OFFICIAL STATEMENT
Dated January 21, 2020

NEW ISSUE - BOOK-ENTRY-ONLY

Ratings: Fitch - "A+"
S&P - "A+"
(See "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein)

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

$3,550,000
CITY OF SEGUIN
(A political subdivision of the State of Texas located in Guadalupe County, Texas)
UTILITY SYSTEM REVENUE BONDS, SERIES 2020

Dated Date: January 15, 2020 **Due: February 1, as shown on page -ii- herein**

The City of Seguin, Texas Utility System Revenue Bonds, Series 2020 (the "Bonds") are special obligations payable solely from the net revenues derived by the City of Seguin, Texas (the "City") from its combined electric, water and wastewater system (the "System"). The Bonds, together with certain currently outstanding Previously Issued Bonds and any Additional Parity Bonds hereafter issued, are payable solely from and equally and ratably secured by a first lien on and pledge of the Net Revenues of the System. The Bonds do not constitute general obligations of the City, the State of Texas or any political subdivision of the State of Texas. The holder or owner of the Bonds shall never have the right to demand payment out of funds raised or to be raised from taxation.

Interest on the Bonds will accrue from the Dated Date as shown above, will be payable on February 1 and August 1 of each year, commencing August 1, 2020 until stated maturity or prior redemption, and will be calculated on the basis of a 360-day year of twelve 30-day months. The definitive Bonds 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 Bonds will be made available for purchase in the principal amount of $5,000 or any integral multiple thereof. Purchasers of the Bonds ("Beneficial Owners") will not receive physical delivery of Bonds representing their interest in the Bonds purchased. So long as DTC or its nominee is the registered owner of the Bonds, the principal of and interest on the Bonds will be payable by Zions Bancorporation, National Association, Houston, Texas, as the initial Paying Agent/Registrar, to Cede & Co., 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 Bonds. (See "BOOK -ENTRY-ONLY SYSTEM" herein.)

Proceeds from the sale of the Bonds will be used for (1) constructing, acquiring, purchasing, renovating, enlarging, enlarging, and improving the utility system, (2) purchasing materials, supplies, equipment, machinery, land, and rights-of-way for authorized needs and purposes relating to the utility system improvements, and (3) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "SOURCES AND USES OF FUNDS" and "THE BONDS - Use of Proceeds" herein.)

SEE MATURITY SCHEDULE, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS FOR THE BONDS ON PAGE -ii- HEREOF

The Bonds are offered for delivery when, as and if issued and received by the initial purchasers thereof at a competitive sale (the "Purchasers") pursuant to a competitive sale and are 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. See "LEGAL MATTERS" herein for a discussion of Bond Counsel's opinion. It is expected that the Bonds will be available for delivery through the services of DTC, New York, New York, on or about February 20, 2020.

THE BAKER GROUP

MATURITY SCHEDULE, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS

$3,550,000
CITY OF SEGUIN
(A political subdivision of the State of Texas located in Guadalupe County, Texas)
UTILITY SYSTEM REVENUE BONDS,
SERIES 2020

CUSIP NO. PREFIX[(1)]: 815883

$1,650,000 Serial Bonds

Maturity 2/1	Principal Amount ($)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix[(1)]
2021	245,000	5.000	1.050	NJ8
2022	120,000	5.000	1.080	NK5
2023	120,000	5.000	1.100	NL3
2024	245,000	5.000	1.110	NM1
2025	245,000	5.000	1.150	NN9
2026	245,000	5.000	1.250	NP4
2027	240,000	5.000	1.320	NQ2
2028	190,000	5.000	1.420	NR0

(Accrued Interest to be added from Dated Date)

$1,900,000 Term Bonds

$380,000 - 3.250% - Term Bond Due February 1, 2030 - Priced to Yield 1.800%[(2)] CUSIP No. Suffix NT6[(1)]
$380,000 - 3.500% - Term Bond Due February 1, 2032 - Priced to Yield 2.000%[(2)] CUSIP No. Suffix NV1[(1)]
$380,000 - 3.500% - Term Bond Due February 1, 2034 - Priced to Yield 2.100%[(2)] CUSIP No. Suffix NX7[(1)]
$380,000 - 3.500% - Term Bond Due February 1, 2036 - Priced to Yield 2.250%[(2)] CUSIP No. Suffix NZ2[(1)]
$380,000 - 3.500% - Term Bond Due February 1, 2038 - Priced to Yield 2.350%[(2)] CUSIP No. Suffix PB3[(1)]

(Accrued Interest to be added from the Dated Date)

The City reserves the right to redeem the Bonds maturing on and after February 1, 2030, in whole or in part, in the principal amount 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. In addition, the Bonds maturing on February 1 in each of the years 2030, 2032, 2034, 2036 and 2038 (the "Term Bonds") are also subject to mandatory sinking fund redemption. See "THE BONDS - Redemption Provisions of the Bonds" herein.

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(1) *CUSIP numbers are included solely for the convenience of the owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Markets 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 Purchaser, the City, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.*

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

CITY OF SEGUIN, TEXAS
205 North River Street
Seguin, Texas 78155

CITY COUNCIL

Name	Position	Years of Service	Term Expires November	Occupation
Don Keil[(1)]	Mayor	10	2020	Business Owner
Chris Rangel	Councilperson, District 4	4	2020	Education
Ernest Leal	Councilperson, District 1	8	2020	Business Manager
Jeannette Crabb	Councilperson, District 2	8	2020	Retired
Chris Aviles	Councilperson, District 3	1	2022	Law Enforcement
Jeremy Roy	Councilperson, District 5	1	2022	Clergy
Fonda Mathis	Councilperson, District 6	8	2020	Businesswoman
Penny Wallace	Councilperson, District 7	1	2022	Businesswoman
Mark Herbold	Councilperson, District 8	6	2022	Insurance

(1) Mr. Keil served as a councilmember from 2006 until his election as Mayor in November 2012. Mr. Keil was reelected as Mayor on November 8, 2016 for another 4-year term.

ADMINISTRATION

Name	Position	Length of Service With City
Steve Parker[(1)]	City Manager	1st year
Ricardo Cortes	Assistant City Manager	13 years
Naomi Manski	City Secretary	30 years
Susan Caddell	Director of Finance	29 years
Tracy Stalnaker	Assistant Director of Finance	8 years
Andrew Quittner	City Attorney	10 years

(1) Mr. Steve Parker was appointed as the City Manager on October 29, 2019. Prior to his service with the City, Mr. Parker served as Assistant City Manager for the City of San Marcos, Texas for 10 years. His first day of service with the City was January 6, 2020.

CONSULTANTS AND ADVISORS

Armstrong, Vaughn & Associates, P.C. Universal City, Texas	Auditors
Norton Rose Fulbright US LLP San Antonio, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

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City of Seguin
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USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman, or other person has been authorized by the City to give any information or to make any representation with respect to the Bonds, other than as 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 either of the foregoing.

This Official Statement, which includes the cover page, and appendices hereto, does not constitute an offer to sell or a solicitation of an offer to buy, nor shall there be any sale of the Bonds by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation, or sale. The information set forth herein has been obtained from sources which are believed to be reliable but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Purchasers.

The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder will under any circumstances create any implication that there has been no change in the information or opinions set forth herein after the date of this Official Statement. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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

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

None of the City, the Purchasers, or the Financial Advisor makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System as described herein under the caption "BOOK-ENTRY-ONLY SYSTEM."

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

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

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

OFFICIAL STATEMENT SUMMARY INFORMATION

The following information is qualified in its entirety by more detailed information and financial statements appearing elsewhere in this Official Statement:

THE ISSUER	City of Seguin, Texas (the "City").
THE BONDS...........................	The Bonds are issued as "City of Seguin, Texas Utility System Revenue Bonds, Series 2020." Semi-annual interest payments begin on August 1, 2020 and continue on each February 1 and August 1 thereafter until stated maturity or prior redemption. The Bonds are being issued in the principal amount of $3,550,000. The Bonds will mature on the dates and pay interest at the rates indicated on the inside cover page hereof.
DATED DATE	January 15, 2020.
REDEMPTION	Bonds stated to mature on and after February 1, 2030 are subject to optional redemption, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and, if less than all Bonds within a stated maturity are redeemed, selected by lot by the Paying Agent/Registrar) on February 1, 2028 or any date thereafter, at a price of par (100%) plus accrued interest to the date fixed for redemption. In addition, the Bonds maturing on February 1 in each of the years 2030, 2032, 2034, 2036 and 2038 (the "Term Bonds") are also subject to mandatory sinking fund redemption. (See "THE BONDS - Redemption Provisions of the Bonds.")
SECURITY FOR THE BONDS	The Bonds constitute special obligations of the City and, together with certain currently outstanding Previously Issued Bonds and any Additional Parity Bonds hereafter issued, are payable solely from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the System. (See "THE BONDS - Security for Payment" herein.)
BOOK-ENTRY-ONLY SYSTEM ..	The City intends to utilize the Book-Entry-Only System of The Depository Trust Company, New York, New York relating to the method and timing of payment as to principal and interest of the Bonds and the method of transfer.
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from the gross income of the owners thereof for federal income tax purposes under existing law. (See "TAX MATTERS" and "APPENDIX D - Form of Opinion of Bond Counsel" herein.)
USE OF PROCEEDS	Proceeds from the sale of the Bonds will be used for (1) constructing, acquiring, purchasing, renovating, enlarging, enlarging, and improving the utility system, (2) purchasing materials, supplies, equipment, machinery, land, and rights-of-way for authorized needs and purposes relating to the utility system improvements, and (3) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects. (See "SOURCES AND USES OF FUNDS" and "THE BONDS - Use of Proceeds" herein.)
RATINGS...............................	Fitch Ratings, Inc. ("Fitch") and S&P Global Ratings ("S&P") have assigned their underlying unenhanced ratings of "A+" and "A+," respectively, to the Bonds. See "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein.
FUTURE BOND ISSUES	The City does anticipate issuing additional utility system revenue debt in the next twelve to eighteen months.
CONCURRENT ISSUANCE OF OTHER OBLIGATIONS	Concurrent with the sale and delivery of the Bonds, the City is issuing its Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020 (the "Certificates"). The Certificates sold on January 21, 2020 and will be delivered on or about February 20, 2020. This Official Statement relates only to the sale of the Bonds and not to the Certificates, which are subject to different terms and conditions and secured by separate security. Investors interested in purchasing these other City bonds should refer to the offering document relating thereto and made available by the City in connection with the issuance thereof.

PAYMENT RECORD	The City has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated on or about February 20, 2020.
LEGALITY	The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, as Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

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OFFICIAL STATEMENT

RELATED TO

$3,550,000
CITY OF SEGUIN
(A political subdivision of the State of Texas located in Guadalupe County, Texas)
UTILITY SYSTEM REVENUE BONDS,
SERIES 2020

INTRODUCTION

This Official Statement, which includes the cover page, and the appendices hereto, provides certain information in connection with the issuance by the City of Seguin, Texas (the "City" or the "Issuer") of its Utility System Revenue Bonds, Series 2020 (the "Bonds") in the aggregate principal amount of $3,550,000. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance authorizing the issuance of the Bonds (the "Ordinance") adopted by the City Council on January 21, 2020, except as otherwise indicated herein.

This Official Statement contains descriptions of the Bonds and certain other information about the City and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained upon request from the City and, during the offering period, from the City's Financial Advisor, SAMCO Capital Markets, Inc., 1020 N.E. Loop 410, Suite 640, San Antonio, Texas 78209, upon request by electronic mail or upon payment of reasonable copying, mailing, and handling charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the Official Statement pertaining to the Bonds will be filed by the Purchasers with the Municipal Securities Rulemaking Board through its Electronic Municipal Markets 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 BONDS

Authority for Issuance

The Bonds are being issued by the City under and pursuant to the provisions of the laws of the State of Texas (the "State"), including Chapter 1502, as amended, Texas Government Code, the City's Home Rule Charter, and the Ordinance.

General Description

The Bonds are dated January 15, 2020 (the "Dated Date") and accrue interest from the Dated Date, and such interest shall be payable on February 1 and August 1 in each year, commencing August 1, 2020, until stated maturity or prior redemption. The Bonds will mature on the dates, in the principal amounts and will bear interest at the rates set forth on the inside cover page of this Official Statement.

Interest on the Bonds is payable to the registered owners appearing on the bond registration books of the Paying Agent/Registrar on the Record Date (defined below) and such interest shall be paid by the Paying Agent/Registrar (i) by check sent by United States mail, first class postage prepaid, to the address of the registered owner recorded in the bond register or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. The principal of the Bonds is payable at maturity or redemption, upon their presentation and surrender to the Paying Agent/Registrar. The Bonds will be issued only in fully registered form in any integral multiple of $5,000 principal for any one maturity.

Initially the Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Notwithstanding the foregoing, as long as the Bonds are held in the Book-Entry-Only System, principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Concurrent Issuance of Other Obligations

Concurrent with the sale and delivery of the Bonds, the City is issuing its Combination Tax and Limited Pledge Revenue Certificates of Obligation, Series 2020 (the "Certificates"). The Certificates sold on January 21, 2020 and will be delivered on or about February 20, 2020. This Official Statement relates only to the sale of the Bonds and not to the Certificates, which are subject to different terms and conditions and secured by separate security. Investors interested in purchasing these other City bonds should refer to the offering document relating thereto and made available by the City in connection with the issuance thereof.

Use of Proceeds

Proceeds from the sale of the Bonds will be used for (1) constructing, acquiring, purchasing, renovating, enlarging, enlarging, and improving the utility system, (2) purchasing materials, supplies, equipment, machinery, land, and rights-of-way for authorized needs and purposes relating to the utility system improvements, and (3) the payment of professional services related to the design, construction, project management, and financing of the aforementioned projects.

Security for Payment

The Bonds constitute special obligations of the City and, together with certain currently outstanding Previously Issued Bonds and any Additional Parity Bonds hereafter issued, are payable solely from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues of the System. Net Revenues of the System are defined in the Ordinance to be "Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period."

Maintenance and Operating Expenses are defined in the Ordinance to be all current expenses of operating and maintaining the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair obligations payable from Net Revenues shall be deducted in determining "Net Revenues". Depreciation charges shall not be considered Maintenance and Operating Expenses. Maintenance and Operating Expenses shall include payments under contracts for the purchase of water supply, treatment of sewage or other materials, goods or services for the System to the extent authorized by law and the provisions of such contract. See "Selected Provisions of the Ordinance" in APPENDIX E.

The owners of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation. The Ordinance does not create a lien or mortgage on properties of the System, except for the Net Revenues. See "THE BONDS - Defaults and Remedies" and "APPENDIX E - Selected Provisions of the Ordinance - Security for the Bonds."

Redemption Provisions of the Bonds

Optional Redemption *…* The Bonds stated to mature on and after February 1, 2030 are subject to optional redemption, in whole or in part, in principal amounts of $5,000 or any integral multiple thereof (and if less than all within a stated maturity by lot, selected by the Paying Agent/Registrar), on February 1, 2028 or on any date thereafter, at a price of par plus accrued interest to the date fixed for redemption.

Mandatory Redemption … The Bonds maturing on February 1 in each of the years 2030, 2032, 2034, 2036 and 2038 (the "Term Bond") are subject to mandatory redemption in part prior to maturity at the price of par plus accrued interest to the mandatory redemption date on the dates and in the principal amounts as follows:

Term Bond - 3.25%
Maturing February 1, 2030

Redemption Date (2/1)	Principal Amount($)
2029	190,000
2030*	190,000

Term Bond - 3.50%
Maturing February 1, 2032

Redemption Date (2/1)	Principal Amount($)
2031	190,000
2032*	190,000

Term Bond - 3.50%
Maturing February 1, 2034

Redemption Date (2/1)	Principal Amount($)
2033	190,000
2034*	190,000

Term Bond - 3.50%
Maturing February 1, 2036

Redemption Date (2/1)	Principal Amount($)
2035	190,000
2036*	190,000

Term Bond - 3.50%
Maturing February 1, 2038

Redemption Date (2/1)	Principal Amount($)
2037	190,000
2038*	190,000

* *Stated maturity.*

Approximately forty-five (45) days prior to each mandatory redemption date that a Term Bond is to be mandatorily redeemed, the Paying Agent/Registrar shall select by lot the numbers of the Term Bond within the applicable stated maturity to be redeemed on the next following February 1 from money set aside for that purpose in the Bond Fund maintained for the payment of the Bonds. Any Term Bond not selected for prior redemption shall be paid on the date of its stated maturity.

The principal amount of the Term Bond required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the Issuer, by the principal amount of the Term Bond which, at least fifty (50) days prior to the mandatory redemption date (i) shall have been acquired by the City and delivered to the Paying Agent/Registrar for cancellation, (ii) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the City, or (iii) shall have been redeemed pursuant to the optional redemption provisions described above and not theretofore credited against a mandatory redemption requirement.

Selection of Bonds for Redemption

If less than all of the Bonds are to be redeemed, the City shall determine the amounts and maturities thereof to be redeemed and shall direct the Paying Agent/Registrar to select by lot the Bonds or portions thereof, to be redeemed.

Notice of Redemption

Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books relating to the Bonds kept by the Paying Agent/Registrar (the "Security Register") at the close of business on the business day next preceding the date of mailing such notice. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE.

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

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

Reserve Fund

Subject to the provisions described below, the Ordinance reaffirms the establishment and maintenance of a Reserve Fund for the payment of the principal of and interest on the Bonds Similarly Secured (which includes the Bonds) when money in the Bond Fund maintained for such purposes is insufficient on any payment date. The amount to be accumulated and maintained as a reserve amount (the "Required Reserve") in such Fund shall be equal to the Average Annual Debt Service Requirement of the Bonds Similarly Secured (calculated on a Fiscal Year basis as of the date the last series of Bonds Similarly Secured Outstanding was delivered). Subject to the acquisition of a surety bond policy, if any, beginning on or before the last day of the month next following the month the Bonds are delivered to the purchasers and on or before the last day of each following month until the Required Reserve has been fully accumulated, there shall be deposited into the Reserve Fund from the Net Revenues of the System an amount equal to at least 1/60th of the difference between the Required Reserve and the Current Reserve. After the Required Reserve has been accumulated, monthly deposits to such Fund may be terminated; provided, however, should a deficiency thereafter exist (other than as a result of the issuance of Additional Parity Bonds) in the Required Reserve, the City shall resume monthly deposits to the Reserve Fund calculated to cure the deficiency within 12 months from the date the deficiency occurred. See "APPENDIX E - Selected Provisions of the Ordinance."

Under the Ordinance (and the City ordinances authorizing the other currently-outstanding Bonds Similarly Secured), the City is permitted to fund all or part of the Required Reserve by purchasing an insurance policy that will unconditionally obligate the insurance company to pay all or the applicable part of the Required Reserve covered by such policy.

Provided, however, and notwithstanding the foregoing, the City's obligation to fund the Reserve Fund in an amount equal to the Required Reserve shall be suspended for so long as the Net Revenues for each Fiscal Year are equal to at least 110% of the average annual debt services requirements of all Bonds Similarly Secured at such time outstanding. In the event that the Net Revenues for any two consecutive Fiscal Years are less than 110% (unless such percentage is below 100% in any Fiscal Year, in which case the hereinafter–specified requirements will commence after such Fiscal Year) of the average annual debt service requirements of all Bonds Similarly Secured at such time outstanding, the City will be required to commence making the deposits to the Reserve Fund, as provided above, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve or (ii) the Net Revenues for the Fiscal Year have been equal to not less than 110% of the average annual debt service requirements of all Bonds Similarly Secured at such time outstanding.

When the City's obligation to fund the required reserve is suspended, the City may, at its option withdraw any cash then on deposit in the Reserve Fund and use such funds for any lawful purpose.

Rate Covenant

The City has covenanted in the Ordinance that it will at all times maintain rates and charges for the sale of electric energy, water, wastewater, or other services furnished, provided, and supplied by the System to the City and all other consumers which will be reasonable and nondiscriminatory and which will produce income and revenues sufficient to pay all expenses of maintenance and operation of the System, to produce Net Revenues equal to at least 1.20 times the debt service requirements on all Bonds Similarly Secured outstanding, to establish and maintain all funds and accounts created for the payment and security of the Bonds Similarly Secured, and to pay all other obligations of the System as and when the same become due. The City's rate covenant is consistent with and supported by the relevant Texas statute concerning rate setting for municipally-owned utilities such as the System. Section 1502.057, Texas Government Code provides that the rates charged by encumbered municipal systems, such as the City, must be "at least a sufficient rate to pay all operating, maintenance, depreciation, replacement, improvement and interest charges in connection with the utility system, and for interest and sinking fund sufficient to pay any public securities issued or obligations incurred to acquire, purchase, construct, improve, enlarge, equip, operate or maintain any property, buildings, structures, activities, services, operations, or other facilities with respect to a utility system." This statute could be amended or repealed by the Texas Legislature. See "APPENDIX E - Selected Provisions of the Ordinance."

Selected Provisions of the Ordinance

The Ordinance authorizing the issuance of the Bonds provides, among other things, for the following:

(1) The Bonds Similarly Secured are payable from and secured by a first lien on and a pledge of the Net Revenues of the System.

(2) All income and revenues derived from the operation and ownership of the System is required to be deposited into a Utility System Fund. The first priority on money expended from the Utility System Fund is the payment of all the reasonable expenses of maintenance and operations of the System. The second priority on money expended from the Utility System Fund is the payment of debt service requirements of the Bonds Similarly Secured (including the Bonds) in equal monthly payments to meet the annual principal payment and the semi-annual payments of interest as they come due and the payment of the amounts to be deposited, if any, into the Reserve Fund maintained for the Bonds Similarly Secured to accumulate the Required Reserve. The third priority on money expended from the Utility System Fund is to the payment of other obligations or indebtedness payable from and secured by a lien on and pledge of the Net Revenues of the System that is junior and subordinate to the lien and pledge securing the payment of the Bonds Similarly Secured, including any Inferior Lien Obligations. Any Net Revenues remaining in the Utility System Fund after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used by the City for any purpose now or hereafter permitted by law, including a transfer to the City's general fund as permitted by Chapter 1502, as amended, Texas Government Code.

(3) Among the conditions required to be satisfied for the issuance of additional parity revenue bonds is the requirement that the Net Earnings of the System for the previous fiscal year or for any consecutive twelve month period out of the fifteen months preceding the passage of the ordinance authorizing the issuance of such additional parity revenue bonds, equal (i) 1.40 times the Average Annual Debt Service Requirements of the Bonds Similarly Secured then Outstanding and (ii) 1.10 times the maximum annual debt service to be paid in a Fiscal Year for Bonds Similarly Secured plus the additional parity revenue bonds then being issued.

(4) While the Bonds are Outstanding, rates and charges will be established, revised and modified to provide revenues sufficient to pay the costs of operation and maintenance of the System, and to pay the principal and interest of all of the Bonds Similarly Secured, and subordinate utility system revenue obligations and to maintain the Reserve Funds as provided in their authorizing ordinances.

(5) Insurance coverage on property of the System is to be maintained of a kind and in an amount normally carried by municipalities in Texas operating a similar business or businesses.

See APPENDIX E attached hereto for selected portions of the Ordinance and a more detailed description of covenants, agreements and provisions pertaining to the Bonds and with respect to the System.

Legality

The Bonds are subject to the approval of legality by the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on the Bonds. A form of the legal opinion of Bond Counsel appears in APPENDIX D attached hereto.

Delivery

When issued; anticipated on or about February 20, 2020.

Payment Record

The City has never defaulted with respect to the payment of the principal and interest requirements on any of its bonded indebtedness.

Future Bond Issues

The City does anticipate issuing additional utility system revenue debt in the next twelve to eighteen months. Concurrent with the issuance of the Bonds, the City anticipates issuing the Certificates. See "THE BONDS - Concurrent Issuance of Other Obligations."

Defeasance

Any Bond will be deemed paid and shall no longer be considered to be outstanding within the meaning of the Ordinance when payment of the principal of and interest on such Bond to its stated maturity or redemption date will have been made or will have been provided by depositing with the Paying Agent/Registrar, or an authorized escrow agent, (1) cash in an amount sufficient to make such payment, (2) Government Obligations of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make such payment, or (3) a combination of money and Government Obligations. The foregoing deposits shall be certified by an independent accounting firm, the City's Financial Advisor, the Paying Agent/Registrar, or such other qualified institution as specified in the Ordinance.

The Ordinance provides that "Government Obligations" means (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States of America, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City authorizes the defeasance, 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 Bonds. The City has additionally reserved the right in the Ordinance, subject to satisfying the requires of (1) and (2) above, to substitute other Government Obligations originally deposited, to reinvest the uninvested money on deposit for such defeasance and to withdraw for the benefit of the City money in excess of the amount required for the defeasance. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Obligations, 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 Bonds ("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 Bonds, registered owners of Bonds 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 Bonds shall no longer be regarded to be outstanding or unpaid for purposes of applying any debt limitation on indebtedness or for purposes of taxation. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the City to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

Amendments

The City 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 City may, with the written consent of the holders of a majority in aggregate principal amount of the Bonds then outstanding, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of all of the registered owners of the Bonds then outstanding, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of, or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the percentage of the aggregate principal amount of Bonds required to be held for consent to any amendment, addition, or waiver.

Default and Remedies

If the City defaults in the payment of principal or interest on the Bonds 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 Bonds if there is no other available remedy at law to compel performance of the Bonds or Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The 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. On June 30, 2006, 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 for a second time and issued an opinion on October 5, 2018, clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship.

Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a 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 Bonds. 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, such as the Net Revenues, such provision is subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or 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 Bonds are qualified with respect to the customary rights of debtors relative to their creditors and general principles of equity that permit the exercise of judicial discretion

Perfection of Security for the Bonds

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

No Competition

The ordinances of the City authorizing the currently outstanding Previously Issued Bonds contained a covenant (the "No Competition Covenant") that provides that, to the extent the City legally may, and for so long as any Bonds Similarly Secured or any interest thereon are Outstanding, no franchise shall be granted for the installation or operation of any competing utility system other than that owned by the City, and the operation of any such systems by anyone other than the City is thereby prohibited. However, the City expressly reserves the right to eliminate or modify the No Competition Covenant at its sole discretion for any purpose or in order to comply with then existing federal or Texas law and in order to maximize its flexibility in addressing the City's options to compete in the deregulated electric market under federal and Texas law. The City may exercise its right to eliminate or modify the No Competition Covenant. Such action, however, is not intended to signal that the City intends to open its boundaries to competition, as the City Council has not formally considered taking such action, and the management of the City does not expect that any decision in that respect will be made by the City Council in the immediate future. See "APPENDIX E - Selected Provisions of the Ordinance."

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is Zions Bancorporation, National Association, Houston, Texas. The Bonds 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. If the Bonds are not held in the Book-Entry-Only System, interest on the Bonds 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 on the Record Date (see "REGISTRATION, TRANSFER AND EXCHANGE - Record Date" herein) or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of the registered owner, and principal of the Bonds will be paid to the registered owner at stated maturity or earlier redemption upon presentation to the Paying Agent/Registrar.

Successor Paying Agent/Registrar

The City covenants that until the Bonds are paid it will at all times maintain and provide a Paying Agent/Registrar. 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 by the City shall be a bank, trust company, financial institution or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City will promptly cause a notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

Record Date

The record date ("Record Date") for determining the person entitled to the payment of interest on a Bond is the fifteenth day of the month next preceding each interest payment date.

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

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. Notice of the Special Record Date and of the scheduled payment date of the past due interest (which shall be 15 days after the Special Record Date) must 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 Bond appearing on the 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.

Registration, Transferability and Exchange

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

Limitation on Transferability of Bonds Called for Redemption

Neither the City nor the Paying Agent/Registrar are required (1) to make any transfer or exchange during a period beginning at the opening of business 45 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) to transfer or exchange any Bonds so selected for redemption when such redemption is scheduled to occur within 45 calendar days; provided however, that such limitation of transfer is not applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Replacement Bonds

If any Bond is mutilated, destroyed, stolen or lost, a new Bond of like kind and in the same amount as the Bond so mutilated, destroyed, stolen or lost will be issued. In the case of a mutilated Bond, such new Bond will be delivered only upon surrender and cancellation of such mutilated Bond. In the case of any Bond issued in lieu of and in substitution for a Bond which has been destroyed, stolen, or lost, such new Bond will be delivered only (a) upon filing with the City and the Paying Agent/Registrar evidence satisfactory to establish to the City and the Paying Agent/Registrar that such Bond has been destroyed, stolen or lost and proof of the ownership thereof, and (b) upon furnishing the City and the Paying Agent/Registrar with Bond or indemnity satisfactory to them. The person requesting the authentication and delivery of a new Bond 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

The following describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City, the Financial Advisor and the Purchasers 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 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial

Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, 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 issues, corporate and municipal debt issues, and money market instruments from over 100 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation, and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a S&P Global Ratings rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission (the "SEC"). More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds 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 Bonds are credited on the Record Date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds and principal and interest payments on the Bonds 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 price and 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 (or its nominee), 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 Bonds at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

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

The information in this section concerning DTC and DTC's Book-Entry-Only System has been obtained from sources that the City believes to be reliable, but none of the City, the Financial Advisors, or the Purchasers take responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, 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 will be issued to the respective holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinance and summarized under the caption "REGISTRATION, TRANSFER AND EXCHANGE" above.

SOURCES AND USES OF FUNDS

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

Sources	
Principal	$3,550,000.00
Premium on the Bonds	462,439.85
Accrued Interest	14,393.75
Total Sources	$4,026,833.60
Uses	
Deposit to Project Fund	$3,900,000.00
Deposit to Bond Fund	14,393.75
Purchasers' Discount	33,476.50
Cost of Issuance	77,500.00
Contingency	1,463.35
Total Uses	$4,026,833.60

INVESTMENT POLICIES

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

Legal Investments

Under State law and subject to certain limitations, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations issued and secured by a federal agency or instrumentality of the United States; (4) other obligations unconditionally guaranteed or insured by the State of Texas or the United States or their respective agencies and instrumentalities; (5) "A" or better rated obligations of states, agencies, counties, cities, and other political subdivisions of any state; (6) bonds issued, assumed, or guaranteed by the State of Israel; (7) federally insured interest-bearing bank deposits, brokered pools of such deposits, and collateralized certificates of deposit and share certificates; (8) fully collateralized United States government securities repurchase agreements; (9) one-year or shorter securities lending agreements secured by obligations described in clauses (1) through (7) above or (11) through (14) below or an irrevocable letter of credit issued by an "A" or better rated state or national bank; (10) 270-day or shorter bankers' acceptances, if the short-term obligations of the accepting bank or its holding company are rated at least "A-1" or "P-1"; (11) commercial paper rated at least "A-1" or "P-1"; (12) SEC-registered no-load money market mutual funds that are subject to SEC Rule 2a-7; (13) SEC-registered no-load mutual funds that have an average weighted maturity of less than two years; (14) "AAA" or "AAAm"-rated investment pools that invest solely in investments described above; and (15) in the case of bond proceeds, guaranteed investment contracts that are secured by obligations described in clauses (1) through (7) above and, except for debt service funds and reserves, have a term of 5 years or less.

The City may not, however, invest in (1) interest only obligations, or non-interest bearing principal obligations, stripped from mortgage-backed securities; (2) collateralized mortgage obligations that have a remaining term that exceeds 10 years; and (3) collateralized mortgage obligations that bear interest at an index rate that adjusts opposite to the changes in a market index. In addition, the City may not invest more than 15% of its monthly average fund balance (excluding bond proceeds and debt service funds and reserves) in mutual funds described in clause (13) above or make an investment in any mutual fund that exceeds 10% of the fund's total assets.

Except as stated above or inconsistent with its investment policy, the City may invest in obligations of any duration without regard to their credit rating, if any. If an obligation ceases to qualify as an eligible investment after it has been purchased, the City is not required to liquidate the investment unless it no longer carries a required rating, in which case the City is required to take prudent measures to liquidate the investment that are consistent with its investment policy.

Current Investments*

As of January 1, 2020, the following percentages of the City's investable funds were invested as indicated below:

Category of Investments	Amount	Percentage	Term of Investments
Depository Bank - Cash	$ 3,941,864	4.66%	N/A
Money Market Fund	265,211	.31%	N/A
Investment Pools	78,086,090	92.24%	N/A
US Treasuries/Agencies	2,360,000	2.79%	7-8 months remaining
Total	$84,653,165	100.00%	

* *Unaudited.*

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

PENSION FUND AND OTHER POST-EMPLOYMENT BENEFITS

In June 1999, the Governmental Accounting Standards Board issued Statement No. 34, "Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments." The objective of this Statement is to enhance the clarity and usefulness of the general-purpose external financial reports of state and local governments to the citizenry, legislative and oversight bodies, and investors and creditors. The City implemented GASB 34 for its fiscal year ending September 30, 2003. While adoption of this Statement altered the presentation of some financial information, there was no material adverse impact to the City's financial position, results of operation, or cash flows. See Note J - Employees' Retirement Systems in the Notes to Basic Financial Statements September 30, 2018 included in "APPENDIX C - Audited Financial Statements."

The City provides certain other post-retirement benefits to retired employees and their dependents that fall within the scope of Governmental Accounting Standards Board's Statement of General Accounting Standards No. 45 ("GASB 45"), Accounting by Employers for Other Post-Employment Benefits ("OPEB").

GASB 45, which sets forth standards for the measurement, recognition, and display of post-employment benefits other than pensions (such as health and life insurance for current and future retirees), applies to the City and requires implementation by the City for the fiscal year that began October 1, 2009. GASB 45 requires the City to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting over the working lifetime of the employees; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, the future costs of those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The employer's contributions to

OPEB costs that are less than an actuarially determined annual required contribution will result in a net OPEB cost, which under GASB 45 must be recorded as a liability in the employer's financial statements.

During fiscal year 2009, the City implemented GASB 45. See Note K - Post Employment Benefits Other Than Pensions - Retiree Health Benefits in the Notes to Basic Financial Statements September 30, 2018 included in "APPENDIX C - Excerpts from the City of Seguin Audited Financial Statement."

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, Bond Counsel, to the effect that interest on the Bonds for federal income tax purposes (1) is excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, 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 appears as APPENDIX D hereto.

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

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

Tax Changes

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

Ancillary Tax Consequences

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

Tax Accounting Treatment of Discount Bonds

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

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

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

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

Tax Accounting Treatment of Premium Bonds

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

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

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreements for the benefit of the holders and Beneficial Owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. 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 MSRB. The information provided to the MSRB through EMMA is available free of charge at www.emma.msrb.org.

Annual Reports

Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City 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 maintain each audit report within 180 days after the close of the City’s fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City'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 City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated with respect to the City includes all quantitative financial information and operating data of the general type included in this Official Statement. The information is of the type included in APPENDIX A and in APPENDIX C. The City will update and provide this information within six months after the end of each of its fiscal years ending in and after 2019.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12. The updated information will include audited financial statements, if it commissions an audit and the audit is completed by the required time. If audited financial statements are not provided with annual information, the City will provide unaudited financial statements at such time and later provide audited financial statements when and if the audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX C or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

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

Notice of Certain Events

The City will file with the MSRB notice of any of the following events with respect to the Bonds in a timely manner (and not more than 10 business days after occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the 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 a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional Paying Agent/Registrar or the change of name of a Paying Agent/Registrar, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any 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 Financial Obligation of the City; any of which reflect financial difficulties. In the Ordinance, the City adopted policies and procedures to ensure timely compliance of its continuing disclosure undertakings. Neither the Bonds nor the Ordinance make any provision for 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.

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.

Availability of Information from MSRB

All information and documentation filing required to be made by the City in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public, by the MSRB.

Limitations and Amendments

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or Beneficial Owners of Bonds 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 (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the Beneficial Owners of the Bonds. The City may also repeal or amend these provisions if the SEC amends or repeals the applicable provisions of the Rule or any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds giving effect to (a) such provisions as so amended and (b) any amendments or interpretations of the Rule. If the 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.

Compliance with Prior Undertakings

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

S&P (defined herein) provides ratings on the Bonds Similarly Secured (see "OTHER PERTINENT INFORMATION - Municipal Bond Ratings"). On December 13, 2011, as part of a routine surveillance, S&P upgraded the underlying ratings on the then-outstanding Bonds Similarly Secured from “A-” to “A”. On November 25, 2014, S&P again upgraded the underlying ratings on the then-outstanding Bonds Similarly Secured from “A” to “A+”. On November 26, 2014, the City filed notice of the second credit rating upgrade with the MSRB (the “MSRB”) through EMMA; the City, however, did not file notice of the first upgrade. The City filed notice of the first credit rating upgrade applicable to the Bonds Similarly Secured that remain outstanding, as well as notice of its initial failure to timely file notice of the same, with the MSRB through EMMA on January 26, 2016.

The City has outstanding multiple series of obligations whose repayment is guaranteed pursuant to bond insurance policies issued by various monoline bond insurance companies including Syncora Guarantee Inc. (formerly XL Capital Assurance Inc.) and Assured Guaranty Municipal Corp. (formerly Financial Security Assurance). Beginning in 2008, the ratings on municipal bond insurers were downgraded or withdrawn with frequency; more recently, certain of these insurers have been upgraded. The City’s continuing disclosure undertakings made in accordance with the Rule with respect to these insured series of obligations require that notice of rating changes be given only if such change was material within the meaning of federal securities laws. Information about these rating actions was widely and publicly reported, particularly throughout the municipal bond industry. The City is of the position that because the occurrence of these events was widely reported or known, their occurrence was, therefore, not material within the meaning of federal securities laws. Nevertheless, the City has, as of November 25, 2014, filed a notice with EMMA indicating the current enhanced ratings on its outstanding and insured indebtedness. That notice was, however, filed under the wrong CUSIP number (filed under the CUSIP number for the City's general obligation debt). It has since been filed under the correct CUSIP number as of January 12, 2016 and is available through EMMA.

In 2010, the City issued utility system revenue bonds and in connection with such issuance committed to annually provide a table illustrating debt service requirements for the Schertz/Seguin Local Government Corporation’s contract revenue bonds. The City has inadvertently omitted such table from its annual filings; however, such table has been provided annually in the disclosure of the Schertz/Seguin Local Government Corporation and in other debt offering documents of the City. The City has filed such table as an amendment to its 2019 annual filing and will hereafter include such table in its annual filings.

LEGAL MATTERS

Legal matters incident to the authorization, issuance and sale of the Bonds are subject to the unqualified approval of the Attorney General of the State of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP (“Bond Counsel”). Though it represents the Financial Advisor and Purchasers from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of this Official Statement except as hereinafter noted and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein, except that, in their capacity as Bond Counsel, such firm has reviewed the information under the captions “THE BONDS” (except under the subcaptions “Use of Proceeds”, “Delivery”, “Payment Record”, “Future Bond Issues”, “Default and Remedies”, and “Perfection of Security for the Bonds” as to which no opinion is expressed), “REGISTRATION, TRANSFER, AND EXCHANGE”, “TAX MATTERS”, “CONTINUING DISCLOSURE OF INFORMATION” (except matters discussed under the subcaption “Compliance with Prior Undertakings”, as to which no opinion is expressed), and information under the captions “LEGAL MATTERS”, “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS”, and the subcaption “Registration and Qualification of Bonds for Sale” under the heading “OTHER PERTINENT INFORMATION”, and the information set forth in “Appendix E - Selected Provisions of the Ordinance”, in this Official Statement, and such firm is of the opinion that the information relating to the Bonds, the Ordinance and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and the legal issues addressed therein and, with respect to the Bonds, such information conforms to the Ordinance. The legal fees to be paid to Bond Counsel in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on definitive bonds in the event of discontinuance of the Book-Entry-Only System.

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

LITIGATION

In the opinion of certain officials of the City, the City is not a party to any litigation or other proceedings pending or, to its knowledge, threatened, in any court, agency or other administrative body (either state or federal), which, if decided adversely to the City, would have a material adverse effect on the financial statements of the City. The City Attorney, however, provides the following disclosure:

The Lower Colorado River Authority v. The City of Seguin, on Appeal to the Texas Supreme Court from the 261st Judicial District Court, Travis County, Texas, Trial Court No. D-1-GN-12-2156 (District Court).

The Lower Colorado River Authority (LCRA) provided electric power to the City of Seguin Utilities (City) for several decades under a Wholesale Power Agreement (WPA) entered into by and between the City of Seguin and the LCRA. The WPA was set to terminate in 2016 and the City was required to give its renewal notice in 2011. The City properly and timely filed its notice of intent not to renew the WPA. Shortly thereafter, the LCRA allegedly began breaching various terms of the WPA.

As required by the WPA, the City gave notice of this breach and instituted the LCRA's contractually required time to cure such breach. Instead of attempting to cure the breach, the LCRA filed a lawsuit against the City seeking a declaratory judgment confirming that it had neither breached the WPA nor violated its enabling legislation. After the time to cure had elapsed, the City believes it properly terminated the WPA under its terms and conditions. The LCRA then amended its petition to include a claim for breach of contract and damages. The City halted the litigation by filing a plea to the jurisdiction, asserting governmental immunity as to LCRA's declaratory judgment claims, and as to LCRA's extra-contractual and collateral damage claims. The District Court denied the City's plea to the jurisdiction.

The City filed an appeal to the District Court decision in the Third Court of Appeals in Austin. The City argued that the District Court erred in determining that a bifurcation in contract law exists and that Texas Local Government Code Section 271.152 (which would act as a legislative waiver of the defense of sovereign immunity in certain contract cases) does not apply because the City was engaged in a proprietary function when it entered into and agreed to the contract with LCRA. In spite of a contrary ruling by the Fourth Court of Appeals in San Antonio, the Third Court of Appeals affirmed the judgment of the District Court. The City appealed the Third Court's judgment to the Texas Supreme Court. In a parallel case essentially over the identical contract (*The Lower Colorado River Authority v. City of Boerne*) the Fourth Court of Appeals in San Antonio held that the City of Boerne was immune from suit by LCRA. LCRA appealed the *City of Boerne* case to the Texas Supreme Court. Since the issues and facts are identical, the City's appeal was consolidated for briefing purposes with LCRA's appeal of the Fourth Court of Appeals decision in the *City of Boerne* case. As a matter of conservative fiscal policy and to protect its ratepayers in the event that the LCRA obtained a favorable judgment, the City elected to set aside funds equal to the differential between the cost of power under the terminated WPA and the monthly amount currently paid by the City under its wholesale power contract.
In December 2014, LCRA and the City agreed to settle the claim against the City, and the case has been dismissed with no City liability due to LCRA. The funds set aside by the City had, by the time of settlement, accrued to $4,616,322. This accrued liability was closed, which resulted in an increase in the City's net position.

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Securities Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency. See "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least $1 million of capital, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

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 Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

OTHER PERTINENT INFORMATION

Authenticity of Financial Data and Other Information

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

Municipal Bond Ratings

Fitch Ratings, Inc. ("Fitch") and S&P Global Ratings ("S&P") have assigned their underlying unenhanced ratings of "A+" and "A+," respectively, to the Bonds.

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

Registration and Qualification of Bonds for Sale

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

It is the obligation of the Purchasers to register or qualify the sale of the Bonds under the securities laws of any jurisdiction which so requires. The City agrees to cooperate, at the Purchasers' written request and sole expense, in registering or qualifying the Bonds 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 or special consent to service of process in any jurisdiction.

Forward-Looking Statements Disclaimer

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 discussed in such forward-looking statements.

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

Financial Advisor

SAMCO Capital Markets, Inc. (the “Financial Advisor”) is employed as the Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. In the normal course of business, the Financial Advisor may also from time to time sell investment securities to the City for the investment of bond proceeds or other funds of the City upon the request of the City. SAMCO Capital Markets, Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the bond documentation with respect to the federal income tax status of the Bonds.

Initial Purchaser

After requesting bids for the Bonds, the City accepted the bid of The Baker Group LP (the “Purchasers”) to purchase the Bonds at the interest rates shown on page ii of the Official Statement at a price of $3,978,963.35, which is inclusive of a Purchasers’ discount of $33,476.50, plus accrued interest from their dated date through their date of initial delivery. The City can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Purchasers. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the responsibility of the Purchasers.

Certification of the Official Statement

At the time of payment for and delivery of the Bonds, the Purchasers will be furnished a certificate, executed by proper officers, acting in their official capacity, to the effect that to the best of their knowledge and belief: (a) the description and statements of or pertaining to the City contained in its Official Statement, and any addenda, supplement or amendment thereto, on the date of such Official Statement and the receipt of bids for the Bonds, and on the date of the initial delivery of the Bonds, 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 circumstances under which they are made, not misleading; (c) insofar as the description 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 that the City has no reason to believe that they are untrue in any material respect; and (d) there has been no material adverse change in the financial condition of the City since September 30, 2017, the date of the last audited financial statements of the City.

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.

Authorization of the Official 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 has been approved by the City Council of the City for distribution in accordance with provisions of the United States Securities and Exchange Commission’s rule codified at 17 C.F.R. Section 240.15c-12, as amended.

The Ordinance also approved the form and content of this Official Statement and any addenda, supplement or amendment thereto and authorized its further use in the reoffering of the Bonds by the Purchasers.

CITY OF SEGUIN, TEXAS

/s/ Don Keil
Mayor

ATTEST:

/s/ Naomi Manski
City Secretary

APPENDIX A

Utility System Bonded Indebtedness, Description of Utility System, and Rate Schedules

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UTILITY DEBT STATEMENT

Utility System Revenue Debt Outstanding [a]	Original Amount	Outstanding At 1-01-20
Series dated 12-01-2014	21,045,000	$20,225,000
Series dated 01-15-2016	4,430,000	4,130,000
Series dated 02-01-2017	8,415,000	8,035,000
Series dated 05-15-2018	9,950,000	9,775,000
Series dated 01-15-2020 (the "Bonds")	3,550,000	3,550,000
Total		$45,715,000
Less Utility System Restricted Debt Service (at 01/01/20)		1,851,101
Net Utility System Revenue Indebtedness		$43,863,899

[a] *These issues are paid from the combined revenues of the City's electric, water, and wastewater systems.*

UTILITY SYSTEM CUSTOMER COUNT

Customer Count:	2018-19	2017-18	2016-17	2015-16	2014-15
Electric	8,564	8,549	8,538	8,438	8,500
Water	7,527	7,516	7,511	7,298	7,257
Wastewater	7,092	7,204	6,809	6,770	6,415

FIVE-YEAR CONSOLIDATED OPERATING STATEMENT SHOWING COMBINED EARNINGS OF CITY'S ELECTRIC, WATER AND SEWER SYSTEM AND APPLICATION OF NET EARNINGS FOR PAYMENT OF INDEBTEDNESS

Fiscal Year Ending	**9-30-2019***	**9-30-2018**	**9-30-2017**	**9-30-2016**	**9-30-2015**
Income:	$54,661,855	$53,025,594	$50,369,518	$46,694,348	$42,679,943
Expenses:					
Power Purchased	16,915, 273	16,970,475	18,351,972	16,367,503	17,997,644
Other	29,967,329	24,142,389	23,355,181	21,986,954	19,834,315
Total Expenses	$46,882,602	$41,112,864	$41,707,153	$38,354,457	$37,931,959
Net Revenue Available for Debt Service	$ 7,779,253	$11,912,730	$ 8,662,365	$ 8,339,891	$ 4,747,984
Annual Requirement Prior Lien Debt	$ 2, 609,069	$ 2,260,175	$ 1,761,445	$ 1,881,744	$ 1,613,175
Coverage of Outstanding Annual Requirement for Prior Lien Debt	2.98x	5.27x	4.92x	4.43%	2.94x

Source: City's audited financial statements and City Officials.
* *FYE 2019 information is unaudited.*

COVERAGE

Debt service coverage, including the Bonds, based upon the net revenues shown above, using requirements as shown below are as follows:

Average Annual Debt Service Requirement of all Debt Paid from Utility System Revenue 2020-2038	$3,421,978
Coverage by 2019 Net Revenues	2.27x
Maximum Debt Service Requirement (2033)	$4,280,909
Coverage by 2019 Net Revenues	1.82x

UTILITY SYSTEM REVENUE BONDS
CONSOLIDATED DEBT REQUIREMENT SCHEDULE

		The Bonds at Actual Rates				
Fiscal Year 09/30	Outstanding Debt Service Requirements	Principal Due 2/01	Interest Due 2/01	Interest Due 8/01	Total New Debt	Total All Debt Requirements
2020	$ 2,422,693.75			$ 80,605.00	$ 80,605.00	$ 2,503,298.75
2021	2,474,193.75	$ 245,000.00	$ 74,025.00	67,900.00	386,925.00	2,861,118.75
2022	2,492,993.75	120,000.00	67,900.00	64,900.00	252,800.00	2,745,793.75
2023	2,529,018.75	120,000.00	64,900.00	61,900.00	246,800.00	2,775,818.75
2024	2,500,468.75	245,000.00	61,900.00	55,775.00	362,675.00	2,863,143.75
2025	2,720,168.75	245,000.00	55,775.00	49,650.00	350,425.00	3,070,593.75
2026	2,744,268.75	245,000.00	49,650.00	43,525.00	338,175.00	3,082,443.75
2027	2,883,893.75	240,000.00	43,525.00	37,525.00	321,050.00	3,204,943.75
2028	2,874,306.25	190,000.00	37,525.00	32,775.00	260,300.00	3,134,606.25
2029	2,876,943.75	190,000.00	32,775.00	29,687.50	252,462.50	3,129,406.25
2030	2,921,993.75	190,000.00	29,687.50	26,600.00	246,287.50	3,168,281.25
2031	2,981,203.13	190,000.00	26,600.00	23,275.00	239,875.00	3,221,078.13
2032	4,045,996.88	190,000.00	23,275.00	19,950.00	233,225.00	4,279,221.88
2033	4,054,334.38	190,000.00	19,950.00	16,625.00	226,575.00	4,280,909.38
2034	4,051,153.13	190,000.00	16,625.00	13,300.00	219,925.00	4,271,078.13
2035	4,055,878.00	190,000.00	13,300.00	9,975.00	213,275.00	4,269,153.00
2036	4,060,527.50	190,000.00	9,975.00	6,650.00	206,625.00	4,267,152.50
2037	4,055,398.75	190,000.00	6,650.00	3,325.00	199,975.00	4,255,373.75
2038	3,440,840.00	190,000.00	3,325.00	-	193,325.00	3,634,165.00
	$60,186,275.52	$3,550,000.00	$637,362.50	$643,942.50	$4,831,305.00	$65, 017,580.52

DESCRIPTION OF THE UTILITY SYSTEM

The complete management and control of the City of Seguin Utilities (the "CSU") is the responsibility of the City Council. The City Council consists of a Mayor and eight Council members elected by district for staggered four year terms. The approval of the policies governing the CSU by the City Council is pursuant to the authority granted by the statutes of the State of Texas and by the Home Rule Charter of the City (the "Charter"). The City Council appoints a City Manager who services as the Chief Executive Officer. The overall management of the CSU is the responsibility of the City Manager and the day-to-day management of the CSU is the responsibility of the Director of Utilities appointed by the City Manager.

The CSU is a municipally owned utility providing electric, water, and wastewater services to a population of 26,660 in a 31.26 square mile area in the City. The service territory is completely within Guadalupe County. Brief biographical data on the key members of the senior management staff of the City and detailed descriptions of the individual systems and rate schedules follows.

Steve Parker - City Manager

Mr. Parker graduated with a Bachelor of Business Administration degree in Accounting from Texas State University. He was hired as City Manager by the City Council on October 29, 2019. Prior to coming to the City, Mr. Parker served the City of San Marcos, Texas as Assistant Director of Finance, Director of Finance, and, most recently, Assistant City Manager/Chief Financial Officer. He is also a member of the Government Finance Officers Association of Texas, the International City Manager's Association, and the Texas City Manager's Association, and served on the Alliance Regional Water Authority Board of Directors.

Susan Caddell - Director of Finance

Ms. Caddell graduated with a Bachelor in Arts Degree in Business Administration with a specialization in Accounting from Texas Lutheran College in 1987. She was appointed at her current position in September 1997. She previously served as Assistant Director of Finance for the City for seven years. Prior to coming to the City, she worked for a local accounting firm specializing in income tax preparation, bookkeeping and audits of school districts and municipalities.

Naomi Manski – City Secretary

Ms. Manski was appointed as City Secretary on October 1, 2017. Ms. Manski has twenty-seven years of employment with the City of Seguin with twelve of those years as Assistant to the City Manager. She has been recognized as Employee of the Month, served on several task force groups, and is the secretary for the Geronimo Lions Club. Ms. Manski attended Amarillo College for two years studying business/bookkeeping prior to moving to South Texas.

THE ELECTRIC SYSTEM

The City serves 8,568 electric meters while supplying a total energy requirement of 322,490,557 kwh and a peak system demand of 70.93 MW. Sales of electricity to individual City electric customers are made in accordance with one of five consumer rate classifications.

The residential customer classification includes service to 7,147 single family residential consumers where all energy is taken through a single meter, as well as domestic use multiple dwelling units individually metered.

The small commercial classification includes all commercial customers having peak demands no greater than 25 kilowatts. This class currently has 1,011 accounts.

The medium commercial and industrial category included service to all large power customers whose monthly peak demand is between 25 and 500 kilowatts. The number of customers in this classification is 396 meters. This growth trend is expected to continue in light of the City's ongoing efforts to attract outside concerns and the anticipation of continued development in the industrial parks.

The large commercial and industrial classification is comprised of all electric customers whose peak demand is equal to or exceeds 500 kilowatts. At present, this class includes 14 accounts. Additional customers are anticipated as the industrial parks continue to grow.

The energy requirements of the City are supplied through three delivery points; these include the Lower Colorado River Authority's (the "LCRA") Seguin, Cushman and Seguin West Substations. Together, these three substations supply all of the City's energy requirements. Currently CPS Energy supplies 100% of the City's wholesale electric power needs through 2023, with an option for an additional three years.

The present installed capacity of the LCRA Seguin Substations is 120 MVA, Seguin Substation has a capacity of 50MVA and is supplied by one 12/16/20 MVA transformer and one 18/24/30 MVA transformer. Cushman Substation has a capacity of 40 MVA, and is supplied by two 12/16/20 MVA transformers. Seguin West Substation has a capacity of 60 MVA and is supplied by two 18/24/30 MVA transformers. The measured peak demand for the summer of 2018 on the Seguin T-4, Seguin T-5, and Cushman T-1, Cushman T-2 substation and Seguin West substation transformers were 10.65MVA, 17.12MVA, 12.37MVA, 7.60MVA and 21.23MVA, respectively.

The City's electric system is currently served by 17 distribution feeder circuits to be increased to 24 in the year 2021. The distribution system is comprised of 125 miles of overhead distribution line to include single phase, two phase and three phase. The City also has 30 miles of underground distribution lines to include three-phase, two-phase, single-phase, and underground.

UTILITY RATE REGULATION

Generally

Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility ("IOU"). Since the electric deregulation aspects of SB 7 became effective on January 1, 2002, the PUCT's jurisdiction over electric IOUs primarily encompasses only the transmission and distribution functions. PURA generally excludes municipally-owned utilities ("Municipal Utilities" or "MOUs"), such as the System, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates. Under the PURA, a municipal governing body or the body vested with the power to manage and operate a Municipal Utility, such as the System, has exclusive jurisdiction to set rates applicable to all services provided by the Municipal Utility with the exception of electric wholesale transmission activities and rates. Unless and until the City Council choose to opt-in to electric retail competition, or the Texas Legislature forces the System into electric retail competition, the System's retail service electric rates are subject to appellate, but not original rate regulatory jurisdiction by the PUCT in areas that the System serves outside the City limits. To date, no such appeal to the PUCT of the System's retail electric rates has ever been filed. The System is not subject to the annual PUCT gross receipts fee payable by IOU electric utilities.

The City has covenanted and is obligated under the ordinances authorizing its System indebtedness to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the System and to pay the debt service requirements on all revenue debt of the System and to make all other payments prescribed in the respective bond ordinances relating thereto.

Governmentally Imposed Fees, Taxes or Payments

System retail rates, as previously approved by various rate ordinances adopted by the City Council, may be adjusted without further action by the City Council to reflect the increase or decrease of fees, taxes or other required payments to governmental entities or for governmental or municipal purposes which may be hereafter assessed, imposed, or otherwise required and which are payable out of or are based upon Net Revenues of the System.

In March 2000, two new governmental assessments resulting from regulatory changes in the Texas electric utility industry, including the open access wholesale transmission charges, were added to the City's electric billings as regulatory adjustments and are updated annually or as needed. The first assessment recovers additional ERCOT-related transmission expenditures not recovered through the System's current base rates. For residential System customer rates, this adjustment (effective September 2006) currently adds an additional $0.00154 per kWh sold. The second assessment relates to the System's share of the cost to fund the staffing and operation of the Independent System Operator ("ISO") for ERCOT, the implementation of the nodal market within ERCOT, as well as other market-related costs due to congestion and voltage reliability issues. The PUCT retains oversight authority over ERCOT. For residential System customers, this charge increases bills by an additional $0.00059 per kWh sold.

Transmission Access and Rate Regulation

Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), Municipal Utilities, including the System, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over Municipal Utilities for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method, which sets the price for transmission at the system average for ERCOT. The System's wholesale open access transmission charges are set out in tariffs filed with the PUCT, and are based on its transmission cost of service approved by the PUCT, representing the System's input to the statewide postage stamp pricing model. The PUCT's rule, consistent with provisions in PURA § 35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities to facilitate wholesale transmission service. Additional information on recovery of ERCOT transmission fees is discussed in "Governmentally Imposed Fees, Taxes or Payments".

The Electric Utility Industry Generally

The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact the business affairs, financial condition and competitiveness of an electric utility, and the level of utilization of generating facilities, such as those of the System. One of the most significant of these factors has been the effort on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level.

Such factors include, among others, (i) effects of compliance with rapidly changing cyber, environmental, safety, licensing, regulatory, and legislative requirements; (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (iii) changes that might result from a national energy policy; (iv) increased competition from independent power producers; (v) "self-generation" by certain industrial and commercial customers; (vi) issues relating to the ability to issue tax-exempt obligations; (vii) severe restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations; (viii) changes from previously projected future electricity requirements; (ix) increases in costs; (x) shifts in the availability, intermittency and relative costs of different fuels; (xi) management and integration of renewable generation and storage systems into the supply portfolio; and (xii) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways. The City cannot predict what future effects these factors may or will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of several factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is available from sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

Federal Energy Policy

Since taking office in January 2017, President Donald Trump's administration has sought regulatory reforms of the Obama administration's policies that are expected to have an impact on federal energy policies. Specifically, President Trump vowed to drastically alter the country's direction on climate and energy policy. His promises include actions such as withdrawing from the Paris Agreement and dismantling the EPA as well as repealing restrictions on domestic energy development. In addition, on February 28, 2019, Deputy Administrator Andrew Wheeler was appointed Administrator and confirmed by the U.S. Senate.

On August 21, 2018, the EPA proposed the ACE rule which would establish emission guidelines for states to develop plans to address GHG emissions from existing coal-fired power plants. The ACE rule will replace the CPP, which the EPA intends to repeal based on the rationale that it exceeded the EPA's authority. The CPP was stayed by the Supreme Court and has never gone into effect.

The ACE rule has several components: a determination of the BSER for GHG emissions from coal-fired power plants, a list of "candidate technologies" states can use when developing their plans, a new preliminary applicability test for determining whether a physical or operational change made to a power plant may be a "major modification" triggering new source review, and new implementing regulations for emission guidelines under Clean Air Act section 111(d). The EPA received comments through October 31, 2018. In October 2018, the EPA announced a five-month delay for release of changes to the Clean Air Act's new source review program. In mid-November 2018, the EPA further modified its interpretation of the new source review program as it relates to project aggregation, which includes a determination as to whether a number of smaller, but related, projects within a facility must be aggregated for the purposes of determining whether emission increases from a project are significant.

The EPA issued the final ACE rule on June 19, 2019 with an effective date of September 6, 2019. The final ACE rule includes three actions: (1) the repeal the CPP; (2) the promulgation of a new set of emission guidelines for regulations of GHG emissions under section 111(d) of the Clean Air Act; and (3) the promulgation of amended section 111(d) implementation regulations governing submission and review of state plans under these and future emission guidelines. The ACE rule grants authority to the states in setting performance standards on a case-by-case review of existing coal-fired power plants. EPA provides states with a list of "candidate technologies" that can be used to establish standards of performance for CO2 emissions and incorporate into their state plans. The ACE rule defined the BSER for CO2 emissions from an existing power plant is by HRIs.

The EPA's regulatory impact analysis for this proposal includes a variety of scenarios. These scenarios are illustrative because the proposed statute gives states the flexibility needed to consider unit-specific factors, including a particular unit's remaining useful life, when it comes to standards of performance. President Trump announced on June 1, 2017 that the United States would withdraw from the international climate accord that was reached in Paris, France, in 2015. In the announcement, President Trump said the Paris agreement "is unfair to the U.S. in a number of ways, explaining that nations such as China and India will have fewer restrictions on using coal to produce energy than would be imposed on the United States." He said the accord "is less about the climate and more about other countries getting a financial advantage over the U.S."

On December 16, 2016, former President Obama signed into law the Water Infrastructure Improvements for the Nation Act ("WIIN Act"), which included industry-supported coal ash legislation and funding for water improvements. The WIIN Act was the product of bipartisan negotiations, and it includes the Water Resources Development Act ("WRDA") of 2016. Under the new law, the Resource Conservation and Recovery Act ("RCRA") is amended to allow states to design a coal ash permit program that will then be approved by the EPA. If states do not design a coal ash permit program, the federal coal ash rule remains in effect.

In 2013, President Obama issued an Executive Order "Improving Critical Infrastructure Cybersecurity", to develop a voluntary risk- based cybersecurity framework. The National Institute of Standards and Technology ("NIST") framework (the "Framework") was finalized and released in mid-February 2014. The Framework is designed to be a living document and continual updates occur concerning its development. The Framework covers 16 sectors and the portion pertaining to the energy sector will be implemented by the DOE. Compliance is voluntary. The DOE continues to explore methods to encourage compliance, such as possibly issuing grants. In an update provided July 1, 2015, NIST has engaged in education and outreach efforts, as well as a campaign to clarify and highlight guides consistent with the Framework. On December 11, 2015, NIST issued an additional request for information on its "Views on the Framework for Improving Critical Infrastructure Cybersecurity", to receive feedback. NIST released an analysis of the responses received to this request on March 24, 2016, and circulated an updated draft version refining, clarifying, and enhancing the Framework on January 10, 2017. NIST released a second draft of the updated Framework in late 2017, and public comments were due January 19, 2018. NIST released the new Framework on April 16, 2018. Pursuant to an executive order issued by President Trump on May 11, 2017, entitled "Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure", all federal agencies are required to use the Framework to manage cybersecurity risks. In July 2019, NIST published its "Smart Grid Profile", which applies risk management strategies from the Framework to the smart grid. The Congress continues to make cybersecurity and grid security a priority regarding preparedness of the electric utility sector for cybersecurity threats.

On March 7, 2014, FERC directed NERC to develop reliability standards requiring owners and operators of the bulk-power system to address risks due to physical security threats and vulnerabilities. The order gave NERC 90 days to submit one or more proposed standards that require owners and operators of the bulk-power system to take at least three steps to protect physical security. NERC met the deadline and drafted a standard ("CIP-014-1"), which requires transmission owners and operators to (1) perform a risk assessment of their system to identify facilities that, if damaged, could have a critical impact on the operation of the bulk-power system; (2) evaluate potential threats and vulnerabilities to those facilities; and (3) develop and implement a security plan to address potential threats and vulnerabilities. The final rule was issued on November 20, 2014.

The FERC acted in July 2016 to improve the cybersecurity of the bulk electric system ("BES") NERC to develop a supply chain risk management standard to address risks to information systems and related electric system assets. FERC directed NERC to develop a Critical Infrastructure Protection ("CIP") Reliability Standard that requires entities to develop and implement a supply chain management plan for industrial control system hardware, software, and vendor services associated with electric system operations. NERC was required to submit the new CIP standard within one year. The standard was developed and approved by NERC on June 16, 2017. On December 21, 2017, FERC unanimously voted to direct NERC to modify the existing "Cybersecurity Incident Reporting and Response Planning" standards, citing concerns that current reporting "understates the true scope of cyber- related threats facing the bulk electric system". NERC approved the proposed standard on August 10, 2017. The standard was approved by FERC on July 19, 2018, as revised on June 20, 2019, (to extend mandatory reporting of cyber incidents to attempted attacks and events that comprised the system without necessarily impacting a reliability task) and will be effective on or about January 1, 2021.

Beginning with the 112th United States Congress, lawmakers extended various tax credits, including approval of a $205 billion package on tax credit extenders that includes extensions and changes to a number of energy-related tax credits. The package expired on December 31, 2013, including the tax credit for electricity produced by wind and other renewable resources. Congress in 2014 failed to pass legislation extending these tax credits. At the end of 2015, the 114th Congress passed a five-year extension, modification and phase-out of the Investment Tax Credit ("ITC") for solar power and the Production Tax Credit ("PTC") for wind and other renewables. The bill extended the PTC as-is for two years (including one retroactive year because the credit expired at the end of 2014), and phases out the credit to 80% in 2017, 60% in 2018, and 40% in 2019. The 30% temporary ITC was extended for three additional years (from its original December 31, 2016 expiration), and would then be phased out with a 26% credit in 2020, a 22% credit in 2021, and a 10% credit in 2022.

On September 22, 2009, the EPA finalized the nation's first greenhouse gas reporting system / monitoring regulations that will require large emitters of heat-trapping emissions to collect GHG data. While Congressional action on environmental policy has been limited, the focus has been at the administrative level at the EPA. In February 2016, the U.S. Supreme Court granted an emergency stay of the CPP that put implementation of the rule on hold while the courts hear legal challenges to it. In September 2016, the D.C. Court of Appeals heard oral arguments. In early 2017, President Trump directed the Justice Department to ask the court to postpone or forego consideration of the CPP. On October 16, 2017, the EPA proposed to repeal the CPP, citing the plan's inconsistency with the Clean Air Act. Public comment on the proposal was extended to January 16, 2018. On July 9, 2018, the EPA sent its draft rule entitled "State Guidelines for Greenhouse Gas Emissions from Existing Electric Utility Generating Units" to the Office of Information and Regulatory Affairs in the White House OMB. In response to the finalization of the ACE rule, legal challenges have been launched against the ACE rule in the D.C. Circuit.

The Energy Policy Act of 2005 ("2005 Energy Act") extended limited FERC jurisdiction, known as "FERC-Lite", over public power entities within ERCOT, such as the System, that own transmission lines, and gave FERC authority to delegate certain transmission reliability standard-setting responsibilities to the Energy Reliability Organization ("ERO") and to establish mandatory reliability standards for operation of the nation's transmission system. The City has operated its electric system under compatible ERCOT reliability standards for many years, so the City does not anticipate any problems with FERC's reliability standards. Additional information on FERC's authority over the System can be found in "FERC Authority" below.

The 2005 Energy Act included several provisions that could affect the System's business and continue to be evaluated by management, including:

- repeal of existing Public Utility Holding Company Act of 1935 requirements;
- conditional termination of the mandatory federal purchase and sale requirements for co-generation and small power production;
- expansion of FERC's merger review authority;
- re-authorization of renewable energy production incentives for solar, wind, geothermal, and biomass, and authorization of new incentives for landfill gas;
- incentives for development of new commercial nuclear power plants and other non- or low-carbon emitting technologies;
- establishment of a 7.5% goal for increased renewable energy use by the federal government by 2013, and a 20% required reduction in energy use by federal buildings by 2015; and
- increased funding for weatherization of low-income homes and state energy efficiency programs. The 2005 Energy Act also included provisions affecting existing nuclear generating units, including:
- extension of the Price-Anderson Act to 2025 and increases in the retrospective premiums for which licensees are liable for claims resulting from a nuclear incident;
- expansion of the NRC authority to regulate decommissioning trust funds (primarily affecting funds held by former plant licensees);
- direction of the DOE to take responsibility for safe disposal of high-level radioactive waste;
- procedural protections for individuals filing claims under federal whistleblower provisions;
- enhanced provisions relating to NRC oversight of the security of licensed facilities; and
- various decommissioning tax-related adjustments beneficial to federal tax-paying licensees.

Furthermore, the 2005 Energy Act amended the Public Utility Regulatory Policies Act of 1978 ("PURPA") by adding five new standards that Municipal Utilities must consider and determine whether to implement. These new standards address net metering, diversity of fuel sources, efficiency of fossil-fuel-fired generation, time-based or "smart" metering, and the interconnection of distributed generation.

In December 2007, the President signed the Energy Independence and Security Act ("EISA") requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (1) integrated resource planning; (2) rate design modifications to promote energy efficiency investments; (3) smart grid investments; and (4) smart grid information. Municipal Utilities, such as the System, are designated as "non-regulated" under EISA, as well as the 2005 Energy Act, because those utilities are not regulated by state utility commissions.

FERC Authority

In 1992, pursuant to the Energy Policy Act of 1992 ("1992 Energy Act"), the FERC required utilities under its jurisdiction to provide access to their electric transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. Municipal Utilities are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities, and independent power producers. Under FERC rules promulgated subsequent to the 1992 Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access non-discriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 and SB 7, State laws discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the voluntary formation of regional transmission organizations in order to promote fair and open access to electric transmission service and facilitate wholesale competition. *See* "Federal Energy Policy" herein. The ERCOT open access system is administered by an ISO conducting many of the functions that would be administered by a Regional Transmission Organization. Section 1211 of the 2005 Energy Act amended the Federal Power Act to include a new section, designated as Section 215, which directed FERC to certify an ERO and develop procedures for establishing, approving and enforcing electric reliability standards. As discussed herein, FERC designated NERC to serve as the ERO and to set and monitor through Regional Entities ("RE") implementation of electric reliability standards. A separate group within the ERCOT region, the Texas Reliability Entity, was selected to serve as the RE for the ERCOT service area.

On November 16, 2016, FERC proposed to amend its regulations under the Federal Power Act to remove barriers to the participation of electric storage resources and distributed energy resource aggregations in the capacity, energy, and ancillary service markets operated by regional ISOs. Specifically, FERC proposed to require each ISO to revise its tariff to (1) establish a participation model consisting of market rules that, recognizing the physical and operational characteristics of electric storage resources, accommodates their participation in the organized wholesale electric markets and (2) define distributed energy resource aggregators as a type of market participant that can participate in the organized wholesale electric markets under the participation model that best accommodates the physical and operational characteristics of its distributed energy resource aggregation. In a per curiam opinion issued by the United States Court of Appeals for the District of Columbia on June 20, 2017, the court denied Advanced Energy Management Alliance's petition to vacate FERC's approval as to capacity performance program changes.

On October 24, 2018, President Trump named Neil Chatterjee as the FERC chair.

A commission seat was subsequently vacated when FERC Commissioner Robert Powelson left his position in mid-August 2018. President Trump nominated Bernard McNamee to fill the vacant seat, which was confirmed by the United States Senate on December 6, 2018.

The City will continue to monitor and evaluate FERC developments with a potential to impact the System.

The Public Utility Commission of Texas (PUCT)

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. The PUCT is comprised of two commissioners and a chair appointed by the Governor. The PUCT writes rules that determine the workings of the ERCOT market and has enforcement authority relating to violations of its rules and the ERCOT protocols. Beginning in 2021, as a result of legislation passed by the 84th Legislature in 2015, the PUCT will require MOUs to file certificates of convenience and necessity ("CCN") to build transmission outside its city limits. The PUCT adopted new rules, effective July 5, 2016, revising the process to obtain CCNs in accordance with the new legislation. These rules allow for MOUs to continue building transmission outside their service areas plus 10 miles until the 2021 effective date, without having to go to the PUCT for a CCN. Effective May 28, 2017, the PUCT issued a new rule allowing the PUCT, after notice and hearing, to revoke or amend any CCN if the PUCT finds that certain adverse conditions exist. The PUCT does not directly regulate retail rate cases of municipally owned electric utilities, but it does have limited appeal jurisdiction related to ratepayers outside of municipal jurisdiction.

Texas Reliability Entity, Inc. (TexasRE)

Headquartered in Austin, Texas, Texas RE performs the regional entity functions described in the 2005 Energy Act, which created Section 215 of the Federal Power Act, for the ERCOT region, as mandated by the delegation agreement with the NERC. The delegation agreement was approved by FERC. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC Reliability Standards within the geographic boundaries of the ERCOT region, as well as to assess and periodically report on the reliability and adequacy of the bulk power system. In addition, Texas RE has been authorized by the PUCT and is permitted by NERC to investigate compliance with the ERCOT Protocols and Operating Guides, working with the PUCT staff regarding any potential protocol violations. Texas RE is independent of all users, owners, and operators of the bulk power system. The regional entity functions and protocol compliance were previously performed by Texas Regional Entity, a functionally independent division of ERCOT. Texas RE took over all responsibilities of Texas Regional Entity on July 1, 2010.

ERCOT

ERCOT is one of eight Regional Reliability Councils in NERC. The ERCOT bulk electric system is located entirely within the State and serves approximately 25 million customers, representing approximately 90% of the State's electrical load. The ERCOT service region covers 75%, or 200,000 square miles, of the State and contains a total of 46,500 miles of transmission lines, including 9,249 miles at 345-kV.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an ISO in 1996. Under ERCOT's organizational structure, the ISO reports to the ERCOT Board of Directors, but the PUCT has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers.

ERCOT's statutory functions include establishing and enforcing procedures relating to the reliability of the regional electrical network and accounting for the production and delivery of electricity among generators and all other market participants. The procedures are subject to PUCT oversight and review, and the PUCT chairman is an ex-officio member of the ERCOT Board. The PUCT may authorize ERCOT to charge a reasonable and competitively neutral rate to wholesale buyers and sellers to cover the independent organization's costs. Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. The 1999-enacted SB 7 provides that a retail electric provider, municipally owned utility, electric cooperative, power marketer, transmission and distribution utility, or Power Generation Company shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines and procedures established by the ISO.

Under the PUCT's transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT. The PUCT recently approved changes to the Substantive Rule 25.247 that establishes a filing schedule for non-investor-owned transmission service providers ("TSPs") operating within ERCOT effective November 28, 2018. A non-investor-owned TSP that has not had a commission-approved change to its transmission service rate since January 1, 2017 must submit a comprehensive or interim transmission cost of service within two years of the effective date of the rule. The rule also requires periodic interim or comprehensive filings every 48 months for entities with a wholesale transmission cost of service greater than one percent of the total ERCOT wholesale transmission costs. Smaller non-investor-owned TSPs with charges less than one percent of the total ERCOT wholesale transmission charges must file every 96 months.

In September 2019, ERCOT released its final fall and preliminary winter 2019 Seasonal Assessment of Resource Adequacy ("SARA") report. Based on the final fall 2019 and Preliminary winter SARA report the ERCOT region is expected to have sufficient resource capacity to serve forecasted peak demands in the upcoming fall and winter seasons of October through November 2019 and December 2019 through February 2020. The fall peak demand forecast is 61,034 MW and the total resource capacity expected to be available for the peak demand is 83,984 MW. The winter peak demand forecast is 62,257 MW and the total resource capacity expected to serve peak demand of 82,740 MW. In May 2019, ERCOT also released the May 2019 Capacity Demand and Reserves ("CDR") report which calculates higher planning reserve margins for the summers of 2020 through 2023 (10.5%, 15.2%, 13.0%, 10.3%, respectively), primarily due to an increased number of potential wind and solar projects that are currently in the interconnection queue and eligible to be included in the CDR.

On June 14, 2017, the ERCOT Board of Directors endorsed a transmission project that includes two new 345-kV lines to address future reliability concerns in West Texas. ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current ("DC") ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import / export capability.

Electric Utility Restructuring in Texas

During the 1999 Legislative Session, the Texas Legislature enacted SB 7, providing for retail electric open competition. The enactment of SB 7 modified the PURA and required that retail and wholesale competition begin on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 modifications to PURA also fundamentally redefined and restructured the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

SB 7 includes provisions that apply directly to Municipal Utilities, such as the System, as well as other provisions that govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy suppliers. SB 7 also allows retail customers of those Municipal Utilities and Electric Co-ops that elect to opt-in, on or after that date, to choose their electric energy suppliers. Provisions of SB 7 that apply to the System, as well as provisions that apply only to IOUs and Electric Co-ops, are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the City could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle their generation, transmission / distribution and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies and possibly operating divisions. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non- discriminatory bases. Municipal Utilities and Electric Co-ops which open their service territories ("opt-in") to retail electric competition are not required to, but may, unbundle their electric system components.

Entities that have Opted-In to Competition

The following discussion relates to entities that are currently in electric competition in Texas and does not apply to the City, but could apply if the City opts-in to electric competition. Generation assets of IOUs are owned by Power Generation Companies, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of Transmission and Distribution Utilities ("TDUs") are fully regulated by the PUCT. Retail sales activities are performed by Retail Electric Providers ("REPs") which are the only entities authorized to sell electricity to retail customers (other than Municipal Utilities and Electric Co-ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, and / or other parties and may resell that electricity to retail customers at any location in ERCOT (other than within service areas of Municipal Utilities and Electric Co-ops that have not opened their service areas to retail competition). TDUs, Municipal Utilities, and Electric Co-ops that have chosen to participate in competition are obligated to deliver electricity to retail customers and are also required to transport electricity to wholesale buyers.

The PUCT is required to approve the construction of TDUs' new transmission facilities and may order the construction of new facilities in Texas in order to relieve transmission congestion. TDUs are required to provide access to both their transmission and distribution systems on a non-discriminatory basis to all eligible customers. Retail rates for the use of distribution systems of Municipal Utilities and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than that of the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within the State that participates in retail competition has a designated Provider of Last Resort; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. The City has the option to be designated as a Provider of Last Resort for its service area if it chooses to opt-in. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each Municipal Utility and Electric Co-op that opts-in to retail competition may designate itself or another qualified entity as the Provider of Last Resort for its service territory. In such cases, the respective Municipal Utility or Electric Co-op, not the PUCT, will set the electric rates for such respective Provider of Last Resort.

Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets", which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-bypassable competitive transition charge collected from the end retail electric users within the IOU's service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing, and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the "competitive transition charge". Neither the State nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

The Texas Legislature continues to look at the impacts of SB 7. On May 1, 2018, the Senate Business & Commerce Committee took invited testimony on an interim charge to: examine the competitive nature of the Texas retail electric system and what government competitive intrusions in the free energy markets may have in distorting those markets; review the impact of competitive versus noncompetitive retail electricity markets across the State in terms of price and reliability; and consider the projected impact of establishing competitive electric retail markets statewide. The MOU panelists addressed the competitive nature of the retail electric market and the contributions offered by MOUs in the ERCOT market. No senators overtly advocated that MOUs and Co-ops be forced to opt-in to retail competition, but a general preference for competitive markets was evident through all phases of the hearing. The 86th Texas Legislature did not consider legislation adversely impacting the MOU business model.

Additional Impacts of Senate Bill 7 Deregulation

MOUs and Electric Co-ops are largely exempt from the requirements of SB 7 that apply to IOUs. While IOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of Municipal Utilities and Electric Co-ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a MOU or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 (as amended by the Texas Legislature after 1999) directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

The greatest potential impact on the System from SB 7 could result from a decision by the City Council to participate in a fully competitive market. Any future decision of the City Council to participate in full retail competition would permit the System to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated service area of the System. The City Council could likewise choose to open the System service area to competition from other suppliers while choosing not to have the System compete for retail customers outside its certified service area.

As discussed above, MOUs and Electric Co-ops will also determine the rates for retail use of their distribution systems after they open their territories to retail competition, although the PUCT has established by rule the terms and conditions applicable to have access to those systems. SB 7 also permits MOUs and Electric Co-ops to recover their stranded costs through collection of a non- bypassable transition charge from their customers if so determined by such entities through procedures that have the effect of procedures available to IOUs under SB 7. Unlike IOUs, the governing body of a MOU determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. MOUs and Electric Co-ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by the System as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

A MOU that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anti-competitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of MOUs electing to compete in the retail market.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants that may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities. The bill also improves the competitive position of MOUs by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of MOUs are made exempt from disclosure under the open meetings and open records acts and the right of Municipal Utilities to enter into risk management and hedging contracts for fuel and energy is clarified.

Texas Legislative Impact in the Electric Industry

Most Recent Legislative Session… From January 8, 2019 to May 27, 2019, the 86th Texas Legislature convened its regular session. HB 4150 adds comprehensive reporting regarding transmission line inspections and safety incidents for all electric utilities. All utilities (MOUs, IOUs and Electric Co-ops) will be required to report what percentage of transmission infrastructure, defined as over 60 KV, was inspected during the preceding five year period, and what percentage is expected to be inspected in the upcoming five year period. The bill also contains annual reporting requirements on safety education and training taking place or changed/appended, any known noncompliant maintenance issues and incidents, fatalities, and injuries with a corrective action plan. Lastly, the bill requires utilities to inspect lines over public recreational lakes in their service territory for compliance with NESC height requirements. A rulemaking at the PUCT to implement HB 4150 is expected in the coming months.

Two additional bills of note are SB 1021 and SB 1938. SB 1012, filed at the request of the PUCT, clarifies and reaffirms the current ability of MOUs and Electric Co-ops to own battery storage without having to register as power generation companies ("PGC"). SB 1938 codifies within State law certain ERCOT protocols as they pertain to transmission owners' ability to construct off existing transmission end-points.

In regard to cyber and grid security, three bills passed relevant to the electric utility industry. All of these bills are pending implementation and further action by the PUCT and ERCOT. SB 64 establishes a program for the PUCT to coordinate and share with utilities best practices on a number of cyber-related items, including guidance for cybersecurity controls for supply chain risk management. The bill also directs ERCOT to conduct an internal cybersecurity risk assessment and submit an annual confidential report to the PUCT. SB 475 creates the "Texas Electric Grid Security Council", an advisory body that will coordinate the sharing of information and implementation of best security practices in the electric industry. This council will be comprised of representatives from the PUCT, ERCOT and the Governor’s office, and coordinate with industry and specific State and federal entities. Lastly, SB 936 requires the PUCT and ERCOT to contract with an entity to act as PUCT's cybersecurity monitor. This bill was also filed at the request of the PUCT.

Prior Legislative Sessions… During its 83rd Legislative Session in 2013, the Texas Legislature reviewed and passed the mission and performance of the PUCT as required by the Texas Sunset Act. This act provides that the Sunset Advisory Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Advisory Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future. The 86th Texas Legislature passed SB 619 by Senator Brian Birdwell (R-Texas), which groups the next Sunset review of the PUCT, Office of Public Utility Counsel, and ERCOT in 2024- 2025.

During the 84th Legislative Session in 2015, the Texas Legislature passed SB 776, requiring a MOU to obtain a CCN from the PUCT for the construction of a transmission facility in certain circumstances. MOUs must get PUCT-approved CCNs outside of their service territory plus ten miles until September 2021; from that point forward, MOUs must get PUCT-approved CCNs to construct outside their city limits. MOUs can make payments in lieu of taxes on external transmission. A MOU required to apply for a CCN would be entitled to recover payments in lieu of property taxes through its wholesale transmission fees if the utility had a written agreement with the taxing entity, the payments in lieu of taxes were equivalent to the taxes it would have paid if it were a private entity, the governing body of the taxing entity was not the same as the governing body of the utility, and the utility provided the PUCT with a copy of the written agreement and any other information the PUCT deemed necessary. The PUCT rulemaking process on implementation of SB 776 was completed in June 2016. As of the spring of 2019, the PUCT has initiated workshops with MOUs in preparation for the September 2021 implementation date.

Environmental Restrictions of Senate Bill 7 and Other Related Regulations

SB 7, enacted in 1999, contains specified emissions reduction requirements for certain older electric generating units, which would otherwise be exempt from the TCEQ permitting program by virtue of "grandfathered" status. Under SB 7, annual emissions of NOx from such units were reduced by 50% from 1997 levels, beginning May 1, 2003.

SB 7 established the State's goal for renewable energy in 1999 but made no special provisions for transmission to interconnect renewable resources. The rapid development of wind power in west Texas since 2001 has shown that wind farms can be built more quickly than traditional transmission facilities. This timing difference poses a dilemma for planning, as it is difficult to know whether a new line will be needed if the generation facilities do not yet exist. A wind farm is difficult to finance if there is no certainty that sufficient transmission will be available to deliver generated electricity. Senate Bill 20, enacted by the Texas Legislature in 2005 ("SB 20"), authorized the PUCT to regulate in this area, and specifically authorized the PUCT to identify areas with sufficient renewable energy potential, known as competitive renewable energy zones ("CREZs") and pre-designate the need for transmission facilities serving the area even if no specific renewable generation projects exist or are under construction. The designation of CREZs in regions with developable renewable resources would be partially based on financial commitments of wind project developers desirous of building in the CREZ. In July 2008, the PUCT voted to create five CREZs in west Texas and the Panhandle. In August 2008, the PUCT further decided that an additional 18,456 MW of wind energy from the five CREZs would be delivered into ERCOT via transmission lines estimated to cost ERCOT rate payers a minimum of $4.93 billion. The

PUCT awarded the construction of those transmission lines to transmission service providers ("TSPs") in whose service areas the lines will be located and new entrants seeking to become TSPs. The PUCT's decision was appealed by the City of Garland, and a State District Court has determined that the PUCT should have given municipally owned utilities consideration in the CREZ award process. The PUCT reconsidered and awarded a CREZ line for the City of Garland to construct.

The Texas Legislature increased the State's renewable energy goal in 2005 with the enactment of SB 20. As amended by SB 20, PURA directs that the cumulative installed renewable capacity in the State must total 2,280 MW by January 1, 2007; 3,272 MW by January 1, 2009; 4,264 MW by January 1, 2011; 5,256 MW by January 1, 2013; and 5,880 MW by January 1, 2015. Further, the PUCT is directed to establish a target of 10,000 MW by January 1, 2025. The legislation includes a target of 500 MW from renewable resources other than wind power. In addition, on April 2, 2008, ERCOT filed a report with the PUCT concerning wind power and the transmission facilities that may be necessary to transfer the electric power across the State.

According to the ERCOT Demand and Energy Report, 18.6% of the electricity generated in Texas during calendar year 2018 came from wind energy resources, up from 17.4% for 2017. The total capacity of renewable facilities in Texas as of June 2019, is approximately 23,909 MW which exceeds the 5,256 MW January 1, 2013 goal specified in the PUCT Substantive Rule 25.173 – Goal for Renewable Energy, and is above the January 1, 2025 "target" of 10,000 MW of wind generation. On January 21, 2019, wind generation in ERCOT produced a new record of 19,672 MW. ERCOT's wind penetration record was set on January 19, 2019, at 56% of load.

Wholesale Market Design Developments

In November 2017, ERCOT updated its previously issued May 2017 CDR report indicating the summer 2018 planning reserve margin was projected to be 9.3% (a reduction of 9.6% from the May 2017 CDR report). This projected reduction was attributable to unit retirements and delays in planned renewable generation projects. In May 2017, Calpine and NRG filed an informational report in PUCT Docket 40000 recommending changes to the energy markets with a goal of improving price formation. The report, “Priorities for the Evolution of an Energy-Only Market Design in ERCOT,” which was written by Susan Pope and William Hogan of FTI Consulting and Harvard University respectively, critiques the performance of ERCOT’s energy-only market and makes numerous suggestions for how the market might perform more efficiently. The PUCT responded by opening Docket 47199 in order to explore market changes including adjusting of the ORDC (defined below) parameters, implementation of Real Time Co- Optimization, and implementation of Marginal Line Losses. As of December 27, 2017, stakeholders have filed comments and advocated for various positions. In October 2017, ERCOT received notice of multiple generator retirements totaling about 4,500 MW. In November 2017, ERCOT notified the market that the pending generator retirements would not impact the reliability of the electric system and would be allowed to retire on the schedule proposed in their initial retirement notices. The May 2018 CDR report reflected the impact of these generator retirements. In August 2018, the PUCT opened Dockets 48539, 48540, and 48551 to examine the Real-Time Co-Optimization proposal, Marginal Losses proposal, and review the market performance for summer 2018, respectively.

In order to improve scarcity price signals, the PUCT instructed ERCOT to implement an Operating Reserve Demand Curve ("ORDC") in June 2014. In June 2018, as a result of arguments in PUCT Docket 47199 coupled with shrinking reserve margins, the PUCT instructed ERCOT to modify the ORDC to remove out-of-market capacity from the capacity used to calculate reserves. This was seen as a minor adjustment prior to summer 2018. In early 2019, the PUCT endorsed the Real-Time Co-Optimization proposal as well as a two phase ORDC modification that would result in an increase in the reserve adder pricing. In April 2019, ERCOT formed the Real-Time Co-Optimization Task Force ("RTCTF"), reporting to the ERCOT Technical Advisory Committee ("TAC"), to formulate and vet the policies needed to implement the Real-Time Co-Optimization market change. The first phase of the ORDC modification was implemented in spring 2019, with the second phase adjustment scheduled for 2020. The ORDC is currently operational as an energy price enhancement mechanism that adds to the energy price based on system conditions. ERCOT calculates the adder based on the probability of a loss of load and the cost of a loss of load. Therefore, as system reserves drop the adder calculated by ERCOT increases and the price of energy increases. In August 2019, the ERCOT market experienced two scarcity events primarily attributed to high demand and low capacity reserves. On August 13, 2019 and August 15, 2019, ERCOT declared Level 1 Energy Emergency Alerts (EEA1) when capacity reserves reached the trigger levels as described in the ERCOT Nodal Protocols. The EEA1 events resulted in deployment of contracted demand response also known as ERCOT Emergency Response Service (ERS) and market clearing prices were administratively set to the system-wide cap of $9,000 per MWh, as is also required by ERCOT protocols.

Electric Distribution

The City Peak Electrical use for 2019 was 75.1 MW and by 2020 it is projected to hit 93.4 MW. The City continues to grow in residential and commercial.

The Electric Department is currently working on a number of projects for the 2019/20 capital improvements budgets.

1. New Substation on N123 Bypass to feed everything on the North side of I-10.
2. Upgrading TWACS for Substations communications.
3. Working on ESRI mapping, work orders and mobile orders and trying t tie in with Tyler.
4. Distribution System Capacitors.
5. Star Meter MTU / twacs Conversion.
6. Tree trimming on our system.
7. Underground projects on new developments.
8. Work order and inventory system.

10 Largest Electric Customers[1]

Name	Type of Entity	kWh Sales	Revenues
Niagara Bottling LLC	Manufacturing	38,736,000	$3,117,934
Tyson	Chicken Processing Plant	21,384,000	1,707,968
Hexel Corp/Post Petition	Manufacturing	14,980,800	1,192,567
Texas Lutheran University	University	12,306,600	1,002,839
Minigrip LLC	Manufacturing	10,332,000	814,744
Guadalupe Regional Medical Center	Hospital	5,155,000	423,097
HEB	Retail	4,335,000	381,930
Guadalupe Regional Medical Center	Hospital	4,207,000	347,254
Wal-Mart Store Inc #91	Retail	4,063,000	360,545
Seguin ISD	Retail Sales	2,237,250	207,886

[1] *October 2018 - September 2019*

kWh Energy Analysis

Year	kWh Purchased	Growth	kWh Consumption	Growth	Customer Count	Growth
2007-08	297,724,158	3.58%	282,241,983	3.79%	8,051	0.4%
2008-09	292,408,513	-1.79%	277,042,385	-1.84%	8,014	-0.5%
2009-10	302,100,002	3.31%	282,102,433	1.83%	8,011	0.0%
2010-11	310.175.128	2.67%	293,799,122	4.15%	8,210	3.4%
2011-12	306,960,799	-1.04%	281,673,636	-4.13%	8,247	0.5%
2012-13	335,747,515	9.38%	283,520,517	.66%	8,293	0.6%
2013-14	344,327,169	2.56%	287,631,799	1.45%	8,340	0.6%
2014-15	305,143,171	-11.38%	269,528,056	-6.29%	8,500	1.9%
2015-16	297,035,140	- 2.66%	282,255,073	4.72%	8,438	-0.7%
2016-17	329,736,280	10.77%	313,410,061	11.04%	8,538	1.19%
2017-18	337,952,510	2.49%	322,494,973	2.90%	8,549	0.13%
2018-19	332,880,050	-1.50%	319,654,993	-0.88%	8,564	0.17%

Electric Sales and Peak Demand

Year	kWh Sales	Revenues	Peak Demand (kWh)
2008-09	277,042,385	28,210,092	59,461
2009-10	282,102,433	26,446,221	64,000
2010-11	293,799,122	26,804,696	66,000
2011-12	281,673,636	25,975,472	62,000
2012-13	283,520,517	25,448,070	63,000
2013-14	287,631,799	25,852,212	68,000
2014-15	269,528,056	26,747,282	68,000
2015-16	282,255,073	27,334,190	70,230
2016-17	313,410,061	29,730,883	81,287
2017-18	322,494,973	30,603,981	70,933
2018-19	319,654,993	30,122,089	75,125

Note: Data on Peak Demand furnished by LCRA.

Electric Rates (Effective October 1, 2019)

Residential Electric - RES: *Applicable to individually metered residential dwellings.*

Applicable to individually metered residential dwellings.

Customer Charge, per meter:	$12.00
Energy Charge per kWh:	$.03964
PCRF Charge per kWh:	$.05536

Small Commercial - SCS: *Applicable to non-residential customers or multiple dwelling unit residential customers billed through one meter and whose peak demand does not exceed 25 KW.*

Customer Charge, per meter:	$25.00
Energy Charge per kWh:	$.03664
PCRF Charge per kWh:	$.05536

Large Power Commercial - LPS: *Applicable to non-residential customers whose peak KW is between 25 and 500.*

Customer Charge, per meter:	$75.00
SECONDARY Customer Energy Charge per kWh:	$.03464
SECONDARY Customer Demand Charge per KW:	$2.00
PCRF Charge per kWh both SECONDARY & PRIMARY:	$.05536
PRIMARY Customer Energy Charge per kWh:	$.03360
PRIMARY Customer Demand Charge per kWh:	$1.94

Large Power Industrial - IND: *Applicable to non-residential customers whose peak KW is greater than 500.*

Customer Charge, per meter:	$200.00
SECONDARY Customer Energy Charge per kWh:	$.02014
SECONDARY Customer Demand Charge per KW:	$3.00
PCRF Charge per kWh both SECONDARY & PRIMARY:	$.05536
PRIMARY Customer Energy Charge per kWh:	$.01954
PRIMARY Customer Demand Charge per KW:	$3.00

SECURITY LIGHTS

100 watt lamp per month:	$ 7.00
150 watt lamp per month:	$10.64
1500 watt lamp per month:	$52.00
Setup fee for 100 or 150 watt lamps:	
Existing Pole	$100.00
Wood Pole installation	$250.00
Steel or Composite Pole	Actual Cost
Setup fee for 1500 watt lamps:	
Existing Pole	$430.00
Wood Pole installation	$480.00
Steel or Composite Pole	Actual Cost

LED SECURITY LIGHTS

50 watt lamp per month:	$5.94
80 watt lamp per month:	$9.20

Rio Nogales Power Project

The commercial operation of the Rio Nogales Power Project commenced on June 1, 2002. This electric power plant is located in the Seguin Industrial Park and was developed by Constellation Power Source, a wholly owned subsidiary of Baltimore Gas & Electric. On December 15, 2006 the ownership interest in Rio Nogales was acquired by an affiliate of Tenaska Power Fuel, LP from Constellation. On April, 2012, the ownership interest in Rio Nogales was acquired by City Public Service of San Antonio. The plant is a state-of-the-art, highly efficient power generation facility utilizing clean burning natural gas. The project is an 800 MW natural gas fired combined cycle power plant.

WATER PLANT AND DISTRIBUTION SYSTEM

The Seguin's Surface Water Treatment Plant has a peak production capacity that exceeds 11.635 million gallons per day with an additional allotment per contract of 7.3 million gallons of groundwater per day that may be purchased from the Schertz-Seguin Local Government Corporation.

The Seguin distribution system is supported by a three million, two million and two seventy thousand gallons ground storage tank with three hundred twenty thousand gallons in storage at the clear well. This is enhanced by the addition of four elevated storage tanks, three with a capacity of one million gallons each, one with a capacity of five hundred thousand gallons.
The City water customers are classified into commercial and residential. Both residential and commercial classifications have shown a growth through the years.

The Texas Commission on Environmental Quality has authorized the City to divert and use an amount of water not to exceed 7,000 acre-feet (2,280,957,000 gallons) annually from the impoundment reservoir (Lake Seguin) maintained for municipal purposes in and around the City. The City has also entered into a contract with the Guadalupe-Blanco River Authority to purchase 1,000 acre-feet of water from Canyon Lake per year. This supply was purchased to ensure that the City would have ample supply of water during drought conditions.

WATER AND SEWER PROJECTS

Seguin is currently in the construction phase of several major water and sewer improvement projects during Fiscal Year 2018-19. The projects are part of the Utility Capital Projects as set by City Council or Utility System Revenue Bonds. Following is a list of some of those projects:

Pecan Orchard Lift Station.
Springs Hill WWTP Decommissioning.
Water Plant Filter Rehabilitation.
Walnut Branch WWTP Outfall and Flow Metering Station.
Geronimo Creek WWTP Force Mam Replacement.

Classification of Customers

Year	Residential Inside	Residential Outside	Commercial Inside	Commercial Outside
2010	5,847	4	1,167	2
2011	5,864	4	1,199	2
2012	5,896	4	1,204	2
2013	5,911	4	1,199	2
2014	5,951	1	1,184	2
2015	6,007	0	1,250	0
2016	6,093	0	1,277	0
2017	6,176	0	1,381	0
2018	6,316	0	1,252	0
2019	6,309	0	1,218	0

Water Rates (Effective October 1, 2019)

Residential:

Capacity Charge	$23.21
1 - 10,000 gallons used	$ 4.04 (per 1,000 gal)
10,001 - 35,000 gallons used	$ 4.61 (per 1,000 gal)
35,000 and above gallons used	$ 5.19 (per 1,000 gal)

Commercial, Industrial, Governmental, and Multi-Family:

Capacity Charge	$50.07
First 12,000,000 gallons used (per 1,000 gal)	$ 4.58
All additional gallons used (per 1,000 gal))	$ 3.91

INDUSTRIAL SURFACE WATER (Effective October 1, 2019)

Capacity Charge per meter	$50.07
All gallons used	$ 3.44 (per 1,000 gal)
If ground water has to be used	$ 3.91 (per 1,000 gal)

Historical Water Consumption

Gallons	**2015**	**2016**	**2017**	**2018**	**2019**
Yearly Use	2,101,380,329	2,103,558,145	2,285,596,000	2,566,207,753	2,576,415,837
Daily Average	5,757,206	5,763,123	6,261,907	7,030,706	7,058,674
Daily Maximum	6,529,826	6,612,816	7,206,000	7,280,000	8,410,000
	09/30/15	09/30/16	09/30/17	09/30/18	9/30/19

Top Ten Water Customers
Twelve Month Period (10-01-18 thru 09-30-19)

Name	Gallons Used (1,000)	Water Revenues
Niagra Bottling LLC	361,360,810	$1,258,454
Tyson	306,360,810	1,034,917
Guadalupe Regional Medical Center	25,102,150	114,835
TLU	22,325,000	102,596
Continental Automotive System Inc	20,982,500	94,601
Guadalupe Co Administration	16,003,100	75,820
Summers Bend Apartments	11,400,000	51,676
Stone Ranch Townhomes	10,125,000	46,050
Hexel	8,870,000	40,347
Seguin ISD	8,420,050	48,292
San Antonio City Public Service - Potable Water	735,716,900	$2,514,914
San Antonio City Public Service - Reuse Water	217,182,330	$ 447,506

WASTEWATER PLANT

The Walnut Branch Treatment Plant is an activated aeration type plant. The design capacity of the Walnut Branch Wastewater Treatment Plant is 4.9 MGD and its present daily average and peak flows are: 2.86 MGD (average) and a 2 hour peak load of 12 MGD. See discussion under "WATER PLANT AND DISTRIBUTION SYSTEM - Water and Sewer Projects" herein. Units at the facility are as follows:

Head Works (Lift Station, Manual Bar Screen, Mechanical Screen)
Two Primary Clarifiers
Aeration Basin
Three Final Clarifiers
Chlorine Contact Basin
Drying Beds
Dechlorination System
Present influent and effluent quality is as follows:

	Influent	Effluent	% Removal
BOD	68.62 mg/l	2.89 mg/l	95.8%

The Geronimo Creek Treatment Plant is an activated aeration type plant. Its design capacity is 2.13 MGD, a daily average flow of 1.74 MGD, and a 2-hour peak load of 4.32 MGD. Units at the facility are as follows:

Head Works (Lift Station, Manual Bar Screen, Mechanical Screen)
Oxidation Channel
Final Clarifiers
Chlorine Contact Basin
Drying Beds
Dechlorination System

This treatment plant is able to meet its effluent requirements at this time. Present influent and effluent quality is as follows:

	Influent	Effluent	% Removal
BOD	77.31 mg/l	2.62 mg/l1	96.61%

SEWER RATES: (effective October 1, 2019)

Residential:

Up to the first 2,000 Gallons of water used	$30.99
The next 6,000 gallons used	$ 4.64 (per 1,000 gal)
Max charge for 8,000 gallons of water used)	$58.83
Fixed sewer fee for wastewater service only and no metered water	$37.74

Commercial and Industrial:

Capacity Charge	$47.77
First 8,000,000 gallons of water used	$ 4.77 (per 1,000 gal)
All additional gallons used	$ 3.74 (per 1,000 gal)
Fixed sewer for wastewater service only and no metered water	$37.74

Industrial User Charge and Fee:

Permit Fee for all Commercial & Industrial users	$4.00/month
Permit Fee for all discharge to the POTW (per 1,000) Based on water usage monthly above 200,000 gallons of water per month or document of metered discharge	$ .06

Industrial User Metered Sewer:

Capacity Charge	$47.77
First 8,000,000 gallons of water used	$ 4.63 (per 1,000 gal)
All additional gallons used	$ 3.53 (per 1,000 gal)

Solid Water Services: Garbage Effective October 1, 2017
Recycling Effective October 1, 2017

Each residential account has one garbage container	$14.23
Each additional container	$ 6.20
Each residential account has one recycle container	$ 3.18

SALES TAX:

Charged to non-residential customers for electric and to residential customers for garbage and recycling:

State Sales Tax	6.25%
City Sales Tax	1.50%
County Sales Tax	.50%
Total Sales Tax	8.25%

Top Wastewater Customers
Twelve Month Period (10-01-18 thru 9-30-19)

Name	Gallons Used (1,000)	Revenues
Texas Lutheran University	21,500,000	$97,872
Guadalupe Regional Medical Center	20,775,650	94,022
Guadalupe County	12,425,000	56,441
Summers Bend Apts	11,400,000	51,854
Stone Ranch Townhomes	10,125,000	46,343
Hexcel	8,870,000	40,476
Txse Golf MHP LLC	6,658,000	30,508
Melissa Ann Mackno	6,314,000	28,950
Housing Authority	4,795,500	22,096
Seguin Manor Apts	4,782,000	22,041
METERED SEWER		
Tyson	261,641,551	973,148
Niagra Bottling, LLP	118,804,470	490,022
CPS Energy	113,182,927	509,778
Continental	6,799,410	30,139

ENVIRONMENTAL MATTERS

The City is very aware and concerned about the potential impact that a utility operation can have on the environment. The City is continually and aggressively pursuing total environmental compliance. The utilities are subject to continuing environmental regulation. Federal, state and local standards and procedures which regulate the environmental impact of electric utilities are subject to change. These changes may arise from continuing legislative, regulatory and judicial action regarding such standards and procedures. Consequently, there is no assurance that the City's units in operation, or any that may be constructed by the City or for the use of the City, will remain subject to the regulations currently in effect, will always be in compliance with future regulations or will always be able to obtain all required operating permits.

The City is in full conformance with the regulations as they are adopted. The TCEQ has also given the City a "superior" rating of its water systems. TCEQ and EPA required an industrial pretreatment program that has been developed for industrial wastewater discharges. This program requires testing and city inspection of industrial user's to ensure compliance of the permit issued by the city to the affected industry.

SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION

The Schertz/Seguin Local Government Corporation (the "Corporation") is a public, nonprofit corporation organized to aid, assist, and act on behalf of the cities of Schertz and Seguin in acquiring, constructing, maintaining, and operating a water utility system. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations. Separate financial statements for the Corporation may be obtained by contacting the Finance Director of the City of Seguin.

In February 2001, the Corporation issued $41,040,000 in revenue bonds for the purpose of building, improving, extending, enlarging, and repairing the Corporation's utility system to conserve, store, transport, treat, purify, distribute, sell, and deliver water to the Cities of Schertz and Seguin.

In July 2012, the Corporation issued $25,425,000 in Contract Revenue Bonds payable solely as a maintenance and operations expense of the San Antonio Water System ("SAWS") prior to any payment on the SAWS Utility System Revenue Bonds. See the Annual Continuing Disclosure filing made by the SAWS on behalf of the City of San Antonio for its fiscal year ending December 31, 2012.

In September 2014, the Corporation issued $6,275,000 in New Series Contract Revenue Refunding Bonds. The refunding was for the purpose of advance refunding the callable portion of the Series 2005 bond issue. The refunding was for the purpose of achieving debt service savings for the Corporation and to create a "new" junior lien system.

In January 2015, the Corporation issued a second series of New Series Bonds as combination new money and refunding issue in the amount of $41,720,000. The refunding portion will refund the callable portion of the Series 2007 bond issue to achieve a debt service savings. The new money portion of $7,300,000 is for continued expansion and improvements to the Corporation's utility system.

In November 2016, the Corporation sold $43,670,000 in New Series Contract Revenue Bonds to the Texas Water Development Board along with a $22,830,000 SWIFT Funding Board Participation Loan with the Texas Water Development Board for the purpose of providing funds to finance, acquire, and construct treatment facilities, water supply pipelines, booster pumps, other appurtenances, and necessary easements and other interests in land concerning the State Water Plan.

In November 2018, the Corporation sold $19,045,000 in New Series Contract Revenue Refunding Bonds. This current refunding was for the purpose of refunding the Series 2010 bond issue to achieve debt service savings.

In December 2019, the Corporation issued $19,575,000 Contract Revenue Refunding Bonds, Series 2019 (San Antonio Water System Expansion Water Treatment Project 2), which bonds are payable solely as a maintenance and operations expense of SAWS. This refunding was for the purpose refunding substantially all of the Series 2012 Contract Revenue Bonds.

The City of Seguin is severally liable, together with the City of Schertz, Texas for operating deficits and long-term debt of the Corporation. Following is a summary of financial data as reported in the Corporation's audited financial statement dated September 30, 2018:

Assets	2018	2017
Current Assets:		
Cash and Cash Equivalents	$15,434,928	$13,198,159
Accounts Receivable	1,638,090	1,859,907
Notes Receivable - Current	-	-
Other Receivables	48,699	158,111
Inventory	63,015	63,015
Total Current Assets	$17,184,732	15,279,192
Restricted Assets:		
Cash and Cash Equivalents	76,029,551	73,947,779
Total Restricted Assets	76,029,551	73,947,779
Property, Plant & Equipment:		
Land	15,349,657	15,471,540
Water Distribution System	92,511,668	91,067,482
Building & Improvements	943,377	943,377
Equipment & Vehicles	608,891	608,891
System Expansion - Projects in Progress	6,337,557	6,887,613
Accumulated Depreciation	(22,414,736)	(19,969,980)
Net Property, Plant & Equipment	93,336,414	95,008,923
Other Assets:		
Lease Acquisition Costs	7,597	28,653
Total Other Assets	7,597	28,653
Total Assets	$186,558,294	$184,264,547
Deferred Outflows of Resources		
Deferred Charge on Refunding	2,277,401	2,412,138
Total Deferred Outflows of Resources	2,277,401	2,412,138
Liabilities		
Current Liabilities:		
Accounts Payable - Trade	$ 2,048,151	$ 1,969,279
Accounts Payable - Construction	-	91,235
Accrued Interest Payable	856,981	861,197
Deferred Revenue	66,152	190,494
Current Portion of Revenue Bonds	3,685,000	2,410,000
Total Current Liabilities	6,656,284	5,522,205
Revenue Bonds Payable	161,215,523	164,983,651
Total Liabilities	167,871,807	170,505,856
Net Position:		
Invested in Capital Assets, Net of Related Debt	(2,296,656)	(1,956,872)
Restricted:		
Debt Service	1,240,116	882,168
Repairs and Replacement	500,000	500,000
Impact Fees	5,819,026	4,873,089
Unrestricted	15,701,402	11,872,444
Total Net Position	$ 20,963,888	$ 16,170,829

The following table sets forth the debt service requirements for the Corporation's contract revenue bonds (Series 2001 Bonds, New Series 2014 Bonds, New Series 2015 Bonds, New Series 2016 Bonds and New Series 2018 Bonds).

			New Series						
FISCAL YEAR 30-Sep	Series 2001	Total Priority Lien Debt Service	Series 2014	Series 2015	Series 2016 SWIRFT Proj.	Net Series 2016 BP Program	Series 2018 Refunding	Total Subordinate Debt Service	Total Combined Debt Service
2020	$ 520,000.00	$ 520,000.00	$ 664,450.00	$ 2,444,175.00	$ 2,231,531.00	$ 165,627.40	$1,325,175.00	$6,830,958.40	$ 7,350,958.40
2021	520,000.00	520,000.00	662,575.00	2,426,850.00	2,230,867.00	165,627.40	1,323,800.00	6,809,719.40	7,329,719.40
2022	520,000.00	520,000.00	665,175.00	2,434,650.00	2,229,242.00	248,441.10	1,326,825.00	6,904,333.10	7,424,333.10
2023	520,000.00	520,000.00	665,650.00	2,435,950.00	2,226,390.00	331,254.80	1,328,600.00	6,987,844.80	7,507,844.80
2024	520,000.00	520,000.00	663,950.00	2,436,250.00	2,227,166.00	455,475.34	1,323,475.00	7,106,316.34	7,626,316.34
2025	520,000.00	520,000.00	666,462.50	2,435,125.00	2,226,360.50	579,695.90	1,326,850.00	7,234,493.90	7,754,493.90
2026	520,000.00	520,000.00		3,226,375.00	2,224,200.50	703,916.44	1,323,600.00	7,478,091.94	7,998,091.94
2027	520,000.00	520,000.00		3,214,125.00	2,225,659.00	828,137.00	1,323,725.00	7,591,646.00	8,111,646.00
2028	520,000.00	520,000.00		3,222,250.00	2,219,165.50	828,137.00	1,326,975.00	7,596,527.50	8,116,527.50
2029	520,000.00	520,000.00		3,220,250.00	2,220,810.50	1,213,122.12	1,328,225.00	7,982,407.62	8,502,407.62
2030	520,000.00	520,000.00		3,213,250.00	2,217,485.50	1,598,107.24	1,327,475.00	8,356,317.74	8,876,317.74
2031	2,268,330.00	2,268,330.00		1,475,500.00	2,216,265.50	1,598,107.24	1,324,200.00	6,614,072.74	8,882,402.74
2032	2,272,390.00	2,272,390.00		1,478,750.00	2,217,803.50	1,598,107.24	1,323,700.00	6,618,360.74	8,890,750.74
2033	2,271,250.00	2,271,250.00		1,480,500.00	2,217,790.00	1,598,107.24	1,321,800.00	6,618,197.24	8,889,447.24
2034	2,269,780.00	2,269,780.00		1,483,800.00	2,216,040.00	1,598,107.24	1,323,400.00	6,621,347.24	8,891,127.24
2035	2,272,590.00	2,272,590.00		1,479,000.00	2,216,437.00	1,898,107.24	1,323,400.00	6,916,944.24	9,189,534.24
2036				3,737,200.00	2,216,117.00	1,903,552.12	1,326,700.00	9,183,569.12	9,183,569.12
2037				3,741,300.00	2,219,127.00	1,920,887.00	1,328,200.00	9,209,514.00	9,209,514.00
2038				3,750,200.00	2,217,979.00	1,921,962.00	1,323,000.00	9,213,141.00	9,213,141.00
2039				3,743,900.00	2,220,580.00	1,921,653.00	1,326,000.00	9,212,133.00	9,212,133.00
2040				3,742,400.00	2,221,791.00	1,924,960.00	1,327,000.00	9,216,151.00	9,216,151.00
2041				3,740,400.00	2,221,612.00	1,921,710.00	1,326,000.00	9,209,722.00	9,209,722.00
2042				425,300.00	2,225,043.00	1,927,076.00		4,577,419.00	4,577,419.00
2043				424,600.00	2,220,642.00	1,925,084.00		4,570,326.00	4,570,326.00
2044				423,300.00	2,219,530.50	1,921,152.00		4,563,982.50	4,563,982.50
2045					2,216,553.00	1,915,280.00		4,131,833.00	4,131,833.00
2046					2,211,709.50	1,912,468.00		4,124,177.50	4,124,177.50
2047						1,912,522.00		1,912,522.00	1,912,522.00
2048						1,910,063.00		1,910,063.00	1,910,063.00
2049						1,905,635.00		1,905,635.00	1,905,635.00
2050						1,904,238.00		1,904,238.00	1,904,238.00
2051						1,900,693.00		1,900,693.00	1,900,693.00
	$17,074,340.00	$17,074,340.00	$3,988,262.50	$61,835,400.00	$59,973,897.50	$46,057,013.06	$29,158,125.00	$183,223,536.56	$218,087,038.06

The debt service requirements do not include the Series 2012 and Series 2019 issue which is solely secured by a take-or-pay contract between the San Antonio Water System and the Corporation.

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APPENDIX B

General Information Regarding the City of Seguin and Guadalupe County, Texas

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This Appendix contains a brief discussion of certain economic and demographic characteristics of the area in which the City is located. Information in this Appendix has been obtained from the sources noted. They are believed to be reliable, although no investigation has been made to verify the accuracy of such information. Much of the information was obtained from the Seguin Area Chamber of Commerce, and the City of Seguin and Guadalupe County *Texas Municipal Reports.*

Economic and Demographic Characteristics

The City of Seguin, Texas (the "City") is located in South Central Texas and is the county seat and principal commercial center of Guadalupe County (the "County"). The City is located on Interstate Highway 10, about 35 miles east of San Antonio, 160 miles west of Houston, and 50 miles south of Austin, the State capital.

Incorporated in 1853, the City operates under a Home Rule Charter, which was adopted on December 7, 1971. The City has a council-manager type of government composed of the City Manager, Mayor and eight Councilpersons elected for four-year terms.

The Seguin-Guadalupe County economy is an important contribution to the San Antonio metropolitan area. Industry, agriculture and agribusiness, minerals, education, and recreation are major contributors.

Population

	1970	1980	1990	2000	2010	Est. 2019
City	15,934	17,854	18,853	22,011	25,175	31,218
County	33,354	46,700	64,874	89,023	131,533	163,694

Major Area Employers

The area has been economically stable for many years because of the industries located there. The major area employers, their products and approximate number of employees, as currently reported by the Seguin Economic Development Corporation, are given below:

Name	Product	Number of Employees
Caterpillar	Engine Assembly	2,190
Continental Automotive Systems	Automotive Manufacturing	1,600
Seguin Independent School District	Education	1,130
CMC Steel Texas	Steel Products Manufacturing	840
Tyson Foods, Inc.	Poultry Processing	745
Guadalupe Regional Medical Center	Healthcare	700
Guadalupe County	County Government	595
Texas Lutheran University	Higher Education	400
HEB	Retail	340
Walmart Supercenter	Retail	300
Hexel	Manufacturing	262
City of Seguin	City Government	249
Total		9,351

Many people commute to nearby San Antonio and Randolph Air Force Base for employment.

With the development of SH-130 providing an alternate route from the IH-35 gridlock, commercial traffic is diverted from just north of Austin to Seguin. This places Seguin as a very strategic location for distribution centers and manufacturers alike and will impact both retail and industrial market growths complimenting the already accelerated growth trend.

The City of Seguin, the Seguin Economic Development Corporation and NewQuest Properties continue to work together to make the Seguin Town Center Development a reality. The proposed mixed-use development located at the intersection of State Highway 46 and Interstate 10 in Seguin, will encompass 545 acres and includes plans for over 700,000 square feet of retail space, as well as tracts for residential and other commercial development. Major infrastructure improvements have been tackled in order to accommodate proposed developments at the site. Completed infrastructure improvements include the construction of a new frontage road with curb cuts, extension of sanitary sewer under Interstate 10 to the property line and construction of a new 1-million-gallon elevated water storage tank located half a mile away from the site. All parties are working together to aggressively market the site to prospective residential developers and retail anchor tenants. NewQuest anticipates that construction of the Seguin Town Center development will commence once a residential developer and a retail anchor tenant are secured.

Labor Force Statistics - Guadalupe County

Annual Average	2018	2017	2016	2015	2014	2014
Civilian Labor Force	79,824	77,510	74,988	72,288	71,566	69,580
Total Employed	77,326	74,946	72,296	69,720	68,501	65,654
Total Unemployed	2,497	2,564	2,692	2,568	3,065	3,926
% Unemployed	3.1%	3.3%	3.6%	3.6%	4.3%	5.6%
% Unemployed (Texas)	3.9%	4.3%	4.6%	4.5%	5.1%	6.4%
% Unemployed (United States)	3.9%	4.4%	4.9%	5.3%	6.2%	7.4%

Source: Texas Workforce Commission - Economic Research and Analysis Department, and United States Department of Labor.

Employment and Wages by Industry - Guadalupe County

	Number of Employees			
	Second Quarter 2019	Fourth Quarter 2018	Fourth Quarter 2017	Fourth Quarter 2016
Natural Resources and Mining	521	489	236	234
Construction	2,715	2,593	2,556	2,316
Manufacturing	8,130	8,119	7,644	7,209
Trade, Transportation & Utilities	9,952	10,482	12,379	10,904
Information	87	83	181	211
Financial Activities	1,083	1,083	1,113	1,127
Professional and Business Services	3,198	3,280	3,546	2,695
Education and Health Services	3,713	3,598	3,544	3,346
Leisure and Hospitality	4,320	4,443	4,129	4,363
Other Services	1,353	1,284	1,103	1,031
Unclassified	23	46	69	23
Federal Government	220	213	226	225
State Government	166	167	161	169
Local Government	6,312	6,243	6,182	6,123
Total Employment	41,792	42,123	43,069	39,976
Total Wages	$475,568,905	$479,468,313	$466,903,178	$416,486,332

Source: Texas Workforce Commission - Texas Labor Market Information.

Agriculture

Guadalupe County agricultural income is derived from beef, dairy cattle, hogs, and poultry. Crops include sorghum, corn, wheat, oats, cotton, peanuts and pecans.

Minerals

Minerals produced include oil, gas, sand and gravel. A part of Guadalupe County lies in the Austin Chalk formation from which there is considerable oil production.

Transportation

In addition to Interstate Highway 10, highway facilities include State Highways 46 and 123, and U.S. Highways 90 and 90-A. Interstate 35 goes through the western portion of Guadalupe County.

Railroad facilities are provided by Union Pacific Railroad.

Commercial air service is available at the nearby San Antonio International Airport or Austin Bergstrom. Small and medium sized private aircraft may land at two airfields located within 12 miles of downtown Seguin.

Four local motor freight carriers serve Seguin from local depots. Four additional motor freight carriers serve Seguin from terminals in nearby San Antonio.

Educational Facilities

The Seguin Independent School District, accredited by the Texas Education Agency, is administered by a board comprised of elected citizens who serve in their respective positions without compensation. In addition to the basic curriculum prescribed by the state for grades K through 12, the District offers a wide range of electives. There are extensive special education and vocational education programs, as well as provisions for the accelerated students.

In addition, pre-school and day care centers are located throughout the City with religious and secular programs. Private and parochial schools, representing many teaching disciplines and religious affiliations, can also be found in the area. Baptist, Lutheran, Catholic and other Christian faiths provide pre-school and some elementary through high school programs. There is one Montessori program offered.

Texas Lutheran University ("TLU"), a fully accredited four-year co-educational senior liberal arts institution of higher learning, is located in Seguin. TLU's 1,400 students (50-50, male/female) come from 36 states and seven foreign countries. The 15:1 student-teacher ratio allows for small classes. TLU has been listed as one of the top ten small colleges in the southern United States by the U.S. News and World Report survey of college presidents for 15 out of 16 years. TLU is a central part of life in Seguin and the university pumps an estimated $50 million into the Seguin economy annually.

The Central Texas Technology Center (the "CTTC") is a District Workforce Specialty Campus located minutes from downtown Seguin. The CTTC consists of a 25,000-square-foot facility. It is the area's first higher education facility dedicated to technology and it is a collaborative effort of the governing bodies and business development agencies of New Braunfels, Seguin and the Alamo Community College District (ACCD). The ACCD runs the programs, and classes provide college level education and training to residents of Comal, Guadalupe, Hays, Bexar and Wilson counties. An expansion project is currently underway to double the size of the facility.

Other educational facilities nearby include: Texas State University at San Marcos; University of Texas at Austin; and the San Antonio institutions of ACCD, Trinity University, St. Mary's University, University of Texas at San Antonio, The University of the Incarnate Word, Our Lady of the Lake University, and the University of Texas Health Science Center composed of schools of Dentistry, Nursing, Allied Health Sciences and graduate school of Biomedical Sciences.

Recreation

The Guadalupe River meanders through Guadalupe County and the City of Seguin in a northwest to southeast direction. Canyon Lake dam and reservoir are located in adjoining Comal County about thirty miles upstream from the City of Seguin and this impoundment usually assures the normal flow of the river and provides a variety of water sports including canoeing, tube floating and fishing in a very scenic setting. Other impoundments include Lake Placid, Lake McQueeney and Lake Dunlap, all of which provide boating, fishing and skiing.

Max Starke Park, owned by the City of Seguin, is a 160-acre park, which provides an 18-hole golf course, wave pool, tennis courts, baseball fields, and a large picnic area.

Seguin is also home to ZDT's Amusement Park. It is a family oriented amusement park with 11 attractions. The park draws numerous visitors to the area.

Community Services

Many cultural events are held at the Seguin-Guadalupe City Coliseum. The Jackson Auditorium at Texas Lutheran College, home of the Mid-Texas Symphony, hosts nationally and internationally renowned acts in music, theatre, and dance, as well as distinguished lecturers.

The One Seguin Art Center has brought area and out-of-town artistic activities to Seguin.

"Teatro de Artes de Juan Seguin" has brought area and out-of-town Mexican American artists through the annual events of Fiestas Patrias and Noche De Gala.

The Seguin-Guadalupe County Public Library offers a variety of programs for both children and adults. A major library expansion has resulted in enlargement of facilities from approximately 2,900 square feet to 9,600 square feet and an increase in the book collection from 38,000 to 68,000 volumes.

The City is served by two local daily newspapers. San Antonio and Austin daily newspapers are also available. Two radio stations, four commercial television stations and cable television serve the Seguin area.

Churches representing most religious denominations are available. Those not represented generally are available in nearby San Antonio.

Guadalupe Regional Medical Center, with an annual budget of $119 million, serves the area. The hospital currently has 107 acute care beds and 12 inpatient rehabilitation beds and has a staff of approximately 60 doctors. The hospital also provides Home Health and Hospice care. The Wellness Center provides an exercise facility for the community, outpatient physical therapy, and physician offices for new doctors. The Teddy Buerger Center is an outpatient psychiatric and substance abuse center. In addition to the hospital, several clinics are available in Seguin. Numerous hospitals and clinics are available in nearby San Antonio.

Financial

Commercial banks located in Seguin include First Commercial Bank, N.A., Bank of America, First American Bank of Texas, Wells Fargo, Prosperity Bank, Broadway National Bank, and Randolph-Brooks Federal Credit Union, Schertz Bank & Trust, and The First National Bank.

Growth Indices

Fiscal Year	City Building Permits Number Issued	Amount	City Sales Tax	Seguin ISD Enrollment
2007	1,026	$31,990,888	$4,857,969	7,326
2008	861	97,944,325	5,155,539	7,501
2009	694	35,680,585	5,022,478	7,559
2010	886	32,981,097	5,278,917	7,548
2011	756	27,276,413	5,281,333	7,548
2012	765	39,261,603	6,533,697	7,440
2013	906	45,228,136	6,918,184	7,514
2014	903	65,393,557	6,909,704	7,419
2015	1,093	82,433,635	7,214,240	7,459
2016	967	91,438,004	7,389,899	7,492
2017	584	94,487,487	7,434,928	7,425
2018	384	53,168,398	7,970,496	7,427
2019	444	*	7,970,110	7,343

Source: *City of Seguin and Seguin ISD.*
* *In fiscal year 2019, State law no longer allowed municipalities to request the value of projects.*

APPENDIX C

Excerpts from the City of Seguin Audited Financial Statement for the Year Ended September 30, 2018

CITY OF SEGUIN, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2018

Prepared by: Finance Department
Susan Caddell
Director of Finance

SEGUIN TEXAS

It's real.

March 4, 2019

The Honorable Mayor and City Council
City of Seguin, Texas

We are pleased to present the Comprehensive Annual Financial Report of the City of Seguin, Texas (the City), for the fiscal year ended September 30, 2018. Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the presented data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the various funds of the City. All disclosures necessary to enable the reader to gain an understanding of the City's financial activities have been included.

The City of Seguin's financial statements have been audited by Armstrong, Vaughan & Associates, PC, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Seguin for the fiscal year ended September 30, 2018, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor has issued an unqualified ("clean") opinion on the City's financial statements for the year ended September 30, 2018. The independent auditor's report is located at the front of the financial section of this report.

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

The Comprehensive Annual Financial Report is presented in three sections: introductory, financial, and statistical. The introductory section includes this transmittal letter, the City's organizational chart and a list of principal officials. The financial section includes the management's discussion and analysis letter, the government-wide financial statements, the fund financial statements, notes to the financial statements, as well as the auditor's report on the financial statements and schedules. The statistical section includes selected financial and demographic information, generally presented on a multi-year basis.

This report includes all funds of the City. The City provides a full range of services including: police and fire protection, health services, maintenance of streets, planning and zoning, parks and recreation, convention and visitors' bureau and general administrative services. The City also provides electric, water, and wastewater services; therefore, these activities are included in the reporting entity.

City of Seguin profile. The City of Seguin is the county seat and principal commercial center of Guadalupe County. Seguin is located thirty-five minutes east of San Antonio, fifty-five minutes south of Austin and about two and a half hours west of Houston. Seguin offers immediate access not only to Interstate 10, but to State Highway 130, the safe, fast and reliable alternative to congested Interstate 35 in Central Texas.

Founded in 1838 and incorporated in 1853, the City operates under a Home Rule Charter, which was adopted on December 7, 1971. The City has a council-manager type of government composed of the manager, mayor and eight councilpersons elected for four-year terms. The City Manager is the chief administrator and executive officer for the City and has full responsibility for carrying out Council policies and administering City operations, including hiring department Directors and all other City employees. City service departments provide a full range of services including police and fire protection, EMS services, building inspections, animal control services, parks and recreation services, golf, library services, public works services and general administrative services. In addition, the City of Seguin also provides electric, water and wastewater services.

Local economy. The City of Seguin has grown substantially since 1838, and today Seguin's economy is a vital component to the San Antonio metropolitan area. Seguin's diverse economy is made of primary industries such as advanced manufacturing, distribution and warehousing, healthcare, agriculture, and education. Numerous businesses and Fortune ranked companies have major operations located within the City of Seguin. This includes Continental Automotive Group, Commercial Metals Corporation (CMC), Tyson Foods, Inc., Caterpillar, Inc., The Interplast Group – Minigrip, Alamo Group, Georgia Pacific and Hexcel. Since 2015, several businesses have established new operations within the City of Seguin, including Tractor Supply Company, Niagara Bottling, United Alloy and American Colors.

Manufacturing is the heart of the Seguin economy. Nearly 30 % of Seguin's workforce is employed within the manufacturing industry. In fact, the Seguin area has over 4,000 manufacturing jobs; this is more than three times the national average. The City of Seguin's proximity to San Antonio and Austin enables our manufacturers to tap into a large, diverse and skilled labor pool. Seguin is located three hours away from the U.S. – Mexico Border via Interstate 35 and two and a half hours away from the Port of Houston, one of the world's largest sea ports. This provides Seguin manufacturers with great access to get materials in and out to their customers around the world.

It's not all about manufacturing in Seguin, the City is also home to growing education and healthcare industries as well. In 2018, U.S. News & World Report ranked Seguin's Texas Lutheran University the #1 Best Value School, the #2 Best College for Veterans, and the #2 Regional College in the West. Seguin's Guadalupe Regional Medical Center (GRMC) was the proud recipient of the Healthgrades 2018 Patient Safety Excellence Award, a designation that recognizes superior performance in hospitals that have prevented the occurrence of serious, potentially avoidable complications for patients during hospital stays. The distinction has placed GRMC in the top 5% of all short-term acute care hospitals in the United States for patient safety. Each year GRMC admits approximately 5,000 patients, treats 32,000 Emergency Department visits, delivers 700 babies, and performs 3,200 surgeries. GRMC contributes nearly $40 million per year to the local economy in salaries and benefits and is one of the largest employers in Guadalupe County. Jointly owned by the City of Seguin and Guadalupe County, GRMC is a not-for-profit community hospital committed to its values of compassion, teamwork, excellence, enthusiasm, and dedication.

The City of Seguin and the Seguin Economic Development Corporation continuously engage area employers in order to understand what needs to be done to remain economically competitive. Ensuring that we have strong workforce training options and a healthy talent pipeline will enable the City of Seguin to retain existing employers and will position us to recruit new ones.

The Alamo Colleges, in partnership with the Seguin Economic Development Corporation have worked to bring Alamo Colleges services to the Seguin area. Located just 15 minutes north of Seguin, the Central Texas Technology Center (CTTC) serves as an avenue for Seguin area residents and workers to attain entry-level skills or increase technical skills and to connect to jobs or higher education opportunities. Area high school students also benefit from the CTTC through the Alamo Academies. The Alamo Academies is a national award winning, innovative, STEM-based instructional model operated by the Alamo Area Academies Inc., a non-profit organization, in partnership with the Alamo Colleges. The Alamo Academies provides Seguin area youth with tuition-free career pathways into critical demand technical STEM occupations. The program utilizes contextualized industry-driven curricula resulting in 94% of graduates entering higher education or high-wage careers in Aerospace, Manufacturing, Information Technology, and Healthcare. The Seguin Economic Development Corporation provides annual funding to support the operations of the Academies in the Seguin region. This enables Seguin area high school students to participate in the Advanced Technology and Manufacturing Academy, as well as the Information Technology and Security Academy in conjunction with the Alamo Academies program. Facilities such as the CTTC and programs like the Alamo Academies help ensure that Seguin has a strong pipeline of skilled workers to fill the jobs of today and the jobs of the future.

Data provided by the Bureau of Labor Statistics indicates that Economic conditions within the State of Texas, the San Antonio-New Braunfels Metropolitan Statistical Area (MSA) and the City of Seguin continue to be strong. Seguin primary employers have continued to expand operations and add new workers. In 2018, the unemployment rate remained below 4%, averaging 3.4% for the year, while the labor force population averaged 13,373. From January 2017 to December 2018, the labor force population grew by about 2.9%. Unemployment rates in 2018 averaged 3.3% for the San Antonio-New Braunfels MSA, 3.2% for the City of New Braunfels, 3.3% for the City of San Antonio, and 3.4% for the City of Schertz —all rates considered by economist to be at full employment.

Comparing the San Antonio-New Braunfels MSA to the state and nation, the Texas unadjusted (actual) unemployment rate for 2018 averaged 3.85%. The nation's unadjusted (actual) unemployment rate averaged 3.9% for 2018.

In 2018, CMC Steel Texas worked with the City of Seguin and the Seguin Economic Development Corporation to successfully be designated as a Texas enterprise project by the Office of the Governor's Economic Development and Tourism Division. As a designated enterprise project, CMC Steel has committed to creating 18 new jobs, retaining 462 jobs and a capital investment of $150 Million at their Seguin facility.

In 2016, Caterpillar announced it would be closing an electric generator packaging facility in Newberry, South Carolina, and a generator assembly plant in Ridgeway, South Carolina. As a part of these consolidation efforts, Caterpillar shifted the operations of these facilities to three other plants, one of which was the Seguin, Texas facility. In addition, Caterpillar also relocated its Americas Sales and Marketing team to the Seguin, Texas facility. The relocation involved employees throughout the United States and Europe. As of the end of 2018, Caterpillar has grown their workforce from 1200 employees to nearly 2000. This is a direct result of the operations shifted to the Seguin facility. The transfer of operations to Caterpillar's Seguin Plant speaks volumes about our region's workforce and the business friendly Texas economy.

In the spring of 2016, Niagara Bottling opened its new 557,000 square foot bottling facility located on 30.77 acres of land off Interstate 10 at the intersection of Rio Nogales Drive and Eighth Street. The project created over $85 million in new capital investment and currently employs about 120 people. Niagara Bottling is currently finalizing plans to add a 4th production line to their Seguin facility. The new line will create 30 new jobs and will represent a $22 million investment.

Going into 2019, the Seguin Economic Development Corporation continues to work on a number of recruitment and retention projects that could result in investment and substantial job creation within the City of Seguin.

Long-term financial planning. The City issued $9,900,000 in utility revenue bonds in June 2018, which funded major water and wastewater improvements. In addition, the City issued $6,450,000 in certificates of obligation bonds in April 2018 which, provided funding for needed street and drainage improvements. The City also issued $1,424,000 in Tax Anticipation Notes to provide financing for the purchase of larger pieces of equipment.

FINANCIAL INFORMATION

Internal control. Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles for local governments as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB) and the American Institute of Certified Public Accountants (AICPA). The internal control structure is designed to provide reasonable, but not absolute assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and the valuation of costs and benefits requires estimates and judgments by management.

The City utilizes a computerized financial accounting system, which includes a system of internal accounting controls. Such controls have been designed and are continually being reevaluated to provide reasonable, but not absolute, assurances.

Budgeting Controls. The City also maintains budgetary controls. The objective of these budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of all funds are included in the annual appropriated budget. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. However, budgetary accounting is maintained on a line-item basis. The City also maintains an encumbrance accounting system as one technique of accomplishing budgetary control. Encumbered amounts lapse at year end, however, encumbrances generally are reappropriated as part of the following year's budget.

As demonstrated by the statements and schedules included in the financial section of this report, the City continues to meet is responsibility for sound financial management.

Financial rating. The City's bond rating for Fitch Ratings and Standard & Poor's is as follows:

	Fitch Ratings	Standard & Poor's
General Obligation Bonds	AA/stable outlook	AA/stable outlook
Utility Revenue Bonds	A+/stable outlook	A+/stable outlook

Retirement Plan. The City provides pension benefits for all of its full-time employees through the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system.

Deferred Compensation Plan. The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all City employees, permits them to defer a portion of their salary until future years. Participation in the plan is optional. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

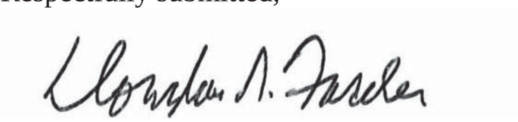
Health Benefits Trust Fund. During fiscal year 2009, the City established a Health Benefits Trust Fund and Retiree Insurance Trust Fund. These funds were established for the receipt of health insurance premiums from the benefits paid by the City, premiums paid by retirees and dependent premiums paid by employees and retirees. The disbursements of these premiums are also paid out of these funds.

OTHER INFORMATION

Independent Audit. The City Charter requires an annual audit of the books, accounts, financial records, and transactions of all administrative departments of the City by independent certified public accountants selected by the City Council. This requirement has been complied with and the independent auditors' report by Armstrong, Vaughan & Associates, P.C., Certified Public Accountants, has been included in this report.

Acknowledgements. The preparation of this report on a timely basis could not be accomplished without the efficient and dedicated services of the entire staff of the Finance Department. Each member of the department has our sincere appreciation for the contributions made in the preparation of this report. We would also like to thank the members of the City Council and the citizens of the City of Seguin for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Respectfully submitted,



Douglas G. Faseler
City Manager

Susan Caddell
Director of Finance

Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Sequin

Texas

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

September 30, 2017

Christopher P. Morrill

Executive Director/CEO

CITY OF SEGUIN, TEXAS

PRINCIPAL OFFICERS

DON KEIL .... Mayor

FONDA MATHIS. .... Mayor Pro-Tem

JEANETTE CRABB .... Councilwoman

DONNA DODGEN .... Councilwoman

MARK HERBOLD. .... Councilman

ERNESTO M. LEAL .... Councilman

CARLOS MEDRANO (deceased) .... Councilman

CHRIS RANGEL .... Councilman

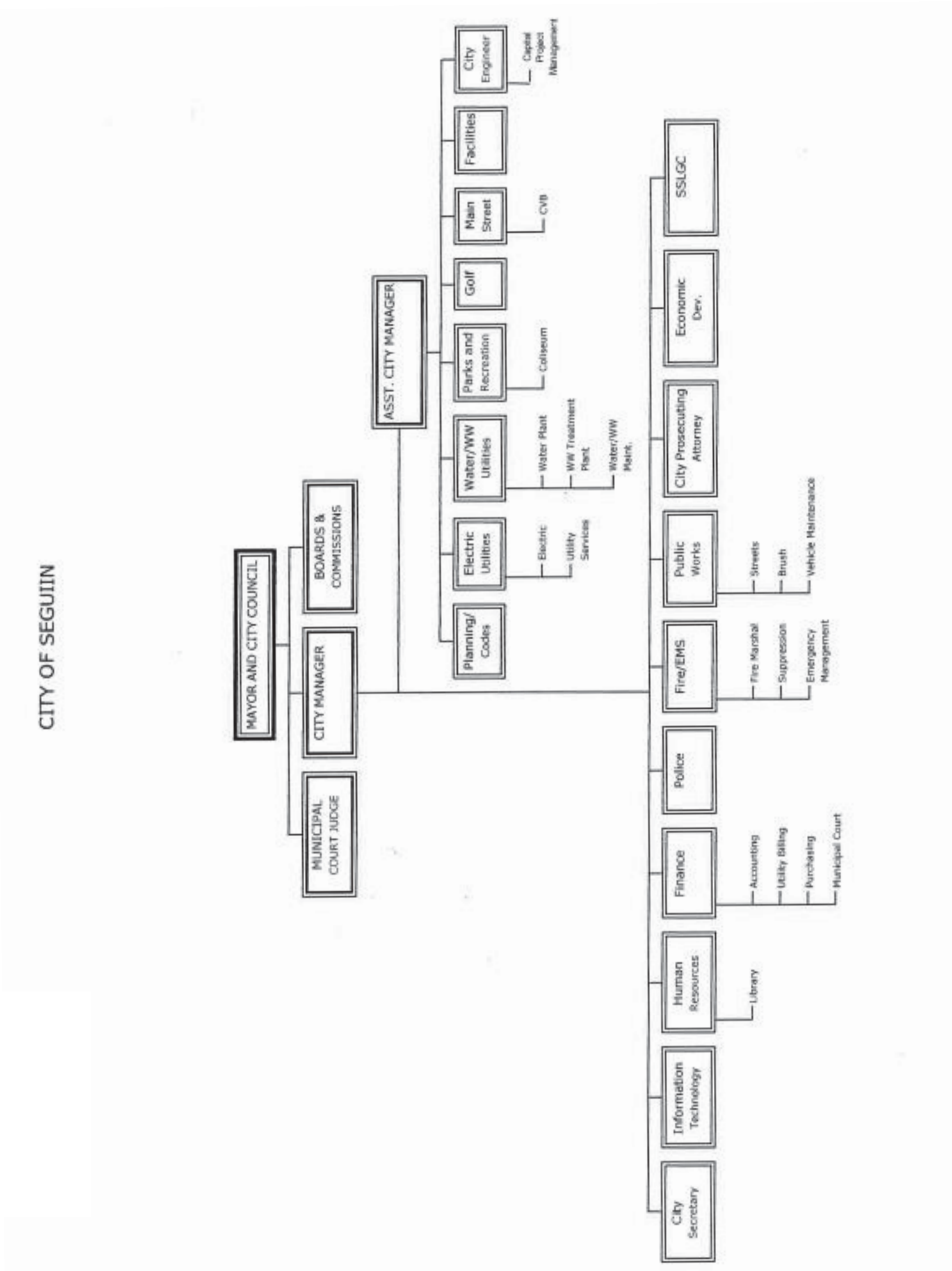
DOUG FASELER
City Manager

RICK CORTES .... Assistant City Manager

NAOMI MANSKI .... City Secretary

SUSAN CADDELL .... Director of Finance

ANDREW QUITTNER .... City Attorney


CITY OF SEGUIIN
MAYOR AND CITY COUNCIL
MUNICIPAL COURT JUDGE
CITY MANAGER
BOARDS & COMMISSIONS
ASST. CITY MANAGER
Planning/ Codes
Electric Utilities
Electric
Utility Services
Water/WW Utilities
Water Plant
WW Treatment Plant
Water/WW Maint.
Parks and Recreation
Coliseum
Golf
Main Street
CVB
Facilities
City Engineer
Capital Project Management
City Secretary
Information Technology
Human Resources
Library
Finance
Accounting
Utility Billing
Purchasing
Municipal Court
Police
Fire/EMS
Fire Marshal
Suppression
Emergency Management
Public Works
Streets
Brush
Vehicle Maintenance
City Prosecuting Attorney
Economic Dev.
SSLGC

Armstrong, Vaughan & Associates, P. C. Certified Public Accountants
Deborah F. Fraser Phil S. Vaughan Nancy L. Vaughan Kimberly J. Roach

INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and
Members of the City Council
City of Seguin, 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 Seguin, Texas, 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

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Seguin Economic Development Corporation (component unit) were not audited in accordance with *Government Auditing Standards*.

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

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

941 West Byrd Blvd., Suite 101 • Universal City, Texas 78148
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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 of Seguin, Texas, 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

As discussed in Note A23 to the financial statements, in 2018 the City adopted new accounting guidance from Governmental Accounting Standards Board Statement No. 75 related to accounting for other post-employment benefits. This resulted in a restatement of prior year balances. 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 management's discussion and analysis, budgetary comparison information, schedules of changes and city contributions – defined benefit plan, and other postemployment benefits, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 management's discussion and analysis, budgetary comparison information and schedules of funding progress 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 of Seguin, Texas' basic financial statements as a whole. The comparative statements, combining and individual nonmajor fund financial statements, introductory section, statistical section, and schedule of expenditures of federal awards (SEFA) as required by the audit requirements of Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The comparative financial statements, combining and individual nonmajor fund financial statements, and SEFA 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, individual nonmajor fund financial statements, and SEFA are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2019 on our consideration of the City of Seguin, Texas' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Seguin, Texas' internal control over financial reporting and compliance.

Armstrong, Vaughan & Associates, P.C.

February 22, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Seguin, we offer readers of the City of Seguin's financial statements this narrative overview and analysis of the financial activities for the City of Seguin for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the introductory section of this report, and the City's financial statements immediately following this analysis.

FINANCIAL HIGHLIGHTS

- The assets and deferred outflows of resources of the City of Seguin exceeded its liabilities at the close of the fiscal year ending September 30, 2018, by $115,752,891 (net position). Of this amount, $30,685,639 (unrestricted net position) may be used to meet the government's ongoing obligations to citizens and creditors.

- The City's total net position increased by $8,643,583 or 8% compared to the prior fiscal year.

- As of September 30, 2018 the City of Seguin's governmental funds reported combined ending fund balances of $36,024,628, a decrease of $313,573.

- At the end of the current fiscal year, unassigned fund balance for the General Fund was $10,529,800, or 48.6% of total General Fund expenses.

- The City's total debt increased by $13,997,806 during the current fiscal year. The City issued Certificates of Obligation Bonds for $6,450,000, Tax Anticipation Notes for $1,424,000 and Utility Revenue Bonds for $9,900,000.

- During the year, the City's expenses were $2,265,528 less than the $34,917,264 generated in taxes and other revenues for governmental activities before transfers.

- The total cost of the City's governmental activity programs increased by $448,106 from last year, and no new programs were added this year. Salaries and benefits increased from fiscal year 2017.

OVERVIEW OF THE FINANCIAL STATEMENTS

The discussion and analysis serves as an introduction to the City of Seguin's basic financial statements. The City of Seguin's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The comprehensive annual financial report (CAFR) also contains other supplementary information in addition to the basic statements themselves.

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

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

The *statement of activities* presents information showing how the City's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but not used vacation leave).

In the *statement of net position* and the *statement of activities*, the City's operations are divided into two kinds of activities:

1 Governmental Activities – Most of the City's basic services are reported here, such as public safety, public works and general administration. Property taxes, franchise fees and charges for services finance most of these activities.

2 Business-Type Activities – The City charges a fee to customers to help cover all or most of the cost of certain services it provides. The City's Utility Fund, which include, electric, water and wastewater services, are reported here.

In addition, the *government-wide financial statements* include not only the City of Seguin itself, but also the Seguin Economic Development Corporation, a legally separate component unit for which the City is financially accountable. Financial information for this component unit is reported separately from the primary government and business-type activities.

The *government-wide financial statements* can be found on pages 15 - 18 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Seguin, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Some funds are required to be established by state law and by bond covenants. However, the City establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants and other money. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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 balances of spendable resources available at the end of the fiscal year. Governmental funds statements are reported using current financial resources measurement focus and the modified accrual basis of accounting.

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. The relationships or differences between governmental activities (reported in the *statement of net position* and the *statement of activities*) and governmental funds are detailed in a reconciliation following the fund financial statements.

Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund and Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated nonmajor fund presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in the CAFR.

The basic governmental fund financial statements can be found on pages 19 - 24.

Proprietary funds. The City charges customers for certain services it provides. These services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *statement of net position* and the *statement of activities.*

The City maintains two different types of proprietary funds. The Utility Fund is a business-type activity and consists of revenues from charges for electric, water and wastewater sales. The Internal Service Funds account for revenues and expenditures for the employee health insurance, retiree health insurance and workers' compensation insurance. The fund financial statements provide the same type of information as the government-wide financial statements, only in more detail.

The proprietary funds financial statements can be found on pages 25 - 29 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City of Seguin's own programs. The method of accounting utilized for these funds is similar in nature to that of the proprietary funds.

The basic fiduciary fund financial statements can be found on pages 30 - 31 of this report.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 32 - 68 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's general fund budgetary schedule. The City of Seguin adopts an annual appropriated budget for its general fund. A budgetary comparison schedule has been provided for the general fund to demonstrate compliance with this budget. Required supplementary information can be found on pages 69 - 79 of this report.

In addition, this report also contains certain required supplementary information concerning the City of Seguin's progress in funding its obligation to provide pension benefits to City staff and members of the City's firemen's pension fund, as well as funding progress for other postemployment benefits (health insurance) provided to retirees.

The combining statements referred to earlier in connection with nonmajor governmental and enterprise funds and individual internal service funds are presented immediately following the required supplementary information described in the preceding paragraph. Combining and individual fund statements can be found on pages 80 - 122 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. As of September 30, 2018, the City of Seguin's assets and deferred outflows of resources exceeded liabilities by $115,752,891. Table A-1 is a condensed version of the City's statement of net position for the years ended September 30, 2018 and 2017, respectively.

The largest portion of the City's total net position (68.2%) is its net investment in capital assets (e.g., land, buildings, machinery, and equipment); less any related debt used to acquire those assets that is still outstanding. The City of Seguin 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 capital assets themselves cannot be used to liquidate these liabilities. The next largest portion of the City's total net position (26.5%) is its unrestricted net position.

Table A-1
City of Seguin's Net Position

	Governmental Activities		Business-Type Activities		Total	
	2018	2017*	2018	2017*	2018	2017*
Assets						
Current assets	$ 28,177,210	$ 27,017,724	$ 42,318,382	$ 37,207,003	$ 70,495,592	$ 64,224,727
Capital assets	99,413,041	91,443,641	92,015,611	90,354,183	191,428,652	181,797,824
Other non current assets	12,759,464	15,653,893	21,517,416	14,459,337	34,276,880	30,113,230
Total assets	140,349,715	134,115,258	155,851,409	142,020,523	296,201,124	276,135,781
Deferred Outflows of Resources	3,403,782	5,132,092	1,088,610	1,741,400	4,492,392	6,873,492
Liabilities						
Current liabilities	26,355,322	7,854,771	4,285,054	7,246,835	30,640,376	15,101,606
Noncurrent liabilities	84,442,920	102,230,507	59,969,809	58,567,856	144,412,729	160,798,363
Total liabilities	110,798,242	110,085,278	64,254,863	65,814,691	175,053,105	175,899,969
Deferred Inflows of Resources	1,426,359	-	554,507	-	1,980,866	-
Net Position						
Invested in Capital Assets	28,797,978	30,491,009	50,116,822	49,099,409	78,914,800	79,590,418
Restricted	3,098,632	2,806,714	3,053,820	2,975,869	6,152,452	5,782,583
Unrestricted	(367,714)	(4,135,651)	31,053,353	25,871,954	30,685,639	21,736,303
Total Net Position	$ 31,528,896	$ 29,162,072	$ 84,223,995	$ 77,947,232	$ 115,752,891	$ 107,109,304

**Restated for GASB 75*

An additional portion of the City of Seguin's net position (5.3%) is subject to external restrictions, including bond covenants, on how they must be used. The remaining balance of unrestricted net position of $30,685,639 may be used to meet the government's ongoing obligations to citizens and creditors.

Changes in Net position. The City's total government-wide revenues increased by $3,114,757 or 3.7%. This was largely due to increase in electric, water and sewer revenue along with an increase in property tax revenue and an increase in the developer contributions. The City's total government-wide expenses increased by $1,364,785 or 1.8%. There was a large increase in wholesale power costs, along with an increase in salaries and benefits and depreciation.

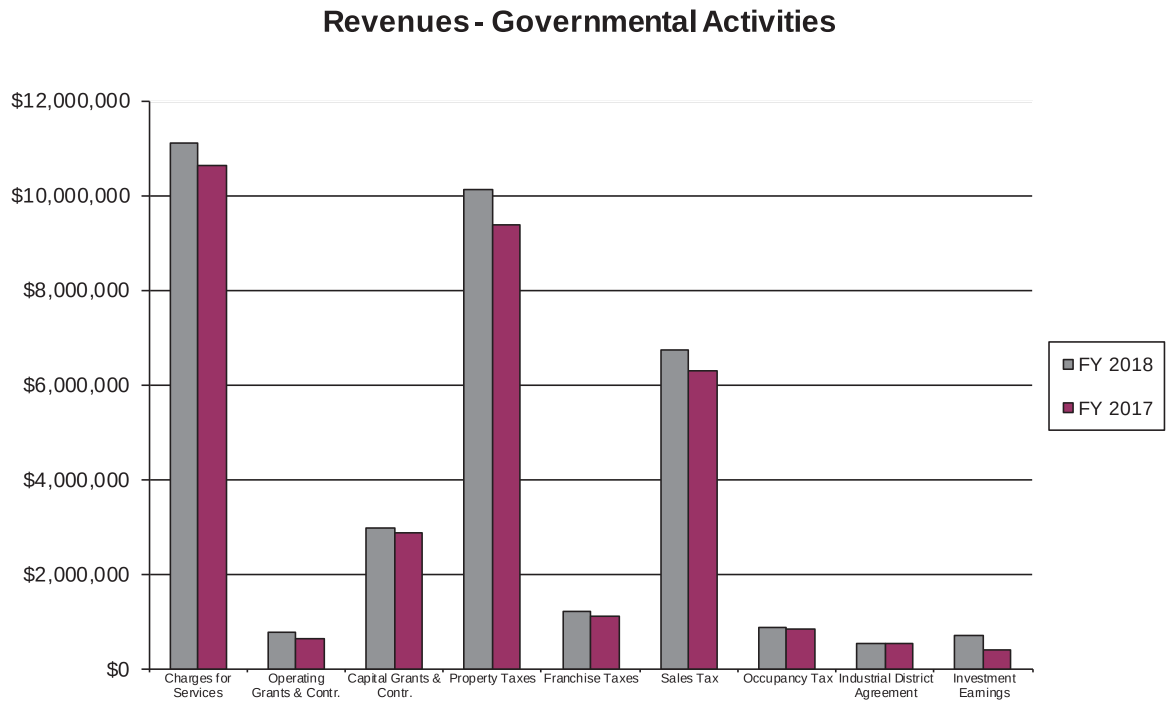
Table A-2
Changes in City of Seguin's Net Position

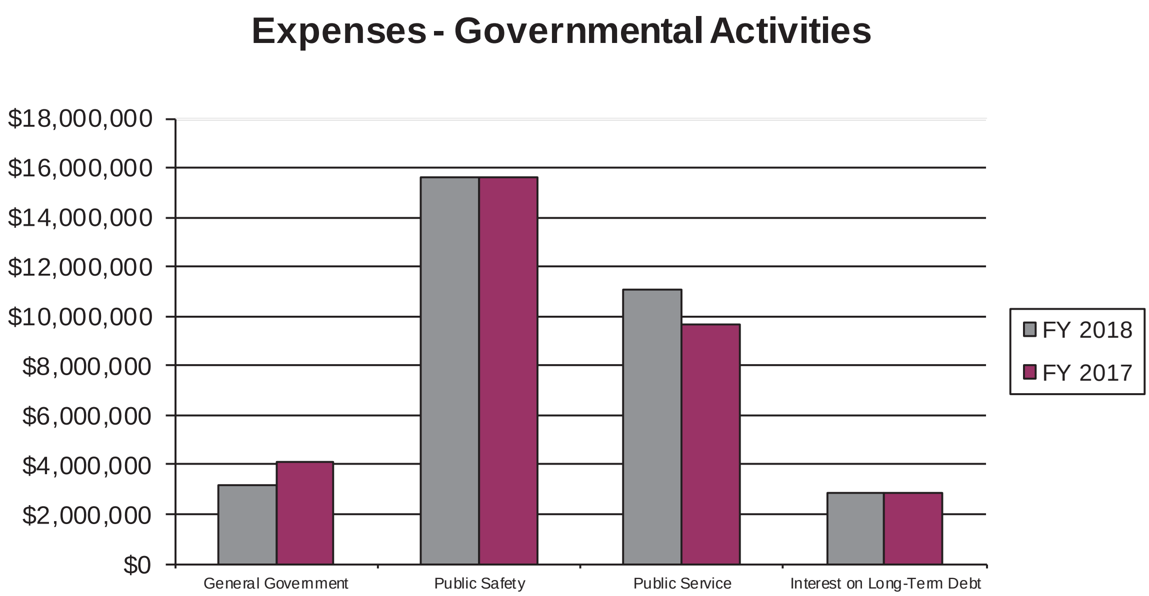
	Governmental Activities		Business-Type Activities		Total	
	2018	2017*	2018	2017*	2018	2017*
Program Revenues:						
Charges for Services	$ 11,086,538	$ 10,619,004	$ 52,260,672	$ 49,979,572	$ 63,347,210	$ 60,598,576
Operating Grants and Contributions	760,164	618,406	-	-	760,164	618,406
Capital Grants and Contributions	2,952,449	2,868,007	-	1,845,532	2,952,449	4,713,539
General Revenues						
Property Taxes	10,126,201	9,362,955	-	-	10,126,201	9,362,955
Franchise Taxes	1,187,699	1,096,104	-	-	1,187,699	1,096,104
Sales Tax	6,729,041	6,271,333	-	-	6,729,041	6,271,333
Occupancy Tax	861,218	842,217	-	-	861,218	842,217
Industrial District Agreement	535,000	531,294	-	-	535,000	531,294
Investment Earnings	678,954	400,790	764,923	389,947	1,443,877	790,737
Gain (Loss) on Sale of Assets	-	-	660	3,601	660	3,601
Total Revenues:	34,917,264	32,610,110	53,026,255	52,218,652	87,943,519	84,828,762
Expenses:						
General Government	3,154,001	4,116,593	-	-	3,154,001	4,116,593
Public Safety	15,581,434	15,578,523	-	-	15,581,434	15,578,523
Public Service	11,044,845	9,644,071	-	-	11,044,845	9,644,071
Interest on Long-Term Debt	2,871,456	2,864,443	-	-	2,871,456	2,864,443
Utility	-	-	46,648,195	45,731,516	46,648,195	45,731,516
Total Expenses	32,651,736	32,203,630	46,648,195	45,731,516	79,299,931	77,935,146
Excess (Deficiency) Before	2,265,528	406,480	6,378,060	6,487,136	8,643,588	6,893,616
Transfers In (Out)	101,297	81,723	(101,297)	(81,723)	-	-
Increase (Decrease) in Net Position	$ 2,366,825	$ 488,203	$ 6,276,763	$ 6,405,413	$ 8,643,588	$ 6,893,616

**Restated for GASB 75*

Governmental activities. The City's total governmental revenues increased by $2,307,154 or 7.1% above last year. The City's total governmental expenses increased by $448,106 or 1.4% above last year.

- Capital Grants and Contributions and Operating Grants and Contributions increased by $226,200 or 6.49%.
- Property Taxes increased by $763,246 or 8.15%. Property values increased along with an increase in debt service payments. This was the first full year the debt service payments were made for the 2016-A General Obligation Bonds.
- Interest and Investment Earnings increased by $278,164. An increase in interest rates along with investments in higher yield investments occurred in FY18.
- Sales Tax increased by $457,708 or 7.3%. In FY18, the City received a sales tax audit refund from the state in the amount of $298,905.
- The most significant governmental expense for the City was in providing for public safety, which incurred expenses of $15,581,434. These expenses are offset by revenues collected from a variety of sources, with the largest being from fines and penalties in the amount of $1,510,971. Additional funding also included EMS revenue in the amount of $1,531,458 and Fire and EMS interlocal agreements with Guadalupe County in the amount of $616,235. The major components of public safety are police and fire. Police accounted for $7.2 million in public safety expense while Fire accounted for $5.8 million in public safety expense.

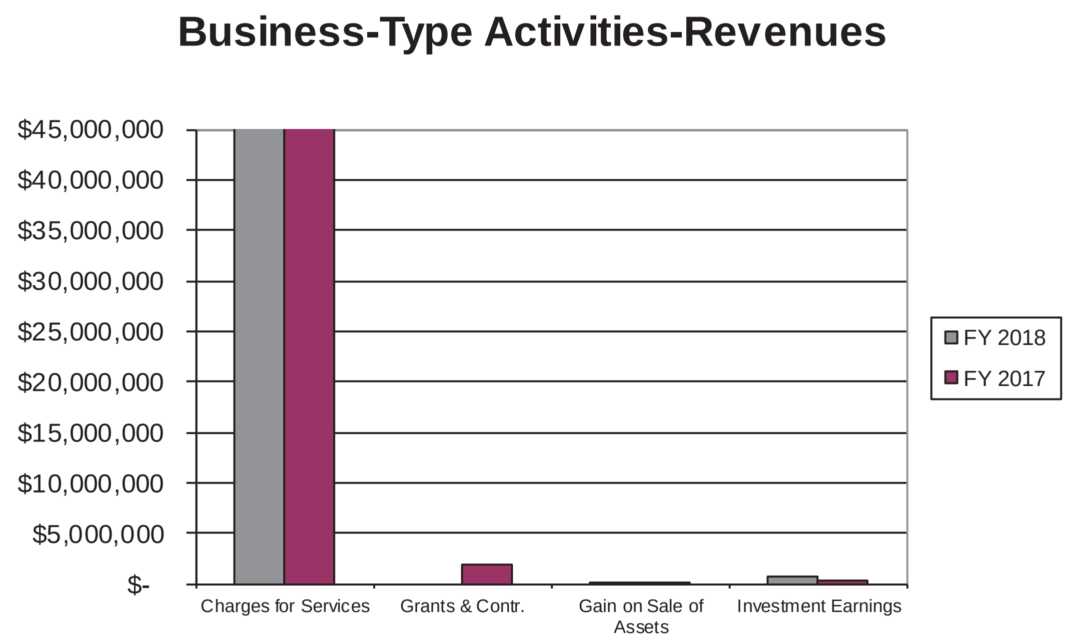


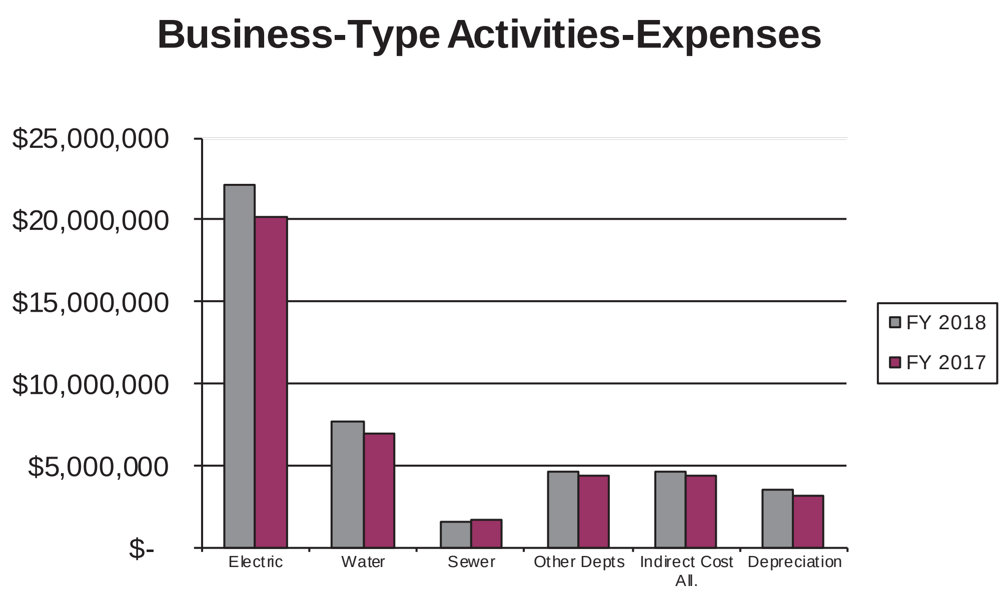


Business-type activities. The City's total business-type revenues increased by $957,603 or 1.8%. The City's total business-type expenses increased by $1,066,679 or 2.3%.

- Electric revenues make up $30.6 million of the charges for services. This year electric revenues increased by $427,214. The increase was due to an increase in consumption. Wholesale power costs decreased by $1,384,947 or 7.58%.
- Water revenues make up $11.6 million of the charges for services. This year water revenues increased by $1,247,853 or 12.04%. This was a result of an increase in consumption along with an increase in rates. The wholesale water costs increased by $245,258 or 7.32%. The City purchases water from the Schertz-Seguin Local Government Corporation (SSLGC).

- Sewer revenues make up $8 million of the charges for services. This year sewer revenues increased by $751,356 or 10.35%. This was due to an increase in water consumption along with an increase in rates.





FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

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

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

At the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of $36,024,628. This is a decrease of $313,573. We continue to spend down bond proceeds received in previous fiscal years. Of this total amount of fund balance, $10,529,800 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balances is as follows: 1) nonspendable fund balance in the amount of $153,322 which are prepaids and inventory, 2) restricted fund balance in the amount of $16,022,560, which are restricted to tourism and economic development, public safety, public service, capital projects or debt service, 3) committed fund balance in the amount of $2,502,026, which is committed to stabilization agreement and aquatic and golf fees, and 4) assigned fund balance in the amount of $6,816,920, which is assigned to capital projects.

The General Fund is the main operating fund of the City of Seguin. At the end of the current fiscal year, unassigned fund balance of the General Fund was $10,529,800, while total fund balance reached $13,003,111. Of this amount, $1,634,454 is attributable to the balance of a tax exemption settlement agreement. 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. With the $1,634,454 taken out of the equation, unassigned fund balance represents 41.1% of general fund expenditures, while total fund balance represents 52.5% of that same amount.

The General Fund Capital Projects Fund has a total fund balance of 6,288,162, an increase of $1,805,133. Additional projects have been funded and are in progress.

At the end of FY18, six bond funds had a total fund balance of $12,593,408. This was a decrease of $2,494,834. Even though new bond proceeds in the amount of $7,874,000, the City still spent down bond funds issued in previous years.

Other factors concerning the finances of governmental fund have already been addressed in the discussion of the City's governmental activities in the government-wide financial statements.

Proprietary funds. The City of Seguin's proprietary funds are utilized to account for operations of the City that are commercial in nature and accounted for in a manner more similar to private enterprise. The statements for proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Utility Fund at the end of the year amounted to $31,053,353. The restricted net position for debt services is $474,501, while restricted net position for impact fees is $2,579,319. Net position invested in capital assets amounted to $50,116,822.

GENERAL FUND BUDGETARY HIGHLIGHTS

For FY 2017-18, actual revenues on a budgetary basis were $23,565,676 compared to the final budget of $22,905,742, which is $659,934 above budget. Property tax exceeded budget by $101,130 due to an increase in values. Sales tax exceeded budget by $412,913.

For FY 2017-18, actual expenditures on a budgetary basis were $21,649,201 compared to the final budget of $23,558,553, which was $1,909,352 below final budget amounts. Some departments had employee turnover resulting in their personnel services being under budget and savings on other operating expenditures. Indirect cost allocation also exceeded budget by $169,725.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets. At the end of 2018, the City had invested $191,428,652, net of depreciation, in a broad range of capital assets, including land, equipment, buildings, and vehicles. (See Table A-3.) This amount represents a net increase (including additions and deductions) of $9,630,828 or 5.3%. The increase was due in part to large bond projects being completed or underway begun during fiscal year 2018. More detailed information about the City's capital assets can be found in Note G, page 46 - 47.

Table A-3

City of Seguin's Capital Assets

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2018	2017	2018	2017	2018	2017	2017 - 2018
Land	$ 4,584,816	$ 4,584,815	$ 727,026	$ 727,026	$ 5,311,842	$ 5,311,841	0.0%
Buildings and Improvements	37,932,843	37,836,176	36,648,795	35,938,858	74,581,638	73,775,034	1.1%
Improvements Other than Buildings	77,074,132	64,790,507	101,676,276	89,868,569	178,750,408	154,659,076	15.6%
Transportation and Equipment	19,716,519	17,875,883	8,569,917	8,060,934	28,286,436	25,936,817	9.1%
Construction in Progess	14,867,151	16,352,771	11,508,821	18,028,664	26,375,972	34,381,435	-23.3%
Totals at Historical Cost	154,175,461	141,440,152	159,130,835	152,624,051	313,306,296	294,064,203	6.5%
Total Accumulated Depreciation	(54,762,420)	(49,996,511)	(67,115,224)	(62,269,868)	(121,877,644)	(112,266,379)	8.6%
Net Capital Assets	$ 99,413,041	$ 91,443,641	$ 92,015,611	$ 90,354,183	$ 191,428,652	$ 181,797,824	5.3%

Long-term debt. At year-end, the City had $138,793,223 in bonds, loans and capital leases outstanding as shown in Table A-4. This was an increase of $12,859,806 or 10.2% from 2017. This fiscal year, the City issued Certificates of Obligation in the amount of $6,450,000, Tax Anticipation Notes in the amount of $1,424,000 and Utility Revenue Bonds in the amount of $9,900,000. More detailed information about the City's debt is presented in Notes H and I, pages 48 – 52.

The City's tax-supported debt rating by Fitch is AA with a stable outlook while Standard and Poor rating is AA with a stable outlook. The City's utility system revenue bonds' rating by Fitch is A+ with a stable outlook while Standard and Poor rating is A+ with a stable outlook. The current ratio of net tax-supported debt to assessed value of all taxable property is 4.4%. The pledged revenue coverage for the utility system revenue bonds is 3.47.

Table A-4

City of Seguin's Long-Term Debt

	Governmental Activities		Business-Type Activities		Total		Total Percentage Change
	2018	2017	2018	2017	2018	2017	2017-2018
Bonds Payable	$ 37,628,666	$ 39,590,288	$ 57,826,333	$ 49,699,711	$ 95,454,999	$ 89,289,999	6.9%
Certificates of Obligation	41,883,000	35,090,000	-	-	41,883,000	35,090,000	19.4%
Tax Anticipation Notes	1,138,000	-	-	-	1,138,000	-	100.0%
Capital Leases	1,455,224	1,517,298	-	36,120	1,455,224	1,553,418	-6.3%
Total Bonds & Notes Payable	$ 82,104,890	$ 76,197,586	$ 57,826,333	$ 49,735,831	$ 139,931,223	$ 125,933,417	11.1%

Net Pension Liability. The City's net pension liability is determined annually by an actuarial valuation. The City's net pension liability decreased by $3,915,368, from $33,593,619 to $29,678,251. Over the past several years, the City has been contributing more than what was required in order to reduce the liability. In FY18, the city contributed $1,000,480 more than what was required. The excess contributions, along with increased earnings on investments, have helped to reduce the net pension liability.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

During the budget process for fiscal year 2018-19, City staff and City Council considered many factors when setting the budget. Staff reviewed all of the fees charged to citizens and customers when using City services. Along with the fees, staff also considered the tax rate. They also reviewed expenditures and how the increases may be held to a minimum. The City set a goal to maintain financial stability, a lean organization, a competitively paid staff and investment in capital outlay. This helped to maintain the City's services with the least affect possible on our citizens through taxes, fees, and utility rates. The projected revenues and expenditures for the General Fund are budgeted to increase by $1,978,930 or 6.8% above the FY18 budget.

- Property tax revenue is budgeted to increase by $770,963. This is based upon an increase in values.
- The property tax rate of $.5412/$100 remained the same as the prior year. It is higher than the effective rate by $.01.
- ROW User Fees is budgeted to increase by $533,512, which is based upon electric, water, and sewer revenues in the Utility Fund.
- Miscellaneous Revenue is budgeted to increase by $365,000. The City is expected to receive a refund of indigent health care payments made to Guadalupe County in FY19.
- Building Permits is budgeted to increase by $100,000 based upon anticipated construction of several new developments.
- Salaries and benefits are budgeted to increase by $728,119. This includes a 2% cost of living effective January 1.
- Indigent Health Care is budgeted to increase by $121,085, which represents a 7.5% increase.

The projected revenues and expenditures for the Utility Fund are budgeted to increase by $4,137,527 or 8.8% above the FY18 budget.

- Electric revenue is budgeted to increase by $2,201,600 due to increase in consumption of residential and industrial customers in FY18.
- Water revenue is budgeted to increase by $1,154,111 due to a new wholesale water sales contract and an increase in rates as recommended by a water/wastewater rate study.
- Sewer revenue is budgeted to increase by $734,500 due to an anticipated increase in consumption and customers along with an increase in rates.
- Wholesale power is budgeted to increase by $629,731 due to an increase in consumption.
- ROW User Fees is budgeted to increase by $533,512 due to an increase in revenue and an increase in the percentage of the electric fee from 3% to 4%.
- Salaries and benefits are budgeted to increase by $447,393. This includes a 2% cost of living effective January 1.
- Transfers to the Rate Stabilization Fund is budgeted to increase by $400,000 in order to transfer the remaining funds to provide full recommended funding.
- Indirect cost allocation is budgeted to increase by $250,000 based upon prior years.
- Water Purchased is budgeted to increase by $212,000 due to an increase in the rates paid to SSLGC.

CONTACTING THE CITY’S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City’s finances and to show the City’s accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Department, at the City of Seguin, 205 North River Street, Seguin, Texas 78155.

BASIC FINANCIAL STATEMENTS

The basic financial statements include integrated sets of financial statements as required by the GASB. The sets of statements include:

- Government – wide financial statements
- Fund financial statements:
    - Governmental funds
    - Proprietary funds
    - Fiduciary funds

In addition, the notes to the financial statements are included to provide information that is essential to a user's understanding of the basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Primary Government			Component Unit
ASSETS	Governmental Activities	Business-Type Activities	Total	Seguin Economic Development Corporation
Cash and Cash Equivalents	$ 1,147,325	$ 731,075	$ 1,878,400	$ 3,833
Investments	22,870,055	31,611,401	54,481,456	584,328
Receivables (net of allowances for uncollectibles)				
Taxes	2,158,540	-	2,158,540	-
Accounts	1,063,338	6,036,506	7,099,844	696
Grants	709,054	-	709,054	-
Miscellaneous	75,576	2,076,198	2,151,774	-
Due From Component Unit/ Primary Government	-	21,505	21,505	215,049
Inventories	20,559	1,785,251	1,805,810	-
Prepaids	132,763	56,446	189,209	-
Restricted Assets:				
Cash and Cash Equivalents	4,017	58,444	62,461	-
Investments	12,755,447	21,039,111	33,794,558	-
Notes Receivable	-	-	-	207,789
Net Present Value of Lease Financing	-	419,861	419,861	-
Capital Assets:				
Land	4,584,816	727,026	5,311,842	2,190,910
Buildings & Improvements	37,932,843	36,648,795	74,581,638	89,547
Improvements Other than Buildings/Infrastructure	77,074,132	101,676,276	178,750,408	-
Transportation & Equipment	19,716,519	8,569,917	28,286,436	-
Construction in Progress	14,867,151	11,508,821	26,375,972	-
Accumulated Depreciation	(54,762,420)	(67,115,224)	(121,877,644)	(12,914)
Total Assets	140,349,715	155,851,409	296,201,124	3,279,238
DEFERRED OUTFLOWS OF RESOURCES				
Deferred Pension/OPEB Related Outflows	2,914,312	966,491	3,880,803	-
Deferred Charge on Refunding	489,470	122,119	611,589	-
Total Deferred Outflows of Resources	$ 3,403,782	$ 1,088,610	$ 4,492,392	$ -

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF NET POSITION (CONTINUED)
SEPTEMBER 30, 2018

	Primary Government			Component Unit
LIABILITIES	Governmental Activities	Business-Type Activities	Total	Seguin Economic Development Corporation
Accounts Payable and Other Current Liabilities	$ 1,865,843	$ 3,155,617	$ 5,021,460	$ 42,214
Unearned Revenue	288,714	169,223	457,937	-
Accrued Interest Payable	251,175	-	251,175	-
Due to Component Unit/ Primary Government	215,049	-	215,049	21,505
Customer Deposits	-	626,296	626,296	600
Payable from Restricted Assets:				
Accrued Interest Payable	-	333,918	333,918	-
Current Portion of Long-Term Debt	-	2,003,248	2,003,248	-
Noncurrent Liabilities:				
Due within One Year	4,515,058	244,826	4,759,884	50,623
Due in more than One Year	79,927,862	57,721,735	137,649,597	703,300
Net Pension Liability	22,321,087	7,357,164	29,678,251	-
Total OPEB Liabilities	1,413,454	549,490	1,962,944	-
Total Liabilities	110,798,242	72,161,517	182,959,759	818,242
DEFERRED INFLOWS OF RESOURCES				
Deferred Pension/OPEB Related Inflows	1,426,359	554,507	1,980,866	-
Total Deferred Inflows of Resources	1,426,359	554,507	1,980,866	
NET POSITION				
Net Investment in Capital Assets	28,797,978	50,116,822	78,914,800	1,513,620
Restricted for:				
Tourism & Economic Development	1,074,007	-	1,074,007	-
Public Safety	686,430	-	686,430	-
Public Service	310,888	-	310,888	-
Debt Service	1,027,307	474,501	1,501,808	-
Impact Fees	-	2,579,319	2,579,319	-
Unrestricted (Deficit)	(367,714)	31,053,353	30,685,639	947,376
Total Net Position	$ 31,528,896	$ 84,223,995	$ 115,752,891	$ 2,460,996

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Expenses		Program Revenues		
Functions and Programs	Direct	Indirect Allocation	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:					
Governmental Activities:					
General Government	$ 7,973,726	$ (4,819,725)	$ 3,306,325	$ 389,044	$ 6,530
Public Safety	15,581,434	-	3,897,134	232,372	231
Public Service	11,044,845	-	3,883,079	138,748	2,945,688
Interest on Long-term Debt	2,871,456	-	-	-	-
Total Governmental Activities	37,471,461	(4,819,725)	11,086,538	760,164	2,952,449
Business-Type Activities					
Utility	41,828,470	4,819,725	52,260,672	-	-
Total Business-Type Activities	41,828,470	4,819,725	52,260,672	-	-
Total Primary Government	$ 79,299,931	$ -	$ 63,347,210	$ 760,164	$ 2,952,449
Component Unit:					
Seguin Economic Development Corporation	1,062,559	$ -	$ 7,524	3,294	$ -
Total Component Unit	$ 1,062,559	$ -	$ 7,524	$ 3,294	$ -

General Revenues:
Taxes
Property Taxes
Franchise Taxes
Sales Taxes
Occupancy Taxes
Industrial District Agreement Annual Payment
Gain on Sale of Capital Assets
Interest and Investment Earnings
Total General Revenues

Transfers

Change in Net Position

Net Position at Beginning of Year
Prior Period Adjustment
Net Position at End of Year

See accompanying notes to basic financial statements.

Net (Expense) Revenue and Changes in Net Position			
Primary Government			Component Unit
Governmental Activities	Business-Type Activities	Total	Seguin Economic Development Corporation
$ 547,898	$ -	$ 547,898	$ -
(11,451,697)	-	(11,451,697)	-
(4,077,330)	-	(4,077,330)	-
(2,871,456)	-	(2,871,456)	-
(17,852,585)	-	(17,852,585)	-
-	5,612,477	5,612,477	-
-	5,612,477	5,612,477	-
(17,852,585)	5,612,477	(12,240,108)	-
-	-	-	(1,051,741)
-	-	-	(1,051,741)
10,126,201	-	10,126,201	-
1,187,699	-	1,187,699	-
6,729,041	-	6,729,041	1,328,416
861,218	-	861,218	-
535,000	-	535,000	-
-	660	660	-
678,954	764,923	1,443,877	19,734
20,118,113	765,583	20,883,696	1,348,150
101,297	(101,297)	-	-
2,366,825	6,276,763	8,643,588	296,409
30,156,368	78,340,785	108,497,153	2,164,587
(994,296)	(393,553)	(1,387,849)	-
$ 31,528,897	$ 84,223,995	$ 115,752,892	$ 2,460,996

CITY OF SEGUIN, TEXAS
BALANCE SHEET
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

ASSETS	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds
Cash and Cash Equivalents	$ 476,489	$ 10,053	$ 260,697
Investments	12,540,923	1,074,657	8,540,372
Receivables (net of allowances for uncollectibles):			
Taxes	1,795,252	193,772	191,068
Accounts	1,004,026	-	648,639
Grants	85,431	-	-
Miscellaneous	75,576	-	-
Inventories	20,559	-	-
Prepaid Items	114,894	-	17,869
Restricted Assets:			
Cash and Cash Equivalents	-	-	3,720
Investments	-	-	12,673,744
Total Assets	$ 16,113,150	$ 1,278,482	$ 22,336,109
LIABILITIES			
Accounts Payable	$ 932,694	$ -	$ 287,873
Accrued Expenditures	522,429	-	17,278
Due to Component Unit	215,049	-	-
Unearned Revenues	252,871	-	36,240
Due to Others	30,893	-	67,015
Total Liabilities	1,953,936	-	408,406
DEFERRED INFLOWS OF RESOURCES			
Unavailable Revenue	1,156,103	184,668	-
Total Deferred Inflows of Resources	1,156,103	184,668	-
FUND BALANCE			
Nonspendable:			
Prepaids and Inventory	135,453	-	17,869
Restricted:			
Tourism & Economic Development	-	-	1,074,007
Public Safety	-	-	686,430
Public Service	5,300	-	305,588
Capital Projects	-	-	12,857,421
Debt Service	-	1,093,814	-
Committed:			
Stabilization Arrangement	2,202,612	-	-
Aquatic/ Golf Fees	-	-	299,414
Assigned	129,946	-	6,686,974
Unassigned	10,529,800	-	-
Total Fund Balances	13,003,111	1,093,814	21,927,703
TOTAL LIABILITIES, DEFERRED INFLOWS & FUND BALANCES	$ 16,113,150	$ 1,278,482	$ 22,336,109

See accompanying notes to basic financial statements.

Total Governmental Funds
$ 747,239
22,155,952
2,180,092
1,652,665
85,431
75,576
20,559
132,763
3,720
12,673,744
$ 39,727,741
$ 1,220,567
539,707
215,049
289,111
97,908
2,362,342
1,340,771
1,340,771
153,322
1,074,007
686,430
310,888
12,857,421
1,093,814
2,202,612
299,414
6,816,920
10,529,800
36,024,628
$ 39,727,741

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

TOTAL FUND BALANCE - TOTAL GOVERNMENTAL FUNDS		$ 36,024,628
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Capital Assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		99,413,041
Internal service funds are used by management to charge costs related to employee insurance. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Position.		1,201,662
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		1,340,772
Long-term liabilities, including bonds payable and capital leases, are not due and payable in the current period and, therefore, not reported in the funds:		
General Bonded Debt	79,511,666	
Unamortized Premiums and Deferred Charges	1,620,304	
Capital Leases	1,455,224	
Net Other Post Employment Benefit Obligations (Net of Deferred Outflows & Inflows)	1,369,061	
Net Pension Liability (Net of Deferred Outflows & Inflows)	20,877,528	
Compensated Absences	1,366,249	(106,200,032)
Accrued interest payable on long-term-bonds is not due and payable in the current period and, therefore, not reported in the funds.		(251,175)
TOTAL NET POSITION - GOVERNMENTAL ACTIVITIES		$ 31,528,896

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	General Fund	Debt Service Fund	Other Nonmajor Governmental Funds
REVENUES			
Taxes	$ 13,340,223	$ 4,796,846	$ 869,557
Licenses and Permits	717,589	-	48,936
Intergovernmental	1,104,510	344,175	3,058,372
Charges for Services	5,779,712	-	1,228,517
Fines and Forfeits	1,573,956	-	245,292
Interest	226,354	49,653	388,601
Miscellaneous	823,332	10,161	160,610
Total Revenues	23,565,676	5,200,835	5,999,885
EXPENDITURES			
Current:			
General Government	3,273,323	-	1,682,629
Public Safety	13,917,286	-	-
Public Service	7,186,793	-	55,372
Nondepartmental	2,047,463	-	330,321
Indirect Cost Allocation (Recovery)	(4,819,725)	-	-
Capital Projects/Outlay	44,061	-	13,446,631
Debt Service:			
Principal	-	2,804,784	661,315
Interest and Fiscal Charges	-	2,747,306	38,072
Bond Issue Costs	-	-	159,158
Total Expenditures	21,649,201	5,552,090	16,373,498
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,916,475	(351,255)	(10,373,613)
OTHER FINANCING SOURCES (USES)			
Transfers In	501,659	551,928	2,245,522
Transfers Out	(2,588,477)	-	(609,335)
Issuance of Debt	-	-	8,235,403
Premiums on Issuance of Debt	-	-	158,120
Total Other Financing Sources (Uses)	(2,086,818)	551,928	10,029,710
Net Change in Fund Balance	(170,343)	200,673	(343,903)
Fund Balances at Beginning of Year	13,173,454	893,141	22,271,606
Fund Balances at End of Year	$ 13,003,111	$ 1,093,814	$ 21,927,703

See accompanying notes to basic financial statements.

Total Governmental Funds
$ 19,006,626
766,525
4,507,057
7,008,229
1,819,248
664,608
994,103
34,766,396
4,955,952
13,917,286
7,242,165
2,377,784
(4,819,725)
13,490,692
3,466,099
2,785,378
159,158
43,574,789
(8,808,393)
3,299,109
(3,197,812)
8,235,403
158,120
8,494,820
(313,573)
36,338,201
$ 36,024,628

CITY OF SEGUIN, 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

NET CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS		$ (313,573)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Current Year Additions	13,045,686	
Current Period Depreciation	(5,070,812)	7,974,874
In the Statement of Activities, only the gain or loss on the disposal of a capital asset is reported, whereas in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of disposed assets.		(5,475)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Increase in Unavailable Revenues		136,526
The issuance of long-term-debt (e.g. bonds) 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 net effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities:		
Proceeds of New Debt	(8,235,403)	
Premiums on Debt Issues	(158,120)	
Principal Payments	3,466,099	
Amortization of Deferred Charges & Premiums	92,097	(4,835,327)
The governmental funds report pension and other postemployment benefit contributions as expenditures when paid. However, in the statement of activities, differences between pension plan and other postemployment benefit contributions and costs for the year are reported as an asset or obligation.		(278,992)
Some expenses reported in the Statement of Activities (including compensated absences and accrued interest expense) do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		(89,321)
Internal service funds are used by management to charge the costs of employee insurance to individual funds. The net revenue/(loss) is reported with governmental activities.		(221,887)
CHANGE IN NET POSITION - GOVERNMENTAL ACTIVITIES		$ 2,366,825

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUNDS
SEPTEMBER 30, 2018

	Business-Type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
ASSETS		
Current Assets		
Cash and Cash Equivalents:		
Restricted Cash	$ 58,444	$ -
Unrestricted Cash	731,075	400,381
Investments:		
Restricted Investments	21,039,111	-
Unrestricted Investments	31,611,401	795,803
Accounts Receivable (Net)	6,036,506	-
Miscellaneous Receivables	2,076,198	13,564
Due from Component Unit	21,505	-
Inventories	1,785,251	-
Prepaid Items	56,446	-
Total Current Assets	63,415,937	1,209,748
Noncurrent Assets		
Net Present Value of Lease Financing	419,861	-
	419,861	-
Capital Assets:		
Land	727,026	-
Buildings and Improvements	36,648,795	-
Improvements Other than Buildings	101,676,276	-
Transportation & Equipment	8,569,917	-
Construction in Progress	11,508,821	-
Accumulated Depreciation	(67,115,224)	-
Capital Assets, net	92,015,611	-
Total Noncurrent Assets	92,435,472	-
Total Assets	155,851,409	1,209,748
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Pension Related Outflows	966,491	-
Deferred Charge on Refundings	122,119	-
Total Deferred Outflows of Resources	$ 1,088,610	$ -

Continued

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF NET POSITION – PROPRIETARY FUNDS (CONTINUED)
SEPTEMBER 30, 2018

	Business-Type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
LIABILITIES		
Current Liabilities:		
Accounts Payable	$ 2,983,167	$ 8,086
Accrued Expenses	417,276	-
Unearned Revenue	169,223	-
Customer Deposits	626,296	-
Current Liabilities	4,195,962	8,086
Current Liabilities Payable from Restricted Assets:		
Accrued Interest Payable	333,918	-
Current Portion of Long-term Bonds	2,003,248	-
Current Liabilities Payable from Restricted Assets	2,337,166	-
Total Current Liabilities	6,533,128	8,086
Noncurrent Liabilities:		
Compensated Absences	193,556	-
Total Other Post Employment Benefit Liabilities	549,490	-
Net Pension Liability	7,357,164	-
Revenue & Refunding Bonds Payable	57,528,179	-
Total Noncurrent Liabilities	65,628,389	-
Total Liabilities	72,161,517	8,086
DEFERRED INFLOWS OF RESOURCES		
Deferred Pension Related Inflows	554,507	-
Total Deferred Inflows of Resources	$ 554,507	$ -
NET POSITION		
Net Investment in Capital Assets	50,116,822	-
Restricted for:		
Debt Service	474,501	-
Impact Fees	2,579,319	-
Unrestricted	31,053,353	1,201,662
Total Net Position	$ 84,223,995	$ 1,201,662

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
OPERATING REVENUES		
Charges for Utility Service	$ 50,260,623	$ -
Charges for Premiums	-	3,309,048
Miscellaneous Revenues	2,000,048	481
Total Operating Revenues	52,260,671	3,309,529
OPERATING EXPENSES		
Administration	2,371,580	3,545,760
Operation and Maintenance:		
Electric Distribution	20,980,876	-
Utility Services	1,183,237	-
Water Production	5,755,115	-
Water/Sewer Maintenance	4,951,145	-
Sewer	1,913,487	-
Economic Development	320,749	-
Facilities Maintenance	767,016	-
Information Technology	462,229	-
City Attorney	96,839	-
Nondepartmental	1,001,165	-
Indirect Cost Allocation	4,819,725	-
Total Operating Expenses	44,623,163	3,545,760
OPERATING INCOME (LOSS)	7,637,508	(236,231)
NONOPERATING REVENUES (EXPENSES)		
Interest Income	764,923	14,344
Gain (Loss) on Sale of Assets	660	-
Interest and Fiscal Charges	(1,707,309)	-
Bond Issue Costs	(317,722)	-
Total Nonoperating Revenues (Expenses)	(1,259,448)	14,344
Net Income (Loss) Before Contributions and Transfers	6,378,060	(221,887)
Transfers Out	(101,297)	-
	(101,297)	-
Change in Net Position	6,276,763	(221,887)
NET POSITION AT BEGINNING OF YEAR	78,340,785	1,423,549
Prior Period Adjustment	(393,553)	-
NET POSITION AT END OF YEAR	$ 84,223,995	$ 1,201,662

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
Cash Flows From Operating Activities:		
Cash Received From Customers	$ 51,536,734	$ 3,314,541
Cash Paid for Employee Wages & Benefits	(7,938,168)	-
Cash Paid to Suppliers for Goods & Services	(27,701,461)	(3,541,652)
Cash Paid General Fund for Indirect Costs	(4,819,725)	-
Net Cash Provided (Used) by Operating Activities	11,077,380	(227,111)
Cash Flows From Noncapital Financing Activities:		
Transfers From Other Funds	(101,297)	-
Net Cash Provided (Used) by Noncapital Financing Activities	(101,297)	-
Cash Flows From Capital and Related Financing Activities:		
Purchase/Construction of Capital Assets	(6,506,784)	-
Proceeds from Revenue and Refunding Bonds	9,900,000	-
Premiums received on Bonds	367,722	-
Principal Payments on Long-term Bonds	(1,773,378)	-
Interest and Fiscal Charges Paid	(1,739,935)	-
Principal Payments on Capital Leases	(36,120)	
Bond Issue Costs	(317,722)	-
Advances (To) From Component Unit	(2,470)	-
Proceeds from Sale of Capital Assets	660	-
Net Cash Provided (Used) by Capital and Related Financing Activities	(108,027)	-
Cash Flows From Investing Activities:		
Sale/(Purchase) of Investment Securities	(12,203,510)	335,333
Investment Interest Received	764,923	14,344
Lease Financing - Principal Payments Received	42,111	-
Net Cash Provided (Used) by Investing Activities	(11,396,476)	349,677
Net Increase (Decrease) in Cash and Cash Equivalents	(528,420)	122,566
Cash and Equivalents at Beginning of Year:		
Cash and Cash Equivalents	1,259,918	277,815
Restricted Cash and Cash Equivalents	58,021	-
	1,317,939	277,815
Cash and Cash Equivalents at End of Year:		
Cash and Cash Equivalents	731,075	400,381
Restricted Cash and Cash Equivalents	58,444	-
	$ 789,519	$ 400,381

Continued

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Business-Type Activities	Governmental Activities
	Utility Fund	Internal Service Funds
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:		
Operating Income (Loss)	$ 7,637,508	$ (236,231)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:		
Depreciation:	4,845,356	-
(Increase) Decrease in Operating Assets:		
Accounts Receivable	(449,728)	5,012
Inventory/Prepaid Items	(84,281)	3,423
Net Deferred Pension/OPEB Related Outflows	631,392	-
Increase (Decrease) in Operating Liabilities:		
Accounts Payable	(706,190)	685
Accrued Expenses	462	-
Unearned Revenue	(280,705)	-
Customer Deposits	6,496	-
Total Other Postemployment Benefit Liability	18,598	-
Net Pension Liability	(1,096,035)	-
Net Deferred Pension/OPEB Related Inflows	554,507	9,120
	$ 11,077,380	$ (227,111)

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF FIDUCIARY NET POSITION
SEPTEMBER 30, 2018

ASSETS	Private Purpose Trust Funds	Agency Fund
Cash and Cash Equivalents	$ 3,209	$ 27,507
Investments	268,908	-
Inventory	359,431	-
Total Assets	631,548	27,507
LIABILITIES		
Accounts Payable/ Due to Others	-	27,507
Total Liabilities	-	$ 27,507
NET POSITION		
Held in Trust for Scholarship	960	
Held in Trust for Riverside Cemetery	15,012	
Held in Trust for Industrial Development	615,576	
Total Net Position	$ 631,548	

See accompanying notes to basic financial statements.

CITY OF SEGUIN, TEXAS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Private Purpose Trust Funds
ADDITIONS	
Interest	$ 4,848
Total Additions	4,848
DEDUCTIONS	
Distributions to Participants	18,219
Total Deductions	18,219
Change in Net Position	(13,371)
Net Position, Beginning of Year	644,919
Net Position, End of Year	$ 631,548

See accompanying notes to basic financial statements.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Seguin, Texas ("City") was incorporated in 1853. The City Charter was adopted on December 7, 1971, under the provisions of the Home Rule Charter Act of the State of Texas. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: police and fire protection, health services, maintenance of streets, planning and zoning, parks and recreation, general administrative services, electric, water, and wastewater services.

The financial statements of the City have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below:

1. REPORTING ENTITY

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

The Seguin Economic Development Corporation, a nonprofit corporation, was incorporated under the Development Corporation Act of 1979, Texas Revised Civil Statutes Annotated, Article 5190.6, Section 4A. The Corporation is organized exclusively for public purposes of the City of Seguin, and the City Council appoints directors of the Corporation. It receives all proceeds from the 0.25% sales tax adopted in 1994 for economic development in Seguin. The corporation meets the criteria of a discretely presented component unit, described above, and is presented in the government-wide financial statements. Complete financial statements for the Seguin Economic Development Corporation may be obtained at City Hall.

Joint Ventures
A joint venture is a legally separate entity that results from a contractual arrangement and that is owned, operated, or governed by two or more participating governments. The following entities meet the criteria as joint ventures:

The Guadalupe Regional Medical Center is a joint venture between the City of Seguin and Guadalupe County. Each participating government appoints one-half of the board of directors and approves annual budgets. In addition, the participating governments are financially responsible for indigent health care provided by the hospital, and are contingently liable for hospital debts. Separate financial statements of the Guadalupe Regional Medical Center may be obtained by contacting the hospital administrator.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1. REPORTING ENTITY (Continued)

Joint Ventures (Continued)
The Schertz/Seguin Local Government Corporation is a public, nonprofit corporation organized to aid, assist, and act on behalf of the cities of Schertz and Seguin in acquiring, constructing, maintaining, and operating a water utility system. The participating governments have an ongoing financial responsibility to fund the operation of the corporation through either purchase of services or by subsidizing the operations. Separate financial statements for the Schertz/Seguin Local Government Corporation may be obtained at City Hall.

Summarized financial data for joint ventures has been provided in Note M.

2. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The **government-wide financial statements** include the statement of net position and the statement of activities. Government-wide statements report information on all of the activities of the City and its component unit (except for City fiduciary activity). The effect of interfund transfers has been removed from the government-wide statements but continues to be reflected on the fund statements. Governmental activities are supported mainly by taxes and intergovernmental revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods and services. The primary government is reported separately from the component unit within the government-wide statements.

The statement of activities reflects the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included in program revenues are reported as general revenues.

Separate **fund financial statements** are provided for governmental funds, proprietary funds, and fiduciary funds even though the latter are excluded from the government-wide financial statements. The General Fund and Debt Service Fund meet criteria as ***major governmental funds***. Each major fund is reported in separate columns in the fund financial statements. Nonmajor funds include other Special Revenue and Capital Projects Funds. The combined amounts for these funds are reflected in a single column in the fund Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances. Detailed statements for nonmajor funds are presented in the Combining Fund Statements and Schedules as “Supplementary Information”.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION

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

Revenues are classified as *program revenues* and *general revenues.* Program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. General revenues include all taxes and grants not restricted to specific programs and investment earnings.

Governmental fund level financial statements are reported using 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 available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Measurable and available revenues include revenues expected to be received within 60 days after the fiscal year ends. Receivables which are measurable but not collectible within 60 days after the end of the fiscal period are reported as deferred revenue.

Expenditures generally are recorded when a fund liability is incurred; however, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when the liability has matured and payment is due.

The government reports the following major governmental funds:

<u>The General Fund</u> is the general operating fund of the City and is always classified as a major fund. The General Fund is used to account for all financial resources except those required to be accounted for in another fund. Major revenue sources include property taxes, charges for services, intergovernmental revenues and investment of idle funds. Primary expenditures are for general administration, public safety, public service and capital acquisition. Nondepartmental expenses include insurance costs, professional services and miscellaneous costs that do not benefit any one department, as well as contributions to local charitable organizations and the Guadalupe Regional Medical Center.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

3. MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (Continued)

Debt Service Fund accounts for ad valorem tax and contributions from the component unit to support city bonded debt.

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

Proprietary fund level financial statements are used to account for activities, which are similar to those often found in the private sector. The measurement focus is upon determination of net income, financial position and cash flows. The City's Proprietary Fund is the Utility Fund (used to account for the provision of electric, water and sewer services to residents) and the Internal Service Funds used to account for the City's group medical insurance program and workers compensation benefits.

Revenues are derived from charges for services for utilities, city contributions, employee and retiree/cobra premiums, and investment of idle funds. Expenses are charges incurred for operating, purchases of electricity and water, premiums and administrative expenses for insurance.

The **Proprietary Funds** are accounted for using the accrual basis of accounting as follows:

Revenues are recognized when earned, and expenses are recognized when the liabilities are incurred. Current-year contributions, administrative expenses and benefit payments, which are not received or paid until the subsequent year, are accrued.

Proprietary funds distinguish operating revenues and expenses from non-operating. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

Fiduciary fund level financial statements include fiduciary funds which are classified into private purpose trust and agency funds. Fiduciary fund reporting focuses on net position and changes in net position. Agency funds do not involve a formal trust agreement. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include cash deposits and investments with a maturity date within three (3) months of the date acquired by the City.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

5. INVESTMENTS

State statutes authorize the City to invest in (a) obligations of the United States or its agencies and instrumentalities; (b) direct obligations of the State of Texas or its agencies; (c) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States; (d) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent; (e) certificates of deposit by state and national banks domiciled in this state that are (i) guaranteed or insured by the Federal Deposit Insurance Corporation, or its successor; or, (ii) secured by obligations that are described by (a) - (d). Statutes also allow investing in local government investment pools organized and rated in accordance with the Interlocal Cooperation Act, whose assets consist exclusively of the obligations of the United States or its agencies and instrumentalities and repurchase assessments involving those same obligations. Public funds investment pools in Texas ("Pools") are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (the "Act"), Chapter 2256 of the Texas Government Code. In addition to other provisions of the Act designed to promote liquidity and safety of principal, the Act requires Pools to: 1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; 2) maintain a continuous rating of no lower than AAA or AAAm (or equivalent) rating by at least one nationally recognized rating service; and 3) maintain the market value of its underlying investment portfolio within one-half of one percent of the value of its shares.

The City reports investments at fair value based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. Investments are stated at fair value (plus accrued interest) except for money market investments and participating interest-earning investment contracts (U.S. Treasuries) that have a remaining maturity at time of purchase of one year or less. Those investments are stated at amortized cost. Likewise, certificates of deposit are stated at amortized cost (see Note B).

6. ACCOUNTS RECEIVABLE

Property taxes are levied based on taxable value at January 1 and become due October 1, 2017 and past due after January 31, 2018. Accordingly, receivables and revenues for property taxes are reflected on the government-wide statement based on the full accrual method of accounting. Property tax receivables for prior year's levy are shown net of an allowance for uncollectible in the amount of $27,616.

Accounts receivable from other governments include amounts due from grantors for approved grants for specific programs and reimbursements for services performed by the City. Program grants are recorded as receivables and revenues at the time all eligibility requirements established by the provider have been met.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

6. ACCOUNTS RECEIVABLE (Continued)

Reimbursements for services performed are recorded as receivables and revenues when they are earned in the government-wide statements. Included are fines and costs assessed by the court action and billable services for certain contracts. Revenues received in advance of the costs being incurred are recorded as deferred revenue in the fund statements. Receivables are shown net of an allowance for uncollectibles.

7. SHORT-TERM INTERFUND RECEIVABLES/PAYABLES

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as “due from other funds” or “due to other funds” on the fund statements. Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

8. INVENTORIES & PREPAID ITEMS

Inventories of consumable supplies are valued at cost, which approximates market, using the first in/first out (FIFO) method. The costs of governmental fund type inventories are recorded as expenditures when consumed rather than when purchased.

Inventories of repair and replacement parts for the utility system are valued at cost, which approximates market, using the moving average cost method.

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

9. RESTRICTED ASSETS

Certain proceeds of General Obligation Bonds, Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because their use is limited by applicable bond covenants. Funds are segregated to report those proceeds of revenue bond issuances that are restricted for use in construction. Funds are also segregated to provide for debt service as provided under bond indenture agreements.

10. CAPITAL ASSETS

Capital assets, which include land, buildings and improvements, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets, such as equipment, are defined as assets with a cost of $5,000 or more. Infrastructure assets include City-owned streets, sidewalks, curbs and bridges.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. CAPITAL ASSETS (Continued)

Capital assets are recorded at historical costs if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation, with the exception of works of art and capital assets received in a service concession arrangement. Those assets are reported at acquisition value rather than fair value.

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. Interest has not been capitalized during the construction period on property, plant and equipment.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

ASSETS	YEARS
Buildings and improvements	20 to 40 years
Improvements other than buildings	20 to 40 years
Utility system in service	20 to 67 years
Machinery and equipment	5 to 15 years

11. 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 the following items that qualify for reporting in this category: deferred pension and other post employment benefits related costs which will be included in the subsequent actuarial valuation, and deferred charge on refundings reported in the government-wide statement of net position, as well as the Proprietary Fund statement of position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Deferred inflows of resources represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resource (revenue) until that time. Unavailable revenue is reported only in the governmental funds balance sheet under a modified accrual basis of accounting. Deferred inflows for pension and other post employment benefits are deferred and will be recognized in a subsequent actuarial valuation. Unavailable revenues from property tax and EMS receivables are deferred and recognized as an inflow of resource in the period the amounts become available.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

12. COMPENSATED ABSENCES

The City permits employees to accumulate earned but unused vacation pay benefits up to the amount earned in two years. Upon resignation, an employee may receive pay for any unused accrued vacation provided the employee gives two weeks written notice of the resignation and is not subject to discharge for misconduct. Unused sick leave may be accumulated to certain limits. In the event of termination, no reimbursement is made for accumulated sick leave. No liability is reported for unpaid accumulated sick leave. Liabilities for compensated absences are recognized in the fund statements to the extent the liabilities have matured (i.e. are due for payment). Compensated absences are accrued in the government-wide statements.

13. UNEARNED REVENUE

Unearned revenues arise when assets are recognized before revenue recognition criteria have been satisfied. Grant and reimbursement revenues received in advance of expenses/expenditures are reflected as unearned revenue.

14. LONG-TERM OBLIGATIONS

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities under governmental activities or proprietary fund type statement of net position. On new bond issues, bond premiums and discounts are amortized over the life of the bonds. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are expensed as incurred.

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

15. PENSIONS

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

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

16. OTHER POST-EMPLOYMENT BENEFITS

The fiduciary net position of the Texas Municipal Retirement System (TMRS) and the City's Retiree Health Insurance have been determined using the flow of economic resources measurement focus and full accrual basis of accounting. This includes for purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to other post-employment benefits, OPEB expense, and information about assets, liabilities and additions or deductions from the fiduciary net position. Benefit payments are recognized when due and payable in accordance with the benefit terms. There are no investments as both OPEBs are pay-as-you-go plans.

17. FUND EQUITY

In the fund financial statements, governmental funds report aggregate amounts for five classifications of fund balances based on the constraints imposed on the use of these resources. The nonspendable fund balance classification includes amounts that cannot be spent because they are either (a) not in spendable form – pre-paid items or inventories; or (b) legally or contractually required to be maintained intact.

The spendable portion of the fund balance comprises the remaining four classifications: restricted, committed, assigned, and unassigned.

Restricted fund balance. This classification reflects the constraints imposed on resources either (a) externally by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.

Committed fund balance. These amounts can only be used for specific purposes pursuant to constraints imposed by formal resolutions or ordinances of the city council – the government'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 (by adoption of another ordinance) to remove or revise the limitation.

The City Council adopted an ordinance in March 2012 establishing an *emergency fund stabilization arrangement*. The Ordinance requires additions to the fund in the event the fund balance falls below $2,000,000. Additions are to come from interest earnings, direct transfers from the General Fund and/or Utility Fund, or reimbursements from insurance or grants for expenditures incurred by the fund. The stabilization fund may be expended on recovery efforts for public infrastructure damage that occurs as a result of a disaster declared by the federal or state governments. During fiscal year 2017, significant expenditures occurred due to Hurricane Harvey. Guadalupe County was included in the federal disaster area. The City received funds from the Federal Emergency Management Agency as reimbursement for expenses incurred from the disaster. The FEMA funds were used to replenish the fund in accordance with the arrangement.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

17. FUND EQUITY (Continued)

Assigned fund balance. This classification reflects the amounts constrained by the city's "intent" to be used for specific purposes, but are neither restricted nor committed. The City Council has designated the City Manager as the responsible agent for assigning fund balances. Assigned fund balances include all remaining amounts (except negative balances) that are reported in governmental funds, other than the General Fund, that are not classified as nonspendable and are neither restricted nor committed.

As of September 30, 2018, the City Manager had assigned fund balances for the following:

- Excess recycling fees over expenditures were assigned for future expenditures associated with "green" waste disposal ($1,348), also favorable budget variances for street maintenance were assigned for future street projects ($128,598).
- Funds set aside in nonmajor capital project funds that are not otherwise restricted by bond covenants are assigned for specific capital projects.

Total assigned funds in the General Fund were $129,946. Total assigned balances in nonmajor capital project funds were $6,686,975.

Unassigned fund balance. This fund balance is the residual classification for the General Fund. It is also used to report negative fund balances in other governmental funds.

When both restricted and unrestricted resources are available for use, it is the City's policy to use externally restricted resources first, then unrestricted resources – committed, assigned, and unassigned – in order as needed.

The City Council has set a General Fund minimum fund balance target at three months of expenditures and recurring transfers. No other fund balance policies exist.

18. NET POSITION

Net position represents the difference between assets and liabilities. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvements of those assets, and adding back unspent proceeds. Net positions are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

NOTE A -- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

19. INTERFUND TRANSACTIONS

Legally authorized transfers are treated as interfund transfers and are included in the results of operations of both Governmental and Proprietary Funds.

The City allocates to the Utility (Proprietary) Fund an indirect cost percentage of general government administration expenses that are paid through the General Fund. During the year ended September 30, 2018, the City allocated $4,819,725 as a transfer for such services. The indirect cost allocation is reflected as an operating expense in the Utility Fund, and a reduction of current expenditures in the General Fund, and in a separate column in the Statement of Activities.

20. OPERATING REVENUES AND EXPENSES

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise. For the City, those revenues are charges for electric, water, and sewer services and premiums for employee insurances. Operating expenses are the necessary costs incurred to provide the service that is the primary activity. Revenues and expenses not meeting these definitions are reported as nonoperating.

21. USE OF ESTIMATES

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

22. COMPARATIVE DATA/RECLASSIFICATIONS

Comparative data for the prior year has been provided for the General Fund and Utility Fund in the fund financial statements in order to provide an understanding of the changes in the financial position and operation of these funds. Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 financial statement presentation. The reclassifications had no effect on the changes in financial position.

23. ADOPTION OF GASB STATEMENT NO. 75

In accordance with GASB Statement No. 75, the City has recorded a prior period adjustment to recognize the Other Post-Employment Benefits Liability as described in Note K. The OPEB liability was allocated between the general and utility funds to restate beginning balances in accordance with the statement. The restatement is noted as a prior period adjustment on the Government-wide Statement of Activities, as well as the Statement of Revenues, Expenses and Changes in Net Position- Proprietary Funds.

NOTE B -- DEPOSITS AND INVESTMENTS

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

Investment Type		Fair Value	Input Level	Weighted Average Maturity (Days)
Primary Government				
Local Government Investment Pools:				
TexPool	$	10,264,343	1	28
LOGIC		58,663,128	1	78
Certificates of Deposit		3,727,000	1	292
Federal and Local Bonds		15,890,450	1	365
	$	88,544,921		
Portfolio Weighted Average Maturity				132
Component Unit				
Local Government Investment Pools:				
TexPool	$	281,980	1	28
LOGIC		302,348	1	78
	$	584,328		
Portfolio Weighted Average Maturity				54

Investment Rate Risk. The City and component unit manage exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than one year.

Credit Risk. The City's investment policy limits investments to obligations of the United States (up to 95% of total invested funds) or its agencies and instrumentalities (maximum 80% of funds); direct obligations of the State of Texas; obligations of states, agencies, contracts, cities, and other political subdivisions rated as to investment quality of not less than AAA by a nationally recognized investment firm. U.S. Government Securities are not considered to have credit risk and do not require disclosure of credit quality. The Florida State Revenue Bond is rated AA and Aa3 by S&P and Moody's respectively.

The City may also invest funds in government investment pools provided the pool maintains a AAA rating, the pool maintains a stable asset value, and the average dollar weighted maturity does not exceed 90 days. As of September 30, 2018, the investments in TexPool and LOGIC were rated AAAm by Standard & Poor's. The City may invest in Money Market Mutual funds that are regulated by the SEC and have a dollar weighted average stated maturity of 90 days or less and maintain a net asset value of $1.00 per share.

The City's and Component Units' investments in pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. Both Texpool and Logic Pools operate in a manner consistent with Rule 2a7. Therefore, the investments are reported at $1 per share, which approximates fair value. There was no change in fair value of the investment pools for the year ended September 30, 2018.

NOTE B -- DEPOSITS AND INVESTMENTS (Continued)

Custodial Credit Risk - Deposits. In the case of deposits, this is the risk that in the event of a bank failure, the government's deposits may not be returned to it. As of September 30, 2018, the government's deposits were fully collateralized or insured by FDIC. The City's certificates of deposit are brokered through the City's depository and are fully insured through FDIC.

The Component Unit had deposits that were fully insured by FDIC.

Custodial Credit Risk – Investments. For an investment, this is the risk that, in the event of the failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. As of September 30, 2018, the City and Component Unit were not exposed to custodial credit risk.

NOTE C -- PROPERTY TAX CALENDAR

The City's property tax is levied and becomes collectible each October 1 based on the assessed values listed as of the prior January 1, which is the date a lien attaches to all taxable property in the City. Assessed values are established by the Guadalupe County Appraisal District at 100% of estimated market value. Assessed values are reduced by lawful exemptions to arrive at taxable values. A revaluation of all property is required to be completed every four (4) years. The total taxable value as of January 1, 2017, upon which the fiscal 2018 levy was based, was $1,957,487,506 (i.e., market value less exemptions). The estimated market value was $2,916,479,185 making the taxable value 67% of the estimated market value.

The City is permitted by the Constitution of the State of Texas to levy taxes up to $2.50 per $100 of taxable assessed valuation for all governmental purposes. Pursuant to a decision of the Attorney General of the State of Texas, up to $1.50 per $100 of assessed valuation may be used for the payment of long-term debt. The combined tax rate to finance general governmental services, including the payment of principal and interest on long-term debt, for the year ended September 30, 2018, was $0.5412 per $100 of assessed value, which means that the City has a tax margin of $1.9588 for each $100 value and could increase its annual tax levy by approximately $38,343,265 based upon the present assessed valuation of $1,957,487,506 before the limit is reached. However, the City may not adopt a tax rate that exceeds the tax rate calculated in accordance with the Texas Property Tax Code without holding a public hearing. The Property Tax Code subjects an increase in the effective tax rate to a referendum election, if petitioned by registered voters, when the effective tax rate increase is more than eight percent (8%) of the previous year's effective tax rate.

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

NOTE D -- INTERFUND RECEIVABLE/PAYABLE

During the course of its operations, the City has numerous transactions between funds to finance operations, provide services, construct assets, and service debt. To the extent that certain transactions between funds had not been paid or received as of September 30, 2018, balances of interfund amounts receivable or payable have been recorded as follows:

	Due From	Due To
Primary Government		
General Fund	$ -	$ 215,049
Enterprise Fund	21,505	-
	21,505	215,049
Component Unit		
General Fund	215,049	-
Enterprise Fund	-	21,505
	215,049	21,505
Totals	$ 236,554	$ 236,554

NOTE E -- NOTES RECEIVABLE (COMPONENT UNIT)

The SEDC (Component Unit) provides incentives in the form of grants and notes receivable to area businesses in conjunction with its function of generating economic development. Various notes receivable were outstanding as of September 30, 2018 with interest rates ranging from 3.0% to 5.5% and mature from 2023 through 2026. Future payments on the notes are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 39,270	$ 10,145	$ 49,415
2020	41,443	7,972	49,415
2021	43,739	5,676	49,415
2022	46,162	3,253	49,415
2023	32,789	803	33,592
2024-2026	4,386	168	4,554
	$ 207,789	$ 28,017	$ 235,806

NOTE F -- NET PRESENT VALUE OF LEASE FINANCING

The City has leased property located at 2460 Crossroads Blvd., consisting of a 49,120 square foot building and improvements, to Pure and Gentle Soap Products, Inc. under a sales-type lease agreement. The lease is for an original term of twenty (20) years and transfers property to the lessee for $1 at the end of the lease term (2026), or earlier by paying the remaining base rental payments under the lease, discounted at 5.75%.

The agreement calls for the lessee to operate a business within the premises in order to generate sales tax revenue, property tax and utility revenue. Failure to continue the business would be considered a breach of the contract.

Future minimum lease payments under the lease are as follows:

September 30,	
2019	$ 75,151
2020	75,151
2021	98,277
2022	105,986
2023	105,986
2024-2026	238,633
Total Payments	699,184
Less: Amount Representing Interest	(279,323)
Net Present Value of Lease Financing	$ 419,861

NOTE G -- CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2018, was as follows:

Governmental Activities	Balance 10/1/2017	Additions	Disposals	Transfers/ Adjustments	Balance 9/30/2018
Land	$ 4,584,816	$ -	$ -	$ -	$ 4,584,816
Construction in Progress	16,352,771	6,288,377	-	(7,773,997)	14,867,151
Total Assets Not Depreciated	20,937,587	6,288,377	-	(7,773,997)	19,451,967
Buildings and Improvements	37,836,176	96,667	-	-	37,932,843
Improvements Other Than Buildings	64,790,507	4,509,628	-	7,773,997	77,074,132
Transportation and Equipment	17,875,883	2,151,014	(310,378)	-	19,716,519
Totals at Historical Cost	141,440,153	13,045,686	(310,378)	-	154,175,461
Less Accumulated Depreciation:					
Buildings and Improvements	(8,167,239)	(682,962)	-	-	(8,850,201)
Improvement Other Than Buildings	(30,788,692)	(2,583,457)	-	-	(33,372,149)
Transportation and Equipment	(11,040,580)	(1,804,394)	304,903	-	(12,540,071)
	(49,996,511)	(5,070,812)	304,903	-	(54,762,420)
Governmental Capital Assets, Net	$ 91,443,642	$ 7,974,874	$ (5,475)	$ -	$ 99,413,041

NOTE G -- CAPITAL ASSETS

Business-Type Activities	Balance 10/1/2017	Additions	Disposals	Transfers/ Adjustments	Balance 9/30/2018
Land	$ 727,026	$ -	$ -	$ -	$ 727,026
Construction in Progress	18,028,664	4,765,386	-	(11,285,229)	11,508,821
Total Assets Not Depreciated	18,755,690	4,765,386	-	(11,285,229)	12,235,847
Buildings and Improvements	35,938,858	-	-	709,937	36,648,795
Utility System	89,868,569	1,232,415	-	10,575,292	101,676,276
Transportation and Equipment	8,060,934	508,983	-	-	8,569,917
Totals at Historical Cost	152,624,051	6,506,784	-	-	159,130,835
Less Accumulated Depreciation:					
Buildings and Improvements	(18,835,708)	(689,271)	-	-	(19,524,979)
Improvement Other Than Buildings	(37,538,332)	(3,586,264)	-	-	(41,124,596)
Transportation and Equipment	(5,895,828)	(569,821)	-	-	(6,465,649)
	(62,269,868)	(4,845,356)	-	-	(67,115,224)
Business-Type Capital Assets, Net	$ 90,354,183	$ 1,661,428	$ -	$ -	$ 92,015,611
Discretely Presented Component Unit					
Land	$ 2,190,912	$ -	$ -	$ -	$ 2,190,912
Buildings and Improvements	89,547	-	-	-	89,547
Accumulated Depreciation	(11,194)	(1,719)	-	-	(12,913)
	$ 2,269,265	$ (1,719)	$ -	$ -	$ 2,267,546

Primary Government

Depreciation Expense was charged to functions as follows:

Governmental Activities:	
General Government	$ 33,145
Public Safety	1,172,834
Public Service	3,340,204
Nondepartmental	524,629
Total Governmental Activities	$ 5,070,812
Business-Type Activities:	
Administration	$ 5,056
Electric	1,360,892
Water Production	683,564
Water Distribution	1,933,240
Sewer Plant	480,220
Other	382,384
Total Business-Type Activities	$ 4,845,356

NOTE H -- CAPITAL LEASES

The City has entered into a lease agreement to finance the acquisition of public safety, public works and golf equipment. The City has also financed the acquisition of the Springs Hill Wastewater Collection System through its Utility Fund. These lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of their future minimum lease payments as of the inception date.

The assets acquired though capital leases are as follows:

Assets:	Governmental Activities	Business-Type Activities
Public Safety Vehices & Equipment	$ 1,816,145	$ -
Golf Course Equipment	38,405	
Public Works Equipment	867,581	
Less: Accumulated Depreciation	(511,671)	-
Total	$ 2,210,460	$ -

Future minimum obligations and the net present value of these minimum lease payments as of September 30, 2018 were as follows:

Year Ending September 30,	Governmental Activities	Business-Type Activities
2019	$ 585,972	$ -
2020	377,510	-
2021	412,800	-
2022	181,928	-
Total Payments	1,558,210	-
Less: Amount Representing Interest	(102,986)	-
Present Value of Minimum Lease Payments	$ 1,455,224	$ -

NOTE I -- LONG-TERM DEBT

Bonded debt and obligations payable at September 30, 2018, comprise the following individual issues:

General Obligation Bonds:		
$2,884,816 2011 General Obligation Refunding Bonds due in annual installments of $265,000 to $550,000 through September 1, 2021; interest at 2.0% to 3.0%	$	863,666
$4,350,000 2013 General Obligation Refunding Bonds due in annual installments of $65,000 to $460,000 through February 1, 2024; interest at 1.51%		2,675,000
$19,785,000 2014 General Obligation Bonds due in annual installments of $200,000 to $4,130,000 through February 1, 2034; interest at 3.0 to 6.0%		18,775,000
$8,465,000 2014 General Obligation Refunding Bonds due in annual installments of $100,000 to $1,170,000 through September 1, 2026; interest at 2.0% - 4%		6,740,000
$9,370,000 2015 General Obligation Refunding Bonds due in annual installments of $100,000 to $1,945,000 through September 1, 2028; interest at 2.0% - 5.0%		8,575,000
Total General Obligation Bonds		37,628,666
Certificates of Obligation and Tax Anticipation Notes		
$10,760,000 2010 Certificates of Obligation due in annual installments of $70,000 to $2,650,000 through September 1, 2031; interest at 2.0% to 4.25%		10,010,000
$3,400,000 2011 Certificates of Obligation due in annual installments of $100,000 to $290,000 through September 1, 2031; interest at 2.0% to 3.5%		1,700,000
$2,500,000 2013 Certificates of Obligation due in annual installments of $100,000 to $200,000 through September 1, 2028; interest at 2.7%		1,640,000
$12,445,000 2016 Certificates of Obligation due in annual installments of $100,000 to $4,305,000 through September 1, 2036; interest at 3.0% to 5.0%		12,245,000
$8,800,000 2016A Certificates of Obligation due in annual installments of $100,000 to $4,200,000 through September 1, 2037; interest at 3.5% to 5.5%		8,700,000
$6,450,000 2018 Certificates of Obligation due in annual installments of $200,000 to $1,430,000 through September 1, 2038; interest at 3.5% to 5.5%		6,450,000
$775,000 Tax Notes, Series 2017 due in annual installments of $85,000 to $135,000 through February 2024; interest at 1.785%		650,000
$649,000 Tax Notes, Series 2018 due in annual installments of $159,000 to $166,000 through February 2021; interest at 2.25%		488,000
Total Certificates and Tax Notes		41,883,000
Total Governmental Bonded Debt	$	79,511,666

NOTE I -- LONG-TERM DEBT (Continued)

Utility Fund Revenue Bonds:	
$7,835,000 Utility System Revenue, Series 2010, due in annual installments of $65,000 to $1,065,000 through February 1, 2031; interest at 2.0% to 4.0%	$ 7,325,000
$21,405,000 Utility System Revenue, Series 2014, due in annual installments of $190,000 to $2,335,000 through February 1, 2037; interest at 3.0% to 5.0%.	20,635,000
$4,430,000 Utility System Revenue, Series 2016, due in annual installments of $100,000 to $345,000 through February 1, 2037; interest at 3.0% to 5.0%.	4,230,000
$8,415,000 Utility System Revenue, Series 2017, due in annual installments of $190,000 to $620,000 through February 1, 2037; interest at 3.0% to 4.0%.	8,225,000
$9,900,000 Utility System Revenue, Series 2018, due in annual installments of $125,000 to $3,380,000 through February 1, 2038; interest at 3.25% to 5.0%.	9,900,000
Total Utility Revenue Bonds	50,315,000
General Obligation Bonds - Utility Portion	
$1,490,184 2011 General Obligation Refunding Bonds due in annual installments of $265,000 to $550,000 through September 1, 2021, Interest at 2.0% to 3.0%	176,333
$4,825,000 2013 General Obligation Refunding Bonds due in annual installments of $330,000 to $650,000 through February 1, 2023; interest at 1.51%	2,950,000
$5,385,000 2015 General Obligation Refunding Bonds due in annual installments of $25,000 to $1,025,000 through September 1, 2026; interest at 2.0% to 5.0%	4,385,000
Total GO Refunding Bonds	7,511,333
Total Business-Type Bonded Debt	$ 57,826,333

The City is required by the revenue bond ordinances to establish certain accounts to maintain and operate the Utility System and to provide for the payment of bond principal and interest. A reserve fund is not required as long as the net revenues for each fiscal year are equal to at least 110% of the average annual debt service requirements of all bonds similarly secured (*Springing Reserve Fund Covenant).* The City is in compliance with the Covenant and, accordingly, a reserve fund is not maintained.

The annual requirements to amortize all bonded debt and obligations outstanding as of September 30, 2018, including interest payments, are as follows:

Year Ending	Governmental Activities		Business-Type Activities	
September 30,	Principal	Interest	Principal	Interest
2019	$ 3,215,752	$ 2,914,583	$ 2,003,248	$ 2,103,019
2020	3,429,916	2,811,528	2,108,085	2,029,578
2021	3,361,000	2,707,058	2,240,000	1,961,467
2022	3,300,000	2,594,895	2,345,000	1,875,541
2023	3,455,000	2,465,857	2,470,000	1,785,276
2024-2028	18,830,000	10,487,400	12,995,000	7,363,706
2029-2033	22,515,000	6,668,906	15,615,000	4,614,146
2034-2038	21,404,998	2,064,425	18,050,000	1,601,698
	$ 79,511,666	$ 32,714,652	$ 57,826,333	$ 23,334,431

NOTE I -- LONG-TERM DEBT (Continued)

Changes in Long-Term Liabilities

Governmental Activities	Balance 10/1/2017	Additions	Reductions	Balance 9/30/2018	Due Within One Year
General Obligation Bonds	$ 39,590,288	$ -	$ (1,961,622)	$ 37,628,666	$ 2,026,752
Bond Premiums	2,147,934	158,120	(196,279)	2,109,775	-
Certificates of Obligation	35,090,000	6,450,000	(795,000)	40,745,000	900,000
Tax Anticipation Notes	-	1,424,000	(286,000)	1,138,000	289,000
Capital Leases	1,517,298	361,403	(423,477)	1,455,224	544,199
Compensated Absences	1,295,948	807,198	(736,897)	1,366,249	755,107
Total Governmental Activities	79,641,468	9,200,721	(4,399,275)	84,442,914	4,515,058
Business-Type Activities					
Revenue Bonds	41,115,000	9,900,000	(700,000)	50,315,000	910,000
General Obligation Refunding Bonds	8,584,711	-	(1,073,378)	7,511,333	1,093,248
Bond Premiums	1,452,691	367,722	(115,319)	1,705,094	-
Capital Leases	36,120	-	(36,120)	-	-
Compensated Absences	420,044	236,079	(217,741)	438,382	244,826
Total Business-Type Activities	51,608,566	10,503,801	(2,142,558)	59,969,809	2,248,074
Total Primary Government	$ 131,250,034	$ 19,704,522	$ (6,541,833)	$ 144,412,723	$ 6,763,132

Compensated absences and other postemployment benefit obligation for governmental activities are generally liquidated by the general fund.

Utility System Revenue Bonds, Series 2018, were issued in June 2018 in the amount of $9,900,000, to fund the utility infrastructure for street improvements.

Certificates of Obligation, Series 2018, were issued April 2018 in the amount of $6,450,000 to fund various streets and drainage improvements.

Tax Anticipation Notes were issued to fund the purchase of a fire truck and various public works equipment.

NOTE I -- LONG-TERM DEBT (Continued)

Component Unit

The component unit received funds from First Commercial Bank N.A. to partially finance the purchase of land held for future economic incentive and development. The original principal amount of $863,128 carries interest at the rate of 2.54% for a 10-year fixed period, after which the interest rate will equal the Prime Rate less 1.00%. The loan calls for monthly payments of $5,786.78 (including principal and interest) and is secured by the real estate. Long-term debt activity for the component unit is summarized as follows:

	Balance Outstanding 10/1/2017	Increases	Decreases	Balance Outstanding 9/30/2018
Notes Payable	$ 803,260	$ -	$ (49,337)	$ 753,923

Annual requirements to amortize the notes payables as of September 30, 2018 are as follows:

Fiscal Year	Principal	Interest	Total
2019	$ 50,623	$ 18,819	$ 69,442
2020	51,893	17,548	69,441
2021	53,294	16,147	69,441
2022	54,683	14,759	69,442
2023	56,108	13,334	69,442
Thereafter	487,322	50,797	538,119
	$ 753,923	$ 131,404	$ 885,327

NOTE J -- EMPLOYEES' RETIREMENT SYSTEMS

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 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. The TMRS 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.tmrs.com.

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

NOTE J -- EMPLOYEES' RETIREMENT SYSTEMS (CONTINUED)

Texas Municipal Retirement System (Continued)

Benefits Provided

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

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

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

	Plan Year 2016	Plan Year 2017
Inactive employees or beneficiaries currently receiving benefits	221	229
Inactive employees entitled to but not yet receiving benefits	161	171
Active employees	363	381
	745	781

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.

For the year ending September 30, 2018, employees for the City were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City were 16.04% and 15.61% in calendar years 2017 and 2018, respectively. The City's contributions to TMRS for the year ended September 30, 2018 were $4,287,815, and exceeded the required contributions by $1,000,480.

NOTE J -- EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Texas Municipal Retirement System (Continued)

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

Actuarial Assumptions

The Total Pension Liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Inflation	2.5% per year
Salary Increases	3.5% to 10.5%, including inflation
Investment Rate of Return*	6.75%

* Presented net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2017 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% to 6.75%. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

NOTE J -- EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Texas Municipal Retirement System (Continued)

Actuarial Assumptions (Continued)

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future rates of return by the target asset allocation percentage and by adding the expected inflation. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, GRS focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive). At its meeting on July 30, 2015, the TMRS Board approved a new portfolio target allocation. The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return (Arithmetic)
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
CoreFixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	3.90%
Real Return	10.00%	3.80%
Real Estate	10.00%	4.50%
Absolute Return	10.00%	3.75%
Private Equity	5.00%	7.50%
	100.00%	

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.

NOTE J -- EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Texas Municipal Retirement System (Continued)

Changes in the Net Pension Liability

The below schedule presents the changes in the Net Pension Liability as of December 31, 2017:

	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability
Balance at December 31, 2016:	$ 100,237,467	$ 66,643,848	$ 33,593,619
Changes for the year:			
Service Cost	3,528,748	-	3,528,748
Interest	6,745,276	-	6,745,276
Change of Benefit Terms	-	-	-
Differences Between Expected and Actual Experience	422,264	-	422,264
Changes of Assumptions	-	-	-
Contributions - Employer	-	4,008,013	(4,008,013)
Contributions - Employee	-	1,415,544	(1,415,544)
Net Investment Income	-	9,238,393	(9,238,393)
Benefit Payments, Including Refunds of Employee Contributions	(4,143,663)	(4,143,663)	-
Administrative Expense	-	(47,868)	47,868
Other Changes	-	(2,426)	2,426
Net Changes	6,552,625	10,467,993	(3,915,368)
Balance at December 31, 2017:	$ 106,790,092	$ 77,111,841	$ 29,678,251

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

	Discount Rate		
	5.75%	6.75%	7.75%
Net Pension Liability (Asset)	$ 45,440,781	$ 29,678,251	$ 16,859,391

Pension Plan Fiduciary Net Position

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

NOTE J -- EMPLOYEE RETIREMENT SYSTEM (CONTINUED)

Texas Municipal Retirement System (Continued)

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

For the year ended September 30, 2018, the City recognized pension expense of $4,670,485. Also as of 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	$ 376,627	$ -
Changes in Actuarial Assumptions	96,993	-
Differences between Projected and Actual Investment Earnings		1,968,915
Contributions subsequent to the Measurement Date	3,333,580	
	$ 3,807,200	$ 1,968,915

Deferred outflows of resources in the amount of $3,333,580 is related to pensions resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the net pension liability for the plan year ending December 31, 2018 (subsequent fiscal period). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense in future years as follows:

For the Plan Year ended December 31,	
2018	$ 227,146
2019	24,840
2020	(840,284)
2021	(906,997)
	$ (1,495,295)

NOTE K – OTHER POST-EMPLOYMENT BENEFITS

TMRS Supplemental Death Benefits Other Post-Employment Benefit

The City also participates in the cost sharing single-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (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.

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (Continued)

TMRS Supplemental Death Benefits Other Post-Employment Benefit (Continued)

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for $7,500; this coverage is an "other post-employment benefit," or OPEB. Membership in the plan at December 31, 2017, the valuation and measurement date, consisted of:

	2017
Inactive Employees or Beneficiaries Currently Receiving Benefits	175
Inactive Employees Entitled to but Not Yet Receiving Benefits	42
Active Employees	381
	598

The SDBF required contribution rates, based on these assumptions, are as follows:

	Total SDBF Contribution Rate	Retiree SDBF Contribution Rate
For the Plan Year Ended December 31,		
2017	0.18%	0.06%
2018	0.19%	0.06%

These contribution rates are based on actuarial assumptions 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 are 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 (APRs) 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, the System adopted the Entry Age Normal actuarial cost method. These assumptions are summarized below.

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.50%
Salary Increases	3.50% to 10.50% Including Inflation
Discount Rate	3.31% (Based on Fidelity's 20-Year Municipal GO AA Index)
Administrative Expenses	All administrative expenses are paid through the Pension Trust 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 projected on a fully generated 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 rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (Continued)

TMRS Supplemental Death Benefits Other Post-Employment Benefit (Continued)

Total City's Total OPEB Liability (TOL), based on the above actuarial factors, as of December 31, 2017, the measurement and actuarial valuation date, was calculated as follows:

	Total OPEB Liability
Balance at December 31, 2016	$ 967,219
Changes for the year:	
Service Cost	36,400
Interest	37,020
Change of Benefit Terms	-
Difference Between Expected and Actual Experience	-
Changes in Assumptions or Other Inputs	84,413
Benefit Payments	(12,133)
Net Changes	145,700
Balance at December 31, 2017	$ 1,112,919

There is no separate trust maintained to fund this TOL. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement No. 75 to pay related benefits.

The following presents the TOL of the City, calculated using the discount rate of 3.31% as well as what the City's TOL would be if it were calculated using a discount rate that is 1-percentage point lower (2.31%) and 1-percentage point higher (4.31%) than the current rate:

	Discount Rate 2.31%	Discount Rate 3.31%	Discount Rate 4.31%
Total OPEB Liability	$ 1,328,558	$ 1,112,919	$ 944,526

For the year ended September 30, 2018, the City recognized OPEB expense of $81,342. Also as of September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to the TMRS OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumptions	$ 69,859	$ -
Contributions Subsequent to the Measurement Date	3,743	-
	$ 73,602	$ -

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (Continued)

TMRS Supplemental Death Benefits Other Post-Employment Benefit (Continued)

Deferred outflows of resources in the amount of $3,743 is related to OPEB benefits resulting from contributions subsequent to the measurement date, and will be recognized as a reduction of the total TMRS OPEB liability for the plan year ended December 31, 2018. Other amounts reported as deferred outflows and inflows of resources related to the TMRS OPEB will be recognized in OPEB expense in future periods as follows:

For the Plan Year Ended December 31,		
2018	$	14,554
2019		14,554
2020		14,554
2021		14,554
2022		11,643
Thereafter		-
	$	69,859

City of Seguin Retiree Health Other Post-Employment Benefit Plan

In addition to the TMRS OPEB, The City administers a single-employer defined benefit healthcare plan for retirees, established under legal authority of the City Charter. The City is the only employer participating in the Plan. The Plan does not issue a publicly available financial report.

The City provides post-employment benefits for eligible participants enrolled in City-sponsored plans. The benefits are provided in the form of an implicit rate subsidy where the City contributes towards the retiree health premiums before achieving Medicare eligibility. While the Plan offers retiree only rates, a very small implicit liability still exists. Membership in the plan as of September 30, 2018, the measurement date, consisted of:

	2017
Inactive Employees or Beneficiaries Currently Receiving Benefits	17
Inactive Employees Entitled to but Not Yet Receiving Benefits	39
Active Employees	306
	362

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (Continued)

City of Seguin Retiree Health Other Post-Employment Benefit Plan (Continued)

Current active employees must be eligible for service retirement under the Texas Municipal Retirement System. To attain this eligibility active employees must be at least age 60 with 5 years of service or have at least 20 years of employment with the City. Furthermore, there is a subsidy offered only to employees hired prior to January 2008.

Minimum Years of Continuous Service	Minimum Age	City Contributions
15	57	0%
20	57	50% *
25	57	100% *

* The City Contribution toward retiree coverage is based on a percentage of the City Contribution made for active duty employees. Retiree rates are actuarially established and adopted annually by the City/Employee Benefit Trust. Qualification for 100% contribution entitles the retiree to 100% of the contribution made for an active employee but does not necessarily mean retiree insurance coverage will be at no cost.

Methods and Assumptions Used to Determine Contribution Rates:

Inflation	2.50%
Salary Increases	3.50%
Discount Rate	3.89% (Bond Buyer 20-Bond GO Index)
Mortality Rates	RP-2014 generational table scaled using MP-17 and applied on a gender-specific basis
Health Care Cost Trend Rates	7.0% for 2018, Decreasing 0.5% each year reaching ultimate rate of 4.5%

The City's Retiree Health OPEB Liability (TOL), based on the above actuarial factors, as of September 30, 2018, the measurement and actuarial valuation date, was calculated as follows:

	Total OPEB Liability
Balance at September 30, 2017	$ 938,534
Changes for the year:	
Service Cost	14,620
Interest	(1,162)
Change of Benefit Terms	-
Difference Between Expected and Actual Experience	-
Changes in Assumptions or Other Inputs	(13,195)
Benefit Payments	(88,773)
Net Changes	(88,510)
Balance at September 30, 2018	$ 850,024

NOTE K – OTHER POST-EMPLOYMENT BENEFITS (Continued)

City of Seguin Retiree Health Other Post-Employment Benefit Plan (Continued)

Methods and Assumptions Used to Determine Contribution Rates (Continued):

There is no separate trust maintained to fund this TOL. No assets are accumulated in a trust that meets the criteria in paragraph 4 of Statement NO. 75 to pay related benefits.

The following presents the TOL of the City, calculated using the discount rate of 3.89% as well as what the City's TOL would be if it were calculated using a discount rate that is 1-percentage point lower (2.89%) and 1-percentage point higher (4.89%) than the current rate:

	Discount Rate 2.89%	Discount Rate 3.89%	Discount Rate 4.89%
Total OPEB Liability	$ 903,000	$ 850,024	$ 802,000

The following presents what the total OPEB liability of the City would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (6% decreasing to 3.5%) or 1-percentage point higher (8% decreasing to 5.5%) than the current healthcare cost trends:

	1% Decrease	Current Trend	1% Increase
Total OPEB Liability	$ 783,000	$ 850,024	$ 912,000

For the year ended September 30, 2018, the City recognized OPEB expense of $76,559. Also as of September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Actuarial Assumptions	$ -	$ 11,951
Contributions Subsequent to the Measurement Date	-	-
	$ -	$ 11,951

Amounts reported as deferred outflows and inflows of resources related to the City's Retired Health OPEB will be recognized in OPEB expense as follows:

For the Plan Year ended September 30,	
2019	$ (1,244)
2020	(1,244)
2021	(1,244)
2022	(1,244)
2033	(1,244)
Thereafter	(5,731)
	$ (11,951)

NOTE L -- INTERFUND TRANSFERS

Interfund transfers during the year ended September 30, 2018, were as follows:

Receiving Fund/Activity	Transferring Fund/Activity	Amount	
Nonmajor Capital Projects	Utility Fund	$ 101,297	Contribution to Capital Project
Total Transfers		$ 101,297	

NOTE M -- COMMITMENTS AND CONTINGENCIES

Litigation

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

Grants

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

Construction Commitments

The City has entered into construction and engineering contracts for the improvement of various streets and utility systems, as well as park improvements. Estimated future commitments associated with these contracts as of September 30, 2018 are as follows:

Primary Government	Total Commitments	Incurred Thru September 2018	Estimated Future Commitments
General Government			
Bldgs, Streets & Drainage	$ 12,542,436	$ 8,951,886	$ 3,590,550
Professional Services	1,599,161	843,833	755,328
	14,141,597	9,795,719	4,345,878
Utility System			
Utility System Improvements	12,216,514	3,718,813	8,497,701
Professional Services (Engineering)	3,080,316	1,746,296	1,334,020
	15,296,830	5,465,109	9,831,721
Total Primary Government Commitments	$ 29,438,427	$ 15,260,828	$ 14,177,599

NOTE M -- COMMITMENTS AND CONTINGENCIES (Continued)

Economic Development Agreements

WDW Development, LP Agreement

The City entered into a Chapter 380 Agreement with WBW Land Investments, LP (WBW) which provides that the City shall reimburse WBW for certain public infrastructure improvements out of 50% of the increased tax received from home sales in the residential development project known as the Meadows at Nolte Farms over a period of ten years, beginning one year immediately after the date of initial completion, at a cost not to exceed $500,000. The City estimates the increase in assessed value on the project over the base year to be $15,000,000. Reimbursements to WBW began March 2017. Reimbursement for the year ended September 30, 2018 was $43,306.

Perry Homes, LLC

The City entered into a Chapter 380 Agreement with Perry Homes, LLC (“developer”) to reimburse the developer 75% of the 1% unrestricted sales taxes collected on materials that are purchased to construct homes in Seguin. The agreement period begins February 2018. No reimbursements were remitted for 2018.

Power Purchase Agreements

On December 17, 2015, the City entered into a fifteen (15) year agreement with the City of Garland to purchase energy produced by a solar-power facility, along with associated Environmental Attributes. The terms of the agreement began on the Commercial Operation Date (March 17, 2017) and ends on the day preceding the 15th anniversary of the agreement. In addition, the City entered into a separate twenty (20) year agreement with the City of Garland to purchase energy produced by a wind energy facility, along with associated Environmental Attributes. The terms of the agreement began on the Commercial Operation Date (November 13, 2016) and ends on the day preceding the 20th anniversary of the agreement. Both agreements carry performance guarantees for all parties, as well as mutual security provisions.

Commitments under Noncapitalized Leases

Commitments under noncapitalized (operating) leases for copiers provide for future rental payments as of September 30, 2018 as follows:

Year Ending September 30,	Rentals	
2019	$	36,549
2020		31,551
2021		20,872
2022		10,340
2023		2,078
Total	$	101,390

NOTE M -- COMMITMENTS AND CONTINGENCIES (Continued)

Encumbrances

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is utilized in the governmental funds. Encumbrances lapse at year-end and do not constitute expenditures or liabilities because the commitments must be reappropriated and honored during the subsequent year. Therefore, there were no outstanding encumbrances as of September 30, 2018.

Guadalupe Regional Medical Center

The City of Seguin is contingently liable for 50% of operating deficits produced by Guadalupe Regional Medical Center (GRMC), if any, with Guadalupe County contingently responsible for the remainder. As of September 30, 2018, long-term debt of GRMC consisted of Revenue Bonds in the amount of $113,585,000, and capital lease obligations in the amount of $4,776,264. The bonds are secured by revenues of the Medical Center, mortgage insurance issued by FHA and funds held in trust.

Following is a summary of financial data as reported in the Guadalupe Regional Medical Center's most recent audited financial statements for the year ended September 30, 2018:

Assets:		
Current Assets	$	76,946,578
Other Assets		14,500,440
Capital Assets (Net)		104,646,655
Deferred Outflows of Resources		3,916,224
Total Assets and Deferred Outflows		200,009,897
Liabilities & Net Assets:		
Current Liabilities		27,131,962
Other Liabilities		118,717,017
Total Liabilities		145,848,979
Deferred Inflows of Resources		5,486,143
Net Position	$	48,674,775
Operating Revenues:		
Net Revenues from Patient Services	$	190,063,767
Other Operating Revenues		6,412,689
Total Operating Revenues		196,476,456
Operating Expenses:		186,314,260
Total Net Operating Income		10,162,196
Nonoperating Revenues and (Expenses)		(5,641,545)
Increase (Decrease) in Net Position	$	4,520,651

NOTE M -- COMMITMENTS AND CONTINGENCIES (Continued)

Schertz/Seguin Local Government Corporation

The City of Seguin is jointly liable, together with the City of Schertz, for operating deficits and long-term debt of the Schertz/Seguin Local Government Corporation (See Note A1). Following is a summary of financial data as reported in the Corporation's most recent audited financial statements dated September 30, 2017:

Assets:		
Current Assets	$	15,279,192
Restricted Cash and Cash Equivalents		73,947,779
Property, Plant & Equipment		95,008,923
Other Assets & Deferred Charges		2,412,138
Total Assets & Deferred Charges		186,648,032
Liabilities & Net Position:		
Current Liabilities		5,522,205
Revenue Bonds (Less Current Maturities and Unamortized Discounts)		164,983,651
Total Liabilities		170,505,856
Net Position:		
Net Investment in Capital Assets		(1,956,872)
Restricted		6,255,257
Unrestricted		11,872,444
Total Net Position	$	16,170,829

The Corporation had revenue bonds outstanding in the amount of $165,440,000 (as of September 30, 2017) to provide funds to build, improve, extend, enlarge and repair the Corporation's utility system, fund a reserve, and pay the costs of bond issuance. The bond resolution pledges intergovernmental contract revenues from the cities of Schertz and Seguin (the participating governments) to bond holders. Under the intergovernmental water supply contract, the participating governments are unconditionally obligated to pay their respective shares of annual contract revenue bond debt service from the operation of their respective utility systems.

NOTE N – PLEDGED REVENUE

The Seguin Economic Development Corporation (SEDC) entered into an interlocal cooperative agreement with the City to transfer lawfully available surplus sales and use tax collected on behalf of SEDC to fund a portion of the debt service requirements of the 2011 *Combination Tax and Limited Pledge Revenue Certificates*. SEDC has pledged to transfer, on an annual basis, debt service requirements up to a total cumulative principal amount of $880,000. This agreement has been paid in full.

In addition, SEDC entered into an agreement, along with the City, to fund certain improvements to the IH-10 frontage road in an amount not to exceed $1,250,000. SEDC's portion of the commitment will be funded by a pledge of future sales tax revenue to reimburse the City ½ of the debt service requirements of bonded debt to fund the improvements. The remaining commitment on the agreement as of September 30, 2018 is $410,650 over a two-year period.

NOTE N – PLEDGED REVENUE (Continued)

Total contributions to the City in support of debt were $344,175 for the year ended September 30, 2018. Annual requirements to satisfy the commitment are estimated to be 15% to 28% of the underlying revenue source (sales tax) and are as follows:

	Pledged Revenue
2019	$ 203,650
2020	207,000
Total Pledged	$ 410,650

NOTE O -- RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; injuries to employees; employee health benefits; and other claims of various natures. The City contracts with the Texas Municipal League (TML) to provide insurance coverage for property and casualty, and workers compensation. TML is a multi-employer group that provides for a combination of risk sharing among pool participants and stop loss coverage. Contributions are set annually by the provider. Liability by the City is generally limited to the contributed amounts. Annual contributions for the year ended September 30, 2018 were $401,060 for property and casualty and $266,975 for workers' compensation coverage.

NOTE P – TAX ABATEMENT DISCLOSURES

The City of Seguin negotiates property tax abatement agreements on a cases-by-case basis. The agreements freeze property tax revenues received from the paying entity at current levels and deprives the City of a percentage of future increases in ad valorem property tax revenues that otherwise would have resulted from increases in assessed valuation in such areas until the tax abatement period terminates. The Texas Property Redevelopment and Tax Abatement Act, Chapter 312 of the Texas Tax Code authorizes taxing jurisdictions to provide property tax abatement for a limited period of time as inducement for the development or redevelopment of property.

The City of Seguin Tax Abatement Guidelines (the "Guidelines"), adopted and effective on January 1, 2017, allow abatements to be granted only for the additional value of real or personal property improvements. No abatement will be approved that exceeds 100% of the new appraised value of capital improvements and/or personal property, or that will reduce current ad valorem revenue, and will be effective for no more than ten years. In the event that a facility that has been granted a tax abatement discontinues producing goods or services, fails to commence or complete the required capital investment, or fails to comply with any other provisions of the tax abatement agreement, the abatement agreement may be terminated by the City and all taxes previously abated will be recaptured and paid within 60 days of the termination. The Guidelines also include three abatement schedules that identify maximum allowable percentages based on the amount of real and personal property investment. These schedules serve as a guide for staff in determining a recommended abatement for a specific project.

NOTE P – TAX ABATEMENT DISCLOSURES (Continued)

As of September 30, 2018, the City has active tax abatement agreements with three entities. The gross amount of property tax abated during 2018 was $1,892,597.

Caterpillar, Inc.: Tax abatement is for a period of ten years beginning January 1, 2010 for the construction and operation of a diesel engine manufacturing facility with an estimated value of $161,000,000.

Temic Automotive of North America, Inc.: Tax abatement agreement for a ten year period beginning January 1, 2009 for the purchase and installation of specific personal property representing an investment in excess of $15,000,000.

Tractor Supply Co. of Texas, LP: Tax abatement agreement for a period of five years beginning January 1, 2016 for the construction and operation of a distribution facility with an estimated value of $8,000,000.

APPENDIX D

Form of Opinion of Bond Counsel

NORTON ROSE FULBRIGHT

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FINAL

IN REGARD to the authorization and issuance of the "City of Seguin, Texas Utility System Revenue Bonds, Series 2020" (the *Bonds*), dated January 15, 2020, in the aggregate principal amount of $3,550,000, we have reviewed the legality and validity of the issuance thereof by the City Council of the City of Seguin, Texas (the *Issuer*). The Bonds are issuable in fully registered form only, in denominations of $5,000 or any integral multiple thereof, and have Stated Maturities of February 1 in each of the years 2021 through 2028, February 1, 2030, February 1, 2032, February 1, 2034, February 1, 2036, and February 1, 2038, unless optionally or mandatorily redeemed prior to Stated Maturity in accordance with the terms stated on the face of the Bonds. Interest on the Bonds accrues from the dates, at the rates, in the manner, and is payable on the dates, all as provided in the ordinance (the *Ordinance*) authorizing the issuance of the Bonds. 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 Bonds under the laws of the State of Texas and with respect to the exclusion of the interest on the Bonds from the gross income of the owners thereof for federal income tax purposes and for no other purpose. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data, or other material relating to the financial condition or capabilities of the Issuer or the Issuer's combined utility systems (the *System*) and have not assumed any responsibility with respect thereto. We 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 Bonds. We express no opinion and make no comment with respect to the sufficiency of the security for or the marketability of the Bonds. Our role in connection with the Issuer's Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

WE HAVE EXAMINED the applicable and pertinent laws of the State of Texas and the United States of America. In rendering the opinions herein we rely upon (1) original or certified copies of the proceedings of the Issuer in connection with the issuance of the Bonds, 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 Bonds 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 Bond 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.

BASED ON OUR EXAMINATION, IT IS OUR OPINION that the Bonds have been duly authorized and issued in conformity with the laws of the State of Texas now in force and that the Bonds are valid and legally binding special 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 Bonds are payable from and equally and ratably secured, together with the currently outstanding Previously Issued Bonds, solely by a first and prior lien on and pledge of the Net Revenues derived from the operation of the System. In the Ordinance, the Issuer retains the right to issue Additional Parity Bonds and Inferior Lien Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Issuer, except with respect to the Net Revenues. The holder of the Bonds shall never have the right to demand payment of the Bonds out of any funds raised or to be raised by taxation.

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 Bonds, under existing statutes, regulations, published rulings, and court decisions (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof (the *Code*), of the owners thereof for federal income tax purposes, pursuant to section 103 of the Code, and (2) interest on the Bonds will not be included in computing the alternative minimum taxable income of the owners thereof.

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

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective.

Legal Opinion of Norton Rose Fulbright US LLP, San Antonio, Texas, in connection with the authorization and issuance of "CITY OF SEGUIN, TEXAS UTILITY SYSTEM REVENUE BONDS, SERIES 2020"

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

APPENDIX E

Selected Provisions of the Ordinance

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SELECTED PROVISIONS OF THE ORDINANCE

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

SECTION 9. Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided or unless the context otherwise requires: the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Section 32 and 45 of this Ordinance have the meanings assigned to them in such Section, and all such terms include the plural as well as the singular; all references in this Ordinance to designated "Sections" and other subdivisions are to the designated Sections and other subdivisions of this Ordinance as originally adopted; and the words "herein", "hereof", and "hereunder" and other words of similar import refer to this Ordinance as a whole and not to any particular Section or other subdivision.

A. "*Additional Parity Bonds*" - Revenue bonds or other evidences of indebtedness which the City reserves the right to issue or enter into, as the case may be, in the future in accordance with the terms and conditions prescribed therefor and which are equally and ratably secured by a first lien on and pledge of the Net Revenues of the System.

B. "*Authorized Investments*" – The obligations identified in the "Public Funds Investment Act" (V.T.C.A., Government Code, Chapter 2256), as amended.

C. *"Authorized Officials"* – The Mayor, the Mayor Pro Tem, the City Manager, the Assistant City Manager, Finance Director, the City Attorney, and/or the City Secretary.

D. "*Average Annual Debt Service*" - That average amount which, at the time of computation, will be required to pay the Debt Service of obligations when due and derived by dividing the total of such Debt Service by the number of years then remaining before final maturity. Capitalized interest payments provided from bond proceeds shall be excluded in making the aforementioned computation.

E. "*Bonds*" - The "City of Seguin, Texas Utility System Revenue Bonds, Series 2020", dated January 15, 2020, authorized by this Ordinance.

F. "*Bonds Similarly Secured*" - Collectively, the Bonds, the Previously Issued Bonds, and any Additional Parity Bonds.

G. "*City*" - The City of Seguin located in the County of Guadalupe, Texas.

H. "*Closing Date*" – The date of physical delivery of the Initial Bonds in exchange for the payment in full by the Purchasers.

I. "*Debt Service*" - As of any particular date of computation, with respect to any obligations and with respect to any period, the aggregate of the amounts to be paid or set aside by the City as of such date or in such period for the payment of the principal of, premium, if any, and interest (to the extent not capitalized) on such obligations; assuming, in the case of Bonds Similarly Secured without a fixed numerical rate that such obligations bear, or would have borne, interest at the highest rate reached, or that would have applied to such obligations (using the index or method for computing interest applicable to such obligations) during the twenty-four (24) month period next preceding the date of computation; further assuming in the case of obligations required to be redeemed or prepaid as to principal prior to maturity, the principal amounts thereof will be redeemed prior to maturity in accordance with the mandatory redemption provisions applicable thereto.

J. "*Fiscal Year*" - The twelve month accounting period used by the City in connection with the operation of the System which may be any twelve consecutive month period established by the City.

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

L. "*Gross Revenues*" – All income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts and grants in aid of construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the Bonds Similarly Secured and other obligations payable solely from and secured only by a lien on and pledge of the Net Revenues.

M. "*Inferior Lien Obligations*" – Any obligations hereafter issued by the City that are payable from or secured by a lien on and pledge of the Net Revenues of the System that is subordinate and inferior to the lien on and pledge thereof securing the payment of any outstanding Bonds Similarly Secured.

N. "*Interest Payment Dates*" – The date interest is payable on the Bonds, being February 1 and August 1 of each year, commencing August 1, 2020, while any of the Bonds remain Outstanding.

O. "*Maintenance and Operating Expenses*" – All current expenses of operating and maintaining the System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service; provided, however, that only such repairs and extensions, as in the judgment of the City Council, reasonably and fairly exercised, are necessary to maintain the operations and render adequate service to the City and the inhabitants thereof, or such as might be necessary to meet some physical accident or condition which would otherwise impair obligations payable from Net Revenues shall be deducted in determining "Net Revenues". Depreciation charges shall not be considered Maintenance and Operating Expenses. Maintenance and Operating Expenses shall include payments under contracts for the purchase of water supply, treatment of sewage or other materials, goods or services for the System to the extent authorized by law and the provisions of such contract.

P. "*Net Earnings*" – The meaning assigned to such term in Section 18 hereof.

Q. "*Net Revenues*" – Gross Revenues of the System, with respect to any period, after deducting the System's Maintenance and Operating Expenses during such period.

R. "*Outstanding*" – When used in this Ordinance with respect to Bonds means, as of the date of determination, all Bonds theretofore issued and delivered under this Ordinance, except:

those Bonds cancelled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

those Bonds deemed to be paid by the City in accordance with the provisions of Section 28 hereof; and

those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 30 hereof.

S. "*Previously Issued Bonds*" – The outstanding and unpaid (1) "City of Seguin, Texas Utility System Revenue Bonds, Series 2014", dated December 1, 2014, and originally issued in the principal amount of $21,405,000 (the *Series 2014 Bonds*), (2) "City of Seguin, Texas Utility System Revenue Bonds, Series 2016", dated January 15, 2016, and originally issued in the principal amount of $4,430,000 (the *Series 2016 Bonds*), (3) "City of Seguin, Texas Utility System Revenue Bonds, Series 2017", dated February 1, 2017, and originally issued in the principal amount of $8,415,000 (the *Series 2017 Bonds*), and (4) "City of Seguin, Texas Utility System Revenue Bonds, Series 2018", dated May 15, 2018 and originally issued in the principal amount of $9,900,000 (the *Series 2018 Bonds*).

T. "*Required Reserve*" – The amount required to be accumulated and maintained in the Reserve Fund under the provisions of Section 13.

U. "*System*" - All properties, facilities and plants currently owned, operated and maintained by the City for the supply, treatment and transmission of treated potable water, the collection, treatment and disposal of watercarried wastes, the generation, transmission and distribution of electricity, together with all future extensions, improvements, replacements and additions thereto; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term "System" shall not mean to include facilities of any kind which are declared not to be a part of the System and which are acquired or constructed by or on behalf of the City with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the City which are not Bonds but which are payable from and secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Bonds including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities.

SECTION 10. Pledge. (a) The City hereby covenants and agrees that the Net Revenues of the System, with the exception of those in excess of the amounts required for the payment and security of the Bonds Similarly Secured, are hereby irrevocably pledged, to the payment and security of the Previously Issued Bonds, the Bonds, and Additional Parity Bonds, if issued, including the establishment and maintenance of the special funds created and established by the ordinances authorizing the Previously Issued Bonds, and reaffirmed by this Ordinance, all as hereinafter provided, and it is hereby ordained that the Bonds Similarly Secured, and the interest thereon, shall constitute a first lien on the Net Revenues of the System and be valid and binding without any physical delivery thereof or further act by the City, and the lien created hereby on the Net Revenues of the System for the payment and security of the Bonds Similarly Secured shall be prior in right and claim as to any other indebtedness, liability or obligation of the City or the System.

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

SECTION 11. Utility System Fund. The City hereby reaffirms its covenant and agreement that Gross Revenues of the System (excluding earnings and income from investments held for the benefit of special funds created for the payment and security of obligations payable in whole or in part from the Net Revenues) shall be deposited to the credit of an account created by the ordinances authorizing the Previously Issued Bonds and known as the "Utility System Fund" (herein called the *System Fund*). Such revenues of the System shall be kept separate and apart from all other funds of the City and shall be deposited, as collected, in a fund maintained at a depository bank of the City. All revenues deposited in the System Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

> FIRST: To the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute to be a first charge on and claim against the Gross Revenues thereof.
>
> SECOND: To the payment of the amounts required to be deposited in the Bond Fund created and established for the payment of Debt Service on the Bonds Similarly Secured as the same becomes due and payable.
>
> THIRD: To the payment of the amounts required to be deposited in the Reserve Fund to establish and maintain the Required Reserve in accordance with

the provisions of this Ordinance or any other ordinances relating to issuance of Bonds Similarly Secured.

FOURTH: To the payment of the amounts required to be deposited into the funds created and established for the payment, security, and benefit of any Inferior Lien Obligations as the same become due and payable.

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

SECTION 12. Bond Fund - Excess Bond Proceeds. For purposes of providing funds to pay the principal of and interest on the Bonds Similarly Secured as the same becomes due and payable, the City reaffirms the creation and agrees to maintain a separate and special account or fund known as the "City of Seguin Interest and Sinking Revenue Bond Fund" (the *Bond Fund*). In addition to the deposits required to be made for the payment of the Previously Issued Bonds, the City covenants that there shall be deposited to the credit of the Bond Fund prior to each principal and interest payment date from the Net Revenues an amount equal to one hundred per centum (100%) of the amount required to fully pay the interest on and the principal of the Bonds then falling due and payable, such deposits to pay maturing principal and accruing interest on the Bonds to be made in substantially equal monthly installments on or before the 20th day of each month, beginning on or before the 20th day of the month next following the month the Bonds are delivered to the initial purchaser(s).

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

Accrued interest received from the Purchasers shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Bond Fund from the Net Revenues of the System. Additionally, any proceeds of the Bonds, and investment income thereon, not expended for authorized purposes shall be deposited into the Bond Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Bond Fund from the Net Revenues of the System.

SECTION 13. Reserve Fund. For purposes of accumulating and maintaining funds as a reserve for the payment of the Bonds Similarly Secured, the City reaffirms the creation and agrees to maintain a separate and special fund or account to be known as the "City of Seguin Revenue Bond Reserve Fund" (the *Reserve Fund*), and all funds deposited to the credit of said Fund (excluding earnings and income derived or received from deposits or investments which may be transferred to the System Fund established in Section 11 hereof during such periods as there is on deposit in the Reserve Fund the Required Reserve) shall be used solely for the payment of the principal of and interest on the Bonds Similarly Secured, when and to the extent other funds available for such purposes are insufficient, and, to the extent an amount is not required for the maintenance of the Required Reserve, such excess amount may also be used to pay, or provide for the payment of, the final principal amount of a series of Bonds Similarly Secured so that such series of Bonds Similarly Secured is no longer deemed to be "Outstanding" within the meaning of Section 28 hereof.

In accordance with the provisions of the ordinances authorizing the issuance of the Previously Issued Bonds, the total amount ultimately required to be accumulated and maintained in the Reserve Fund is $3,563,758.06 (the *Old Reserve*). By reason of the issuance of the Bonds, the total amount required to be accumulated and maintained in said Fund is hereby determined to be $3,421,977.92 (the *Required Reserve*) which amount shall be accumulated, if necessary (and subject to the further conditions on funding such Reserve Fund as provided in this Section) and is hereby found to equal or exceed the Average Annual Debt Service for the Bonds and the Previously Issued Bonds (calculated on a Fiscal Year basis as of the date the Bonds are to be delivered) and is more than the amount currently on deposit in the Reserve Fund. The Old Reserve for all currently Outstanding Bonds Similarly Secured are funded by separate surety policies: (i) one issued by Build America Mutual, which is attributable and relates to the Series 2014 Bonds, the Series 2016 Bonds, and the Series 2017 Bonds and provides maximum coverage thereunder of $2,919,075.00, and (ii) one issued by Assured Guaranty Municipal Corp., which is attributable and relates to the Series 2018 Bonds and provides maximum coverage thereunder of $728,561.00.

When and so long as the cash and investments in the Reserve Fund total not less than the Required Reserve, no deposits need be made to the credit of the Reserve Fund; but, if and when the Reserve Fund at any time contains less than the Required Reserve (other than as the result of the issuance of Additional Parity Bonds as provided in the following paragraph), subject to the provisions of Section 51 hereof, the City covenants and agrees to cure the deficiency in the Required Reserve by making monthly deposits to said Fund from the Net Revenues of the System, such monthly deposits to be in amounts equal to not less than 1/60th of the then total Required Reserve to be maintained in said Fund and made on or before the 20th day of each month until the total Required Reserve then to be maintained in said Fund has been fully restored. The City further covenants and agrees that, subject only to the payments to be made to the Bond Fund, the Net Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Parity Bonds.

As and when Additional Parity Bonds are delivered or incurred, the Required Reserve shall be increased, if required, to an amount equal to not less than the Average Annual Debt Service (calculated on a Fiscal Year basis) for all Bonds Similarly Secured then outstanding, as determined on the date each series of Bonds are delivered or incurred, as the case may be. Any additional amount required to be maintained in the Reserve Fund shall be so accumulated by the deposit in the Reserve Fund of all or any part thereof in cash immediately after the delivery of the then proposed Additional Parity Bonds, or, at the option of the City, by the deposit of monthly installments, made on or before the 20th day of each month following the month of delivery of the Additional Parity Bonds, of not less than 1/60th of the additional amount to be maintained in said Fund by reason of the issuance of the Additional Parity Bonds then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash).

During such time as the Reserve Fund contains the total Required Reserve, the City may, at its option, withdraw all surplus in the Reserve Fund in excess of the Required Reserve and deposit such surplus in the System Fund.

The City expressly reserves the right at any time to fund the Reserve Fund at the Required Reserve by purchasing an insurance policy that will unconditionally obligate the insurance company or other entity to pay all, or any part thereof, of the Required Reserve in the event funds on deposit in the Bond Fund are not sufficient to pay the debt service requirements on the Bonds. All ordinances adopted after the date hereof authorizing the issuance of Additional Parity Bonds shall contain a provision to this effect.

In the event an insurance policy issued to satisfy all or part of the City's obligation with respect to the Reserve Fund causes the amount then on deposit in the Reserve Fund to exceed the Required Reserve, the City may transfer such excess amount to any fund or account established for the payment of or security for the Bonds (including any escrow established for the final payment of any such obligations pursuant to Chapter 1207, as amended, Texas Government Code) or use such excess amount for any lawful purpose now or hereafter provided by law; provided, however, to the extent that such excess amount represents Bond proceeds, then such amount must be transferred to the Bond Fund or as otherwise permitted in accordance with then applicable Texas law.

Notwithstanding anything to the contrary contained in this Section, the requirements set forth above to fund the Reserve Fund in the amount of the Required Reserve amount shall be suspended for any Bonds Similarily Secured (including the Bonds) for such time as the Net Revenues for each Fiscal Year are equal to at least 110% of the Average Annual Debt Service requirements. In the event that the Net Revenues for any two consecutive Fiscal Years are less than 110% (unless such percentage is below 100% in any Fiscal Year, in which case the hereinafter–specified requirements will commence after such Fiscal Year) of the Average Annual Debt Service requirements, the City will be required to commence making the deposits to the Reserve Fund, as provided above, and to continue making such deposits until the earlier of (i) such time as the Reserve Fund contains the Required Reserve amount or (ii) the Net Revenues for a Fiscal Year have been equal to not less than 110% of the Average Annual Debt Service requirements.

SECTION 14. Depository for Funds - Security. An official depository of the funds of the City shall be the depository for the moneys deposited to the credit of the Funds identified in this Ordinance and moneys deposited to the credit of such Funds, to the extent not invested, shall be secured in the manner prescribed by law for securing other funds of the City.

SECTION 15. Deficiencies - Excess Net Revenues. (a) If on any occasion there shall not be sufficient Net Revenues of the System to make the required deposits into the Bond Fund and the Reserve Fund, then such deficiency shall be cured as soon as possible from the next available Net Revenues of the System, or from any other sources available for such purpose.

(b) Subject to making the required deposits to the Bond Fund and the Reserve Fund when and as required by this Ordinance, or any ordinance authorizing the issuance of Bonds Similarly Secured, the excess Net Revenues may be used by the City for any lawful purpose.

SECTION 16. Payment of Bonds. While any of the Bonds are Outstanding, the Authorized Officials shall cause to be transferred to the Paying Agent therefor, from funds on deposit in the Bond Fund, and, if necessary, in the Reserve Fund, amounts sufficient to fully pay and discharge promptly as each installment of interest and principal of the Bonds accrues or matures or comes due by reason of redemption prior to maturity; such transfer of funds to be made in such manner as will cause immediately available funds to be deposited with the Paying Agent for the Bonds at the close of the business day next preceding the date of payment for the Bonds.

SECTION 17. Investments. Money in any Fund reaffirmed pursuant to this Ordinance may, at the option of the City, be placed in time deposits, certificates of deposit, guaranteed investment contracts, or similar contractual arrangements and secured (to the extent not insured by the Federal Deposit Insurance Corporation) by obligations of the type hereinafter described, or be invested, including investments held in book entry form, in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Banks, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, Farmers Home Administration, Federal Home Loan Mortgage Association, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such a manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments (except State and Local Government Series investments held in book entry form, which shall at all times be valued at cost) shall be valued in terms of current market value within 45 days of the close of each Fiscal Year and, with respect to investments held for the account of the Reserve Fund, within 30 days of the date of passage of each ordinance authorizing the issuance of Additional Parity Bonds. All interest and income derived from deposits and investments in the Bond Fund immediately shall be credited to, and any losses debited to, the Bond Fund. All interest and interest income derived from deposits in and investments of the Reserve Fund shall, subject to the limitations provided in Section 13 hereof, be credited to and deposited in the System Fund. All such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds.

SECTION 18. Issuance of Additional Parity Bonds. Subject to the provisions hereinafter appearing as to conditions precedent which must be satisfied, the City reserves the right to issue, from time to time as needed, Additional Parity Bonds for any lawful purpose. Such Additional Parity Bonds may be issued in such form and manner as now or hereafter authorized by the laws of the State of Texas for the issuance of evidences of indebtedness or other instruments, and should new methods or financing techniques be developed that differ from those now available and in normal use, the City reserves the right to employ the same in its financing arrangements provided only that the following conditions precedent for the authorization and issuance of the same are satisfied, to wit:

A. The Director of Finance of the City (or other officer of the City then having the primary responsibility for the financial affairs of the City) shall have executed a certificate stating (a) that, to the best of his knowledge and belief, the City is not then in default as to any covenant, obligation or agreement contained in any ordinance or other proceeding relating to any obligations of the City payable from and secured by a lien on and pledge of the Net Revenues of the System that would materially affect the security or payment of such obligations and (b) either (i) payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues of the System have been made and that the amounts on deposit in such special funds or accounts are the amounts then required to be on deposit therein or (ii) the application of the proceeds of sale of such obligations then being issued will cure any such deficiency.

B. The Additional Parity Bonds shall be scheduled to mature or be payable as to principal on February 1 or August 1 (or both) in each year the same are to be outstanding or during the term thereof.

C. The City has secured a certificate or opinion of a Certified Public Accountant to the effect that, according to the books and records of the City, the Net Earnings, for the preceding Fiscal Year or for 12 consecutive months out of the 15 months immediately preceding the month the ordinance authorizing the issuance of the Additional Parity Bonds is adopted are at least equal to (i) 1.40 times the Average Annual Debt Service for all Bonds Similarly Secured then outstanding after giving effect to the issuance of the Additional Parity Bonds then being issued and (ii) 1.10 times the maximum annual Debt Service payment to be paid in a Fiscal Year for the Bonds Similarly Secured then outstanding after giving effect to the issuance of the Additional Parity Bonds then being issued. In making a determination of the Net Earnings, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings of the System for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant’s certificate or opinion.

D. To pay, together with any other lawfully available funds, any other legally incurred indebtedness payable from the Net Revenues of the System and/or secured by a lien on the System.

As used in this Section, the term “Net Earnings” shall mean the Gross Revenues of the System after deducting the Maintenance and Operating Expenses of the System, but not depreciation charges or expenditures which, under generally accepted accounting principles, should be charged to capital expenditures.

SECTION 19. Refunding Bonds. The City reserves the right to issue refunding bonds to refund all or any part of the outstanding Bonds Similarly Secured (pursuant to any law then available) upon such terms and conditions as the City Council of the City may deem to be in the best interest of the City and its inhabitants, and if less than all such outstanding Bonds Similarly Secured are refunded, the conditions precedent prescribed (for the issuance of Additional Parity Bonds) set forth in subparagraph C of Section 18 shall be satisfied and the Accountant’s certificate or opinion required in subparagraph C shall give effect to the Debt Service of the proposed refunding bonds (and shall not give effect to the Debt Service of the Bonds Similarly Secured being refunded following their cancellation or provision being made for their payment).

SECTION 20. Obligations of Inferior Lien and Pledge. The City hereby reserves the right to issue obligations payable from and secured by a lien on and pledge of the Net Revenues of the System, including the Inferior Lien Obligations, junior and subordinate in rank and dignity to the lien and pledge securing the payment of the Bonds Similarly Secured, as may be authorized by the laws of the State of Texas.

SECTION 21. Rates and Charges. That, for the benefit of the Holders of the Bonds and in addition to all provisions and covenants in the laws of the State of Texas and in this Ordinance, the City hereby expressly stipulates and agrees, while any of the Bonds are Outstanding, to establish and maintain rates and charges for facilities and services afforded by the System that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. To pay Maintenance and Operating Expenses, depreciation charges and replacement and betterment costs,

B. To produce Net Revenues sufficient to pay the principal of and interest on the Bonds Similarly Secured and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the Bonds Similarly Secured, and other obligations or evidences of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the Net Revenues of the System, and

C. To produce Net Revenues equal to at least 1.20 times the Debt Service due and payable on the outstanding Bonds Similarly Secured.

SECTION 22. Maintenance and Operation - Insurance. The City shall maintain the System in good condition and operate the System in an efficient manner and at reasonable cost. While any Bonds are Outstanding, the City agrees to maintain casualty and other insurance on the System of a kind and in an amount customarily carried by municipal corporations owning and operating similar properties. The City is in compliance with all franchises, permits and authorizations necessary for the operation of the System and required by any governmental agency; and the City has or will obtain, and shall keep in full force and effect while the Bonds are Outstanding, all franchises, permits, authorizations and approvals required for or with respect to the operation and maintenance of the System.

SECTION 23. Sale or Lease of Properties. The City, to the extent and in the manner authorized by law, may sell or exchange for consideration representing the fair value thereof, as determined by the City Council of the City, any property not necessary or required in the efficient operations of the System, or any equipment not necessary or useful in the operations thereof or which is obsolete, damaged or worn out or otherwise unsuitable for use in the operation of the System. The proceeds of any sale of properties of the System shall be deposited in the System Fund.

SECTION 24. Records and Accounts. The City hereby covenants and agrees that so long as any of the Bonds or any interest thereon remain outstanding, it will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto, as provided by Chapter 1502, as amended, Texas Government Code or other applicable law. The Holder or Holders of any Bonds Similarly Secured or any duly authorized agent or agents of such Holders shall have the right at all reasonable times to inspect such records, accounts and data relating thereto, and to inspect the System and all properties comprising same. The City further agrees that following the close of each Fiscal Year, it will cause an audit of such books and accounts to be made by an independent firm of Certified Public Accountants. Each such audit, in addition to whatever other matters may be thought proper by the Accountant, shall particularly include the following:

A. A statement of the income and expenses of the System for such Fiscal Year.

B. A balance sheet for the System as of the end of such Fiscal Year.

C. A statement describing the sources and application of funds of the System for such Fiscal Year.

D. The Accountant's comments regarding the manner in which the City has carried out the requirements of this Ordinance and any other ordinance authorizing the issuance of Bonds Similarly Secured and his recommendations for any changes or improvements in the operations, records and accounts of the System.

E. A list of insurance policies in force at the end of the Fiscal Year covering the properties of the System, setting out as to each policy the amount thereof, the risk covered, the name of the insurer and the policy's expiration date.

Expenses incurred in making an annual audit of the operations of the System are to be regarded as Maintenance and Operating Expenses. Copies of each annual audit shall be furnished to the Executive Director of the Municipal Advisory Council of Texas at his office in Austin, Texas, the City's Financial Advisor and, upon request, to the original purchaser of the Bonds and subsequent Holders of any of said Bonds. The audits herein required shall be made within 120 days following the close of each Fiscal Year insofar as is possible.

SECTION 25. Special Covenants. The City further covenants and agrees by and through this Ordinance as follows:

A. It has the lawful power to pledge the Net Revenues of the System to the payment of the Bonds to the extent provided herein and has lawfully exercised said power under the Constitution and laws of the State of Texas, and that the Bonds issued hereunder, together with the Previously Issued Bonds and the Additional Parity Bonds shall be ratably secured in such manner that no one Bond shall have preference over any other Bond of said issues.

B. The Net Revenues of the System have not been in any manner pledged or encumbered to the payment of any debt or obligation of the City or the System, save and except for the Previously Issued Bonds and the Bonds.

C. That no free services of the System shall be allowed, and should the City or any of its agents or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made by the City out of funds from sources other than the revenues and income of the System.

D. To the extent that it legally may, the City further covenants and agrees that, so long as any of the Bonds or any interest thereon are Outstanding, no franchise shall be granted for the installation or operation of any waterworks, sewer or electric light and power system other than those owned by the City, and the operation of any such system by anyone other than this City is hereby prohibited; provided, however, when the Previously Issued Bonds issued on or before December 16, 1997 are no longer outstanding, the City expressly reserves the right to eliminate or modify this covenant, at its sole discretion, for any purpose or in order to comply with then existing federal or Texas law.

SECTION 26. Remedy in Event of Default. In addition to all rights and remedies provided by the laws of the State of Texas, the City covenants and agrees particularly that in the event the City (a) defaults in payments to be made to the Bond Fund or the Reserve Fund as required by this Ordinance or (b) defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Ordinance, the Holder or Holders of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction, compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in this Ordinance. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

The specific remedy herein provided shall be cumulative of all other existing remedies and the specification of such remedy shall not be deemed to be exclusive.

SECTION 27. Special Obligations. The Bonds are special obligations of the City payable from the pledged Net Revenues of the System and the Holders of the Bonds shall never have the right to demand payment thereof out of funds raised or to be raised by taxation.

SECTION 28. Satisfaction of Obligation of City. If the City shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the pledge of the Net Revenues of the System under this Ordinance and all other obligations of the City to the Holders shall thereupon cease, terminate, and become void and be discharged and satisfied.

Bonds, or any principal amount(s) thereof, shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such Bonds or the principal amount(s) thereof at Stated Maturity or to the redemption date therefor, together with all interest due thereon, shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, and/or (ii) Government Obligations shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Obligations mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of and interest on such Bonds, or the principal amount(s) thereof, on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. In the event of a defeasance of the Bonds, the City shall deliver a certificate from its financial advisor, the Paying Agent/Registrar, an independent accounting firm or another qualified third party concerning the deposit of cash and/or Government Obligations to pay, when due, the principal of, redemption premium (if any), and interest due on any defeased Bonds. As and to the extent applicable, if at all, the City covenants that no deposit of money or Government Obligations will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code (as defined in Section 32).

Any moneys so deposited with the Paying Agent/Registrar, or an authorized escrow agent, and all income from Government Obligations held in trust by the Paying Agent/Registrar or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such moneys have been so deposited shall be remitted to the City or deposited as directed by the City. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of and interest on the Bonds and remaining unclaimed for a period of three (3) years after the Stated Maturity, or applicable redemption date, of the Bonds such moneys were deposited and are held in trust to pay shall, upon the request of the City, be remitted to the City against a written receipt therefor.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified in (i) or (ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the City expressly reserves the right to call the defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

SECTION 29. Ordinance a Contract - Amendments. This Ordinance shall constitute a contract with the Holders from time to time, be binding on the City, and shall not be amended or repealed by the City so long as any Bond remains Outstanding except as permitted in this Section. The City, may, without the consent of or notice to any Holders, from time to time and at any time, amend this Ordinance in any manner not detrimental to the interests of the Holders, including the curing of any ambiguity, inconsistency, or formal defect or omission herein. In addition, the City may, with the written consent of Holders holding a majority in aggregate principal amount of the Bonds Similarly Secured then Outstanding affected thereby, amend, add to, or rescind any of the provisions of this Ordinance; provided that, without the consent of all Holders of Outstanding Bonds, no such amendment, addition, or rescission shall (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount thereof, the redemption price therefor, or the rate of interest thereon, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required to be held by Holders for consent to any such amendment, addition, or rescission.

SECTION 30. Mutilated - Destroyed - Lost and Stolen Bonds. In case any Bond shall be mutilated, or destroyed, lost or stolen, the Paying Agent/Registrar may execute and deliver a replacement Bond of like form and tenor, and in the same denomination and bearing a number not contemporaneously outstanding, in exchange and substitution for such mutilated Bond, or in lieu of and in substitution for such destroyed, lost or stolen Bond, only upon the approval of the City and after (i) the filing by the Holder thereof with the Paying Agent/Registrar of evidence satisfactory to the Paying Agent/Registrar of the destruction, loss or theft of such Bond, and of the authenticity of the ownership thereof and (ii) the furnishing to the Paying Agent/Registrar of indemnification in an amount satisfactory to hold the City and the Paying Agent/Registrar harmless. All expenses and charges associated with such indemnity and with the preparation, execution and delivery of a replacement Bond shall be borne by the Holder of the Bond mutilated, or destroyed, lost or stolen.

Every replacement Bond issued pursuant to this Section shall be a valid and binding obligation, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other Outstanding Bonds; notwithstanding the enforceability of payment by anyone of the destroyed, lost, or stolen Bonds.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost or stolen Bonds.

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