cash (Used) by Noncapital Financing Activities	(618,813)	(226,166)	(844,979)	-
<u>Cash Flows from Capital and Related Financing Activities</u>				
Capital purchases	26,689	-	26,689	-
Principal paid on capital debt	(545,000)	-	(545,000)	-
Interest paid on capital debt	(191,340)	-	(191,340)	-
Net Cash (Used) by Capital and Related Financing Activities	(709,651)	-	(709,651)	-
<u>Cash Flows from Investing Activities</u>				
Sale of investments	203,857	-	203,857	-
Interest on investments	29,550	9,985	39,535	303
Net Cash Provided by Investing Activities	233,407	9,985	243,392	303
Net Increase (Decrease) in Cash and Cash Equivalents	(16,279)	198,904	182,625	303
Beginning cash and cash equivalents	1,808,113	1,138,363	2,946,476	462
Ending Cash and Cash Equivalents	\$ 1,791,834	\$ 1,337,267	\$ 3,129,101	\$ 765
<u>Ending Cash and Cash Equivalents</u>				
Unrestricted cash and cash equivalents	\$ 1,679,102	\$ 1,337,267	\$ 3,016,369	\$ 765
Restricted cash and cash equivalents	112,732	-	112,732	-
Ending Cash and Cash Equivalents	\$ 1,791,834	\$ 1,337,267	\$ 3,129,101	\$ 765

CITY OF DAYTON, TEXAS

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS (Page 2 of 2)

For the Year Ended September 30, 2018

	<u>Water and Sewer</u>	<u>Refuse</u>	<u>Total Proprietary Funds</u>	<u>Governmental Activities Internal Service</u>
Reconciliation of Operating Income (Loss)				
to Net Cash Provided by Operating Activities				
Operating income	\$ 629,629	\$ 335,296	\$ 964,925	\$ 966
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	1,336,096	33,183	1,369,279	-
Changes in Operating Assets and Liabilities:				
(Increase) Decrease in:				
Deferred outflows - pensions	43,141	5,688	48,829	-
Accounts receivable	11,024	(33,330)	(22,306)	-
Due from other funds	(933,337)	-	(933,337)	-
Inventories	31,912	-	31,912	-
Increase (Decrease) in:				
Accounts payable and accrued liabilities	(4,039)	75,865	71,826	(966)
Due to other funds	(7,707)	474	(7,233)	-
Net pension liability	(60,933)	(1,996)	(62,929)	-
Deferred inflows - pensions	30,205	(95)	30,110	-
Customer deposits	10,740	-	10,740	-
Compensated absences	(6,176)	-	(6,176)	-
Accrued interest payable	(1,777)	-	(1,777)	-
Net Cash Provided by Operating Activities	<u>\$ 1,078,778</u>	<u>\$ 415,085</u>	<u>\$ 1,493,863</u>	<u>\$ -</u>
Noncash investing, capital, and financing activities:				
Contributions of capital assets from governmental funds	<u>\$ 262,320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

See Notes to Financial Statements.

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CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2018

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The City of Dayton, Texas (the “City”) is a Home Rule City. The City operates under a “Mayor-Council” form of government and provides services authorized by its charter. Presently, these services include: public safety (police, fire, and EMS), public works (street and park maintenance), culture and recreation, community enhancement, and general administrative services.

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 appointment and removal of department directors and employees, supervision and control of all City departments, and preparation of the annual budget.

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, as 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 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.

Discretely Presented Component Unit

Dayton Community Development Corporation

In May 1996, the City formed the Dayton Community Development Corporation (the “Corporation”), which was created by voters approving an additional sales tax. The mission of the Corporation is to promote economic development within the City and surrounding areas. The Board is composed of seven directors (voting members) and four advisory directors (nonvoting), each of whom is appointed by the City Council. The City Council may remove a Board member from office at any time without cause. Not more than three members of the Board may be a member of City Council or any other officer or employee of the City. The Corporation has been included in the reporting entity as a discretely presented component unit. The City has the ability to impose its will on the Corporation because it approves the Corporation’s budget and the City is legally entitled to, and has, complete access to the Corporation’s economic resources. As a discretely presented

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

component unit, the Corporation is reported in a separate column in the basic financial statements to emphasize that it is legally separate from the City. The Corporation is funded by the levy of one-half of one percent sales and use tax. The Corporation has a September 30 year end. Financial statements for the Corporation may be obtained by contacting Rudy Zepeda, Director of Finance, City of Dayton, 117 Cook Street, Dayton, Texas 77535.

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 and its component unit. *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. Likewise, the *primary government* is reported separately from a legally separate *component unit* for which the primary government is financially accountable.

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 an internal service fund, 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. 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 reported as nonmajor funds.

The City reports the following governmental funds:

The *general fund* is used to account for all financial transactions not properly includable in other funds. The principal sources of revenues include local property taxes, sales taxes and franchise fees, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general government, public safety, public works, culture and recreation, and community enhancement. The general fund is always considered a major fund for reporting purposes.

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

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

The *special revenue funds* are used to account for and report the proceeds of specific revenue sources that are legally restricted or committed to expenditures for specified purposes other than debt service or capital projects. The hotel and motel tax and community development special revenue funds are considered nonmajor funds for reporting purposes.

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

The City reports the following enterprise funds:

The *enterprise funds* are used to account for the operations that provide water and wastewater collection, wastewater treatment operations, and the operations that provide garbage services to the public. 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 fund and refuse fund 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 of the City, or to other governments, on a cost reimbursement basis. The employee benefit fund is used to account for insurance provided to City employees.

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

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

E. Measurement Focus and Basis of Accounting

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

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

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

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

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

1. Cash and Cash Equivalents

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

2. Investments

Investments, except for certain investment pools, commercial paper, money market funds, and investment contracts, are reported at fair value. The investment pools operate in accordance with appropriate state laws and regulations and are reported at amortized cost. Money market funds, which are short-term highly liquid debt instruments that may include U.S. Treasury and agency

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

obligations and commercial paper that have a remaining maturity of one year or less upon acquisition, are reported at amortized cost. Investments in nonparticipating interest earning contracts, such as certificates of deposits, are reported at cost.

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

- Direct obligations of the U.S. government
- Fully collateralized certificates of deposit and money market accounts
- Statewide investment pools

3. Inventories and Prepaid Items

Inventories are valued at cost using the first-in/first-out (FIFO) method and consist of supplies for infrastructure repairs and maintenance. The cost of such inventories is recorded as expenditure/expenses when consumed rather than when purchased.

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. In accordance with GASB Statement No. 34, infrastructure has been capitalized retroactively. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of 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, as well as the component unit, are depreciated using the straight-line method over the following estimated useful years.

<u>Asset Description</u>	<u>Estimated Useful Life</u>
Vehicles	5 to 7 years
Furniture and equipment	5 to 7 years
Water and sewer system	30 to 40 years
Buildings and improvements	50 years

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

5. Deferred Outflows/Inflows of Resources

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

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has one item that qualifies for reporting in this category in the government-wide Statement of Net Position. Deferred inflows of resources are recognized for the difference between the projected and actual investment earnings on the pension plan assets. This amount is deferred and amortized over a period of five years. At the fund level, 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.

6. Compensated Employee Absences

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

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

7. Long-Term Obligations

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

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

The property tax rate is allocated each year between the general and debt service funds. The full amount estimated to be required for debt service on general obligation debt is provided by the tax along with interest earned in the debt service fund.

Assets acquired under the terms of capital leases 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 general 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, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

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

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

11. Estimates

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

12. Pensions

For the purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Texas Municipal Retirement System (TMRS) and the Texas Emergency Services Retirement System (TESRS) and additions to/deductions from TMRS's and TESRS's fiduciary net position have been determined on the same basis as they are reported by TMRS and TESRS. 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.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

13. Other Postemployment Benefits

The City participates in a single-employer, unfunded, 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 funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. Benefit payments are treated as being equal to the employer's yearly contributions for retirees. Benefit payments and refunds are due and payable in accordance with the benefit terms. Information about the City's OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense is provided by TMRS from reports prepared by their consulting actuary.

G. Revenues and Expenditures/Expenses

1. Program Revenues

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

2. Property Taxes

Property taxes are levied during September of each year, are due upon receipt of the City's tax bill, and become delinquent on January 1 of the following year. The City's tax lien exists from January 1 (the assessment date) each year until the taxes are paid.

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 fund are charges to customers for sales and services. The enterprise fund also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Annual budgets are adopted on a basis consistent with generally accepted accounting principles. The original budget is adopted by the City Council prior to the beginning of the year. The legal level of control in the approved budget as defined by the charter is the department level in the general fund and all others are the fund level. No funds can be transferred or added to a budgeted item without Council approval. Appropriations lapse at the end of the year. Supplemental budget appropriations were made for the year ended September 30, 2018.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and Investments

As of September 30, 2018, the City had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 7,116,000	0.08
Certificates of deposit	500,000	0.41
Total	<u>\$ 7,616,000</u>	
Portfolio weighted average maturity		0.10

As of September 30, 2018, the Corporation had the following investments:

<u>Investment Type</u>	<u>Value</u>	<u>Weighted Average Maturity (Years)</u>
TexPool	\$ 1,000,175	0.08
Certificates of deposit	500,000	0.41
Total	<u>\$ 1,500,175</u>	
Portfolio weighted average maturity		0.19

Credit risk. The City's policy requires that investment pools must be rated no lower than 'AAA' or 'AAA-m'. Bankers' acceptances must be issued in the United States and carry a rating of 'A1'/'P1' as provided by two of the top nationally recognized rating agencies. As of September 30, 2018, the City's investments in TexPool were rated 'AAAm' by Standard & Poor's.

Custodial credit risk – deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires funds on deposit at the depository bank to be collateralized by securities with a collective fair value of at least 103 percent. As of September 30, 2018, the fair values of pledged securities and FDIC coverage exceeded bank balances. As of September 30, 2018, the Corporation had bank balances that exceeded the fair values of pledged securities and FDIC coverage.

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.

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.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

TexPool

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

TexPool is an external investment pool measured at amortized cost. In order to meet the criteria to be recorded at amortized cost, Texpool 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.

B. Receivables

The following comprise receivable balances at year end for governmental funds, enterprise funds, and the discretely presented component unit:

	General	Debt Service	Nonmajor Governmental	Component Unit
Property tax	\$ 482,068	\$ 243,429	\$ -	\$ -
Sales tax	291,337	-	-	146,362
Other tax	139,417	-	-	-
Other	7,391	-	27,752	-
	<u>\$ 920,213</u>	<u>\$ 243,429</u>	<u>\$ 27,752</u>	<u>\$ 146,362</u>
	Water and Sewer	Refuse	Internal Service	
Accounts	\$ 739,857	\$ 221,909	\$ 988	
Other	5,127	-	-	
Less allowance	(70,613)	(4,288)	-	
	<u>\$ 674,371</u>	<u>\$ 217,621</u>	<u>\$ 988</u>	

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2018

C. Capital Assets

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

	<u>Beginning Balance</u>	<u>Increases</u>	<u>(Decreases)</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 1,384,811	\$ -	\$ -	\$ 1,384,811
Total capital assets, not being depreciated	<u>1,384,811</u>	<u>-</u>	<u>-</u>	<u>1,384,811</u>
Other capital assets:				
Infrastructure	4,651,609	50,369	-	4,701,978
Buildings and improvements	23,138,223	272,633	-	23,410,856
Machinery and equipment	5,859,524	697,965	-	6,557,489
Total other capital assets	<u>33,649,356</u>	<u>1,020,967</u>	<u>-</u>	<u>34,670,323</u>
Less accumulated depreciation for:				
Infrastructure	(1,292,312)	(210,150)	-	(1,502,462)
Buildings and improvements	(2,951,996)	(507,608)	-	(3,459,604)
Machinery and equipment	(3,895,072)	(478,907)	-	(4,373,979)
Total accumulated depreciation	<u>(8,139,380)</u>	<u>(1,196,665)</u>	<u>-</u>	<u>(9,336,045)</u>
Other capital assets, net	<u>25,509,976</u>	<u>(175,698)</u>	<u>-</u>	<u>25,334,278</u>
Governmental Activities Capital Assets, Net	<u>\$ 26,894,787</u>	<u>\$ (175,698)</u>	<u>\$ -</u>	<u>26,719,089</u>
				Less debt associated with capital assets (23,624,464)
				Plus unspent bond proceeds 5,256,901
				Plus deferred charge on refunding 187,870
				Net Investment in Capital Assets <u>\$ 8,539,396</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 75,685
Public safety	499,002
Public works	274,427
Culture and recreation	265,914
Community enhancement	81,637
Total Governmental Activities Depreciation Expense	<u>\$ 1,196,665</u>

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

A summary of changes in business-type activities capital assets for the year end was as follows:

	Beginning Balance	Increases	(Decreases)	Ending Balance
Business-Type Activities:				
Capital assets not being depreciated:				
Land	\$ 107,408	\$ -	\$ -	\$ 107,408
Construction in progress	463,626	-	(463,626)	-
Total capital assets not being depreciated	571,034	-	(463,626)	107,408
Other capital assets:				
Building and improvements	3,086,121	-	-	3,086,121
Machinery and equipment	2,095,304	245,679	-	2,340,983
Water and sewer system	28,034,187	453,579	-	28,487,766
Total other capital assets	33,215,612	699,258	-	33,914,870
Less accumulated depreciation for:				
Building and improvements	(563,863)	(146,603)	-	(710,466)
Machinery and equipment	(1,363,416)	(147,718)	-	(1,511,134)
Water and sewer system	(16,061,766)	(1,074,958)	-	(17,136,724)
Total accumulated depreciation	(17,989,045)	(1,369,279)	-	(19,358,324)
Other capital assets, net	15,226,567	(670,021)	-	14,556,546
Business-Type Activities Capital Assets, Net	\$ 15,797,601	\$ (670,021)	\$ (463,626)	14,663,954
			Less associated debt	(6,801,224)
			Net Investment in Capital Assets	\$ 7,862,730

Depreciation was charged to business-type functions as follows:

Water and sewer	\$ 1,336,096
Refuse	33,183
Total Business-Type Activities Depreciation Expense	\$ 1,369,279

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

D. Long-Term Debt

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental Activities:					
Bonds, notes and other payables:					
General obligation bonds	\$ 10,285,000	\$ -	\$ 805,000	\$ 9,480,000	*\$ 835,000
Tax anticipation notes	815,000	-	230,000	585,000	* 235,000
Certificates of obligation	6,680,000	6,595,000	185,000	13,090,000	* 515,000
Total bonds, notes, and and other payables	<u>17,780,000</u>	<u>6,595,000</u>	<u>1,220,000</u>	<u>23,155,000</u>	<u>1,585,000</u>
Plus deferred amounts:					
Issuance premiums	148,034	233,172	29,832	351,374	* -
Capital leases	153,854	-	35,764	118,090	* 37,507
Other liabilities:					
Net pension liability (TMRS)	937,942	-	282,479	655,463	-
Net pension liability (TESRS)	85,603	-	14,323	71,280	-
Total OPEB liability (TMRS)	171,144	30,545	-	201,689	-
Compensated absences	75,935	184,139	168,194	91,880	82,692
Total Governmental Activities	<u>\$ 19,352,512</u>	<u>\$ 7,042,856</u>	<u>\$ 1,750,592</u>	<u>\$ 24,644,776</u>	<u>\$ 1,705,199</u>

Long-term liabilities due in more than one year \$ 22,939,577

***Debt associated with governmental activity capital assets** \$ 23,624,464

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Business-Type Activities:					
General obligation bonds	\$ 6,880,000	\$ -	\$ 545,000	\$ 6,335,000	*\$ 565,000
Total bonds payable	<u>6,880,000</u>	<u>-</u>	<u>545,000</u>	<u>6,335,000</u>	<u>565,000</u>
Plus deferred amounts:					
Issuance premiums	512,846	-	46,622	466,224	* -
Other liabilities:					
Net pension liability (TMRS)	227,744	-	62,929	164,815	-
Compensated absences	16,789	33,735	39,911	10,613	9,552
Total Business-Type Activities	<u>\$ 7,637,379</u>	<u>\$ 33,735</u>	<u>\$ 694,462</u>	<u>\$ 6,976,652</u>	<u>\$ 574,552</u>

Long-term liabilities due in more than one year \$ 6,402,100

***Debt associated with capital assets** \$ 6,801,224

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

The following is a summary of changes in the Corporation's long-term liabilities for the year end:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Component Unit:					
Net pension liability (TMRS)	\$ 43,558	\$ -	\$ 12,682	\$ 30,876	\$ -
Total Component Unit					
Activities	<u>\$ 43,558</u>	<u>\$ -</u>	<u>\$ 12,682</u>	<u>\$ 30,876</u>	<u>\$ -</u>

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

The general fund liquidates the governmental activities portion of the compensated absences liability, the net pension liability through the Texas Municipal Retirement System plan, the net pension liability through the Texas Emergency Services Retirement System plan, and the total other postemployment benefits liability.

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

<u>Description</u>	<u>Original Issue</u>	<u>Interest Rates</u>	<u>Balance</u>
<u>Governmental Activities:</u>			
General Obligation Bonds			
2008 general obligation bonds	\$ 13,255,000	4.00-5.25%	\$ 1,525,000
2017 general obligation refunding bonds	8,045,000	2.23%	7,955,000
Total General Obligation Bonds			<u>9,480,000</u>
Tax Anticipation Notes			
2012 tax anticipation notes	\$ 700,000	1.30-2.00%	120,000
2017 tax anticipation notes	575,000	1.68%	465,000
Total Tax Anticipation Notes			<u>585,000</u>
Certificates of Obligation			
2015 certificates of obligation	\$ 6,990,000	2.00-4.00%	6,495,000
2018 certificates of obligation	6,595,000	2.00-4.00%	6,595,000
Total Certificates of Obligation			<u>13,090,000</u>
Capital Leases	\$ 335,000	2.6-3.5%	<u>118,090</u>
Total Governmental Activities Long-Term Debt			<u>\$ 23,273,090</u>
<u>Business-Type Activities:</u>			
General Obligation Bonds			
2016 general obligation refunding bonds	\$ 6,880,000	2.00-4.00%	\$ 6,335,000
Total General Obligation Bonds			<u>\$ 6,335,000</u>

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

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

Year Ending Sept. 30	Governmental Activities					
	General Obligation Bonds		Certificates of Obligation		Tax Anticipation Notes	
	Principal	Interest	Principal	Interest	Principal	Interest
2019	\$ 835,000	\$ 224,443	\$ 515,000	\$ 445,460	\$ 235,000	\$ 8,046
2020	870,000	190,961	665,000	395,969	115,000	4,914
2021	895,000	163,403	540,000	382,094	115,000	2,982
2022	920,000	143,166	555,000	367,419	120,000	1,008
2023	940,000	122,427	570,000	349,919	-	-
2024-2028	5,020,000	284,883	3,190,000	1,420,375	-	-
2029-2033	-	-	4,275,000	806,578	-	-
2034-2038	-	-	2,780,000	164,894	-	-
Total	\$ 9,480,000	\$ 1,129,283	\$ 13,090,000	\$ 4,332,707	\$ 585,000	\$ 16,950

Year Ending Sept. 30	Business-Type Activities	
	General Obligation Bonds	
	Principal	Interest
2019	\$ 565,000	\$ 182,150
2020	575,000	170,750
2021	590,000	159,100
2022	600,000	147,200
2023	615,000	131,975
2024-2028	3,390,000	335,675
Total	\$ 6,335,000	\$ 1,126,850

General obligation bonds, tax anticipation notes, and certificates of obligation are direct obligations of the City for which its full faith and credit are pledged. Repayment of general obligation bonds, certificates of obligation, and tax anticipation notes are from taxes levied on all taxable property located within the City. The City has issued debt for the purpose of capital asset acquisition and infrastructure improvements.

During fiscal year 2018, the City issued Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2018 in the amount of \$6,595,000. Proceeds from the sale of the Certificates will be used for projects related to City hall, the City's civic center, streets, sidewalks, and drainage. The Certificate mature on February 1, 2038 and have an interest rate range of 2.00% - 4.00%.

Annual debt service requirements to retire outstanding capital leases are as follows:

Year Ending Sept. 30	Governmental Activities	
	Principal	Interest
2019	\$ 37,507	\$ 5,752
2020	39,334	3,925
2021	41,249	2,009
Totals	\$ 118,090	\$ 11,686

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Machinery and equipment	\$ 335,000
Less: accumulated depreciation	(113,063)
Total	\$ 221,937

E. Interfund Transactions

The composition of interfund balances as of year end is as follows:

Receivable Fund	Payable Fund	Amounts
General	Capital project	\$ 782,780
General	Water and sewer	51,954
General	Refuse	776
Debt service	General	119,277
Debt service	Capital project	16,333
Water and sewer	General	766,639
Water and sewer	Capital project	166,698
		\$ 1,904,457

Amounts recorded as “due to/from” are considered to be temporary loans and will be repaid during the following year.

Transfers between the primary government funds during the 2018 fiscal year were as follows:

	Transfers In	Transfers Out
Governmental Funds:		
Individual major governmental funds:		
General	\$ 1,008,033	\$ 745,867
Capital project	245,867	-
Debt service	336,946	-
Total Governmental Funds	1,590,846	745,867
Enterprise Funds:		
Individual major enterprise funds:		
Water and sewer	500,000	1,118,813
Refuse	-	226,166
Total Enterprise Funds	500,000	1,344,979
Total Transfers	\$ 2,090,846	\$ 2,090,846

Amounts transferred between funds relate to amounts collected by general fund, water and sewer fund, and the refuse fund for various governmental expenditures, capital projects, and debt payments.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

F. Fund Equity

Funds restricted by enabling legislation are \$171,724 and \$93,470, related to tourism and communications respectively.

G. Restatement of Net Position

Beginning net position for governmental activities was restated for the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* (GASB 75).

	Governmental Activities
Prior year ending net position as reported	\$ 14,686,622
Total OPEB Liability (TMRS)	(171,144)
Deferred outflows - OPEB	1,287
Beginning net position - restated	\$ 14,516,765

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.

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.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

C. Pension Plans

1. Texas Municipal Retirement System

Plan Description

The City participates as one of 883 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by TMRS. TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the “TMRS Act”) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of TMRS with a six-member Board of Trustees (the “Board”). Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS’s defined benefit pension plan is a tax-qualified plan under Section 401(a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report that can be obtained at www.tmr.com.

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

Benefits Provided

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

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the City-financed monetary credits, with interest, were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven 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>2018</u>	<u>2017</u>
Employee deposit rate	7.00%	7.00%
Matching ratio (City to employee)	2 to 1	2 to 1
Years required for vesting	5	5
Service requirement eligibility (expressed as age/yrs of service)	60/5, 0/20	60/5, 0/20
Updated service credit	100% Transfers	100% Transfers
Annuity increase (to retirees)	70% of CPI	70% of CPI

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Employees Covered by Benefit Terms

At the December 31, 2017 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	46
Inactive employees entitled to, but not yet receiving, benefits	67
Active employees	90
Total	203

Contributions

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

Employees for the City were required to contribute seven percent of their annual gross earnings during the fiscal year. The contribution rates for the City were 7.46 percent and 7.41 percent in calendar years 2018 and 2017, respectively. The City's contributions to TMRS for the fiscal year ended September 30, 2018 were \$331,541, which were equal to the required contributions.

Net Pension Liability

The City's Net Pension Liability (NPL) was measured as of December 31, 2017 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, 2017 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 Combined Healthy Mortality Tables with Blue Collar Adjustment are used with male rates multiplied by 109 percent and female rates multiplied by 103 percent with a three-year set-forward for both males and females. In addition, a three percent minimum mortality rate is applied to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements subject to the three percent floor.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

The actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and annuity purchase rate are based on the mortality experience investigation study covering 2009 through 2011 and dated December 31, 2013. In conjunction with these changes first used in the December 31, 2013 valuation, TMRS adopted the EAN actuarial cost method and a one-time change to the amortization policy. Plan assets are managed on a total return basis with an emphasis on both capital appreciation, as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.5%	4.55%
International Equity	17.5%	6.10%
Core Fixed Income	10.0%	1.00%
Non-Core Fixed Income	20.0%	3.65%
Real Return	10.0%	4.03%
Real Estate	10.0%	5.00%
Absolute Return	10.0%	4.00%
Private Equity	5.0%	8.00%
Total	<u>100.0%</u>	

Discount Rate

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

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Changes in the NPL

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
	(A)	(B)	(A) - (B)
Changes for the year:			
Service cost	\$ 540,698	\$ -	\$ 540,698
Interest	517,680	-	517,680
Difference between expected and actual experience	81,411	-	81,411
Contributions - employer	-	313,664	(313,664)
Contributions - employee	-	296,309	(296,309)
Net investment income	-	892,777	(892,777)
Benefit payments, including refunds of employee contributions	(532,131)	(532,131)	-
Administrative expense	-	(4,637)	4,637
Other changes	-	(235)	235
Net Changes	607,658	965,747	(358,089)
Balance at December 31, 2016	7,665,045	6,455,802	1,209,243
Balance at December 31, 2017	\$ 8,272,703	\$ 7,421,549	\$ 851,154

Sensitivity of the NPL to Changes in the Discount Rate

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

	1% Decrease in Discount Rate (5.75%)	Discount Rate (6.75%)	1% Increase in Discount Rate (7.75%)	
	City's Net Pension Liability	\$ 2,010,095	\$ 851,154	\$ (104,100)

Pension Plan Fiduciary Net Position

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

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

For the fiscal year ended September 30, 2018, the City recognized net pension expense of \$425,266.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual economic experience	\$ 97,944	\$ -
Changes in actuarial assumptions	49,072	-
Difference between projected and actual investment earnings	-	197,775
Contributions subsequent to the measurement date	256,587	-
Total	\$ 403,603	\$ 197,775

\$256,587 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the NPL for the fiscal year ending September 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Year Ended September 30	Pension Expense
2019	\$ 90,382
2020	19,416
2021	(69,153)
2022	(91,404)
Total	\$ (50,759)

2. Texas Emergency Services Retirement System

Plan Description

The City participates in a cost-sharing multiple employer pension plan that has a special funding situation. The plan is administered by the TESRS and established and administered by the State of Texas (the "State") to provide pension benefits for emergency services personnel who serve without significant monetary remuneration. At August 31, 2017, there were 235 contributing fire and/or emergency services department members participating in TESRS. Eligible participants include volunteer emergency services personnel who are members in good standing of a member department.

On August 31, 2017, the pension system membership consisted of:

Retirees and beneficiaries currently receiving benefits	3,104
Terminated members entitled to, but not yet receiving, benefits	2,208
Active participants	4,046

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

Pension Plan Fiduciary Net Position

Detailed information about the TESRS's fiduciary net position is available in a separately-issued Comprehensive Annual Financial Report that includes financial statements and Required Supplementary Information. TESRS issues a publicly available Annual Financial Report, which includes financial statements, notes, and Required Supplementary Information, which can be obtained at www.tesrs.org. The separately issued actuarial valuations that may be of interest are also available at the same link.

Benefits Provided

Senate Bill 411, 65th Legislature, Regular Session (1977), created TESRS and established the applicable benefit provisions. The 79th Legislature, Regular Session (2005), re-codified the provisions and gave the TESRS Board of Trustees (the "Board") authority to establish vesting requirements, contribution levels, benefit formulas, and eligibility requirements by Board rule. The benefit provisions include retirement benefits, as well as death and disability benefits. Members are 50 percent vested after the tenth year of service, with the vesting percentage increasing ten percent for each of the next five years of service so that a member becomes 100 percent vested with 15 years of service.

Upon reaching age 55, each vested member may retire and receive a monthly pension equal to his vested percentage multiplied by six times the governing body's average monthly contribution over the member's years of qualified service. For years of service in excess of 15 years, this monthly benefit is increased at the rate of 6.2 percent compounded annually. There is no provision for automatic postretirement benefit increases.

On and off-duty death benefits and on-duty disability benefits are dependent on whether or not the member was engaged in the performance of duties at the time of death or disability. Death benefits include a lump sum amount or continuing monthly payments to a member's surviving spouse and dependent children.

Funding Policy

Contributions are made by governing bodies for the participating departments. No contributions are required from the individuals who are members of TESRS, nor are they allowed. The governing bodies of each participating department are required to make contributions for each month a member performs emergency services for a department (this minimum contribution is \$36 per member and the department may make a higher monthly contribution for its members). This is referred to as a Part One contribution, which is the legacy portion of the TESRS contribution that directly impacts future retiree annuities.

The State is required to contribute an amount necessary to make TESRS "actuarially sound" each year, which may not exceed one-third of the total of all contributions made by participating governing bodies in a particular year.

The Board rule defining contributions was amended effective July 27, 2014 to add the potential for actuarially determined Part Two contributions that would be required only if the expected future annual contributions from the State are not enough with the Part One contributions to provide an adequate contribution arrangement as determined by the most recent actuarial valuation. This Part Two portion, which is actuarially determined as a percentage of the Part One portion (not to exceed 15 percent), is to be actuarially adjusted near the end of each even-numbered calendar year based on

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

the most recent actuarial valuation. Based on the actuarial valuation as of August 31, 2016, the Part Two contributions were established by the Board to be two percent, of the Part One contributions beginning September 1, 2017.

Additional contributions may be made by governing bodies within two years of joining TESRS to grant up to ten years of credit for service per member. Prior service purchased must have occurred before the department began participation in TESRS.

A small subset of participating departments has a different contribution arrangement that is being phased out over time. In this arrangement, contributions made in addition to the monthly contributions for active members are made by local governing bodies on a pay-as-you-go basis for members who were pensioners when their respective departments merged into TESRS. There is no actuarial impact associated with this arrangement as the pay-as-you-go contributions made by these governing bodies are always equal to benefit payments paid by TESRS.

Contributions

The contribution requirement per active emergency services personnel member per month is not actuarially determined. Rather, the minimum contribution provisions were set by Board rule, and there is no maximum contribution rate. For the fiscal year ending August 31, 2017, total contributions (dues, prior service, and interest on prior service financing) of \$13,738 were paid by the City. The State appropriated \$1,583,825 for the fiscal year ending August 31, 2017 to the plan as a whole.

Actuarial Assumptions

The TPL in the August 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial valuation date	8/31/2017
Actuarial cost method	Entry age
Amortization method	Level dollar, open
Remaining amortization period	30 years
Asset valuation method	Market value smoothed by a 5-year deferred recognition method with an 80%/120% corridor on market value
Actuarial assumptions:	
Investment rate of return*	7.75%
Projected salary increases	N/A
*Includes inflation at	3.00%
Cost of living adjustments	None

Mortality rates were based on the RP-2000 Combined Healthy Lives Mortality Tables for males and for females projected to 2024 by scale AA. The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future net real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

(currently 4.97%) and by adding expected inflation (3.00%). In addition, the final 7.75 percent assumption reflected a reduction of 0.22 percent for adverse deviation.

The target allocation and expected arithmetic 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 Net Real Rate of Return</u>
Equities		
Large cap domestic	32.0%	5.72%
Small cap domestic	10.0%	5.96%
Developed international	21.0%	6.21%
Emerging markets	6.0%	7.18%
Master limited partnership	5.0%	7.61%
Fixed income		
Domestic	21.0%	1.61%
International	5.0%	1.81%
Total	<u>100.0%</u>	
Weighted average		4.97%

Discount Rate

The discount rate used to measure the total pension liability was 7.75 percent. No projection of cash flows was used to determine the discount rate because the August 31, 2017 actuarial valuation showed that expected contributions would pay the normal cost and amortize the unfunded actuarial accrued liability (UAAL) in 30 years using the conservative level dollar amortization method. Because of the 30-year amortization period with the conservative amortization method and with a lower value of assets, the pension plan's fiduciary net position is expected to be available to make all projected future benefit payments of current active and inactive members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Discount Rate Sensitivity Analysis

The following presents the NPL of the City, calculated using the discount rate of 7.75 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 (6.75%) or one percentage point higher (8.75%) than the current rate:

	<u>1% Decrease in Discount Rate (6.75%)</u>	<u>Discount Rate (7.75%)</u>	<u>1% Increase in Discount Rate (8.75%)</u>
City's proportionate share of the net pension liability	\$ 133,110	\$ 71,280	\$ 32,275

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

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

At August 31, 2017, the City reported a liability of \$71,280 for its proportionate share of the plan's net pension liability. The amount recognized by the City as its proportionate share of the NPL, the related State support, and the total portion of the NPL that was associated with the City were as follows:

City's proportionate share of the collective NPL	\$	71,280
*State's proportionate share that is associated with the City		23,342
Total	\$	94,622

**Calculated using the City's proportionate share of contributions multiplied by the State's share of the collective NPL.*

The TPL used to calculate the NPL was determined by an actuarial valuation as of August 31, 2017. GASB Statement No. 68 requires the NPL to be measured as of a date no earlier than the end of the employer's prior fiscal year. TESRS did not roll forward (nor did they provide the necessary information for the participants to roll forward) the NPL to be measured as of a date no earlier than the end of the City's prior fiscal year. While the City acknowledges that the measurement date does not fall within this 12 month period, the City elected to honor the conservatism principle and report a NPL measured as of August 31, 2017. The City used the assumption that any differences in NPL measured as of August 31, 2017 versus September 30, 2017 would be immaterial. The employer's proportion of the NPL was based on the employer's contributions to the pension plan relative to the contributions of all employers to the plan for the period September 1, 2016 through August 31, 2017.

At August 31, 2017, the employer's proportion of the collective NPL was 0.297 percent, which was a decrease of 0.014 percent from its proportion measured as of August 31, 2016.

There were no changes of assumptions or other inputs that affected measurement of the TPL during the measurement period.

There were no changes of benefit terms that affected measurement of the TPL during the measurement period.

For the year ended August 31, 2017, the City recognized pension expense of \$14,956. The City recognized on-behalf revenues of \$4,704 calculated by taking the State's total contributions to TESRS multiplied by the City's proportionate share.

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

At August 31, 2017, the City reported its proportionate share of the TESRS's deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Net difference between projected and actual investment earnings	\$ 6,647
Changes in assumptions	1,041
Changes in proportion and employer and proportionate share of contributions	76
Contributions paid to TESRS subsequent to the measurement date	13,738
Total	\$ 21,502

The net amounts of the employer's balances of deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Fiscal Years Ended September 30	Pension Expense
2019	\$ 3,354
2020	6,153
2021	(295)
2022	(1,448)
Total	\$ 7,764

3. Aggregate Total Pension Expenses/Expenditures

The City recognized aggregate total pension expenses/expenditures of \$440,222 during the fiscal year ending September 30, 2018 related to the City's TMRS and TESRS pension plans.

D. Other Postemployment Benefits

TMRS Supplemental Death Benefit Fund

Plan Description

The City participates in an OPEB plan administered by TMRS. TMRS administers the defined benefit group-term life insurance plan known as the SDBF. This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. Employers 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 member city contributes to the SDBF at a contractually required rate (based on the covered payroll of employee members) 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. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB 75. As such, the

CITY OF DAYTON, TEXAS
NOTES TO FINANCIAL STATEMENTS (Continued)
For the Year Ended September 30, 2018

SDBF is considered to be a single-employer unfunded OPEB defined benefit plan with benefit payments treated as being equal to the employer's yearly contributions for retirees.

The contributions to the SDBF are pooled for investment purposes with those of the Pension Trust Fund (PTF). The TMRS Act requires the PTF to allocate a five percent interest credit from investment income to the SDBF on an annual basis each December 31 based on the mean balance in the SDBF during the year.

Benefits

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e., no assets are accumulated). Participation in the SDBF as of December 31, 2017 is summarized below:

Inactive employees or beneficiaries currently receiving benefits	29
Inactive employees entitled to, but not yet receiving, benefits	10
Active employees	90
Total	129

Total OPEB Liability

The City's total OPEB liability of \$201,689 was measured as of December 31, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.50%
Salary increases	3.50% to 10.50% including inflation
Discount rate	3.31%*
Retirees' share of benefit-related costs	Zero
Administrative expenses	All administrative expenses are paid through the PTF and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates-service retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% and projects on a fully generational basis with scale BB.
Mortality rates-disabled retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3-year set-forward for both males and females. The rate are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

* The discount rate is based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2017.

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The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period December 31, 2010 to December 31, 2014.

Changes in the Total OPEB Liability

		<u>Total OPEB Liability</u>
Changes for the year:		
Service cost	\$	9,731
Interest		6,621
Changes of assumptions		15,885
Benefit payments*		<u>(1,692)</u>
	Net Changes	30,545
Beginning balance		<u>171,144</u>
	Ending Balance	<u><u>\$ 201,689</u></u>

* Benefit payments are treated as being equal to the employer's yearly contributions for retirees due to the SDBF being considered an unfunded OPEB plan under GASB 75.

There were no changes of assumptions or other inputs that affected measurement of the total OPEB liability during the measurement period.

There were no changes of benefit terms that affected measurement of the total OPEB liability during the measurement period.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current discount rate:

	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase in Discount Rate (4.31%)</u>
City's Total OPEB Liability	<u>\$ 242,412</u>	<u>\$ 201,689</u>	<u>\$ 170,169</u>

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended September 30, 2018, the City recognized OPEB expense of \$19,054. The City reported deferred outflows/inflows of resources related to OPEB from the following sources:

		<u>Deferred Outflows of Resources</u>
Changes in actuarial assumptions	\$	13,182
Contributions subsequent to the measurement date		<u>1,376</u>
	Total	<u><u>\$ 14,558</u></u>

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\$1,376 reported as deferred outflows of resources related to OPEB resulting from contributions subsequent to the measurement date will be recognized as a reduction of the total OPEB liability for the fiscal year ending September 30, 2019.

Amounts reported as deferred outflows/inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year Ended</u> <u>September 30</u>	<u>OPEB Expense</u> <u>Amount</u>
2019	\$ 2,702
2020	2,702
2021	2,702
2022	2,702
2023	2,374
Total	\$ 13,182

E. Deferred Compensation Plan

The City offers its employees a deferred compensation plan (the “Plan”) created in accordance with the Internal Revenue Code Section 457. The Plan, available to all City employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency. The Plan’s trust arrangements are established to protect deferred compensation amounts of employees under the Plan from any other use than intended under the Plan (eventual payments to employees deferring the compensation) in accordance with federal tax laws. Amounts of compensation deferred by employees under Plan provisions are disbursed monthly by the City to a third-party administrator. The third-party administrator handles all funds in the Plan and makes investment decisions and disburses funds to employees in accordance with Plan provisions.

F. Chapter 380 Economic Development Agreement

In November 2014, in accordance with Chapter 380 of the Texas Local Government Code, the City approved an agreement (the “Agreement”) with Jess-John, Inc. (the “Developer”). The Developer plans to construct residential housing that will require the development of infrastructure for City services for the tract of land within the City. The City has agreed to pay the Developer up to one-half of the cost of improvements, not to exceed \$674,530. The City has agreed to make annual payments in an amount equal to the project property tax increment in accordance with the Agreement. The project property tax increment shall consist of the prior year collection of additional real property ad valorem tax revenues by the City from tax accounts location within the tract of land owned by the Developer. The term of this Agreement is 15 years. During the fiscal year ending September 30, 2018, the City made payments of \$33,018 related to this Agreement.

G. Dayton Community Development Corporation Grant Agreements

The Dayton Community Development Corporation (the “Corporation”) entered into a Grant Performance Agreement for Business and Commerce Development (the “Agreement”) with Total Care Dayton, LLC (the “Company”). The Company has agreed to open an urgent care center within the City of Dayton, maintain eight full-time employees, and be open for business six days per week, 12 hours per day. The Corporation has agreed to make total grant payments to the Company of \$250,000 over the five-year term of the Agreement. \$150,000 of the grant funds will be for the reimbursement of medical equipment. The remaining \$100,000 is for rental assistance. In the event

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For the Year Ended September 30, 2018

of default by the Company, the Company must repay all grant payments with interest of ten percent. During the fiscal year ending September 30, 2018, the Corporation made payments of \$160,000 related to this Agreement.

The Corporation entered into another Grant Performance Agreement for Business and Commerce Development (the “Agreement”) with Sumiden Wire Products Corporation (the “Company”). The Company has agreed to commitments of at least \$13,000,000 for the purchase of real estate for, or construction of, a manufacturing facility in the City of Dayton. The Company has also agreed to hire a minimum of 15 full-time employees at a minimum salary specified within the Agreement. The minimum number of employees hired will increase each year over the five-year term of the Agreement. The Corporation has agreed to maximum grant payments of \$643,200 over the term of the Agreement if the Company meets the various conditions noted for each year of the Agreement. In the event of default by the Company, the Company must repay all grant payments with interest of ten percent. During the fiscal year ending September 30, 2018, the Corporation made payments of \$100,000 related to this Agreement.

H. Subsequent Events

Economic Development Agreement

In May 2019, the City entered into a Chapter 380 Economic Development Agreement (the “Agreement”) with Envision Partners, LLC (the “Developer”). The Developer plans to construct a 66-room chain hotel at an estimated cost range of \$2.5 million to \$3.5 million. The City has agreed to rebate the Developer 71.43 percent of the City’s 7 percent share of the Hotel Occupancy Tax revenues generated by the hotel for the first five years that the hotel is in business. This rebate will be capped at \$425,000 over the course of the five-year term. The Developer has agreed to build a minimum of 20 percent of the front façade out of either stone or brick. The Developer also agrees to complete construction of the hotel within 24 months of the execution of the Agreement. The Developer agrees to spend the grant payments in accordance with Chapter 351 of the Texas Tax Code which specifies how Hotel Occupancy Tax revenue may be spent. In the event of default by the Developer, the Developer shall be obligated to immediately repay all funds previously paid by the City with interest at a rate of 10 percent per annum from the date of receipt along with any other costs for collection.

Master Development and Reimbursement Agreement

In December 2018, the City, the City of Dayton Tax Increment Reinvestment Zone No. 1 (the “Zone”), and CMC Railroad, LLC (the “Developer”) entered into a Master Development and Reimbursement Agreement (the “Agreement”) to provide for the financing and construction of public improvements and associated eligible project costs within the Zone. The Zone was created on May 28, 2018. In order to implement certain plans of the Zone, the City intends to enter into purchase contracts for the necessary right of way for the widening and improvements to Stilson Road from two landowners in the estimated amount of \$306,720 plus related survey and closing costs and real estate agent fees. The Developer has agreed to advance funds necessary to pay for the eligible project costs to be reimbursed in accordance with the Agreement. The City will notify the Developer when one or both of the purchase contracts are fully executed, and the Developer will deposit the requisite fund.

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