

OFFICIAL STATEMENT
Dated March 3, 2020

NEW ISSUE - BOOK-ENTRY-ONLY

Enhanced/Unenhanced Rating: S&P - "AA"/"A+"
(See "BOND INSURANCE," "BOND INSURANCE
GENERAL RISKS," and "OTHER PERTINENT
INFORMATION - Municipal Bond Rating" herein)

In the opinion of Bond Counsel (identified below), interest on the Bonds (defined below) will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "Tax Matters" herein.

The City has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions.

\$2,455,000
CITY OF BIG SPRING, TEXAS
(A political subdivision of the State of Texas located in Howard County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020

Dated Date: February 15, 2020

Due: February 15, as shown on page -ii- herein

The \$2,455,000 City of Big Spring, Texas (the "City" or the "Issuer") General Obligation Refunding Bonds, Series 2020 (the "Bonds") are being issued pursuant to the laws of the State of Texas (the "State"), including Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), and an ordinance (the "Bond Ordinance") adopted on January 14, 2020 by the City Council of the City, and the City's Home Rule Charter. In the Ordinance, the City Council delegated to certain authorized officials of the City (each a "Pricing Officer"), pursuant to certain provisions of Chapter 1207, authority to establish certain terms related to the issuance and sale of the Bonds and to complete the sale of the Bonds. The terms of the sale are included in a pricing certificate (the "Pricing Certificate," and together with the Bond Ordinance, the "Ordinance"), which completed the sale of the Bonds. See "THE BONDS - Authority for Issuance" herein.

The Bonds are direct obligations of the City payable from an annual ad valorem tax levied, within the limitations prescribed by law, on all taxable property located within the City. See "THE BONDS - Authority for Issuance," "THE BONDS - Security for Payment," and "TAX RATE LIMITATIONS" herein.

Interest on the Bonds will accrue from the Dated Date as shown above, will be payable on February 15 and August 15 of each year, commencing August 15, 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 U.S. Bank National Association, Dallas, 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 to (i) provide funds sufficient to refund a portion of the City's currently outstanding obligations, as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings and (ii) pay for the costs of issuing the Bonds. (See "SOURCES AND USES OF FUNDS" and "PLAN OF FINANCING" herein.)

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY**. (See "BOND INSURANCE" herein.)



**FOR MATURITY SCHEDULE, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS,
AND REDEMPTION PROVISIONS FOR THE BONDS, SEE INSIDE PAGE OF THIS FRONT COVER**

The Bonds are offered for delivery, when, as and if issued and received by the initial purchasers thereof named below (the "Underwriter") and are subject to the approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by their legal counsel, Norton Rose Fulbright US LLP, San Antonio, Texas. 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 on or about March 26, 2020.

FROST BANK

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

**\$2,455,000
CITY OF BIG SPRING, TEXAS
(A political subdivision of the State of Texas located in Howard County)
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020**

CUSIP NO. PREFIX:⁽¹⁾ 089545

\$1,925,000 Serial Bonds

Principal Amount(\$)	Stated Maturity (February 15)	Interest Rate (%)	Initial Yield (%)	CUSIP No. Suffix ⁽¹⁾
225,000	2021	4.000	1.020	MD6
235,000	2022	4.000	1.060	ME4
245,000	2023	4.000	1.080	MF1
245,000	2024	4.000	1.110	MG9
260,000	2025	4.000	1.130	MH7
230,000	2026	4.000	1.170	MJ3
240,000	2027	4.000	1.220	MK0
245,000	2028	4.000	1.270	ML8

(Interest to accrue from Dated Date)

\$530,000 Term Bonds

\$530,000 - 4.000% - Term Bonds Due February 15, 2030 - Priced to Yield 1.390%⁽²⁾ CUSIP No. Suffix MN4⁽¹⁾

(Interest to accrue from Dated Date)

Optional Redemption

The City reserves the right to redeem the Bonds maturing on and after February 15, 2030, in whole or in part, in the principal amount of \$5,000 or any integral multiple thereof, on February 15, 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 15, 2030 (the "Term Bonds") are also subject to mandatory sinking fund redemption as described herein. See "THE BONDS - Redemption Provisions of the Bonds" herein.

⁽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 Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. None of the Underwriter, 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 Bond denoted and sold at a premium will be redeemed on February 15, 2028, the first optional call date for the Bonds, at a redemption price of par, plus accrued interest to the redemption date.

**CITY OF BIG SPRING, TEXAS
310 Nolan
Big Spring, Texas 79720**

CITY COUNCIL

<u>Name</u>	<u>Position</u>	<u>Years of Service</u>	<u>Term Expires May</u>	<u>Occupation</u>
Shannon Thomason	Mayor	1	2022	Pilot
Raul Marquez, Jr.	Councilperson, District 1	5 1/2	2020	Contractor
Doug Hartman, Jr.	Councilperson, District 2	1 1/2	2021	Rig Supervisor
Terry McDaniel	Councilperson, District 3	5 1/2	2020	Appraiser
Gloria McDaniel	Councilperson, District 4	1	2021	RN and Business Owner
Camila Strande	Councilperson, District 5	1	2022	Business Owner
Jim DePauw	Councilperson, District 6	4 1/2	2021	CPA

ADMINISTRATION

<u>Name</u>	<u>Position</u>	<u>Length of Service With City</u>
Todd Darden	City Manager	29
John Medina	Assistant City Manager	32
Donald Moore	Director of Finance/City Secretary/Internal Auditor	7
Tami Davis	Assistant City Secretary	23
Marianne Banks	City Attorney	2

CONSULTANTS AND ADVISORS

Bolinger, Segars, Gilbert & Moss, L.L.P. Lubbock, Texas	Auditors
McCall, Parkhurst & Horton L.L.P. Dallas, Texas	Bond Counsel
SAMCO Capital Markets, Inc. San Antonio, Texas	Financial Advisor

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City of Big Spring
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Big Spring, Texas 79720
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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, schedule, 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 Underwriter.

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

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 Underwriter, or the Financial Advisor makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System as described herein under the caption "BOOK-ENTRY-ONLY SYSTEM" or with respect to any information concerning BAM or its municipal bond guaranty policy as described herein (or incorporated by reference) under the captions "BOND INSURANCE," "BOND INSURANCE GENERAL RISKS" and APPENDIX E."

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE" and "APPENDIX E - Specimen Municipal Bond Insurance Policy.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER 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.

None of the City, the Financial Advisor, or the Underwriter 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."

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 THE SCHEDULE AND 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 schedule and 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	The City of Big Spring, Texas (the "City"), located in Howard County, Texas, is a political subdivision, home rule municipality, and municipal corporation of the State of Texas (the "State"), operating pursuant to its Home Rule Charter. The City covers approximately 18.89 square miles. See "APPENDIX B - General Information Regarding the City of Big Spring and Its Economy".
THE BONDS	<p>The Bonds are issued as "City of Big Spring, Texas General Obligation Refunding Bonds, Series 2020." Semi-annual interest payments begin on August 15, 2020 and continue on each February 15 and August 15 thereafter until stated maturity or prior redemption. The Bonds are being issued in the principal amount of \$2,455,000.</p> <p>The Bonds will mature on the dates and pay interest at the rates indicated on page -ii- hereof.</p>
DATED DATE	February 15, 2020.
AUTHORITY FOR ISSUANCE	The Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, including Chapter 1207, as amended, Texas Government Code ("Chapter 1207"), an ordinance (the "Bond Ordinance") passed by the City Council of the City on January 14, 2020, and the City's Home Rule Charter. In the Bond Ordinance, the City Council delegated to certain authorized officials (each a "Pricing Officer") of the City, pursuant to certain provisions of Chapter 1207, the authority to establish certain terms related to the issuance and sale of the Bonds and complete the sale of the Bonds. The terms of the sale are included in a Pricing Certificate, which completed the sale of the Bonds (the Bond Ordinance and the Pricing Certificate are jointly referred to as the "Ordinance"). See "THE BONDS - Authority for Issuance" herein.
SECURITY FOR THE BONDS	The Bonds are direct obligations of the City, payable from a levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property located within the City. (See "THE BONDS - Security for Payment" "BOND INSURANCE," and "BOND INSURANCE GENERAL RISKS" herein.)
BOND INSURANCE	The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM") . (See "BOND INSURANCE," "BOND INSURANCE GENERAL RISKS," and APPENDIX E herein.)
REDEMPTION	The Bonds stated to mature on February 15, 2030 are subject to optional redemption on February 15, 2028, or any date thereafter, at a price of par plus accrued interest to the date fixed for redemption. In addition, the Bonds maturing on February 15, 2030 (the "Term Bonds") are also subject to mandatory sinking fund redemption as described herein. See "THE BONDS - Redemption Provisions of the Bonds" herein.
PAYING AGENT/REGISTRAR	The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, Texas.
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. See "BOOK-ENTRY-ONLY SYSTEM" herein.
TAX EXEMPTION	In the opinion of Bond Counsel, the interest on the Bonds will be excludable from gross income for federal tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under the caption "TAX MATTERS" herein.
QUALIFIED TAX-EXEMPT OBLIGATIONS	The City has designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS - Qualified Tax-Exempt Obligations").
USE OF PROCEEDS	The proceeds of the Bonds will be used to (i) provide funds sufficient to refund a portion of the City's currently outstanding obligations as identified in Schedule I attached hereto (the "Refunded Obligations"), for debt service savings and (ii) pay the costs related to the issuance of the Bonds. See "PLAN OF FINANCING - Purpose" herein.
BOND RATING	S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AA" to the Bonds with the understanding that concurrently with the delivery of the Bonds a municipal bond insurance policy will be issued by BAM. S&P has assigned its underlying, unenhanced rating of "A+" to the Bonds. See "OTHER PERTINENT INFORMATION - Municipal Bond Ratings" herein.
FUTURE BOND ISSUES	The City does not anticipate issuing additional general obligation debt in the next twelve months.
PAYMENT RECORD	The City has never defaulted on the payment of its bonded indebtedness.
DELIVERY	When issued, anticipated on or about March 26, 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 McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel. See "APPENDIX D - Form of Opinion of Bond Counsel" herein.

OFFICIAL STATEMENT

\$2,455,000

CITY OF BIG SPRING, TEXAS

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

GENERAL OBLIGATION REFUNDING BONDS,

SERIES 2020

INTRODUCTION

This Official Statement, which includes the cover page, schedule, and the appendices hereto, provides certain information in connection with the issuance by the City of Big Spring, Texas (the "City" or the "Issuer") of its General Obligation Refunding Bonds, Series 2020 (the "Bonds") in the aggregate principal amount of \$2,455,000. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance (defined herein), 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 of its date, and the information contained herein is subject to change. A copy of the final Official Statement pertaining to the Bonds will be filed by the Underwriter 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.

PLAN OF FINANCING

Purpose

The Bonds are being issued to: (i) refund a portion of the City's currently outstanding debt, identified on Schedule I attached hereto (the "Refunded Obligations") and (ii) pay the costs associated with the issuance of the Bonds. See Schedule I for a detailed listing of the Refunded Obligations and their call date at par. The refunding is being undertaken to realize debt service savings for the City.

Refunded Obligations

A description and identification of the Refunded Obligations appears in Schedule I attached hereto. The Refunded Obligations and the interest due thereon are to be paid on their redemption date from funds to be deposited pursuant to a Deposit Agreement (the "Deposit Agreement") between the City and U.S. Bank National Association, Dallas, Texas (the "Deposit Agent").

The Bond Ordinance provides that from the proceeds of the sale of the Bonds to the Underwriter, the City will deposit with the Deposit Agent an amount which, together with funds contributed by the City, will be sufficient to accomplish the discharge and final payment of the Refunded Obligations on their redemption date. Such funds will be held uninvested by the Deposit Agent pending their disbursement to redeem the Refunded Obligations on the redemption date, and such funds will be irrevocably pledged to the payment of the principal of, premium, if any, and interest on the Refunded Obligations.

SAMCO Capital Markets, Inc., as financial advisor to the City, will execute a certificate (the "Sufficiency Certificate") certifying that the amount deposited into the Deposit Account will be sufficient to pay the principal of and interest on the Refunded Obligations on the redemption date.

By the deposit of cash with the Deposit Agent pursuant to the Deposit Agreement, the City will have effected the defeasance of all of the Refunded Obligations in accordance with State law and in reliance upon the Sufficiency Certificate. As a result of such defeasance and in reliance upon the Sufficiency Certificate, the Refunded Obligations will be outstanding only for the purpose of receiving payments from the cash held for such purpose by the Deposit Agent and such Refunded Obligations will not be deemed as being outstanding obligations of the City, payable from the sources and secured in the manner provided in the ordinance authorizing their issuance or for any other purpose.

SOURCES AND USES OF FUNDS

Sources of Funds:

Par Amount of Bonds	\$2,455,000.00
Reoffering Premium on the Bonds	335,116.75
Accrued Interest	11,183.39
Cash Contribution	<u>17,030.77</u>
Total	\$2,818,331.41

Uses of Funds:

Deposit to Current Refunding Deposit Account	\$2,730,568.29
Underwriter's Discount	21,462.70
Deposit to Bond Fund	11,183.89
Cost of Issuance and Bond Insurance Premium	54,372.30
Rounding Amount	<u>744.23</u>
Total	\$2,818,331.41

THE BONDS

Authority for Issuance

The Bonds are being pursuant to the laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), an ordinance (the "Bond Ordinance") adopted by the City Council of the City (the "City Council") on January 14, 2020, and the City's Home Rule Charter. In the Bond Ordinance, the City Council delegated to certain authorized officials of the City (each a "Pricing Officer"), pursuant to certain provisions of Chapter 1207, the authority to establish certain terms related to the issuance and sale of the Bonds and to complete the sale of the Bonds. The terms of the sale are included in a "Pricing Certificate," which completed the sale of the Bonds.

General Description

The Bonds are dated February 15, 2020 (the "Dated Date") and accrue interest from the Dated Date, and such interest shall be payable on February 15 and August 15 in each year, commencing August 15, 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.

Security for Payment

The Bonds constitute direct obligations of the City payable from the levy and collection of a direct and continuing annual ad valorem tax, within the limits prescribed by law, on all taxable property within the City, as provided in the Ordinance. See "TAX RATE LIMITATIONS" herein.

Payment Record

The City has never defaulted on the payment of its bonded indebtedness.

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 McCall, Parkhurst & Horton L.L.P., Dallas, 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 to occur on or about March 26, 2020.

Future Issues

The City does not anticipate issuing additional general obligation debt in the next twelve months.

Redemption Provisions of the Bonds

Optional Redemption ... The Bonds stated to mature on February 15, 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 15, 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 15, 2030, (the "Term Bonds") 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 Bonds - 4.00%	
Maturing February 15, 2030	
Redemption Date (2/15)	Principal Amount(\$)
2029	260,000
2030*	270,000

* Stated maturity.

The principal amount of the Term Bonds 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 Bonds which, at least forty-five (45) 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.

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.

NOTICE HAVING BEEN SO GIVEN AND ALL OTHER CONDITIONS FOR REDEMPTION SATISFIED, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

With respect to any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Paying Agent/Registrar prior to the giving of such notice of redemption, such notice may state that said redemption is conditional upon the receipt of such moneys by the Paying Agent/Registrar on or prior to the date fixed for such redemption, or upon the satisfaction of any prerequisites set forth in such notice of redemption; and, if sufficient moneys are not received or such prerequisites are not satisfied, such notice shall be of no force and effect, the City shall not redeem such Bonds and the Paying Agent/Registrar shall give notice, in the manner in which the notice of redemption was given, to the effect that the Bonds have not been redeemed.

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

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.

Defeasance

The Ordinance provides for the defeasance of the Bonds when payment of the principal of and accrued interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent or other authorized entity, in trust (1) money sufficient to make such payment or (2) Defeasance Securities that will mature as to principal and interest in such amounts and at such times to insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent for the Bonds, and thereafter the City will have no further responsibility with respect to amounts available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased Bonds, including any insufficiency therein caused by the failure of such paying agent (or other financial institution permitted by applicable law) to receive payment when due on the Defeasance Securities.

The City additionally has reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Defeasance Securities for the Defeasance Securities originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance. The Ordinance provides that "Defeasance Securities" means any securities and obligations now or hereafter authorized by State law that are eligible to discharge obligations such as the Bonds. The Pricing Officer may restrict such eligible securities and obligations as deemed appropriate. In the event the Pricing Officer restricts such eligible securities and obligations, the final Official Statement will reflect the new authorized Defeasance Securities. Current State law permits defeasance with the following types of securities: (1) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (2) 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 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, and (3) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City 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.

Upon such deposit as described above, such Bonds shall no longer be regarded to be outstanding or unpaid. 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.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Ordinance does not contractually limit such investments, registered owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or those for any other Defeasance Security will be maintained at any particular rating category.

Amendments

In the Ordinance, the City has reserved the right to amend the Ordinance without the consent of any holder for the purpose of amending or supplementing the Ordinance to (i) cure any ambiguity, defect or omission therein that does not materially adversely affect the interests of the registered owners of the Bonds, (ii) grant additional rights or security for the benefit of the registered owners of the Bonds, (iii) add events of default as shall not be inconsistent with the provisions of the Ordinance that do not materially adversely affect the interests of the registered owners of the Bonds, (iv) qualify the Ordinance under the Trust Indenture Act of 1939, as amended, or corresponding provisions of federal laws from time to time in effect or (v) make such other provisions in regard to matters or questions arising under the Ordinance that are not inconsistent with the provisions thereof and which, in the opinion of Bond Counsel for the City, do not materially adversely affect the interests of the registered owners of the Bonds.

The Ordinance further provides that the registered owners of the Bonds aggregating in principal amount 51% of the outstanding Bonds shall have the right from time to time to approve any amendment not described above to the Ordinance if it is deemed necessary or desirable by the City; provided, however, that without the consent of 100% of the registered owners of the Bonds in original principal amount of the then outstanding Bonds, no amendment may be made for the purpose of: (i) making any change in the maturity of any of the outstanding Bonds; (ii) reducing the rate of interest borne by any of the outstanding Bonds; (iii) reducing the amount of the principal of, or redemption premium, if any, payable on any outstanding Bonds; (iv) modifying the terms of payment of principal or of interest or redemption premium on outstanding Bonds, or imposing any condition with respect to such payment; or (v) changing the minimum percentage of the principal amount of the Bonds necessary for consent to such amendment. Reference is made to the Ordinance for further provisions relating to the amendment thereof.

Defaults and Remedies

The Ordinance establishes specific events of default with respect to the Bonds. If the City defaults in the payment of the principal of or interest on the Bonds when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, the Ordinance provides that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Ordinance and the City's obligations are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the 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. Texas cities are generally immune from suits for money damages for breach of contracts under the doctrine of sovereign immunity. The Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, bondholders may not be able to bring such a suit against the City for breach of the Bonds or the Ordinance covenants. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the 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, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the Bonds are qualified with respect to the customary rights of debtors relative to their creditors and by general principles of equity which permit the exercise of judicial discretion.

REGISTRATION, TRANSFER AND EXCHANGE

Paying Agent/Registrar

The initial Paying Agent/Registrar is U.S. Bank National Association, Dallas, 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 close of business on the last business 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) shall be sent at least five (5) 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. Initially, the only registered owner of the Bonds will be Cede & Co., as DTC's nominee. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the duties of DTC with regard to ownership of Certificates.

Limitation on Transferability of Bonds Called for Redemption

Neither the City nor the Paying Agent/Registrar shall be required to make any such transfer, conversion or exchange of the Bonds (i) during the period commencing with the close of business on any Record Date and ending with the opening of business on the next following principal or interest payment date or (ii) with respect to any Bond or any portion thereof called for redemption prior to maturity, within 30 days prior to its redemption date; provided, however, that such limitation shall not apply to uncalled portions of a Bond redeemed in part.

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 Underwriter 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 a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the 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, Bond 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 the City, the Financial Advisor, and the Underwriter take no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of This Official Statement

In reading this Official Statement it should be understood that while the 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.

BOND INSURANCE

The following information has been supplied by Build America Mutual Assurance Company ("BAM" or the "Insurer") for inclusion in this Official Statement. No representation is made by the City, the Underwriter or the Financial Advisor as to the accuracy or completeness of the information.

The following information is not complete and reference is made to Appendix E for a specimen of the municipal bond insurance policy (the "Policy") of BAM.

BOND INSURANCE POLICY

Concurrently with the issuance of the Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an Appendix E to this Official Statement.

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2019 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$534.9 million, \$132.5 million and \$402.4 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading "BOND INSURANCE".

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at buildamerica.com/creditinsights/. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at buildamerica.com/obligor/. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

BOND INSURANCE GENERAL RISKS

As described above, the City may purchase a Policy from an Insurer in connection with the issuance of the Bonds. If this occurs, the following general municipal bond insurance policy risk factors will apply.

In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the City which is recovered by the City from the Beneficial Owners as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE BONDS - Defaults and Remedies"). The Insurer may direct the pursuit of available remedies, and generally must consent to any remedies available to and requested by the Beneficial Owners. Additionally, the Insurer's consent may be required in connection with amendments to the Resolution. In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from the City revenues described in "THE BONDS - Security for Payment". In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds.

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

INVESTMENT POLICIES

Investments

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

Legal Investments

Under Texas law, the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for City deposits; or (ii) that are invested by the City through a depository institution that has its main office or a branch office in the State of Texas and otherwise

meet the requirements of the Public Funds Investment Act; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission (the "SEC") and complies with SEC Rule 2a-7 (17 C.F.F. Section 270.2a-7) and (13) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the value of the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (7) and (11) through (13) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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

Investment Policies

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

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

Additional Provisions

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

Current Investments*

As of December 1, 2019, the following percentages of the City’s investable funds from its Revenue Fund were invested as indicated below:

<u>Category of Investments</u>	<u>Amount</u>	<u>Percentage</u>	<u>Term of Investments</u>
Checking	\$ 5,150,436	18.38%	Daily liquidity
Government Pools	19,365,286	69.12%	Daily liquidity
Bank Money Market	<u>3,500,719</u>	<u>12.50%</u>	Daily liquidity
Total	\$28,016,441	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

The City provides pension benefits for all of its eligible employees (except for firemen, which are covered under their own defined benefit plan) through a non-traditional, joint contributory hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multi-employer public employee retirement system. The plan provisions that have been adopted by the City are within the options available in the governing state statutes of TMRS. Plan members are required to contribute seven percent of their annual covered salary. The City contributes to the TMRS at an actuarially determined rate. Both the employees and the City make contributions monthly. See Note H - Pension Plan in the Notes to Basic Financial Statements September 30, 2018 included in “APPENDIX C - Excerpts from the City of Big Spring, Texas Audited Financial Statement.”

Firemen of the City are covered by a defined benefit pension plan, which is administered by a seven-member board. This board consists of the Mayor or his designee, the Chief Financial Officer, three firemen and two outside citizens. Texas Local Fire Fighters' Retirement Act (TLFFREA) required that the Mayor, or his designee, and the Chief Financial Officer be permanent members of the Board. The City now provides a defined contribution to the fund of 12% of the firemen's salary and each fireman contributes 13%. See Firemen's Relief and Retirement Fund (Defined Benefit Plan) in the Notes to Basic Financial Statements September 30, 2018 included in “APPENDIX C - Excerpts from the City of Big Spring, Texas Audited Financial Statement.”

The City sponsors and administers an informal single-employer health/dental plan, which is available for employees who retire with a minimum of 20 years of service or five consecutive years of service at age 60 or above, at the time of qualified retirement to continue receiving medical coverage until they are age 65 and qualify for Medicare. See Note J. Other Post-Employment Benefits (OPEB) Big Spring Retiree Health Insurance Plan in the Notes to Basic Financial Statements September 30, 2018 included in “APPENDIX C - Excerpts from the City of Big Spring, Texas Audited Financial Statement.”

AD VALOREM TAX PROCEDURES

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

The following is a summary of certain provisions of State law as it relates to ad valorem taxation and is not intended to be complete. Prospective investors are encouraged to review Title I of the Texas Tax Code, as amended (the "Property Tax Code"), for identification of property subject to ad valorem taxation, property exempt or which may be exempted from ad valorem taxation if claimed, the appraisal of property for ad valorem tax purposes, and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Valuation of Taxable Property

The Property Tax Code provides for countywide appraisal and equalization of taxable property values and establishes in each county of the State an appraisal district and an appraisal review board (the "Appraisal Review Board") responsible for appraising property for all taxing units within the county. The appraisal of property within the City is the collective responsibility of the Howard County Appraisal District (the "Appraisal District"). Except as generally described below, the Appraisal District is required to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, the Appraisal District is required to consider the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and use the method the chief appraiser of the Appraisal District considers most appropriate. The Property Tax Code requires appraisal districts to reappraise all property in its jurisdiction at least once every three (3) years. A taxing unit may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the taxing unit by petition filed with the Appraisal Review Board.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property (the "10% Homestead Cap"). The 10% increase is cumulative, meaning the maximum increase is 10% times the number of years since the property was last appraised.

State law provides that eligible owners of both agricultural land and open-space land, including open-space land devoted to farm or ranch purposes or open-space land devoted to timber production, may elect to have such property appraised for property taxation on the basis of its productive capacity. The same land may not be qualified as both agricultural and open-space land.

The appraisal values set by the Appraisal District are subject to review and change by the Appraisal Review Board. The appraisal rolls, as approved by the Appraisal Review Board, are used by taxing units, such as the City, in establishing their tax rolls and tax rates (see "AD VALOREM TAX PROCEDURES - City and Taxpayer Remedies").

State Mandated Homestead Exemptions

State law grants, with respect to each taxing unit in the State, various exemptions for disabled veterans and their families, surviving spouses of members of the armed services killed in action and surviving spouses of first responders killed or fatally wounded in the line of duty.

Local Option Homestead Exemptions

The governing body of a taxing unit, including a city, county, school district, or special district, at its option may grant: (1) an exemption of up to 20% of the appraised value of all homesteads (but not less than \$5,000) and (2) an additional exemption of at least \$3,000 of the appraised value of the homesteads of persons sixty-five (65) years of age or older and the disabled. Each taxing unit decides if it will offer the local option homestead exemptions and at what percentage or dollar amount, as applicable. The exemption described in (2), above, may also be created, increased, decreased or repealed at an election called by the governing body of a taxing unit upon presentment of a petition for such creation, increase, decrease, or repeal of at least 20% of the number of qualified voters who voted in the preceding election of the taxing unit.

Local Option Freeze for the Elderly and Disabled

The governing body of a county, municipality or junior college district may, at its option, provide for a freeze on the total amount of ad valorem taxes levied on the homesteads of persons 65 years of age or older or of disabled persons above the amount of tax imposed in the year such residence qualified for such exemption. Also, upon voter initiative, an election may be held to determine by majority vote whether to establish such a freeze on ad valorem taxes. Once the freeze is established, the total amount of taxes imposed on such homesteads cannot be increased except for certain improvements, and such freeze cannot be repealed or rescinded.

Personal Property

Tangible personal property (furniture, machinery, supplies, inventories, etc.) used in the "production of income" is taxed based on the property's market value. Taxable personal property includes income-producing equipment and inventory. Intangibles such as goodwill, accounts receivable, and proprietary processes are not taxable. Tangible personal property not held or used for production of income, such as household goods, automobiles or light trucks, and boats, is exempt from ad valorem taxation unless the governing body of a taxing unit elects to tax such property.

Freeport and Goods-in-Transit Exemptions

Certain goods that are acquired in or imported into the State to be forwarded outside the State, and are detained in the State for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication ("Freeport Property") are exempt from ad valorem taxation unless a taxing unit took official action to tax Freeport Property before April 1, 1990 and has not subsequently taken official action to exempt Freeport Property. Decisions to continue taxing Freeport Property may be reversed in the future; decisions to exempt Freeport Property are not subject to reversal.

Certain goods, that are acquired in or imported into the State to be forwarded to another location within or without the State, stored in a location that is not owned by the owner of the goods and are transported to another location within or without the State within 175 days ("Goods-in-Transit"), are generally exempt from ad valorem taxation; however, the Property Tax Code permits a taxing unit, on a local option basis, to tax Goods-in-Transit if the taxing unit takes official action, after conducting a public hearing, before January 1 of the first tax year in which the taxing unit proposes to tax Goods-in-Transit. Goods-in-Transit and Freeport Property do not include oil, natural gas or petroleum products, and Goods-in-Transit does not include aircraft or special inventories such as manufactured housing inventory, or a dealer's motor vehicle, boat, or heavy equipment inventory.

A taxpayer may receive only one of the Goods-in-Transit or Freeport Property exemptions for items of personal property.

The City took official action before January 1, 1990 to tax freeport property. On November 8, 2011 the City Council took official action to tax goods-in-transit.

Other Exempt Property

Other major categories of exempt property include property owned by the State or its political subdivisions if used for public purposes, property exempt by federal law, property used for pollution control, farm products owned by producers, property of nonprofit corporations used for scientific research or educational activities benefitting a college or university, designated historic sites, solar and wind-powered energy devices, and certain classes of intangible personal property.

Tax Increment Reinvestment Zones

A city or county, by petition of the landowners or by action of its governing body, may create one or more tax increment reinvestment zones ("TIRZ") within its boundaries. At the time of the creation of the TIRZ, a "base value" for the real property in the TIRZ is established and the difference between any increase in the assessed valuation of taxable real property in the TIRZ in excess of the base value is known as the "tax increment". During the existence of the TIRZ, all or a portion of the taxes levied against the tax increment by a city or county, and all other overlapping taxing units that elected to participate, are restricted to paying only planned project and financing costs within the TIRZ and are not available for the payment of other obligations of such taxing units. The City has not created and does not participate in any TIRZs created under Chapter 311 of the Tax Code.

Tax Abatement Agreements

Taxing units may also enter into tax abatement agreements to encourage economic development. Under the agreements, a property owner agrees to construct certain improvements on its property. The taxing unit, in turn, agrees not to levy a tax on all or part of the increased value attributable to the improvements until the expiration of the agreement. The abatement agreement could last for a period of up to 10 years. The City has established a tax

abatement program to encourage economic development. The terms of all tax abatement agreements must be substantially the same. In order to be considered for tax abatement, a project must meet several criteria pertaining to job creation and property value enhancement. The City's tax abatement program does not authorize residential tax abatements, only commercial-industrial tax abatements are permitted. The City has two tax abatement agreements currently in force.

City and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the City, may appeal the determinations of the Appraisal District by timely initiating a protest with the Appraisal Review Board. Additionally, taxing units such as the City may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

Beginning in the 2020 tax year, owners of certain property with a taxable value in excess of the current year "minimum eligibility amount", as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the City and provides for taxpayer referenda that could result in the repeal of certain tax increases (see "AD VALOREM TAX PROCEDURES - Public Hearing and Maintenance and Operations Tax Rate Limitations"). The Property Tax Code also establishes a procedure for providing notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

The City is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to twenty percent (20%) if imposed by the City. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes for certain taxpayers. Furthermore, the City may provide, on a local option basis, for the split payment, partial payment, and discounts for early payment of taxes under certain circumstances. The City does not allow split payments or discounts.

City's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the City may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property.

Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases, post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Public Hearing and Maintenance and Operations Tax Rate Limitations

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

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

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

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

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

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

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

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

A city must annually calculate its voter-approval tax rate and no-new-revenue tax rate in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the city and the county tax assessor-collector for each county in which all or part of the city is located. A city must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the voter-approval tax rate must be adopted not later than the 71st day before the next occurring November uniform election date. If a city fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the no-new-revenue tax rate for the current tax year or the tax rate adopted by the city for the preceding tax year.

As described below, the Property Tax Code provides that if a city adopts a tax rate that exceeds its voter-approval tax rate or, in certain cases, its de minimis rate, an election must be held to determine whether or not to reduce the adopted tax rate to the voter-approval tax rate. A city may not adopt a tax rate that exceeds the lower of the voter-approval tax rate or the no-new-revenue tax rate until each appraisal district in which such city participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the city has held a public hearing on the proposed tax increase.

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

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

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

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

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

Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

TAX RATE LIMITATIONS

No direct funded debt limitation is imposed on the City under current Texas law or the City's Home Rule Charter. Article XI, Section 5 of the Texas Constitution is applicable to the City, and limits its maximum ad valorem tax rate to \$2.50 per \$100 assessed valuation for all City purposes. The City operates under a Home Rule Charter, which adopts this constitutional provision. The Texas Attorney General has adopted an administrative policy that generally prohibits the issuance of debt by a municipality such as the City if its issuance produces debt service requirements exceeding that which can be paid from \$1.50 of the foregoing \$2.50 maximum tax rate calculated at 90% collection. The issuance of the Bonds does not violate this constitutional provision or the Texas Attorney General's administrative policy.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Bond Counsel, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See Appendix D - Form of Opinion of Bond Counsel.

In rendering its opinion, Bond Counsel will rely upon (a) certain information and representations of the Issuer, including information and representations contained in the Issuer's federal tax certificate, and (b) covenants of the Issuer contained in the Bond documents relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith and (c) the Sufficiency Certificate. Failure by the Issuer to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the Issuer with the covenants and the requirements described in the preceding paragraph 3, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel's opinion represents its legal judgement based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the Issuer with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the Issuer as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the maturity amount thereof or one or more periods for the payment of interest on the bonds may not be equal to the accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, the difference between (i) the "stated redemption price at maturity" of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Issue Discount Bond would constitute original issue discount. The "stated redemption price at maturity" means the sum of all payments to be made on the bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue 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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

Under Existing Law, the original issue discount on each Original Issue Discount Bond is accrued daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (a) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state and local income tax purposes of the treatment of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount bonds" to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A "market discount bond" is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the "revised issue price" (i.e., the issue price plus accrued original issue discount). The "accrued market discount" is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the IRS. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner's social security number or other taxpayer identification number ("TIN"), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient's federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on-behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The Issuer has designated the Bonds as "qualified tax-exempt obligations" within the meaning of section 265(b) of the Code. In furtherance of that designation, the Issuer covenants to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." **Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded,; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the \$10,000,000 limitation and the Bonds would not be "qualified tax-exempt obligations."**

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement 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.

The City will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement in Appendix A (excluding the tables "Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes", "Estimated Interest & Sinking Fund Management Index 2018/19" and "2019/20 Pro Forma Interest & Sinking Fund Management Index") and in Appendix C, which is the City's annual audited financial report. The City will update and provide the information in Appendix A (excluding the above-referenced tables) within six

months after the end of each fiscal year ending in and after 2019 and, if not submitted as part of such annual financial information, the City will provide audited financial statements when and if available, and in any event, within 12 months after the end of each fiscal year. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City will file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes 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, the City must provide updated information included in Appendix A (excluding the above-referenced tables) by the last day of March in each year, and audited financial statements for the preceding fiscal year (or unaudited financial statements if the audited financial statements are not yet available) must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data as set forth above.

All financial information, operating data, financial statements and notices required to be provided to the MSRB shall be provided in an electronic format and be accompanied by identifying information prescribed by the MSRB. Financial information and operating data to be provided as set forth above may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document) available to the public on the MSRB's Internet Web site or filed with the Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule").

Notice of Certain Events

The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the 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 trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the City or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the Financial Obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with its agreement described above under "Annual Reports." Neither the Bonds nor the Bond Ordinance provide for debt service reserves or liquidity enhancement.

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 clauses (15) and (16) in the immediately preceding paragraph and the definition of Financial Obligation in the immediately preceding paragraph to have the same meanings as when they are used in Rule 15c2-12, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

Availability of Information from MSRB

The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at www.emma.msrb.org.

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

During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12. For the fiscal year ending September 30, 2012, the City filed its annual financial and operating data in accordance with the City's previous continuing disclosure agreements on March 29, 2013 and filed its audited financial statements on May 13, 2013. Notice of the date of filing of the aforementioned audit was filed with the MSRB through EMMA on February 22, 2016.

LEGAL MATTERS

The City will furnish the Underwriter with a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinions of the Attorney General of the State of Texas to the effect that the Bonds are valid and legally binding obligations of the City payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and based upon examination of such transcript of proceedings, the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Dallas, Texas, ("Bond Counsel"), to the effect that the Bonds are valid and legally binding obligations of the City and, subject to the qualifications set forth herein under "TAX MATTERS," the interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing statutes, published rulings, regulations, and court decisions. Bond Counsel has been engaged by and only represents the City. A form of Bond Counsel's opinion appears in APPENDIX D attached hereto. 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 and subcaptions "PLAN OF FINANCING - Refunded Obligations," "THE BONDS" (except under the subcaptions "Payment Record," "Delivery," "Future Issues," and "Defaults and Remedies," as to which no opinion is expressed), "REGISTRATION, TRANSFER AND EXCHANGE," "TAX MATTERS," "LEGAL MATTERS" (except for the last two sentences of the first paragraph thereof as to which no opinion is expressed), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "OTHER PERTINENT INFORMATION - Registration and Qualification of Bonds for Sale," and "CONTINUING DISCLOSURE OF INFORMATION" (except matters discussed under the subcaption "Compliance with Prior Undertakings," as to which no opinion is expressed) in the Official Statement and such firm is of the opinion that the information relating to the Bonds 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 for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriter by their counsel, Norton Rose Fulbright US LLP, San Antonio, Texas, whose compensation is contingent on the sale and delivery of the Bonds. The legal opinion of Bond Counsel will accompany the Bonds deposited with DTC or will be printed on 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.

At the time of initial delivery of the Bonds, the City will provide the Underwriter 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, investment securities 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.

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 laws 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 Underwriter 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 Underwriter's 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.

Municipal Bond Rating

S&P Global Ratings ("S&P") S&P has assigned a rating of "AA" to the Bonds with the understanding that concurrently with the delivery of the Bonds a municipal bond insurance policy will be issued by BAM. See "BOND INSURANCE" herein. The City received from S&P an underlying, unenhanced rating of "A+" to the Bonds. See "CONTINUING DISCLOSURE OF INFORMATION - Compliance with Prior Undertakings" herein.

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

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.

Underwriting

The Underwriter has agreed, subject to certain conditions, to purchase the Bonds from the City at a price equal to the initial offering prices to the public, as shown on the inside cover page hereof, less an underwriting discount of \$21,462.70, plus accrued interest. The Underwriter's obligations are subject to certain conditions precedent. The Underwriter will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering price, and such public prices may be changed from time to time, by the Underwriter.

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

Forward Looking Statements

The statements contained in this Official Statement, and in any other information provided by the 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.

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.

In the Bond Ordinance, the City Council authorized the Pricing Officer to approve, and in the Pricing Certificate the Pricing Officer did approve, for and on behalf of the City, (i) the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and (ii) the Underwriter's use of this Official Statement in connection with the public offering and sale of the Bonds in accordance with the provisions of the Rule.

CITY OF BIG SPRING, TEXAS

Donald Moore, Director of Finance/City Secretary/Internal Auditor
Pricing Officer

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SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

<u>Series</u>	<u>Principal Amount (\$)</u>	<u>Maturities</u>	<u>Interest Rates (%)</u>	<u>Redemption Date and Price</u>
City of Big Spring, Texas Combination				
Tax and Revenue Certificates of				
Obligation, Series 2007				
	35,000	2-15-2021	4.250	4/6/2020@100.00%
	40,000	2-15-2022	4.250	4/6/2020@100.00%
	40,000	2-15-2023	4.250	4/6/2020@100.00%
	40,000	2-15-2024	4.250	4/6/2020@100.00%
	45,000	2-15-2025	4.375	4/6/2020@100.00%
City of Big Spring, Texas Combination				
Tax and Revenue Certificates of				
Obligation, Series 2010				
	210,000	2-15-2021	4.000	4/6/2020@100.00%
	215,000	2-15-2022	4.000	4/6/2020@100.00%
	225,000 ⁽¹⁾	2-15-2023	4.000	4/6/2020@100.00%
	235,000 ⁽¹⁾	2-15-2024	4.000	4/6/2020@100.00%
	245,000 ⁽²⁾	2-15-2025	4.000	4/6/2020@100.00%
	255,000 ⁽²⁾	2-15-2026	4.000	4/6/2020@100.00%
	265,000 ⁽³⁾	2-15-2027	4.000	4/6/2020@100.00%
	275,000 ⁽³⁾	2-15-2028	4.000	4/6/2020@100.00%
	290,000 ⁽⁴⁾	2-15-2029	4.125	4/6/2020@100.00%
	300,000 ⁽⁴⁾	2-15-2030	4.125	4/6/2020@100.00%

⁽¹⁾ Term Certificates with a final maturity of February 15, 2024.

⁽²⁾ Term Certificates with a final maturity of February 15, 2026.

⁽³⁾ Term Certificates with a final maturity of February 15, 2028.

⁽⁴⁾ Term Certificates with a final maturity of February 15, 2030.

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APPENDIX A
SELECTED FINANCIAL INFORMATION
OF THE CITY OF BIG SPRING

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VALUATION AND DEBT DATA

Valuation, Exemptions and General Obligation Debt

2019 Market Valuation Established by Howard County Appraisal District (Including totally exempt property) ⁽¹⁾		\$1,402,185,973
Less: Exemptions/Reductions at 100% Market Value		
Residence Homestead Exemptions	\$80,752,596	
Disabled Veterans Exemptions	11,803,478	
Disabled Persons Exemptions	930,981	
Over 65 (Local Option)	7,060,801	
Homestead Cap Adjustment	33,364,087	
Minimum Value	5,951	
Agricultural Productivity Loss	272,009	
Abatements	4,884,937	
Totally Exempt	<u>207,632,489</u>	<u>346,707,329</u>
2019 Taxable Assessed Valuation		\$1,055,478,644

⁽¹⁾ Source: Howard Appraisal District. The Appraisal Review Board approved Certified Values as of July 22, 2019.

General Purpose, General Obligation Bonds and Certificates

	Amount Outstanding At 3-1-2020 ⁽¹⁾
Outstanding Debt By Issues	
General Obligation Debt	
Combination Tax and Revenue Certificates of Obligation, Series 2012	\$ 7,885,000
Refunding Bonds, Series 2016	6,070,000
Refunding Bonds, Series 2020 (the "Bonds")	<u>2,455,000</u>
Total General Obligation Debt	16,410,000
Less: Self-supporting Debt	<u>8,085,000</u>
Net Tax Supported General Obligation Debt	8,325,000
Less: Interest and Sinking Fund Balance (as of 01-01-2020)	<u>133,870</u>
Net General Obligation Debt Outstanding	\$ 8,191,330
Ratio Net Tax-Supported General Obligation Debt to 2019 Net Taxable Assessed Valuation	0.79%
Ratio Net General Obligation Debt to 2019 Net Taxable Assessed Valuation	0.78%

⁽¹⁾ Unaudited.

⁽²⁾ Excludes the Refunded Obligations.

2010 U. S. Census Population - 27,282
 2019 Estimated Population - 30,540
 Per Capita 2019 Net Taxable Assessed Valuation - \$34,560.53
 Per Capita Total Net Tax Supported General Obligation Debt - \$272.59
 Per Capita Net General Obligation Debt - \$268.21

General Obligation Bonds Authorized but Unissued

The City has no authorized and unissued general obligation voted authority from any bond election; however, the City may, from time to time and without an election, issue debt obligations payable from its collection of ad valorem taxes, including (but not limited to) certificates of obligation, public property finance contractual obligations, certain types of capital leases, and tax notes.

TAXATION DATA

Tax Rate Distribution

Tax Year	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Local Maintenance	\$0.6135	\$0.5853	\$0.7068	\$0.6698	\$0.5930
Interest and Sinking Fund	<u>0.1303</u>	<u>0.1440</u>	<u>0.1355</u>	<u>0.1212</u>	<u>0.1775</u>
Totals	\$0.7438	\$0.7293	\$0.8423	\$0.7900	\$0.7705

Tax Collection Data

Taxes are due October 1 and become delinquent after January 31. No split payments or discounts are allowed. Penalties and Interest: (a) a delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent; (b) a delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of twenty percent (20%) of taxes, penalty and interest may be imposed to defray costs of collection for taxes delinquent after July 1. All percentage of collections set forth below exclude penalties and interest.

Tax Year	Taxable Assessed Valuation ⁽¹⁾	Tax Rate	% Collections		Year Ending
			Current	Total	
2009	\$523,712,159	\$1.0132	96.23%	98.40%	09-30-10
2010	540,408,709	0.9995	96.51%	99.04%	09-30-11
2011	547,006,770	0.9495	97.13%	101.80%	09-30-12
2012	575,343,403	0.8650	98.38%	101.22%	09-30-13
2013	654,787,920	0.8650	93.90%	96.14%	09-30-14
2014	731,057,275	0.8566	94.95%	96.69%	09-30-15
2015	880,612,347	0.7705	92.93%	94.26%	09-30-16
2016	903,996,172	0.7900	92.12%	94.40%	09-30-17
2017	879,594,158	0.8423	95.20%	98.05%	09-30-18
2018	1,018,984,385	0.7293	96.44%	100.59%	09-30-19
2019	1,055,478,644	0.7438	(in the process of collection)		09-30-20

⁽¹⁾ City's Comprehensive Annual Financial Report.

Non-Funded Debt*

Capital Leases

The assets acquired through capital leases are as follows:

	Government Activities	Business-Type Activities
Machinery and Equipment	\$10,217,660	\$7,105,226
Less: Accumulated Depreciation	(6,584,631)	(3,321,288)
Totals	<u>\$3,633,029</u>	<u>\$3,783,938</u>

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2019, as follows:

Fiscal Year Ending September 30	Government Activities		
	Principal	Interest	Total
2020	\$ 568,735	\$ 6,496	\$ 605,231
2021	469,488	24,214	493,702
2022	370,270	13,272	383,542
2023	237,647	4,395	242,042
2024	<u>41,519</u>	<u>208</u>	<u>41,727</u>
Total Minimum Rentals	<u>\$1,687,659</u>	<u>\$78,585</u>	<u>\$1,766,244</u>

The effective interest rate on capital leases is 1.54% to 3.01%.

Fiscal Year Ending September 30	Business-Type Activities		
	Principal	Interest	Total
2020	\$ 832,628	\$ 53,525	\$ 886,153
2021	687,330	35,449	722,779
2022	542,075	19,430	561,505
2023	347,915	3,434	354,349
2024	<u>60,785</u>	<u>305</u>	<u>61,090</u>
Total Minimum Rentals	<u>\$2,470,733</u>	<u>\$112,143</u>	<u>\$2,582,876</u>

The effective interest rate on capital leases is 1.54% to 3.01%.

* Unaudited

Schedule of Delinquent Taxes Receivable Fiscal Year Ended September 30, 2019 (Unaudited)

Year Ended 9/30	Ending Balance
2010	\$ 87,961
2011	52,294
2012	37,793
2013	0
2014	216,094
2015	207,164
2016	387,109
2017	400,259
2018	144,792
2019	<u>231,802</u>
Total	\$1,765,268

Source: Howard County.

Municipal Sales Taxes

The City has adopted the Municipal Sales and Use Tax Act, VATCS, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City, the proceeds of which are credited to the General Fund and are not pledged to the payment of the Bonds. Collection and enforcement are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. In addition to the 1% sales tax, the City collects one-half percent (1/2 of 1%) to be used to reduce the property tax rate. Subject to the approval of a majority of the voters in a local option election, state law also provides certain cities the option of assessing a sales and use tax for a variety of other purposes, including economic and industrial development, municipal street maintenance and repair, and sports and community venues. State law limits the maximum aggregate sales and use tax rate in any area to 8¼%. Accordingly, the collection of local sales and use taxes in the area of the City (including sales and use taxes levied by the City) is limited to no more than 2% (when combined with the State sales and use tax rate of 6 1/4%). Beginning in fiscal year 1995, the City has collected an additional sales and use tax of one-half of one percent (1/2 of 1%) for its economic development as permitted under provision of Article 5190.6, Section 4A (now codified primarily in Chapter 504, Texas Local Government Code). Net collections on fiscal year basis are as follows:

Fiscal Year 9/30	Rate(%)	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate
2009	2.00%	\$5,778,812	108.63	1.20
2010	2.00%	4,300,790	78.46	0.82
2011	2.00%	4,859,654	88.97	0.90
2012	2.00%	5,791,110	111.40	1.06
2013	2.00%	6,686,480	134.17	1.16
2014	2.00%	6,101,137	108.90	0.93
2015	2.00%	7,652,209	122.40	1.05
2016	2.00%	6,354,361	94.17	0.72
2017	2.00%	6,638,741	92.96	0.73
2018	2.00%	7,759,760	104.70	0.76
2019	2.00%	8,160,162	103.94	0.77

Source: City's Comprehensive Annual Financial Report.

Top 10 Taxpayers and Their 2019 Valuations

Name	Type of Property	2019 Net Assessed Valuation	Percent of Total 2019 Assessed Valuation
Kerr Management Inc.	Real Estate Management	\$ 13,234,358	1.25%
The Reserves at 700, LLC	Apartments	12,000,000	1.14%
Oncor Electric Delivery Co.	Electric Utility	11,772,760	1.12%
Scenic Mountain Medical Center	Medical Center	11,081,786	1.05%
Pyramid Tubular Products LLC	Oil and Gas Drilling Products	9,411,820	0.89%
Endurance Lift Solutions	Oil and Gas	8,836,000	0.84%
Atmosenergy/West Texas	Natural Gas Distributor	7,902,920	0.75%
Plains Cotton Coop Association	Cotton Coop	7,833,080	0.74%
OXY USA INC (Min)	Oil and Gas Exploration	7,739,010	0.73%
Oak Manor Big Spring LLC	Apartments	<u>7,338,502</u>	<u>0.70%</u>
Total		\$97,150,236	9.20%

Source: Howard Appraisal District.

Taxpayers by Classification

Classification	2019 Assessed Valuation	Percent of Total	2018 Assessed Valuation	Percent of Total	2017 Assessed Valuation	Percent of Total
Real, Residential Single Family	\$ 642,702,104	45.84%	\$ 643,238,958	47.50%	\$ 574,793,394	50.03%
Real, Residential Multi-Family	69,310,419	4.93%	62,969,540	4.65%	59,461,857	5.18%
Real, Vacant Lots/Tracts	24,974,089	1.78%	23,799,139	1.76%	15,011,002	1.31%
Real, Acreage (land only)	14,256,878	1.02%	14,978,856	1.11%	13,598,004	1.18%
Real, Farm/Ranch Improvements	774,239	0.06%	655,928	0.05%	831,557	0.07%
Real, Commercial and Industrial	439,248,564	31.33%	400,088,717	29.54%	320,077,012	27.86%
Minerals	24,660,470	1.76%	46,839,890	3.46%	4,455,600	0.39%
Real and Tangible Personal Utilities	33,616,179	2.40%	34,448,219	2.54%	31,571,268	2.76%
Tangible Personal, Commercial & Industrial	146,287,097	10.43%	118,135,491	8.72%	122,234,193	10.64%
Mobile Homes	725,849	0.05%	1,080,012	0.08%	1,057,865	0.09%
Residential Inventory	-0-	0.00%	2,657,323	0.20%	551,985	0.05%
Special Inventory	<u>5,630,085</u>	<u>0.40%</u>	<u>5,286,978</u>	<u>0.39%</u>	<u>5,154,639</u>	<u>0.45%</u>
Total Appraised Valuation	\$1,402,185,973	100.00%	\$1,354,179,051	100.00%	\$1,148,798,376	100.00%
Less Exemptions & Exclusions	<u>346,707,329</u>		<u>335,194,666</u>		<u>270,942,615</u>	
Net Taxable Assessed Valuation	<u>\$1,055,478,644</u>		<u>\$1,018,984,385</u>		<u>\$ 877,955,761</u>	

Source: Howard Appraisal District. Valuations shown are certified taxable values reported by the Howard County Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates its records.

Direct and Estimated Gross Overlapping Funded Debt Payable from Ad Valorem Taxes

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

Political Subdivision	Gross Debt		Percent Overlapping	Amount Overlapping
	Amount	As Of		
Big Spring ISD	\$47,575,000	1-1-2020	50.69%	\$24,115,768
Coahoma ISD	14,380,000	1-1-2020	0.44%	63,272
Forsan ISD	16,330,000	1-1-2020	0.96%	156,768
Howard County	9,365,000	1-1-2020	21.52%	2,015,348
Howard County Junior College District	10,715,000	1-1-2020	21.52%	<u>2,305,868</u>
				\$28,657,024
Big Spring, City of	8,325,000 *	1-1-2020	100.00%	<u>8,325,000</u> *
Total Direct and Estimated Overlapping Debt				36,982,024 *
Ratio Total Direct and Estimated Overlapping Debt to 2019 Net Taxable Assessed Valuation				3.50%

* Includes the Bonds, excludes the Refunded Obligations, net of self-supporting debt.

ESTIMATED INTEREST & SINKING FUND MANAGEMENT INDEX 2019/20*

Interest and Sinking Fund Balance at 9-30-2019	\$ 162,559
Estimated Income from \$0.1305 Collected Using 2019 Taxable Assessed Valuation of \$1,055,478,644 at 95% Collections	1,308,530
Estimated Other Revenue	<u>840,000</u>
Estimated Total Funds Available	2,311,089
2019/20 Net Debt Service Requirement	<u>2,095,356</u>
Estimated Interest and Sinking Fund Balance at 9-30-2020	\$ 215,733

* Unaudited.

CONSOLIDATED DEBT SERVICE REQUIREMENTS

FISCAL YEAR 31-Aug	CURRENTLY OUTSTANDING DEBT SERVICE	LESS REFUNDED OBLIGATIONS' DEBT SERVICE	PLUS: THE BONDS AT ACTUAL RATES				GRAND TOTAL ALL DEBT SERVICE
			PRINCIPAL DUE 2/15	INTEREST DUE 2/15	INTEREST DUE 8/15	TOTAL	
2020	\$ 2,101,206.25	\$ 54,946.88			\$ 49,100.00	\$ 49,100.00	\$ 2,095,359.37
2021	2,109,968.75	349,950.01	\$ 225,000.00	\$ 49,100.00	44,600.00	318,700.00	2,078,718.74
2022	2,102,250.00	349,856.26	235,000.00	44,600.00	39,900.00	319,500.00	2,071,893.74
2023	2,103,375.00	349,356.26	245,000.00	39,900.00	35,000.00	319,900.00	2,073,918.74
2024	2,103,975.00	348,456.26	245,000.00	35,000.00	30,100.00	310,100.00	2,065,618.74
2025	2,103,740.63	352,021.88	260,000.00	30,100.00	24,900.00	315,000.00	2,066,718.75
2026	2,136,081.25	306,037.50	230,000.00	24,900.00	20,300.00	275,200.00	2,105,243.75
2027	2,135,556.25	305,637.50	240,000.00	20,300.00	15,500.00	275,800.00	2,105,718.75
2028	1,123,056.25	304,837.50	245,000.00	15,500.00	10,600.00	271,100.00	1,089,318.75
2029	1,128,628.13	308,356.25	260,000.00	10,600.00	5,400.00	276,000.00	1,096,271.88
2030	1,121,875.00	306,187.50	270,000.00	5,400.00		275,400.00	1,091,087.50
2031	819,000.00						819,000.00
2032	820,000.00						820,000.00
	<u>\$21,908,712.51</u>	<u>\$3,335,643.80</u>	<u>\$2,455,000.00</u>	<u>\$275,400.00</u>	<u>\$275,400.00</u>	<u>\$3,005,800.00</u>	<u>\$21,578,868.71</u>

2020/21 PRO FORMA INTEREST & SINKING FUND MANAGEMENT INDEX

Estimated Interest and Sinking Fund Balance at 9-30-2020	\$ 215,733
Estimated Income from \$0.1305 Collected Using Projected 2019 Estimated Taxable Assessed Valuation of \$1,055,478,644 at 95% Collections	1,308,530
Other Revenue (includes revenue for self-supporting debt)	<u>830,000</u>
Estimated Total Funds Available	2,354,263
Estimated 2020/21 Net Debt Service Requirement	<u>2,078,718</u>
Estimated Interest and Sinking Fund Balance at 9-30-2021	\$ 275,545

**COMPARATIVE CONDENSED STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN GENERAL FUND BALANCE**

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

	Fiscal Year Ended September 30				
	2019*	2018	2017	2016	2015
REVENUES					
Taxes	\$15,903,673	\$15,475,868	\$13,996,584	\$12,734,676	\$13,422,092
Licenses and Permits	390,390	451,219	554,169	378,798	314,981
Intergovernmental	1,130,133	1,013,517	943,618	925,176	940,923
Charges for Services ⁽¹⁾	-	-	-	-	-
Fines	272,479	344,809	347,882	413,966	345,179
Recreation	689,593	673,473	629,462	689,922	896,820
Investment Earnings	189,796	84,621	28,763	21,907	8,873
Rents and Royalties	2,260,121	3,008,335	969,402	672,471	429,708
Miscellaneous	239,819	76,877	102,647	310,513	126,326
Contributions and Donations	<u>26,185</u>	<u>37,082</u>	<u>119,930</u>	<u>9,465</u>	<u>26,824</u>
Total Revenues	\$21,102,189	\$21,165,801	\$17,682,457	\$16,156,894	\$16,511,726
EXPENDITURES					
General Government	\$ 2,981,242	\$ 2,593,045	\$ 2,997,485	\$ 2,587,967	\$ 2,728,991
Public Safety	12,408,321	11,119,667	9,825,902	10,138,744	10,281,144
Highway and Streets	2,851,978	2,763,331	2,616,535	2,788,053	1,986,967
Sanitation ⁽¹⁾	-	-	-	-	-
Recreation and Parks	2,862,512	2,022,254	2,044,458	1,929,483	1,823,242
Economic Development	2,193	-	-	-	1,615
Debt Service	<u>928,468</u>	<u>862,756</u>	<u>844,192</u>	<u>851,369</u>	<u>735,098</u>
Total Expenditures	\$22,034,714	\$19,361,053	\$18,328,572	\$18,295,616	\$17,557,057
Excess of Revenues Over (Under) Expenditures	\$(932,525)	\$ 1,804,748	\$ (646,115)	\$(2,138,722)	\$(1,045,331)
Total Other Financing Sources (Uses)	\$ <u>1,805,194</u>	\$ <u>1,751,667</u>	\$ <u>1,072,481</u>	\$ <u>2,124,136</u>	\$ <u>1,114,784</u>
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 872,669	\$ 3,556,415	\$ 426,366	\$ (14,586)	\$ 69,453
Fund Balance at Beginning of Year	\$10,105,620	\$ 6,549,205	\$ 6,112,839	\$ 6,137,425	\$ 6,067,972
Transfer Fund Balance	-	-	-	-	-
Fund Balance - September 30	<u>\$10,978,289</u>	<u>\$10,105,620</u>	<u>\$ 6,549,205</u>	<u>\$ 6,122,839</u>	<u>\$ 6,137,425</u>

Source: City's Comprehensive Annual Financial Reports.

* Unaudited.

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APPENDIX B

**GENERAL INFORMATION REGARDING
THE CITY OF BIG SPRING AND ITS ECONOMY**

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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. It does not constitute a part of this Official Statement. 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 *Texas Almanac*, Big Spring Chamber of Commerce, and the City of Big Spring and Howard County *Texas Municipal Reports*.

ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

The City

The City of Big Spring, Texas (the “City”) is located in West Texas and is the county seat and principal commercial center of Howard County (the “County”) located 39 miles northeast of Midland, Texas at the intersection of Interstate Highway 20 and U.S. Highway 87. Incorporated in 1907, the City currently encompasses 18.89 square miles and operates under a Home Rule Charter which was adopted on September 28, 1926. The City has a council-manager type of government composed of the City Manager, Mayor and six Councilpersons elected for three-year terms.

The County economy is based on agriculture, manufacturing and mineral production. The Texas Almanac designates cotton, wheat, sorghum and livestock as principal sources of agricultural income. Minerals found in the County include oil, gas, sand, gravel, and stone.

Population

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020 Est.</u>
City	24,804	23,093	25,233	27,282	28,162
County	33,142	32,287	33,627	35,012	36,198

Economy

Unlike many Texas communities of similar size, Big Spring's economy is not reliant on one or two industries. Even though oil related industry and agriculture played an important role in Big Spring and Howard County economies of the past, only about eight percent (8%) of the employed persons in 1990 reported that they were employed in these two groups. Today the community's economy is more diverse, consisting of varied industry and commercial types. The economy has seen improvement in recent years as the fortunes of the oil and gas industry have improved. Additionally, the construction of the Texas State Veterans Home, a large expansion of the VA hospital, and expansions at Alon refinery have boosted the economy.

Public-sector institutions such as Howard College, the Federal Correctional Institution, the Veterans Administration Hospital, and the Big Spring State Hospital are major employers in the area. Other noted large-scale employers in Big Spring are several private prisons, HEB, and Wal-Mart.

ALON USA, whose headquarters are in Dallas, owns the Big Spring refinery. The Big Spring refinery delivers products to customers from Ft. Smith, Arkansas to Phoenix, Arizona via owned/operated and third-party pipelines. The Big Spring refinery has been in service for more than 75 years, converting mainly crude oil from the Permian Basin. Today, the Big Spring refinery employs approximately 170 people, and has the potential to expand production capacity to about 75,000 barrels per day.

In 1998, the Big Spring Wind Power Project was activated to begin providing power for Texas Utilities, the local electric utility buying the power. The Wind Power Project is located at a site about eight miles east of Big Spring. The initial wind farm has the capacity to power 7,300 homes with green power and features 46 wind turbines. Since the initial project, thousands of wind turbines have been constructed in Howard and neighboring counties.

The Settles Hotel is an historic 15-story hotel located in downtown Big Spring. The Settles Hotel originally opened on October 1, 1930 and was occupied until the early 1980s. The building was purchased by the Settles Hotel Development Corporation in late 2006. Working from the original set of blueprints, they have brought back the beautiful details that evoke the craftsmanship and architectural details of a bygone era. The first floor lobby and Grand Ballroom have been restored to their original glory following the original 1930s plans. The hotel features 65 guest rooms, a spa, restaurant, bar, and conference rooms. On December 28, 2012, a Grand Reopening was held for the Hotel Settles and its iconic rooftop sign was lit for the first time in 30 years.

Major Area Employers

Name	Product	Number of Employees
Veterans Administration Hospital	Hospital	652
Big Spring ISD	Education	534
Big Spring State Hospital	Medical	527
GEO Group	Commercial	432
Scenic Mountain Medical Center	Medical Center	350
Wal-Mart	Retail	274
City of Big Spring	Government	247
Howard College & Southwest Collegiate Institute for the Deaf	Education	240
Federal Bureau of Prisons	Federal Prison	218
Delek	Oil and Gas Refinery	197
Weatherford A&M Composites	Manufacturing	182
Howard County	Municipal Government	170

Labor Force Statistics - Howard County

Annual Average	2019	2018	2017	2016	2015	2014
Civilian Labor Force	14,167	13,648	13,234	13,218	13,604	13,687
Total Employed	<u>13,735</u>	<u>13,202</u>	<u>12,670</u>	<u>12,488</u>	<u>12,996</u>	<u>13,087</u>
Total Unemployed	432	446	564	730	608	600
% Unemployed	3.0%	3.3%	4.3%	5.5%	4.5%	4.4%
% Unemployed (Texas)	3.5%	3.9%	4.3%	4.6%	4.3%	5.1%
% Unemployed (United States)	3.7%	3.9%	4.4%	4.9%	5.3%	6.2%

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

Employment and Wages by Industry - Howard County

	Number of Employees			
	Third Quarter 2019	Fourth Quarter 2018	Fourth Quarter 2017	Fourth Quarter 2016
Natural Resources and Mining	1,339	1,291	1,212	941
Construction	734	719	588	426
Manufacturing	871	867	843	841
Trade, Transportation & Utilities	2,435	2,354	2,252	2,355
Information	224	205	235	173
Financial Activities	430	411	432	433
Professional and Business Services	741	532	491	386
Education and Health Services	1,603	1,673	1,548	1,621
Leisure and Hospitality	1,351	1,295	1,333	1,226
Other Services	414	395	372	381
Unclassified	645	632	634	631
Federal Government	988	926	947	943
State Government	--	--	--	--
Local Government	<u>1,906</u>	<u>2,052</u>	<u>1,970</u>	<u>2,044</u>
Total Employment	13,681	13,352	12,856	12,402
Total Wages	\$178,434,150	\$178,031,462	\$164,480,861	\$145,816,062

Source: Texas Workforce Commission - Texas Labor Market Information.

Transportation

Big Spring is on I-20 (east-west) and U.S. Hwy 87 (north-south). U.S. Hwy 87 is part of the Ports-to-Plains Trade Corridor which is a multi-lane divided highway that facilitates the efficient transportation of goods and services from Mexico through West Texas, New Mexico, Oklahoma, Colorado and ultimately on into Canada and the Pacific Northwest.

The Union Pacific Railroad currently serves Big Spring. Union Pacific Railroad merger with Southern Pacific Railroad further enhances rail service into and out of the Big Spring area. Big Spring McMahon-Wrinkle Air Park provides general aviation services and Big Spring Rail provides rail service to the Air Park.

Educational Facilities

The Big Spring Independent School District provides education in grades K-12. The average daily attendance for the 2018-19 school year was 3,700.

Howard County Junior College District, the boundaries of which are coterminous with Howard County, operates Howard College & Southwest Collegiate Institute for the Deaf, a public community college accredited by the Southern Association of Colleges and Schools and approved by the Coordinating Board, Texas College and University System, and the Texas Education Agency. The College has a 2018 total Fall enrollment of 4,635.

Health and Medical Care

Big Spring is blessed with a broad and varied array of health care providers and services. With a 150-bed private hospital serving the general public to a Department of Veteran Affairs Medical Center, a State mental health facility and a Texas State Veterans Home, Big Spring is a center for health care.

Big Spring is the home of Dora Roberts Rehabilitation Center, one of the premier rehabilitation facilities in West Texas providing physical therapy, occupational therapy, cardiac rehabilitation, audiology and wellness programs along with a multitude of other services.

Big Spring offers several facilities that provide housing for the elderly, assisted living facilities, nursing homes, and in-home health care.

Big Spring has long had the reputation as being a center for health care in West Texas.

Economic Indices

<u>Fiscal Year Ended 9/30</u>	<u>Number of Building Permits</u>	<u>Water Utility Connections</u>
2011	1,262	8,687
2012	1,386	8,693
2013	1,616	8,754
2014	1,444	8,847
2015	1,491	8,733
2016	2,207	8,537
2017	1,807	8,470
2018	1,428	8,722

Source: The City.

Federal Prison and City Correctional Centers

A Federal Bureau of Prisons Level 2 Security Correctional Institution (low security prison) with a capacity of 1,631 inmates is located in the City. A satellite minimum security facility with a capacity of 160 inmates is located adjacent to the main prison. The present staff is 244.

The City has an intergovernmental agreement with the Federal Bureau of Prisons to operate four correctional facilities. The GEO Group administers the prisons under a management contract with the City; combined capacity is 3,500 inmates. The GEO Group has 500 employees.

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APPENDIX C

AUDITED FINANCIAL STATEMENTS

The information contained in this appendix consists of the City of Big Spring Comprehensive Annual Financial Report (the "Report") for the fiscal year ended September 30, 2018.

The information presented represents only a part of the Report and does not purport to be a complete statement of the City's financial condition. Reference is made to the complete Comprehensive Annual Financial Report for additional information.

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CITY OF BIG SPRING, TEXAS

COMPREHENSIVE ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2018

CAFR Prepared by the Finance Department

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

LUBBOCK, TEXAS

INTRODUCTORY SECTION



March 21, 2019

Honorable Mayor, Members of the City Council, and Citizens of the City of Big Spring, Texas:

State law requires every general-purpose local government to publish complete audited financial statements within six months of the close of each fiscal year. This report is published to fulfill such requirement for the fiscal year ended September 30, 2018.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal controls which has been established for this purpose. Because the cost of internal controls should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements. All amounts in this transmittal letter are in thousands of dollars, unless otherwise stated.

Bolinger, Segars, Gilbert & Moss, L.L.P., Certified Public Accountants, have issued an unmodified (“clean”) opinion on the City of Big Spring’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 letter of transmittal and should be read in conjunction with it.

Profile of the City

The City of Big Spring, Texas, incorporated in 1907, is the county seat and principal city of Howard County. The city is located 39 miles northeast of Midland, Texas at the intersection of Interstate Highway 20 and U.S. Highway 87. The city currently occupies a land area of 19.2 square miles and serves a population of 28,532. The city is empowered to levy a property tax on both real and personal properties located within its boundaries. It also is empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the city council.

The city has operated under the council-manager form of government since 1927. Policy-making and legislative authority are vested in a city council consisting of the mayor and six other members. The city council is responsible, among other things, for passing ordinances, adopting the budget, appointing committees, and hiring the city's manager, attorney and municipal court judge. The city's manager is responsible for carrying out the policies and ordinances of the city council, for overseeing the day-to-day operations of the city, and for appointing the heads of the various departments. The council is elected on a non-partisan basis. All council members are elected by district. The mayor is elected at large.

The city provides a full range of services to its citizens, including police and fire protection, 911 emergency medical services, construction and maintenance of highways, streets, and other infrastructure; and recreational and cultural activities. Certain water and wastewater services are provided and accounted for through a separate enterprise fund. The city is also financially accountable for a legally separate economic development corporation, which is reported separately within the city's financial statements. Additional information on this legally separate entity can be found in the notes to the financial statements (See Note A.1).

The city council is required to adopt a final budget by no later than the close of each fiscal year. This annual budget serves as the foundation for the City of Big Spring's financial planning and control. The budget is prepared by fund, function (e.g., public safety), and department (e.g., police). Department heads may transfer resources within a department with the city manager's approval. Transfers between departments need special approval from the city council.

Economic Condition and Outlook

Major industries located within the government's boundaries or in close proximity include numerous oilfield related businesses, wind energy, manufacturers of hydraulic components, carbon black, five prison facilities, a large oil refinery, a railroad, and several financial institutions and insurance companies. Both the state and federal governments are significant economic presences thanks to a major psychiatric hospital and a veteran's health care facility that provides employment to approximately 1,100 healthcare professionals and staff.

Unemployment rates for the last ten years have hit a low of 3.9% for 2018. They have varied from this low to a high of 7.5% in 2009. The City's unemployment rate for 2018 of 3.9%, which was below the national unemployment rate of 4.1%. Trends in unemployment rates are one indicator of economic strength and the City's rates for the past ten years are presented in Table E-16 in the statistical section.

Property tax revenue (using the modified accrual basis of accounting) rose in 2017-18 year from \$6,909 to \$7,513, an 8.7% increase. Property tax rate rose from 79.00 cents, per \$100 of assessed value, to 84.23 cents. The adjusted taxable value from the Assessor's 2017 Effective and Rollback Tax Worksheet decreased from \$891,667,306 for 2016 to \$872,187,898 for 2017, a 2.2% decrease.

Sales tax revenue increased from \$6,638,741 for year ending 9/30/2017 to \$7,756,760 for 9/30/2018, a 16.8% increase. For the first four months of the 2018-19 year, sales tax is up 11.2% from the same four months in the 2017-18 year. The city's hotel occupancy tax revenue also increased from \$1,163,639 for year ending 9/30/2017 to \$2,157,204 for 9/30/2018, an 85.5% increase. For the first four months of the 2018-19 year, hotel occupancy tax revenue is up 31.8% from the same four months in the 2017-18 year. This is due to contractors working on the North Hwy 87 Reliever Route, increase in oil exploration, and an increase in rooms available as more hotels have opened in 2017 and 2018. Hotel occupancy tax, by law, is restricted to uses which should have a direct impact on bringing more overnight visitors to the City of Big Spring. It is not available to meet many of the City's governmental needs.

A major contributor to the City's revenue this year was mineral royalties from property the City owns mineral rights to. For 2017-18 mineral royalties contributed \$2,377,731 in revenue to the General Fund, and \$2,759,596 to the Airpark Fund. For the first 5 months of 2018-19 the General Fund and Airpark mineral royalties are coming in at 47.7% and 64.3% of the 5-month average of 2017-18. This is mainly due to a drop in oil prices. Although the recent drop in oil prices has hurt the 2018-19 City mineral royalties, it does not appear to have hurt the local economy as both sales and hotel tax is up for the first four months of 2018-19.

Much of the increase in business activities from 2012 to 2018 in the city is related to the exploration and production of the Cline Shale oil and gas formation. The City of Big Spring is the largest city within the boundaries of the shale formation. The city continues to realize increases in new businesses, houses, condominiums, hotels, restaurants, and other business during the 2018-19 year. Texas Department of Transportation, after schedule setbacks is within a year of being finished on the North Reliever Route, which was originally budgeted for approximately \$80 million. This project has kept many contractors in the City.

The five year federal tax credit extension for wind energy construction is having a positive economic impact on Big Spring as wind energy companies have established operations here.

Long-term Financial Planning

Unassigned fund balance in the General Fund was 34.8% of total General Fund expenditures. The fund balance has increased significantly over the past eleven years because of diligence in budgeting and the willingness of the elected officials to plan for the future (e.g. the building up of fund balances now for the new landfill, water and waste water plant upgrades, and other infrastructure planned improvements).

Total long-term debt, not due within one year, including bonds, capital leases, compensated absences, pensions, other post employment benefits (health Insurance offered to retirees at current employee cost), landfill closure and post closure totaled \$50,328,898, on September 30, 2018.

Relevant Financial Policies

The city anticipates opening a cell in a new landfill (with 100 year useful life) in approximately two years, with an anticipated cost of approximately \$6.7 million. Additionally, the city is required to set aside money for closure and post-closure of the current landfill. As of September 30, 2018 the city had \$4,440,410 set aside in investments for anticipated closure and post-closure expenditures with only a current calculated liability cost of \$3,140,844. Calculations are done annually on the liability incurred with remaining estimated capacity and forecasted expense of closure and monitoring cost after closure (post-closure).

Internal Controls

The City of Big Spring has established an internal control framework designed both to protect the City's assets from loss, theft, or misuse and provide reasonable, but not absolute, assurance of the safeguarding of assets against loss from unauthorized use or disposition. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived. All internal control evaluations occur within the above frame work. We believe the city's internal controls adequately safeguard assets, ensure compliance with laws and regulations and provide reasonable assurance of proper recording of financial transactions.

Major Initiatives

The City has finished phase I and II of the Historic Big Spring Restoration project. This is a very historic location for the State of Texas as it was the only dependable water source on the southern Llano Estacado and was a sacred site for native Americans. The first European to come to the site was Cabeza de Vaca from the Galveston Island shipwreck in 1535. De Vaca held an impromptu blessing with the native Americans who saved him from starvation and exhaustion, which predates the Plymouth Thanksgiving by 85 years. This project was funded by the Hotel/Motel Occupancy Tax through the Hotel/Motel fund with grants and donations for a total of \$ 2,533,919. Some of highlights of the facility are story-boards, native stone used for construction, full handicap access, 1,600 square foot interpretive / education center, parking for up to 140 vehicles, artificial spring flow to replicate the original historic spring, pedestrian bridges, observation decks, plaza seating for more than 1,000 people, and electric hookup for entertainment venues.

In the City's Utility fund over the course of four years, there have been significant improvements in the water consumption and loss ratio. These goals were reached through constant monitoring, review, and implementation of new procedures. The result has been a reduction of water loss, thereby greatly increasing our earnings potential, which resulted in a record Operating Income year of \$2,140,776. From this operating income we have been able to pay for: an implement an increase the water quality from rehabilitation of 6 main water filters and valves, as well as annual pipe line replacement of 1.44 miles of both water and sewer pipes.

Another area in which the city continues to make improvements is the Airpark fund. By having service by air, railroad, and Interstate and Highway, the Airpark is a prime place for business in the area. During the 2017-18 year, with a small amount happening in October of the 2018-19 year, The Big Spring Economic Development Corporation has paid and directed the extension of 1.5 miles of new rail line in the Airpark at a cost of \$2,215,457. The businesses located there have seen substantial grown the last few years and the Economic Development Corporation, the Airpark Director, and the City are always in talks with businesses interested in moving operations into the Airpark.

The Aviation Division awards several grants which city management coordinates and seeks every year. In 2016-17, the City purchased two tracks of land for future entrances into the Airpark from the Hwy 87 South Reliever Route. The City and Airpark are actively pursuing grants, plans, and engineering to fund these entrances and other needed improvements in both the aviation and business park areas of the Airpark. Self funding of these improvements and/or grant match (share) is a possibility due to mineral royalties from the drilling and production activities of oil and natural gas under the air park, which is restricted for uses in the Airpark.

In spite of all the challenges in rising costs and dwindling revenues in sales tax, and other categories, the City always invests in community programs. We continue to enhance the experience of every visitor, and promote cultural and educational events. The city invested in Meals on Wheels, Emergency Services Chaplin Corps, Potton House, Victim Services, State Park and Heritage Museum. These contributions are yearly and usually are over \$60,000.

The City is finalizing a deal with the company connected with The Settle Hotel to partnership in the cost and development of an Outdoor Plaza Park to go between the Settles Hotel and City Hall and Auditorium. Johnson St for this block would be removed. As in the style and magnitude of The Settles Hotel we expect this plaza park to make a wonderful addition for the citizens and visitors of Big Spring. It will be fenced to allow events to take place there and be available for others to use when no events are scheduled. The approximate cost is \$1 million from the City and \$2 million from the developer. The City will be able to reduce the \$1 million with like kind exchanges and then pay the remainder over three years.

together, closer to each other, as well as give the Airpark more facilities to lease to businesses. The main purpose of the warehousing department is to provide parts for the water and sewer operations. These parts will now be closer to most of the areas of the City the workers are working in.

Awards and Acknowledgements

The Government Finance Officers Association (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Big Spring for its comprehensive annual financial report (CAFR) for the fiscal year ended September 30, 2017. This was the eighteenth consecutive year that the city has received this prestigious award. In order to be awarded a Certificate of Achievement, the city had to publish an easily readable and efficiently organized CAFR that satisfied both generally accepted accounting principles and applicable legal requirements.

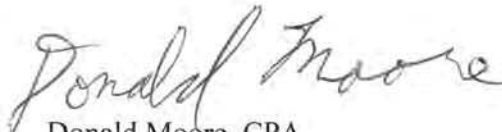
A Certificate of Achievement is valid for a period of one year only. We believe that our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The preparation of this report would not have been possible without the efficient and dedicated service of the entire staff of the finance and administration departments. We wish to express our appreciation to all members of these departments who assisted and contributed to the preparation of this report. Credit must also be given to the Mayor and City Council for their unfailing support for maintaining the highest standards of professionalism in the management of the city's finances.

Respectfully submitted,



Todd Darden
City Manager



Donald Moore, CPA
Finance Director



Government Finance Officers Association

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

Presented to

**City of Big Spring
Texas**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

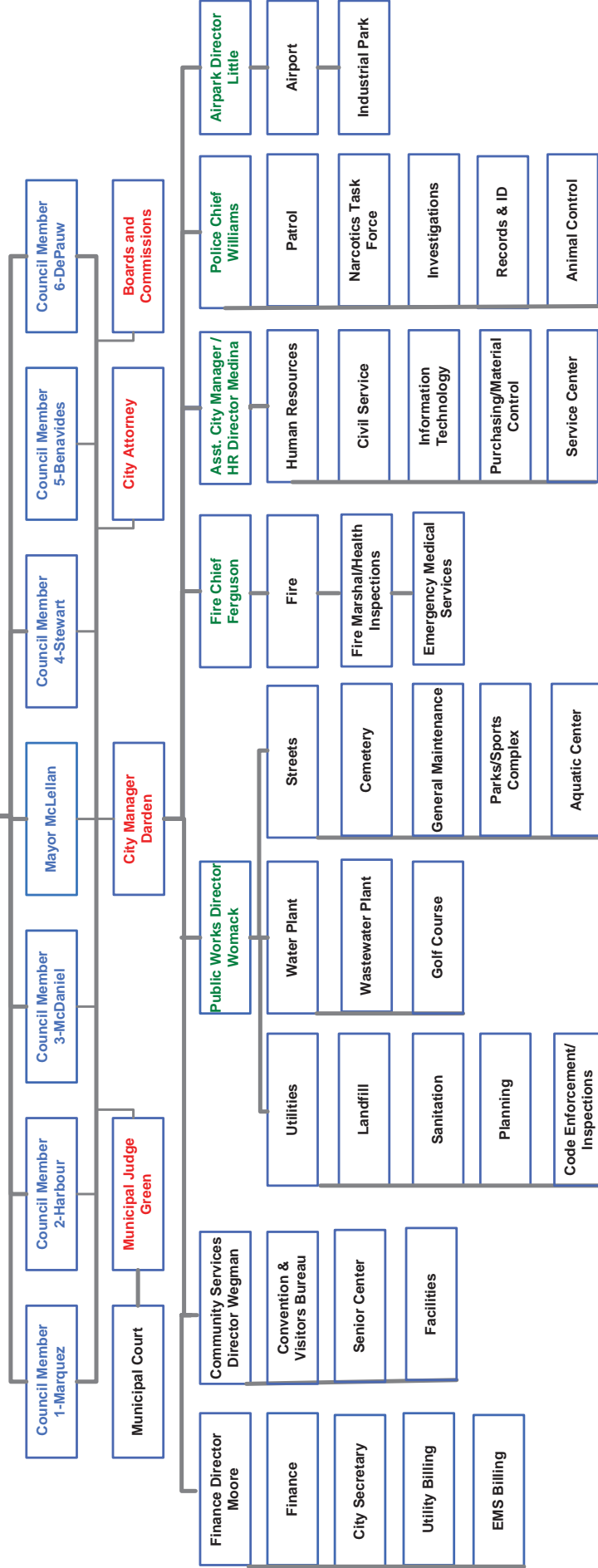
September 30, 2017

Christopher P. Morill

Executive Director/CEO



Citizens of Big Spring



CITY OF BIG SPRING, TEXAS

**LIST OF PRINCIPAL OFFICIALS
SEPTEMBER 30, 2018**

Elected Officials

Name	Office
Larry McLellan	Mayor
Raul Marquez	Mayor Pro Tem -District 1 Council Member
Doug Hartman, Jr.	District 2 Council Member
Terry McDaniel	District 3 Council Member
Howard Stewart	District 4 Council Member
Raul Benavides	District 5 Council Member
Jim DePauw	District 6 Council Member

Appointed Officials

Name	Position
Todd Darden	City Manager
Donald Moore	Finance Director/City Secretary
Marianne Banks	City Attorney
Chad Williams	Chief of Police
Craig Ferguson	Fire Chief
Timothy Green	Municipal Judge
John Medina	Asst. City Manager and Human Resource
Jim Little	Airpark Director

FINANCIAL SECTION

BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

PHONE: (806) 747-3806

FAX: (806) 747-3815

8215 NASHVILLE AVENUE

LUBBOCK, TEXAS 79423-1954

Independent Auditor's Report

City Council
City of Big Spring, Texas
Big Spring, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Big Spring, Texas (the City), as of and for the fiscal year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, each major fund, discretely presented component unit, and the aggregate remaining fund information, of the City of Big Spring, 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.

Change in Accounting Principle

As discussed in the notes to the financial statements, in 2018 the City of Big Spring, Texas adopted new accounting guidance, GASBS No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. 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, schedule of changes in net pension liability and related ratios, schedule of employer contributions, schedule of changes in the total OPEB liability and related ratios, and budgetary information 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 the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

The combining statements and budgetary comparison schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining statements and budgetary comparison schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 21, 2019 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering of the City's internal control over financial reporting and compliance.

Bolinger, Segars, Gilbert & Moss LLP

Certified Public Accountants

Lubbock, Texas

March 21, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Big Spring, Texas

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Big Spring, Texas (the City) we offer readers of the City's financial statements this narrative overview and analysis of the City's financial activities for the fiscal year ended September 30, 2018. We encourage readers to consider the information presented here in conjunction with the letter of transmittal, the independent auditor's report, and the basic financial statements. **All amounts, unless otherwise indicated, are expressed in thousands of dollars.**

FINANCIAL HIGHLIGHTS

- The assets of the City of Big Spring exceeded its liabilities on September 30, 2018 by \$127,193 (net position). Of this amount, the unrestricted net position improved from \$451 to \$4,838.
- The City's total net position increased by \$5,832. Net Pension Liability remained close to the previous years, although new pension funds measures were adopted which should reduce net pension liability in the coming years.
- The City's governmental funds reported combined ending fund balance is \$11,688, of which \$7,380 is available for spending at the City's discretion.
- The ending unassigned fund balance for the General Fund was \$7,380, or 34.9% of total general fund revenues and 38.1% of total expenditures.
- The City has reduced Bond and Capital Lease Debt by \$7,553 from \$31,375 at 9/30/2012 to \$23,822 at 9/30/2018, a 24.1% reduction.
- Actual resources were \$4,226 more than forecasted resources in the final revised budget for the general fund for the start of the new fiscal year at 10-1-2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Position and the Statement of Activities. These provide information about the activities of the City as a whole and present a long-term view of the City's property and debt obligations and other financial matters. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. For governmental activities, these statements tell how services were financed in the short-term as well as what resources remain for future spending. They reflect the flow of current financial resources and supply the basis for tax levies and the appropriations budget. For proprietary activities, fund financial statements tell how goods or services of the City were sold to departments within the City or to external customers and how the sales revenues covered the expenses of the goods or services.

The notes to the financial statements provide narrative explanations or additional data needed for full disclosure in the government-wide statements or the fund financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

Reporting the City as a Whole

The Statement of Net Position and the Statement of Activities

The Statement of Net Position provides an analysis of the City's overall financial condition and operations. The primary purpose of this analysis is to show whether the City is better or worse off as a result of the year's activities. The Statement of Net Position includes all the City's assets and liabilities at the end of the year while the Statement of Activities includes all the revenues and expenses generated by the City's operations during the year. These apply the accrual basis of accounting which is the method used by most private sector companies.

All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. The City's revenues are separated into two categories: those provided by outside parties who share the costs of some programs, such as the Department of Transportation's assistance in safe driving, and revenues provided by the taxpayers. All the City's assets are reported whether they serve the current year or future years. Liabilities are included regardless of whether they must be paid in the current or future years.

These two statements report the City's net position and changes in them. The City's net position (the difference between assets, deferred outflows of resources, liabilities and deferred inflows of resources) provide one measure of the City's financial health, or financial position. Over time, increases or decreases in the City's net position are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, however, you should consider other financial factors as well (such as changes in the City's sales tax revenues or its property tax base) and non-financial factors (such as the condition of the City's facilities, unemployment rates and population growth or decline).

In the Statement of Net Position and the Statement of Activities, the following activities are presented.

- Governmental activities – Most of the City's basic services are reported here, including general government, public safety, highways and streets, sanitation, and recreation and parks. Property taxes, sales taxes, user fees, and licenses and permits finance most of these activities.
- Business-type activities – The City accounts for business-type activities in its proprietary funds, where user fees and charges are intended to recover all or a significant portion of overall costs.
- Component unit – The City has one component unit which is funded primarily through sales tax revenue for the purpose of economic development, specifically the generation and retention of business activities and jobs.

Reporting the City's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the City as a whole. Laws and contracts require the City to establish certain funds to account for specific activities, such as grants received through the Department of Justice. The City's administration establishes other funds to help it control and manage resources for particular purposes. The City's two kinds of funds – governmental and proprietary – use different accounting approaches.

- Governmental funds – Most of the City's basic services are reported in governmental funds. These use modified accrual accounting (a method that measures the receipt and disbursement of cash and all other financial assets that can be readily converted to cash) and report balances that are available for future spending. The governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the differences between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds in reconciliation schedules following each of the fund financial statements.
- Proprietary funds – The City reports the activities for which it charges users (whether outside customers or other units of the City) in proprietary funds using the full accrual method, which is the same accounting method employed in the Statement of Net Position and the Statement of Activities. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information.

Notes to the Financial Statements

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

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The City of Big Spring adopts an annual appropriated budget for its general fund (major fund). A budgetary comparison schedule has been provided for this fund to demonstrate budgetary compliance.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of a government's financial position. The City of Big Spring's assets and deferred outflows exceeded inflows of resources and liabilities by \$127,193 at September 30, 2018.

The largest portion of the City's net position 95.2% reflects its investment in capital assets (e.g., land, infrastructure, buildings, and equipment) less any related debt used to acquire these assets that is still outstanding. These assets are used to provide services to the citizens and are not available for future appropriation. Although the City's investment in 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.

Table I
City of Big Spring, Texas

NET POSITION
(in thousands)

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Assets:						
Cash and Cash Equivalents	\$ 12,070	\$ 7,121	\$ 20,642	\$ 15,897	\$ 32,712	\$ 23,018
Receivables	1,003	1,210	2,740	2,530	3,743	3,740
Internal Balances	568	270	(568)	(270)		0
Due from Other Governments	869	796			869	796
Capital Assets	87,997	88,271	58,931	58,722	146,928	146,993
Other Assets	1	13	480	496	481	509
Total Assets	<u>\$ 102,508</u>	<u>\$ 97,681</u>	<u>\$ 82,225</u>	<u>\$ 77,375</u>	<u>\$ 184,733</u>	<u>\$ 175,056</u>
Deferred Outflows of Resources - Pensions	<u>\$ 1,780</u>	<u>\$ 3,188</u>	<u>\$ 429</u>	<u>\$ 1,144</u>	<u>\$ 2,209</u>	<u>\$ 4,332</u>
Liabilities:						
Accounts Payable and Other Current Liabilities	\$ 2,109	\$ 1,934	\$ 1,627	\$ 1,408	\$ 3,736	\$ 3,342
Current Portion of Long-term Liabilities	2,130	1,887	1,849	1,735	3,979	3,622
Long-term Liabilities	28,536	29,744	21,794	21,319	50,330	51,063
Total Liabilities	<u>\$ 32,775</u>	<u>\$ 33,565</u>	<u>\$ 25,270</u>	<u>\$ 24,462</u>	<u>\$ 58,045</u>	<u>\$ 58,027</u>
Net Position:						
Invested in Capital Assets	\$ 74,780	\$ 74,405	\$ 46,323	\$ 45,638	\$ 121,103	\$ 120,043
Restricted	1,251	867			1,251	867
Unrestricted	(5,689)	(7,968)	10,528	8,419	4,839	451
Total Net Position	<u>\$ 70,342</u>	<u>\$ 67,304</u>	<u>\$ 56,851</u>	<u>\$ 54,057</u>	<u>\$ 127,193</u>	<u>\$ 121,361</u>

The City has restricted net position totaling 1% of total net position, which represent resources subject to restrictions on how they may be used. Such resources include special revenue funds restricted for specific purposes. The unrestricted net position is \$4,839.

There was an overall increase of \$1,060 in net investment in capital assets, with capital assets in governmental activities increasing by \$375 and capital assets in business-type activities increasing by \$685. The net investment in capital assets for the primary government has increased due to more capital additions compared to depreciation being taken.

Table II
City of Big Spring, Texas

CHANGES IN NET POSITION
(in thousands)

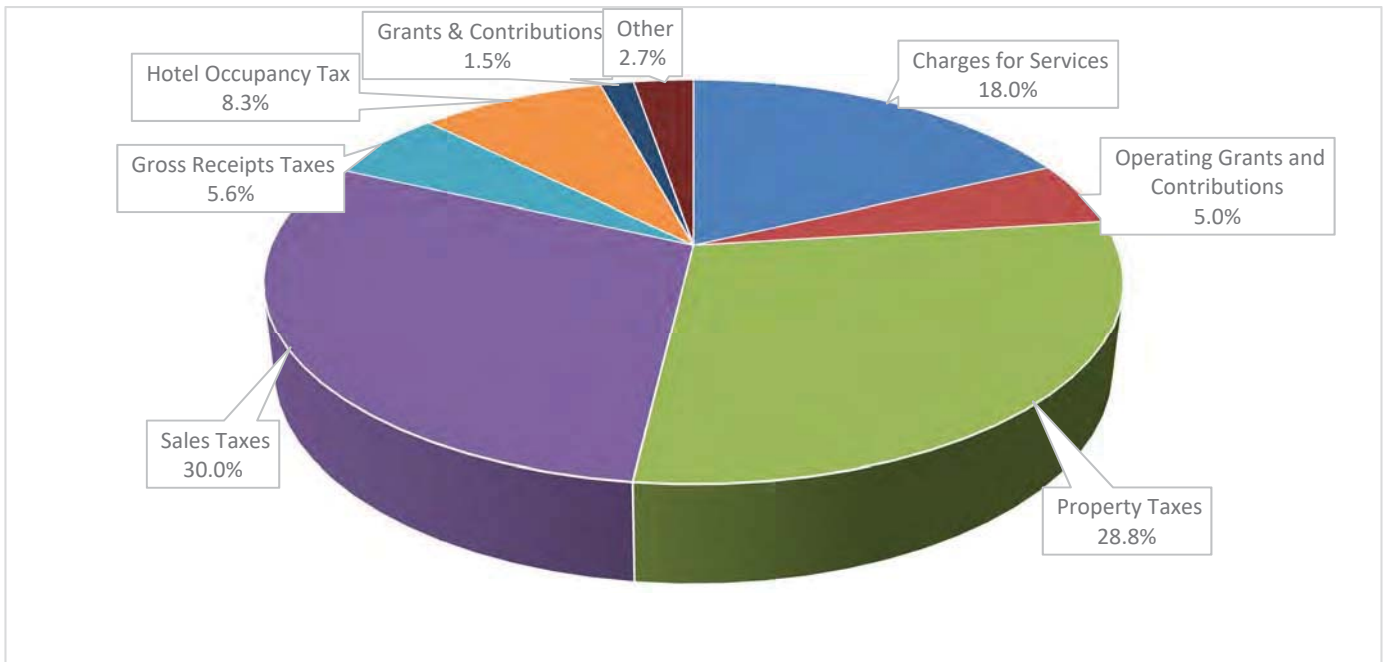
	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program Revenues						
Charges for Services	\$ 4,665	\$ 2,695	\$ 22,497	\$ 21,347	\$ 27,162	\$ 24,042
Operating Grants and Contributions	1,296	1,051			1,296	1,051
Capital Grants and Contributions			3,447	1,489	3,447	1,489
General Revenues						
Property Taxes	7,464	6,981			7,464	6,981
Sales Taxes	7,757	6,639			7,757	6,639
Gross Receipts Taxes	1,456	1,561			1,456	1,561
Motel Occupancy Tax	2,157	1,163			2,157	1,163
Grants and Contributions Not						
Restricted to Specific Programs	389	295	12	36	401	331
Unrestricted Investment Earnings	107	30	192	56	299	86
Miscellaneous	590	458	3,096	1,709	3,686	2,167
Total Revenues	\$ 25,881	\$ 20,873	\$ 29,244	\$ 24,637	\$ 55,125	\$ 45,510
Expenses:						
Water and Sewer	\$	\$	\$ 12,503	\$ 12,161	\$ 12,503	\$ 12,161
Airport/Industrial Park			2,978	2,267	2,978	2,267
Emergency Medical Services			3,900	2,437	3,900	2,437
Landfill			2,365	1,295	2,365	1,295
Sanitation			2,499	2,678	2,499	2,678
Malone & Hogan Clinic					0	0
General Government	2,322	4,320			2,322	4,320
Public Safety	10,610	11,108			10,610	11,108
Highways and Streets	3,141	2,603			3,141	2,603
Recreation and Parks	2,936	2,975			2,936	2,975
Economic Development	1,260	943			1,260	943
Other	956	998			956	998
Total Expenses	\$ 21,225	\$ 22,947	\$ 24,245	\$ 20,838	\$ 45,470	\$ 43,785
Increase in Net Position Before Transfers	\$ 4,656	\$ (2,074)	\$ 4,999	\$ 3,799	\$ 9,655	\$ 1,725
Transfers	1,042	1,242	(1,042)	(1,242)		
Increase (Decrease) in Net Position	\$ 5,698	\$ (832)	\$ 3,957	\$ 2,557	\$ 9,655	\$ 1,725
Net Position-Beginning	67,304	68,136	54,057	51,500	121,361	119,636
Prior Period Adjustments - GASB 75	(2,660)		(1,163)		(3,823)	
Net Position-Ending	\$ 70,342	\$ 67,304	\$ 56,851	\$ 54,057	\$ 127,193	\$ 121,361

Governmental Activities - Governmental activities resulted in an increase of \$70 in the City's net position. Revenue increases were primarily the results of a good local economy from increased oil exploration and production, oil related businesses such as fracking sand and pipelines, wind turbine activity, as well as Texas Department of Transportation highway projects. These activities brought more people into the area.

Key elements of this increase are as follows:

- GASB 75 Post-Employment Benefits Other than Pension came into effect for the year ending 9/30/2018. This resulted in a (\$2,660) decrease in net position from a prior period adjustment.
- Mineral royalties from land with mineral rights the City owns outside of the Airpark Enterprise fund increased by \$2,155 a 968% increase over the previous year. This amount is in the Charges for Services under Program Revenues.
- Sales tax revenue increased by \$1,118, a 17% increase over the previous year.
- Hotel occupancy tax increased by \$994 an 85% increase over the previous year.
- General Government expenses fell by \$1,998 mainly as a result of an underfunding of health insurance claims received for year ending 9/30/2017, and reduction of claims and increase funding for year ending 9/30/2018.

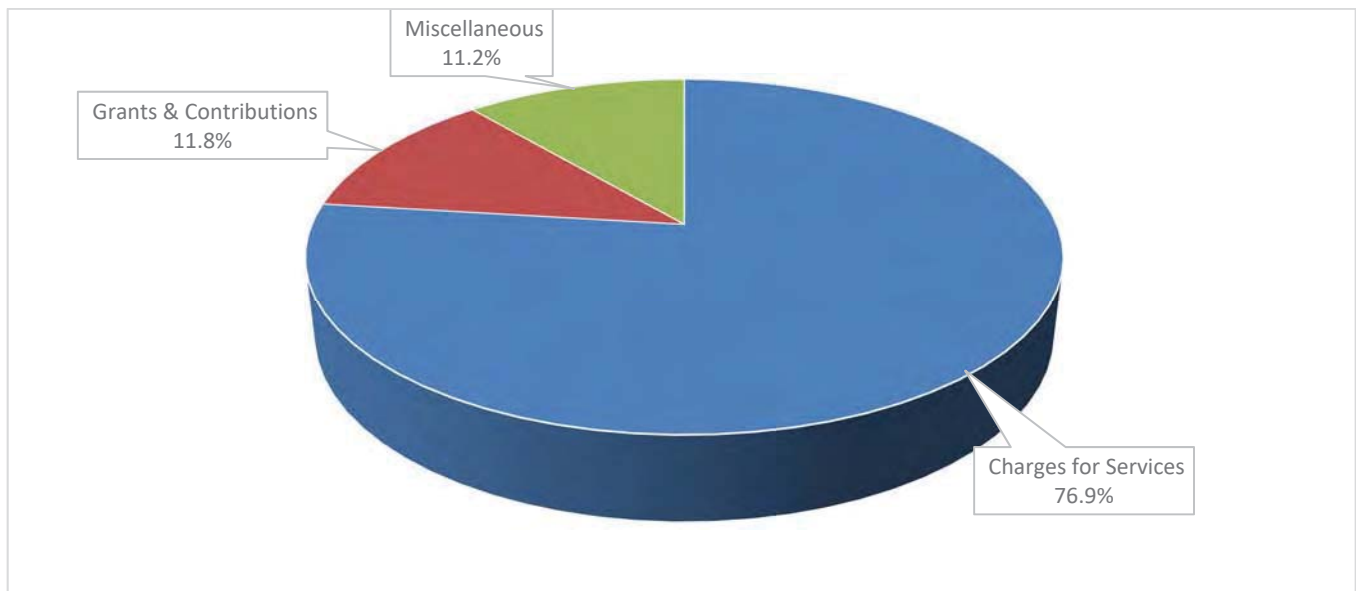
**Revenues by Source
Governmental Activities
Fiscal Year 2017-18**



Business-type Activities - Business-type activities increased the City of Big Spring’s total net position by \$2,108 in the current fiscal year. Key elements of this increase are as follows.

- Airpark received an increase in mineral royalties of \$1,366 for the year.
- Landfill and Sanitation Fund combined net position decreased by (\$283,608) as the city expenditures for upcoming new landfill start to dip into the saved fund balances.

**Revenues by Source
Business-type Activities
Fiscal Year 2017-18**



FINANCIAL ANALYSIS OF THE CITY’S FUNDS

The City of Big Spring uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the City’s governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City’s financing requirements. With the implementation of GASB No. 54 in fiscal year 2011, the City changed its presentation of fund balances in governmental funds. The GASB has defined five types of fund balances, which are more fully described in the footnotes to the financial statements. The City uses all five categories of fund balance.

As the City completed the 2017-18 year, its governmental funds reported combined ending fund balances of \$11,689, representing an increase of \$4,099 from the prior year’s balance of \$7,590. This is contributable to the revenue increases of mineral royalties, Hotel Tax, and Sales Tax mentioned earlier. Unassigned fund balance grew \$854 from \$6,526 at the beginning of year to \$7,380 at the end of the fiscal year. Committed fund balance also grew from \$159 to \$2,850 as the City designated some of the fund balance for capital expenditures expected to be incurred in 2019. Unassigned fund balance that is available for spending at the City’s discretion amounts to 63.1% of total fund balances.

The General Fund is the major operating fund of the City. Unassigned fund balance represents 31.6% of total General Fund expenditures.

Total fund balance in the City’s General Fund increased by \$3,556 during fiscal year 2017-18.

Proprietary funds. The City’s proprietary fund statements provide the same type of information found in the government-wide financial statements, Business-Type Activities, but in more detail. Unrestricted net position of the City’s enterprise funds at the end of the fiscal year are as follows:

	2018	2017	Change
Water and Sewer Fund	\$ 3,964	\$ 2,921	\$ 1,043
Airport/Industrial Park	6,730	5,006	1,724
Emergency Medical Services	(3,979)	(2,817)	(1,162)
Landfill	2,956	2,662	294
Sanitation	857	648	209
	\$ 10,528	\$ 8,420	\$ 2,108

Unrestricted net position increased by \$1,043 in the Water and Sewer Fund and increased by \$1,724 in the Airport/Industrial Park. The Emergency Medical Services Fund decreased from a negative (\$2,817) to a negative (\$3,979) by \$1,162 mostly due to inadequate contributions to the fund from the City General Fund and Howard County. The Landfill fund increased by \$294 as the City builds the unrestricted balance to pay for the coming new landfill. Sanitation fund increased by \$209. The sanitation fund will soon make permanent transfers to Landfill fund to help pay for the new landfill. These two funds were made separate so pure sanitation (trash service) revenues and expenses could be easier obtained as well as the contribution (transfers) this operation makes to building of the new landfill.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year there was a \$1,127 increase in appropriations between the original and final amended budget. The following details the main components of the increase, which represents an increase of 8.9 percent over the original budget.

- The Police Department budget for the purchase of automobiles increased by \$104, because the vehicles for the original budget were no longer available and the Council chose to increase the budget for more expensive Chevy Tahoes, which better fit the needs of the department.
- Police Department Personnel Costs budget was also raised by \$172 mainly by an increase charge from the Health Insurance Internal Fund as claims were higher than anticipated. All city departments with payroll costs also were charged more for group health insurance for the year than originally budgeted.
- The streets department budget was amended up by \$400 which was mostly due to the approval and purchase of a street sweeper for \$238, which was not in the original budget.
- Golf Course department budget increased by \$102. This was in most part due to \$31 for a greens mower. Most other categories of expenses were up, due to the Council’s concern to increase the quality of the course and department.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The City of Big Spring’s investment in capital assets for its governmental and business-type activities as of September 30, 2018, amounts to \$146,929 (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads and highways, water and sewer lines, and drainage improvements. The total City investment in capital assets decreased by \$64 or 0.04%.

Major capital asset events during the current fiscal year included the following:

- Infrastructure and Improvements decreased by a net of \$3,268 mainly because of depreciation.
- Buildings and Systems fell by a net of \$1,321 mainly because of depreciation.
- Construction in Progress Business-Type Activities increased by \$2,430 mainly because of \$82 toward the new landfill, and \$2,086 for rail expansion at the Airpark.
- A new category of Historical Works of Arts was added, because of the purchase of \$426 of historic military planes by the Airpark. Although the Airpark is run as a business type accounting fund, TxDOT rules, which restrict revenue earned on the Airpark for specific usages in the Airpark, allows the purchase of historic planes. The planes are housed in the Hanger 25 Air Museum, which is located in the Airpark property.

Table III
City of Big Spring, Texas

CAPITAL ASSETS AT SEPTEMBER 30, 2018
(Net of Depreciation, in thousands)

	Governmental Activities		Business-Type Activities		Totals	
	2018	2017	2018	2017	2018	2017
Land	\$ 72,940	\$ 72,940	\$ 6,231	\$ 6,231	\$ 79,171	\$ 79,171
Historical Works of Arts			426		426	0
Buildings and Systems	3,001	3,379	20,164	21,107	23,165	24,486
Infrastructure and Improvements	6,263	7,428	24,947	27,050	31,210	34,478
Machinery and Equipment	3,260	2,838	4,210	3,811	7,470	6,649
Construction in Progress	2,534	1,686	2,953	523	5,487	2,209
	<u>\$ 87,998</u>	<u>\$ 88,271</u>	<u>\$ 58,931</u>	<u>\$ 58,722</u>	<u>\$ 146,929</u>	<u>\$ 146,993</u>

Additional information regarding capital asset activity of the City can be found in Note D in the Notes to the Financial Statements.

Long-Term Debt

In 2010, the City of Big Spring sold \$4,200 in Certificates of Obligation for the construction of a new family aquatic center. The debt service on this certificate of obligation is being paid from property tax revenue.

In July 2012, the City issued \$11,725 of Combination Tax and Surplus Revenue Certificates of Obligation. The proceeds of this issue were expended to renovate both the water and wastewater treatment plant facilities. In addition, the City entered into a performance agreement with the Big Spring Economic Development Corporation (BSEDC) to use part of its sale tax revenue to meet debt service requirements on this issue. The BSEDC is a Type A Corporation, but in May of 2012, the voters of Big Spring approved the Type B treatment plant upgrades. BSEDC will contribute a maximum amount of \$13,000 over a twenty-year term. The balance of the debt service requirements will be paid from utility system revenues.

In February of 2016, the City issued \$7,980 of General Obligation Refunding Bonds. These bonds, issued at a premium, defeased \$8,290 of the 2007 General Obligation Bonds and Certificate of Obligations Bond series. Defeasement means proceeds of the issue were put into an irrevocable trust to pay off the bonds on their call date. The call date is a feature where the issuer can pay off the bond before the maturity date. The call date for these two 2007 issues was 2/15/2017 so as of the date of this letter; the bonds have been called and paid. Because these 2007 bonds were defeased, only the remaining bonds due are shown in this Comprehensive Annual Financial Report. The City will save a net present value of approximately \$1,195 which will be incurred over the next 11 years.

The Latest City's Unenhanced Bond S&P Bond Rating is "A+", which was obtained on 2/22/2016.

At the end of the current fiscal year, the City of Big Spring had total bonded debt outstanding of \$19,895. The total outstanding debt is backed by the full faith and credit of the government, while a tax levy has been established for \$10,695 of the total and the remaining \$9,200 is business-type activity debt, supported by water and sewer system revenues. Total long-term debt, not due within one year, including capital leases compensated absences, landfill closure and post closure, pension, and retiree health insurance is \$50,329.

The City of Big Spring carefully plans debt acquisition to fund only capital replacement and new construction. This process includes matching the maturity of the debt to the useful lives of the assets to be funded, as closely as possible. This allows for the use of debt to compliment operations by allowing for matching the cash flows of asset cost to the period deriving the benefit from the asset.

Additionally, this allows the City to plan for and structure debt payments in such a manner that debt service tends to be generally declining across the years creating a known, decreasing demand upon resources for debt service and limiting the demand upon resources to a managed level. As a result of the development and refinement of this process, the impact of current debt upon present and future operations is minimized and annual operations can be based upon a known level of expendable, available resources to respond to the immediate needs of the City.

**Table IV
City of Big Spring, Texas**

**OUTSTANDING BONDED DEBT AT SEPTEMBER 30, 2018
(in thousands)**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Totals</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Serviced by Tax Revenues						
General Obligation Bonds	\$ 7,595	\$ 8,505	\$	\$	\$ 7,595	\$ 8,505
Certificates of Obligation Bonds	3,100	3,310			3,100	3,310
Serviced by Enterprise Funds						
Certificates of Obligation Bonds			9,200	9,730	9,200	9,730
	<u>\$ 10,695</u>	<u>\$ 11,815</u>	<u>\$ 9,200</u>	<u>\$ 9,730</u>	<u>\$ 19,895</u>	<u>\$ 21,545</u>

Additional information regarding long-term debt activity of the City can be found in Note F in the Notes to the Financial Statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

For the general fund the two largest revenue contributors are property and sales tax, making up 35.5% and 36.6%, at \$7,513 and \$7,757. Due to an increase in the local economy sales tax rose for the year ending 9/30/2018. For the previous year ending 9/30/2017 property and sales tax were \$6,981, 33.4%, and \$6,639, 31.8% respectfully.

One of the main driving forces in the local economy is both the price and the exploration of oil since Big Spring sits on the Cline Shale oil formation. Deep and directional drilling technology, along with fracking, is providing access to millions of barrels of oil previously inaccessible. As of the date of this writing, a drop in oil prices has lowered YTD mineral royalties for the City from mineral rights owned by the City from the previous year, but has not decreased Sales Tax.

Unemployment during 2018 decreased, from 5.2% in 2017 to 3.9%, which compares to the state's unemployment rate of 3.5% and the national rate of 3.8% for September 2018. Per capita income (stated in actual dollars) decreased slightly by 0.9%, from \$36,705 to \$36,367.

The Airpark has experienced increased activity from wind turbine and oil exploration and production business. These businesses pay lease fees to the Airpark and their workers increase sales and property tax from their purchases in Big Spring.

Texas Department of Transportation has finished the South portion of the Big Spring Highway 87 Reliever Route and nearing the completion of the North Portion. The increased workers from the contractors on the reliever route and the nearby oil exploration has increased hotel occupancy and hotel tax for Big Spring.

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 City's finance office, at City of Big Spring, 310 Nolan, Big Spring, Texas 79720-2657.

BASIC FINANCIAL STATEMENTS

CITY OF BIG SPRING, TEXAS

EXHIBIT A-1

GOVERNMENT-WIDE - STATEMENT OF NET POSITION
SEPTEMBER 30, 2018

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
ASSETS:				
Cash and Cash Equivalents	\$ 12,069,607	\$ 16,201,963	\$ 28,271,570	\$ 3,330,261
Cash and Cash Equivalents - Restricted		4,440,410	4,440,410	
Receivables (Net of Allowances for Uncollectibles)	1,002,570	2,740,643	3,743,213	467,149
Internal Balances	568,439	(568,439)		
Due from Other Governments	869,119		869,119	
Inventories		480,234	480,234	
Prepaid Items	725		725	9,246
Notes Receivable				405,000
Other Assets				67,980
Capital Assets, Not Being Depreciated	75,474,007	9,609,872	85,083,879	25,000
Capital Assets, Net of Accumulated Depreciation	12,524,020	49,320,711	61,844,731	107,175
Total Assets	\$ 102,508,487	\$ 82,225,394	\$ 184,733,881	\$ 4,411,811
DEFERRED OUTFLOWS OF RESOURCES:				
Deferred Outflows - Pension Plan - TMRS	\$ 810,416	\$ 347,630	\$ 1,158,046	\$ 19,813
Deferred Outflows - Pension Plan - BSFRRF	443,515	9,742	453,257	
Deferred Outflows - OPEB - TMRS	32,544	10,204	42,748	899
Deferred Outflows - OPEB - Health Insurance	133,408	61,612	195,020	
Deferred Outflows - Loss on Refunding	359,824		359,824	
Total Deferred Outflows of Resources	\$ 1,779,707	\$ 429,188	\$ 2,208,895	\$ 20,712
LIABILITIES:				
Accounts Payable	\$ 1,136,880	\$ 1,093,461	\$ 2,230,341	\$ 622,193
Retainage Payable	52,507		52,507	
Claims and Judgments Payable	593,773		593,773	
Accrued Interest Payable	51,530	60,599	112,129	
Accrued Wages	199,358	76,196	275,554	
Unearned Revenue	52,872		52,872	
Customer Deposits	22,038	366,126	388,164	
Unclaimed Property		30,996	30,996	
Noncurrent Liabilities				
Due Within One Year	2,129,841	1,849,359	3,979,200	
Due In More Than One Year	28,535,835	21,793,064	50,328,899	237,729
Total Liabilities	\$ 32,774,633	\$ 25,269,801	\$ 58,044,434	\$ 859,922
DEFERRED INFLOWS OF RESOURCES:				
Deferred Outflows - Pension Plan - TMRS	919,660	420,184	1,339,844	29,036
Deferred Outflows - Pension Plan - BSFRRF	222,706	100,109	322,815	
Deferred Outflows - OPEB - Health Insurance	29,365	13,561	42,926	
Total Deferred Inflows of Resources	\$ 1,171,731	\$ 533,854	\$ 1,705,585	\$ 29,036
NET POSITION				
Net Investment in Capital Assets	\$ 74,780,143	\$ 46,323,266	\$ 121,103,409	\$ 132,175
Restricted For:				
Cemetery Permanent Care (Nonexpendable)	351,519		351,519	
Public, Educational and Governmental				
Television Access	172,136		172,136	
Economic Development				3,411,390
Advertising and Promotions	681,995		681,995	
Debt Service	20,477		20,477	
Court Technology	18,058		18,058	
Court Security	6,947		6,947	
Unrestricted	(5,689,445)	10,527,661	4,838,216	
Total Net Position	\$ 70,341,830	\$ 56,850,927	\$ 127,192,757	\$ 3,543,565

The accompanying notes are an integral part of this statement.

-25-
CITY OF BIG SPRING, TEXAS

EXHIBIT A-2

**GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2018**

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Unit
PRIMARY GOVERNMENT:							
Governmental Activities:							
General Government	\$ 2,322,398	\$ 3,122,346	\$ 1,194,315	\$ 799,948	\$ 799,948	\$ 799,948	\$
Public Safety	10,610,351	713,524		(8,702,512)		(8,702,512)	
Highways and Streets	3,140,916			(3,140,916)		(3,140,916)	
Community Service	422,772	63,241	96,738	(262,793)		(262,793)	
Recreation and Parks	2,935,567	673,473	5,237	(2,256,857)		(2,256,857)	
Cemetery	149,166	89,726		(59,440)		(59,440)	
Economic Development	1,259,566	2,810		(1,256,756)		(1,256,756)	
Interest on Long-Term Debt	384,767			(384,767)		(384,767)	
Total Governmental Activities	\$ 21,225,503	\$ 4,665,120	\$ 1,296,290	\$ (15,264,093)	\$ 0	\$ (15,264,093)	\$ 0
Business-Type Activities:							
Water and Sewer	\$ 12,502,630	\$ 14,284,234	\$ 750,000	\$ 2,531,604	\$ 2,531,604	\$ 2,531,604	\$
Airport/Industrial Park	2,978,344	1,283,136	2,085,592	390,384	390,384	390,384	
Emergency Medical Services	3,900,030	1,944,405	361,500	(1,594,125)	(1,594,125)	(1,594,125)	
Landfill	2,365,078	1,756,388	250,000	(358,690)	(358,690)	(358,690)	
Sanitation	2,499,118	3,228,622		729,504	729,504	729,504	
Total Business-Type Activities	\$ 24,245,200	\$ 22,496,785	\$ 3,447,092	\$ 1,698,677	\$ 1,698,677	\$ 1,698,677	\$ 0
Total Primary Government	\$ 45,470,703	\$ 27,161,905	\$ 1,296,290	\$ (15,264,093)	\$ 1,698,677	\$ (13,565,416)	\$ 0
COMPONENT UNIT:							
Economic Development Corporation	\$ 3,585,184	\$ 0	\$ 0	\$ 7,464,151	\$ 7,464,151	\$ 7,464,151	\$ 2,616,131
General Revenues:							
Property Taxes				\$ 7,464,151		\$ 7,464,151	
Sales Taxes				7,756,760		7,756,760	
Gross Receipts Taxes				1,455,774		1,455,774	
Motel Occupancy Taxes				2,157,204		2,157,204	
Grants and Contributions Not Restricted to Specific Programs					12,481	12,481	
Unrestricted Investment Earnings				106,615	191,813	298,428	61,234
Miscellaneous				590,565	3,095,576	3,686,141	11,025
Transfers				1,041,997	(1,041,997)		
Total General Revenue and Transfers				\$ 20,962,434	\$ 2,257,873	\$ 23,220,307	\$ 2,688,390
Change in Net Position				\$ 5,698,341	\$ 3,956,550	\$ 9,654,891	\$ (896,794)
Net Position - Beginning				67,303,885	54,057,219	121,361,104	4,453,030
Prior Period Adjustment - GASBS No. 75				(2,660,396)	(1,162,842)	(3,823,238)	(12,671)
Net Position - Ending				\$ 70,341,830	\$ 56,850,927	\$ 127,192,757	\$ 3,543,565

The accompanying notes are an integral part of this statement.

CITY OF BIG SPRING, TEXAS

EXHIBIT A-3

BALANCE SHEET - GOVERNMENTAL FUNDS
SEPTEMBER 30, 2018

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS:			
Cash and Cash Equivalents	\$ 8,885,412	\$ 1,949,991	\$ 10,835,403
Receivables (Net of Allowances for Uncollectibles)	699,802	302,768	1,002,570
Due from Other Funds	856,589		856,589
Due from Other Governments	869,119		869,119
Prepaid Items	<u>725</u>		<u>725</u>
Total Assets	<u>\$ 11,311,647</u>	<u>\$ 2,252,759</u>	<u>\$ 13,564,406</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES:			
LIABILITIES:			
Accounts Payable	\$ 784,408	\$ 214,032	\$ 998,440
Retainage Payable		52,507	52,507
Accrued Wages	169,211	30,147	199,358
Unearned Revenue		52,872	52,872
Due to Other Funds		251,000	251,000
Customer Deposits	<u>925</u>	<u>21,113</u>	<u>22,038</u>
Total Liabilities	<u>\$ 954,544</u>	<u>\$ 621,671</u>	<u>\$ 1,576,215</u>
DEFERRED INFLOWS OF RESOURCES:			
Unavailable Revenue - Property Taxes	<u>\$ 251,483</u>	<u>\$ 48,079</u>	<u>\$ 299,562</u>
Total Deferred Inflows of Resources	<u>\$ 251,483</u>	<u>\$ 48,079</u>	<u>\$ 299,562</u>
FUND BALANCES:			
Nonspendable Fund Balances:			
Prepays	\$ 725		\$ 725
Cemetery Permanent Care		351,519	351,519
Restricted Fund Balances:			
Restricted for Advertising and Promotions		681,995	681,995
Restricted for Court Security		6,947	6,947
Restricted for Court Technology		18,058	18,058
Restricted for Public, Educational and Governmental Television Access		172,136	172,136
Restricted for Public Safety Improvements		206,570	206,570
Restricted for Debt Service		20,477	20,477
Committed Fund Balances:			
Committed for City Plaza Improvements	74,000		74,000
Committed for Public Safety Improvements	750,800		750,800
Committed for Construction Projects	1,900,000		1,900,000
Committed for Employee Education		65,998	65,998
Committed for Cemetery Operations		59,309	59,309
Unassigned Fund Balance	<u>7,380,095</u>		<u>7,380,095</u>
Total Fund Balances	<u>\$ 10,105,620</u>	<u>\$ 1,583,009</u>	<u>\$ 11,688,629</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 11,311,647</u>	<u>\$ 2,252,759</u>	<u>\$ 13,564,406</u>

The accompanying notes are an integral part of this statement.

CITY OF BIG SPRING, TEXAS

EXHIBIT A-4

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

Total Fund Balances - Governmental Funds Balance Sheet	\$ 11,688,629
Amounts reported for governmental activities in the Statement of Net Position (SNP) are different because:	
Capital assets used in governmental activities are not reported in the funds.	87,982,057
Property taxes receivable unavailable to pay for current period expenditures are deferred in the funds.	299,562
Deferred outflows and inflows of resources related to pensions and OPEB are not reported in the funds.	248,152
The assets and liabilities of internal service funds are included in governmental activities in the SNP.	467,265
Payables for bond principal which are not due in the current period are not reported in the funds.	(10,695,000)
Payables for capital leases which are not due in the current period are not reported in the funds.	(1,619,676)
Payables for notes payable which are not due in the current period are not reported in the funds.	(521,670)
Payables for bond interest which are not due in the current period are not reported in the funds.	(51,530)
Bond Premiums are not recorded in the funds.	(367,992)
Deferred Outflows of Resources - Loss on Refundings are not recorded in the funds.	359,824
Net pension liabilities are not reported in the funds.	(12,394,975)
Total OPEB Liabilities are not reported in the funds.	(3,441,354)
Payables for compensated absences which are not reported in the funds.	<u>(1,611,462)</u>
Net Position of Governmental Activities - Statement of Net Position	\$ <u><u>70,341,830</u></u>

The accompanying notes are an integral part of this statement.

CITY OF BIG SPRING, TEXAS

EXHIBIT A-5

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2018

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenue:			
Taxes:			
General Property Taxes	\$ 6,313,126	\$ 1,199,725	\$ 7,512,851
General Sales Taxes	7,756,760		7,756,760
Gross Receipts Business Taxes	1,405,982	49,792	1,455,774
Motel Occupancy Taxes		2,157,204	2,157,204
License and Permits	451,219		451,219
Intergovernmental	1,013,517	282,773	1,296,290
Charges for Services		35,165	35,165
Fines	344,809	14,703	359,512
Recreation	673,473		673,473
Investment Earnings	84,621	16,903	101,524
Rents and Royalties	3,008,335	137,416	3,145,751
Miscellaneous	76,877	7,347	84,224
Contributions and Donations	37,082	352,286	389,368
Total Revenues	<u>\$ 21,165,801</u>	<u>\$ 4,253,314</u>	<u>\$ 25,419,115</u>
Expenditures:			
Current:			
General Government	\$ 2,593,045	\$ 12,298	\$ 2,605,343
Public Safety	11,119,667	6,329	11,125,996
Highways and Streets	2,763,331		2,763,331
Community Service		416,639	416,639
Recreation and Parks	2,022,254		2,022,254
Economic Development		1,944,591	1,944,591
Cemetery		139,283	139,283
Debt Service:			
Principal	805,533	1,136,666	1,942,199
Interest	57,223	333,747	390,970
Fiscal Agent's Fees		1,225	1,225
Total Expenditures	<u>\$ 19,361,053</u>	<u>\$ 3,990,778</u>	<u>\$ 23,351,831</u>
Excess of Revenues Over Expenditures	<u>\$ 1,804,748</u>	<u>\$ 262,536</u>	<u>\$ 2,067,284</u>
Other Financing Sources:			
Transfers In	\$ 848,214	\$ 270,865	\$ 1,119,079
Capital Lease	903,453	9,067	912,520
Total Other Financing Sources (Uses)	<u>\$ 1,751,667</u>	<u>\$ 279,932</u>	<u>\$ 2,031,599</u>
Net Change in Fund Balances	\$ 3,556,415	\$ 542,468	\$ 4,098,883
Fund Balances - Beginning	<u>6,549,205</u>	<u>1,040,541</u>	<u>7,589,746</u>
Fund Balances - Ending	<u>\$ 10,105,620</u>	<u>\$ 1,583,009</u>	<u>\$ 11,688,629</u>

The accompanying notes are an integral part of this statement.

CITY OF BIG SPRING, TEXAS

EXHIBIT A-6

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 - Total Governmental Funds	\$ 4,098,883
Amounts reported for governmental activities in the Statement Of Activities (SOA) are different because:	
Capital assets are not reported as expenses in the SOA.	2,506,287
The depreciation of capital assets used in governmental activities is not reported in the funds.	(2,762,117)
Proceeds of capital leases do not provide revenue in the SOA, but are reported as current resources in the funds.	(912,520)
Certain property tax revenues are deferred in the funds. This is the change in these amounts this year.	(48,700)
Change in Deferred Outflows and Inflows related to Pensions is not reported in the funds.	(2,539,885)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	1,120,000
Repayment of capital lease and notes payable principal is an expenditure in the funds but is not an expense in the SOA.	822,199
Bond Premiums and Losses on Refundings' related amortization is not recorded in the funds.	907
Change in accrued interest from beginning of period to end of period.	6,952
The net revenue of internal service funds is reported with governmental activities.	849,708
Change related to pension and total OPEB liabilities is not recorded in the funds.	2,586,109
Compensated absences are reported as the amount earned in the SOA but as the amount paid in the funds.	<u>(29,482)</u>
Change in Net Position of Governmental Activities - Statement of Activities	\$ <u><u>5,698,341</u></u>

The accompanying notes are an integral part of this statement.

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CITY OF BIG SPRING, TEXAS

EXHIBIT A-7

**STATEMENT OF NET POSITION
PROPRIETARY FUNDS
SEPTEMBER 30, 2018**

	Major Proprietary Funds					Total Proprietary Funds	Internal Service Funds
	Water and Sewer Fund	Airport/ Industrial Park	Emergency Medical Services	Landfill	Sanitation		
ASSETS:							
Current Assets							
Cash and Cash Equivalents	\$ 5,381,018	\$ 7,575,175	\$ 80,264	\$ 2,151,986	\$ 1,013,520	\$ 16,201,963	\$ 1,234,204
Cash and Cash Equivalents - Restricted				4,440,410		4,440,410	
Receivables (Net of Allowances for Uncollectibles)	1,871,685	125,841	184,713	94,392	464,012	2,740,643	
Due from Other Funds	11,561					11,561	
Inventories	443,304		36,930			480,234	
Prepaid Items						0	
Total Current Assets	<u>\$ 7,707,568</u>	<u>\$ 7,701,016</u>	<u>\$ 301,907</u>	<u>\$ 6,686,788</u>	<u>\$ 1,477,532</u>	<u>\$ 23,874,811</u>	<u>\$ 1,234,204</u>
NONCURRENT ASSETS							
Capital Assets (Net of Accumulated Depreciation)							
Land	\$ 5,036	\$ 5,590,113	\$	\$ 636,265	\$	\$ 6,231,414	\$ 10,000
Historical Planes - Display Collection		426,000				426,000	
Buildings and Systems	12,749,732	7,139,639		274,375		20,163,746	
Infrastructure and Improvements	13,594,255	9,797,032		1,555,703		24,946,990	
Machinery and Equipment	510,680	516,747	692,022	883,801	1,606,725	4,209,975	5,970
Construction in Progress	262,869	2,085,593		603,996		2,952,458	
Total Noncurrent Assets	<u>\$ 27,122,572</u>	<u>\$ 25,555,124</u>	<u>\$ 692,022</u>	<u>\$ 3,954,140</u>	<u>\$ 1,606,725</u>	<u>\$ 58,930,583</u>	<u>\$ 15,970</u>
Total Assets	<u>\$ 34,830,140</u>	<u>\$ 33,256,140</u>	<u>\$ 993,929</u>	<u>\$ 10,640,928</u>	<u>\$ 3,084,257</u>	<u>\$ 82,805,394</u>	<u>\$ 1,250,174</u>
DEFERRED OUTFLOWS OF RESOURCES:							
Deferred Outflows - Pension Plan - TMRS	\$ 226,259	\$ 40,065	\$	\$ 38,555	\$ 42,751	\$ 347,630	\$
Deferred Outflows - Pension Plan - BSFRRF			9,742			9,742	
Deferred Outflows - OPEB - TMRS	6,117	1,995		971	1,121	10,204	
Deferred Outflows - OPEB - Health Insurance	26,669	4,411	16,337	7,457	6,738	61,612	
Total Deferred Outflows of Resources	<u>\$ 259,045</u>	<u>\$ 46,471</u>	<u>\$ 26,079</u>	<u>\$ 46,983</u>	<u>\$ 50,610</u>	<u>\$ 429,188</u>	<u>\$ 0</u>
LIABILITIES:							
Current Liabilities							
Accounts Payable	\$ 647,606	\$ 159,905	\$ 33,891	\$ 132,982	\$ 119,077	\$ 1,093,461	\$ 138,440
Claims and Judgments Payable							593,773
Accrued Wages	24,588	5,389	28,069	9,266	8,884	76,196	
Due to Other Funds	120,000		460,000			580,000	37,150
Customer Deposits	316,292	49,834				366,126	
Unclaimed Property	30,996					30,996	
Accrued Interest Payable	60,223	376				60,599	
Accrued Compensated Absences - Current	57,757	20,159	94,310	9,601	9,795	191,622	
Long Term Debt - Current	943,752	121,706	276,330	139,339	176,610	1,657,737	3,772
Total Current Liabilities	<u>\$ 2,201,214</u>	<u>\$ 357,369</u>	<u>\$ 892,600</u>	<u>\$ 291,188</u>	<u>\$ 314,366</u>	<u>\$ 4,056,737</u>	<u>\$ 773,135</u>
NONCURRENT LIABILITIES							
Accrued Compensated Absences	\$ 173,273	\$ 60,475	\$ 282,932	\$ 28,804	\$ 29,385	\$ 574,869	\$
Net Pension Liability - TMRS	1,564,078	510,115		248,355	286,664	2,609,212	
Net Pension Liability - BSFRRF			3,004,602			3,004,602	
Total OPEB Liability - TMRS	95,520	31,153		15,167	17,507	159,347	
Total OPEB Liability - Health Insurance	654,535	96,915	299,541	151,415	152,204	1,354,610	
Long-Term Debt	9,609,721	386,327	73,770	261,483	618,279	10,949,580	9,774
Closure/Post-closure Landfill Obligation				3,140,844		3,140,844	
Total Noncurrent Liabilities	<u>\$ 12,097,127</u>	<u>\$ 1,084,985</u>	<u>\$ 3,660,845</u>	<u>\$ 3,846,068</u>	<u>\$ 1,104,039</u>	<u>\$ 21,793,064</u>	<u>\$ 9,774</u>
Total Liabilities	<u>\$ 14,298,341</u>	<u>\$ 1,442,354</u>	<u>\$ 4,553,445</u>	<u>\$ 4,137,256</u>	<u>\$ 1,418,405</u>	<u>\$ 25,849,801</u>	<u>\$ 782,909</u>
DEFERRED INFLOWS OF RESOURCES:							
Deferred Inflows - Pension Plan - TMRS	\$ 251,877	\$ 82,148	\$	\$ 39,995	\$ 46,164	\$ 420,184	\$
Deferred Inflows - Pension Plan - BSFRRF			100,109			100,109	
Deferred Inflows - OPEB - Health Insurance	5,870	971	3,596	1,641	1,483	13,561	
Total Deferred Inflows of Resources	<u>\$ 257,747</u>	<u>\$ 83,119</u>	<u>\$ 103,705</u>	<u>\$ 41,636</u>	<u>\$ 47,647</u>	<u>\$ 533,854</u>	<u>\$ 0</u>
NET POSITION:							
Net Investment in Capital Assets	\$ 16,569,099	\$ 25,047,091	\$ 341,922	\$ 3,553,318	\$ 811,836	\$ 46,323,266	\$ 2,424
Unrestricted	3,963,998	6,730,047	(3,979,064)	2,955,701	856,979	10,527,661	464,841
Total Net Position	<u>\$ 20,533,097</u>	<u>\$ 31,777,138</u>	<u>\$ (3,637,142)</u>	<u>\$ 6,509,019</u>	<u>\$ 1,668,815</u>	<u>\$ 56,850,927</u>	<u>\$ 467,265</u>

The accompanying notes are an integral part of this statement.

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

	Major Proprietary Funds					Total Proprietary Funds	Internal Service Funds
	Water and Sewer Fund	Airport/ Industrial Park	Emergency Medical Services	Landfill	Sanitation		
OPERATING REVENUES:							
Charges for Services:							
Water Sales	\$ 11,201,273	\$	\$	\$	\$	\$ 11,201,273	\$
Sewer Charges	2,783,801					2,783,801	
Landfill Fees				1,755,588		1,755,588	
Sanitation Revenue					3,168,589	3,168,589	
Emergency Medical Services			1,944,405			1,944,405	
Commercial Rentals and Fees		1,283,136				1,283,136	
Billings to Departments and Employees							4,040,416
Other Services	299,160			800	60,033	359,993	
Total Operating Revenues	\$ 14,284,234	\$ 1,283,136	\$ 1,944,405	\$ 1,756,388	\$ 3,228,622	\$ 22,496,785	\$ 4,040,416
OPERATING EXPENSES:							
Personnel Services	\$ 2,524,147	\$ 451,554	\$ 2,503,220	\$ 682,128	\$ 656,403	\$ 6,817,452	\$
Supplies and Materials	5,000,467	41,390	149,062	66,491	205,728	5,463,138	22,958
Contractual Services	1,199,591	290,607	101,705	151,172	979,175	2,722,250	3,428,745
Maintenance	1,490,457	819,070	51,722	84,772	345,115	2,791,136	16,573
Depreciation	1,863,238	1,337,234	163,655	1,202,772	271,724	4,838,623	17,243
Other Expense	65,558	29,050	923,729	170,086	24,648	1,213,071	139,108
Total Operating Expenses	\$ 12,143,458	\$ 2,968,905	\$ 3,893,093	\$ 2,357,421	\$ 2,482,793	\$ 23,845,670	\$ 3,624,627
Operating Income (Loss)	\$ 2,140,776	\$ (1,685,769)	\$ (1,948,688)	\$ (601,033)	\$ 745,829	\$ (1,348,885)	\$ 415,789
NON-OPERATING REVENUES (EXPENSES)							
Intergovernmental Revenue	\$	\$ 12,481	\$	\$	\$	\$ 12,481	\$
Interest Revenue	45,119	67,625		71,857	7,212	191,813	5,091
Rents and Royalties		2,759,596				2,759,596	
Gain/(Loss) on Disposal of Assets			17,016			17,016	
Other Income	821	8,185	308,722	69	1,167	318,964	506,341
Interest Expense and Paying Agent Fees	(359,172)	(9,439)	(6,937)	(7,657)	(16,325)	(399,530)	(431)
Total Non-Operating Revenues (Expenses)	\$ (313,232)	\$ 2,838,448	\$ 318,801	\$ 64,269	\$ (7,946)	\$ 2,900,340	\$ 511,001
Income (Loss) Before Capital Contributions and Transfers	\$ 1,827,544	\$ 1,152,679	\$ (1,629,887)	\$ (536,764)	\$ 737,883	\$ 1,551,455	\$ 926,790
Capital Contributions	750,000	2,085,592	361,500	250,000		3,447,092	
Transfers In (Out)	(646,770)	(503,966)	574,239	(286,434)	(179,066)	(1,041,997)	(77,082)
Change in Net Position	\$ 1,930,774	\$ 2,734,305	\$ (694,148)	\$ (573,198)	\$ 558,817	\$ 3,956,550	\$ 849,708
Total Net Position - Beginning	19,192,610	29,139,006	(2,735,839)	7,216,790	1,244,652	54,057,219	(382,443)
Prior Period Adjustment - GASBS No. 75	(590,287)	(96,173)	(207,155)	(134,573)	(134,654)	(1,162,842)	
Total Net Position - Ending	\$ 20,533,097	\$ 31,777,138	\$ (3,637,142)	\$ 6,509,019	\$ 1,668,815	\$ 56,850,927	\$ 467,265

The accompanying notes are an integral part of this statement.

CITY OF BIG SPRING, TEXAS

EXHIBIT A-9

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2018

	Major Proprietary Funds					Total Proprietary Funds	Internal Service Funds
	Water and Sewer Fund	Airport/Industrial Park	Emergency Medical Services	Landfill	Sanitation		
Cash Flows from Operating Activities:							
Cash Received from Customers	\$ 14,285,525	\$ 1,241,157	\$ 2,201,146	\$ 1,730,821	\$ 3,199,749	\$ 22,658,398	\$
Cash Receipts from Interfund Services Provided							4,040,416
Cash Payments to Employees for Services	(2,574,566)	(168,714)	(1,770,546)	(468,437)	(648,851)	(5,631,114)	
Cash Payments to Other Suppliers for Goods and Services	(7,832,696)	(1,075,989)	(1,237,640)	(381,848)	(1,507,362)	(12,035,535)	(3,646,974)
Net Cash from Operating Activities	\$ 3,878,263	\$ (3,546)	\$ (807,040)	\$ 880,536	\$ 1,043,536	\$ 4,991,749	\$ 393,442
Cash Flows from Non-Capital Financing Activities:							
Cash Received from Intergovernmental Grants	\$	\$ 12,481	\$	\$	\$	\$ 12,481	\$
Cash Received from Mineral Leases		2,759,596				2,759,596	
Various Reimbursements							506,341
Cash Transfers from (to) Other Funds	(658,331)	(503,966)	784,239	(286,434)	(79,066)	(743,558)	(802,150)
Net Cash from Non-Capital Financing Activities	\$ (658,331)	\$ 2,268,111	\$ 784,239	\$ (286,434)	\$ (79,066)	\$ 2,028,519	\$ (295,809)
Cash Flows from Capital and Related Financing Activities:							
Principal and Interest Paid	\$ (1,328,702)	\$ (110,780)	\$ (142,867)	\$ (126,912)	\$ (339,267)	\$ (2,048,528)	\$ (3,721)
Paying Agent Fees	(775)					(775)	
Cash Received from Capital Contributions	750,000	2,085,592	361,500	250,000		3,447,092	
Lease Proceeds		371,469	68,840			440,309	
Proceeds from the Sale of Assets			36,400			36,400	
Acquisition or Construction of Capital Assets	(1,197,555)	(2,521,623)	(376,981)	(81,541)	(163,991)	(4,341,691)	
Net Cash from Capital and Related Financing Activities	\$ (1,777,032)	\$ (175,342)	\$ (53,108)	\$ 41,547	\$ (503,258)	\$ (2,467,193)	\$ (3,721)
Cash Flows from Investing Activities:							
Interest and Dividends on Investments	\$ 45,119	\$ 67,625	\$	\$ 71,857	\$ 7,212	\$ 191,813	\$ 5,091
Net Cash from Investing Activities	\$ 45,119	\$ 67,625	\$ 0	\$ 71,857	\$ 7,212	\$ 191,813	\$ 5,091
Increase (Decrease) in Cash and Cash Equivalents	\$ 1,488,019	\$ 2,156,848	\$ (75,909)	\$ 707,506	\$ 468,424	\$ 4,744,888	\$ 99,003
Cash and Cash Equivalents - Beginning of Year	3,892,999	5,418,327	156,173	5,884,890	545,096	15,897,485	1,135,201
Cash and Cash Equivalents - End of Year	\$ 5,381,018	\$ 7,575,175	\$ 80,264	\$ 6,592,396	\$ 1,013,520	\$ 20,642,373	\$ 1,234,204
Reconciliation of Operating Income to Net Cash from Operating Activities:							
Operating Income (Loss)	\$ 2,140,776	\$ (1,685,769)	\$ (1,948,688)	\$ (601,033)	\$ 745,829	\$ (1,348,885)	\$ 415,789
Adjustments to Reconcile Operating Income to Net Cash from Operating Activities							
Depreciation	\$ 1,863,238	\$ 1,337,234	\$ 163,655	\$ 1,202,772	\$ 271,724	\$ 4,838,623	\$ 17,243
Non-Cash Lease Purchase - Supplies and Materials Expense							4,784
Other	821	8,185	308,722	69	1,167	318,964	
Change in Assets and Liabilities:							
Decrease (Increase) in Receivables	(50,508)	(52,570)	(51,981)	(25,636)	(30,040)	(210,735)	
Decrease (Increase) in Inventories	680		3,127			3,807	
Decrease (Increase) in Prepaid Expenses	603		1,808	5,947	3,708	12,066	
Decrease (Increase) in Deferred Outflows	400,143	67,433	124,544	50,953	71,472	714,545	
Increase (Decrease) in Accounts Payable	(77,906)	104,128	(16,357)	84,726	43,596	138,187	4,864
Increase (Decrease) in Claims and Judgements Payable							(49,238)
Increase (Decrease) in Accrued Wages	(2,822)	(285)	28,069	9,266	979	35,207	
Increase (Decrease) in Customer Deposits	50,487	2,406				52,893	
Increase (Decrease) in Unclaimed Property	491					491	
Increase (Decrease) in Accrued Compensated Absences	(7,642)	(754)	56,598	4,705	4,560	57,467	
Increase (Decrease) in Closure/Post-closure Landfill Obligation				169,893		169,893	
Increase (Decrease) in Net Pension Liability - TMRS	(761,954)	120,817		(79,255)	(132,480)	(852,872)	
Increase (Decrease) in Net Pension Liability - BSFRF			387,747			387,747	
Increase (Decrease) in Total OPEB Liability - TMRS	11,855	3,867		1,882	2,173	19,777	
Increase (Decrease) in Total OPEB Liability - Health Insurance	52,254	8,643	32,011	14,611	13,201	120,720	
Increase (Decrease) in Deferred Inflows	257,747	83,119	103,705	41,636	47,647	533,854	
Total Adjustments	\$ 1,737,487	\$ 1,682,223	\$ 1,141,648	\$ 1,481,569	\$ 297,707	\$ 6,340,634	\$ (22,347)
Net Cash from Operating Activities	\$ 3,878,263	\$ (3,546)	\$ (807,040)	\$ 880,536	\$ 1,043,536	\$ 4,991,749	\$ 393,442
Supplemental Cash Flow Information:							
Non-Cash Related Financing Activities:							
Capital Lease Proceeds and Supplies and Maintenance Expense of \$4,784 - Internal Service Funds							
Transfers of Fully Depreciated Capital Assets of \$136,615 - From Sanitation Fund to Internal Services Funds							
Transfers of Fully Depreciated Capital Assets of \$150,737 - From General Fund to Internal Services Funds							
Capital Lease Proceeds and Capital Assets of \$50,966 - Water and Sewer Fund							
Capital Lease Proceeds and Capital Assets of \$60,320 - EMS Fund							
Capital Lease Proceeds and Capital Assets of \$224,750 - Landfill Fund							
Capital Lease Proceeds and Capital Assets of \$388,654 - Sanitation Fund							

The accompanying notes are an integral part of this statement.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

A. Summary of Significant Accounting Policies

The combined financial statements of City of Big Spring, Texas (the City) have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

GASB Statement No. 61 identifies criteria for determining if other entities are potential component units that should be reported within the City's basic financial statements. The application of these criteria provides for identification of any entities for which the City is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's basic financial statements to be misleading. Based on the application of these criteria, one component unit (Big Spring Economic Development Corporation) is included within the reporting City. The City is financially accountable for the Corporation. The City established the sales tax that is the principal source of revenue for the Corporation. The City Council appoints the Board of Directors and approves the annual budget. This component unit has been discretely presented in the accompanying financial statements. Complete financial statements for the component unit can be obtained from their office at 215 West 3rd Street, Big Spring, Texas.

Additionally, the City is not a component unit of any other reporting city as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the City. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the City and for each function of the City's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The City does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Fund Financial Statements: The fund financial statements provide information about the City's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and proprietary funds, each displayed in a separate column. All remaining governmental and proprietary funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities.

The City reports the following major governmental fund:

General Fund: This is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following non-major governmental funds:

Special Revenue Funds - are used to account for the proceeds of specific revenue sources (other than special assessments or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - are used to account for the accumulation of resources for and the payment of, general long-term obligation principal and interest (other than debt service payments made by proprietary funds).

The City reports the following major proprietary funds:

Water and Sewer Fund: This fund accounts for the revenues and expenses associated with providing water and sewer service to the citizens of the City.

Airport/Industrial Park Fund: This fund is used to account for the Airport and Industrial Park. Funding for these activities is provided by charges to renters of facilities.

Emergency Medical Services Fund: This fund is used to account for ambulance emergency services for citizens of the City. Funding for these activities is provided by charges billed to customers receiving the above services and reimbursements from the County.

Landfill Fund: This fund is used to account for landfill fees charged to the sanitation fund and other users of the landfill. This fund also accounts for expenditures to operate the landfill and long-term obligations for closure and post-closure costs related to closing the landfill in the future.

Sanitation Fund: This fund is used to account for the revenues and expenses associated with providing sanitation service to the citizens of the City.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

In addition, the City reports the following fund type:

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the City. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the City's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

b. **Measurement Focus, Basis of Accounting**

Government-Wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The City considers all revenues reported in the governmental funds to be available if the revenues are collected within 60 days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds, of the water and sewer, airport/industrial park, EMS, landfill, and sanitation funds, and of the government's internal service funds are charges to customers for sales and services.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

c. Fund Balances

The City follows GASB Statement No. 54, which redefined how fund balances of the governmental funds are presented in the financial statements. Fund balances are classified as follows:

Non-Spendable Fund Balance—includes the portion of net resources that cannot be spent because of their form (i.e. inventory, long-term loans, or prepaids) or because they must remain in-tact such as the principal of an endowment.

Restricted Fund Balance—includes the portion of net resources on which limitations are imposed by creditors, grantors, contributors, or by laws or regulations of other governments (i.e. externally imposed limitations). Amounts can be spent only for the specific purposes stipulated by external resource providers or as allowed by law through constitutional provisions or enabling legislation. Examples include grant awards and bond proceeds.

Committed Fund Balance—includes the portion of net resources upon which the City Council has imposed limitations on use. Amounts that can be used only for the specific purposes determined by a formal action of the City Council. Commitments may be changed or lifted only by the Council taking the same *formal action* that originally imposed the constraint. The formal action must be approved before the end of the fiscal year in which the commitment will be reflected on the financial statements.

Assigned Fund Balance—includes the portion of net resources for which an intended use has been established by the City Council or the City Official authorized to do so by the City Council. Assignments of fund balance are much less formal than commitments and do not require formal action for their imposition or removal. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed which indicates that resources are, at a minimum, intended to be used for the purpose of that fund.

Unassigned Fund Balance—includes the amounts in the general fund in excess of what can properly be classified in one of the other four categories of fund balance. It is the residual classification of the general fund and includes all amounts not contained in other classifications. Unassigned amounts are technically available for any purpose. Negative residual amounts for all other governmental funds are reported in this classification.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Fund Balance Policy

Committed Fund Balance—The City Council is the City's highest level of decision-making authority and the formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a resolution approved by the Council at the City's Council meeting. The resolution must either be approved or rescinded, as applicable, prior to the last day of the fiscal year for which the commitment is made. The amount subject to the constraint may be determined in the subsequent period (i.e. the Council may approve the calculation or formula for determining the amount to be committed).

Assigned Fund Balance—The City Council authorizes the City Manager as the City Official responsible for the assignment of fund balance to a specific purpose as approved by this fund balance policy.

Order of Expenditure of Funds

When multiple categories of fund balance are available for expenditure (for example, a construction project is being funded partly by a grant, funds set aside by the City Council, and unassigned fund balance), the City will first spend the most restricted funds before moving down to the next most restrictive category with available funds.

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

Restricted Cash and Cash Equivalents consist of the following:

Purpose	Fund	Amount
Landfill Closure and Post-Closure	Landfill	\$ 4,440,410

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available when they become due or past due and receivable within the current period.

Allowances for uncollectible tax receivables within the General Fund are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the City is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

c. Inventories and Prepaid Items

Inventories on the balance sheet are stated at first in first out method. Inventory items are recorded as expenditures when they are consumed. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

Asset Classes	Estimated Useful Lives (Years)
Infrastructure	30
Buildings	5-50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15
Furniture and Fixtures	2-10

e. Receivable Balances

Receivables as of year-end for the City's individual major funds, non-major funds, and internal service funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Governmental Funds	Water and Sewer	Airport/ Industrial Park	Emergency Medical Services	Landfill	Sanitation	Total
Receivables:							
Taxes	\$ 982,014						\$ 982,014
Municipal Court	1,515,980						1,515,980
Other	71,773	956,731			83,621		1,112,125
Accounts	308,688	948,673	227,740	1,063,067	10,771	498,896	3,057,835
Gross Receivables	\$ 2,878,455	\$ 1,905,404	\$ 227,740	\$ 1,063,067	\$ 94,392	\$ 498,896	\$ 6,667,954
Less: Allowance for Uncollectibles	(1,875,885)	(33,719)	(101,899)	(878,354)		(34,884)	(2,924,741)
Net Total Receivables	\$ 1,002,570	\$ 1,871,685	\$ 125,841	\$ 184,713	\$ 94,392	\$ 464,012	\$ 3,743,213

Intergovernmental receivables are classified separately in the accompanying financial statements.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

f. Interfund Activity

Interfund activity results from loans, services provided, reimbursements, or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

g. Deferred Inflows of Resources – Governmental Funds

In addition to liabilities, the governmental funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has only one type of these items, which arise under a modified accrual basis of accounting that qualifies for reporting in this category. Accordingly, *unavailable revenue*, are reported in the governmental funds balance sheet. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

h. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) 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 reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

B. Compliance and Accountability

Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net position at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
Emergency Medical Services Fund	\$ (3,637,142)	This fund incurred additional costs that will be recaptured. Deficit will be recaptured through subsidies from the General Fund.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

C. Deposits and Investments

The City's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the City's agent bank approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

1. Cash Deposits:

At September 30, 2018, the carrying amount of the City's deposits, restricted cash, escrow, and cash on hand was \$28,271,570. At year end the City had \$8,600 in cash on hand. The City's cash in bank deposits at year end were \$28,262,970 with a bank balance of \$28,604,350. The City's cash in bank deposits at September 30, 2018 and during the year then ended were entirely covered by FDIC insurance or by pledged collateral held by the City's agent bank in the City's name.

2. Investments:

The City is required by Government Code Chapter 2256, The Public Funds Investment Act, to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, and (9) bid solicitation preferences for certificates of deposit.

The Public Funds Investment Act (the Act) requires an annual audit of investment practices. Audit procedures in this area conducted as a part of the audit of the basic financial statements disclosed that in the areas of investment practices, management reports and establishment of appropriate policies, the City adhered to the requirements of the Act. Additionally, investment practices of the District were in accordance with local policies.

The Act determines the types of investments which are allowable for the City. These include, with certain restrictions, 1) obligations of the U.S. Treasury, U.S. agencies, and the State of Texas, 2) certificates of deposit, 3) certain municipal securities, 4) securities lending program, 5) repurchase agreements, 6) bankers acceptances, 7) mutual funds, 8) investment pools, 9) guaranteed investment contracts, and 10) commercial paper.

The City's investments at September 30, 2018 are shown below.

<u>Investment or Investment Type</u>	<u>Maturity</u>	<u>Ratings</u>	<u>Fair Value</u>
Tex-Pool Investment Pool	28 Days Average	AAAm	\$ 18,074,151

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

3. Analysis of Specific Deposit and Investment Risks

- a. Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. State law and City policy limit investments in local government investment pools to those rated no lower than AAA or an equivalent rating by at least one nationally recognized rating service. As of September 30, 2018, the City's investments in TexPool was rated AAAM by Standard and Poor's.
- b. Custodial Credit Risk – Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the City's name. The City's demand deposits at year end are entirely covered by FDIC insurance and pledged collateral held in the City's name by the City's agent.
- c. Concentration of Credit Risk – This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Although the City's policy states that portfolio diversification is required, it does not specify diversification goals or limits. All of the City's investments were invested in one local government investment pool at year end.
- d. Interest Rate Risk – As a means of minimizing risk of loss due to interest rate fluctuations, the City's investment policy requires that the portfolio remain sufficiently liquid to enable the City to meet operating requirements that might be reasonably anticipated. For short term liquidity requirements, the City utilizes two local government investment pools. TexPool is managed by Federated Investors for the State of Texas Comptroller of Public Accounts (TexPool). TexPool operates on a \$1 net asset value basis and allows same day or next day redemptions and deposits. As of September 30, 2018, TexPool's portfolio maintained a weighted average maturity of approximately 28 days.
- e. Foreign Currency Risk – This risk relates to adverse effects on the fair value of an investment from changes in exchange rates. While the City's policy does not address this risk, the City has no foreign currency risk as of year-end.

Investment Accounting Policy

The City's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Legal Investments – Under current Texas law and in accordance with City policy, the City is authorized to invest in (1) obligations of the United States or its instrumentalities, (2) direct obligations of the State of Texas or its agencies, (3) other obligations, the principal and interest of which are unconditionally guaranteed or insured by the State of Texas or the United States or its instrumentalities, (4) certificates of deposit that are guaranteed or insured by the Federal Deposit Insurance Corporation or are secured as to principal by obligations described in the preceding clauses or in any other manner and amount provided by law for City deposits, (5) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through primary government securities dealer or a bank domiciled in the State of Texas, (6) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a state bank in the United States, (7) no-load money market mutual funds registered with the Securities and Exchange Commission that have a dollar weighted average portfolio maturity of 90 days or less, and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share. The City may invest in such obligations directly or through government investment pools that invest solely in such obligations.

Fair Value of Investments

Investments are recorded at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. Accordingly, the change in fair value of investments is recognized as an increase or decrease to investment assets and investment earnings.

The City measures and records its investments using fair value measurement guidelines established by generally accepted accounting principles. These guidelines recognize a three-tiered fair value hierarchy, as follows:

- *Level 1:* Quoted prices for identical investments in active markets;
- *Level 2:* Observable inputs other than quoted market prices; and
- *Level 3:* Unobservable inputs.

At September 30, 2018 the City considered Texpool investments Level 1 in the hierarchy and they were reported as cash and cash equivalents.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

D. Capital Assets

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

	Beginning Balances	Increases	Net Transfers	Decreases	Ending Balances
Governmental Activities:					
Capital Assets Not Being Depreciated					
Land	\$ 72,940,088			\$	\$ 72,940,088
Construction in Progress	1,685,555	848,364			2,533,919
Total Capital Assets Not Being Depreciated	<u>\$ 74,625,643</u>	<u>\$ 848,364</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 75,474,007</u>
Capital Assets Being Depreciated					
Buildings and Systems	\$ 31,987,857				\$ 31,987,857
Infrastructure and Improvements	25,782,751	571,949			26,354,700
Machinery and Equipment	11,442,743	1,085,974	136,614	330,401	12,334,930
Total Capital Assets Being Depreciated	<u>\$ 69,213,351</u>	<u>\$ 1,657,923</u>	<u>\$ 136,614</u>	<u>\$ 330,401</u>	<u>\$ 70,677,487</u>
Less Accumulated Depreciation for:					
Buildings and Systems	\$ 28,609,139	\$ 378,080			\$ 28,987,219
Improvements Other Than Buildings	18,354,474	1,736,624			20,091,098
Machinery and Equipment	8,604,281	664,656	136,614	330,401	9,075,150
Total Accumulated Depreciation	<u>\$ 55,567,894</u>	<u>\$ 2,779,360</u>	<u>\$ 136,614</u>	<u>\$ 330,401</u>	<u>\$ 58,153,467</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 13,645,457</u>	<u>\$ (1,121,437)</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 12,524,020</u>
Governmental Activities Capital Assets, Net	<u><u>\$ 88,271,100</u></u>	<u><u>\$ (273,073)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 87,998,027</u></u>

Depreciation was charged to governmental activities as follows:

General Government	\$ 86,833
Public Safety	364,993
Highways and Streets	1,174,395
Community Service	1,126
Recreation and Parks	927,941
Cemetery	16,896
Economic Development	189,933
	<u>\$ 2,762,117</u>
Depreciation Charged to Internal Service Funds	17,243
Total Depreciation Charged to Governmental Activities	<u><u>\$ 2,779,360</u></u>

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Net Transfers</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-Type Activities:					
Capital Assets Not Being Depreciated					
Land	\$ 6,231,414	\$	\$	\$	\$ 6,231,414
Historical Works of Art		426,000			426,000
Construction in Progress	<u>523,453</u>	<u>2,430,005</u>	<u>(1,000)</u>		<u>2,952,458</u>
Total Capital Assets Not Being Depreciated	<u>\$ 6,754,867</u>	<u>\$ 2,856,005</u>	<u>\$ (1,000)</u>	<u>\$ 0</u>	<u>\$ 9,609,872</u>
Capital Assets Being Depreciated:					
Buildings and Systems	\$ 79,387,446	\$ 899,715	\$ 1,000	\$ 36	\$ 80,288,125
Infrastructure and Improvements	54,361,130	9,530			54,370,660
Machinery and Equipment	<u>9,366,607</u>	<u>1,301,131</u>	<u>(136,614)</u>	<u>139,675</u>	<u>10,391,449</u>
Total Capital Assets Being Depreciated	<u>\$ 143,115,183</u>	<u>\$ 2,210,376</u>	<u>\$ (135,614)</u>	<u>\$ 139,711</u>	<u>\$ 145,050,234</u>
Less Accumulated Depreciation for:					
Buildings and Systems	\$ 58,281,201	\$ 1,843,214	\$	\$ 36	\$ 60,124,379
Infrastructure and Improvements	27,311,039	2,112,631			29,423,670
Machinery and Equipment	<u>5,555,601</u>	<u>882,778</u>	<u>(136,614)</u>	<u>120,291</u>	<u>6,181,474</u>
Total Accumulated Depreciation	<u>\$ 91,147,841</u>	<u>\$ 4,838,623</u>	<u>\$ (136,614)</u>	<u>\$ 120,327</u>	<u>\$ 95,729,523</u>
Total Capital Assets Being Depreciated, Net	<u>\$ 51,967,342</u>	<u>\$ (2,628,247)</u>	<u>\$ 1,000</u>	<u>\$ 19,384</u>	<u>\$ 49,320,711</u>
Business-Type Activities Capital Assets, Net	<u>\$ 58,722,209</u>	<u>\$ 227,758</u>	<u>\$ 0</u>	<u>\$ 19,384</u>	<u>\$ 58,930,583</u>
Depreciation Expense		<u>\$ 4,838,623</u>			

E. Internal Balances

1. Due To and From Balances

Internal Balances at September 30, 2018, consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Proprietary Funds	\$ 580,000	Short-Term Loans
General Fund	Internal Service Funds	<u>(11,561)</u>	Short-Term Loans
Net Internal Balances		<u>\$ 568,439</u>	

All short-term loans are scheduled to be repaid within one year.

2. Transfers To and From Other Funds

Transfers at September 30, 2018, consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>	<u>Reason</u>
General Fund	EMS Fund	\$ (700,000)	Annual Subsidy
Proprietary/Internal Service Funds	General Fund	<u>1,741,997</u>	Administrative Fees
		<u>\$ 1,041,997</u>	

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt, landfill obligation, and accrued compensated absences. Changes in long-term obligations for the year ended September 30, 2018, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental Activities:					
General Obligation Bonds	\$ 715,000	\$	\$ 715,000	\$	\$
Certificate of Obligation Bonds	3,310,000		210,000	3,100,000	220,000
General Obligation Refunding Bonds	7,790,000		195,000	7,595,000	755,000
Capital Leases	1,375,086	917,305	663,932	1,628,459	583,649
Economic Conservation	687,990		161,557	526,433	168,326
Compensated Absences	1,581,980	29,482		1,611,462	402,866
Unamortized Bond Premiums	408,855		40,863	367,992	
Total OPEB Liability - TMRS	2,745,103	188,035		2,933,138	
Total OPEB Liability - Health Insurance	445,143	63,073		508,216	
Net Pension Liability - TMRS	8,135,920		2,425,121	5,710,799	
Net Pension Liability - BSFRRF	7,096,272		412,095	6,684,177	
Total Governmental Activities	<u>\$ 34,291,349</u>	<u>\$ 1,197,895</u>	<u>\$ 4,823,568</u>	<u>\$ 30,665,676</u>	<u>\$ 2,129,841</u>

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Business-Type Activities:					
Certificate of Obligation Bonds	\$ 9,730,000	\$	\$ 530,000	\$ 9,200,000	\$ 550,000
Capital Leases	1,956,745	1,164,999	823,231	2,298,513	823,800
Economic Conservation	1,160,515		272,517	887,998	283,937
Compensated Absences	709,024	57,467		766,491	191,622
Closure/Postclosure Landfill	2,970,951	169,893		3,140,844	
Unamortized Bond Premiums	237,304		16,498	220,806	
Total OPEB Liability - TMRS	139,570	19,777		159,347	
Total OPEB Liability - Health Insurance	1,233,890	120,720		1,354,610	
Net Pension Liability - TMRS	3,462,084		457,482	3,004,602	
Net Pension Liability - BSFRRF	2,616,855		7,643	2,609,212	
Total Business-Type Activities	<u>\$ 24,216,938</u>	<u>\$ 1,532,856</u>	<u>\$ 2,107,371</u>	<u>\$ 23,642,423</u>	<u>\$ 1,849,359</u>

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CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated Absences	Governmental	General
Compensated Absences	Business-Type	Proprietary
Net Pension Liabilities	Governmental	General
Net Pension Liabilities	Business-Type	Proprietary
Total OPEB Liabilities	Governmental	General
Total OPEB Liabilities	Business-Type	Proprietary

2. Debt Service Requirements

Debt service requirements on general obligation bonds and certificates of obligation bonds at September 30, 2018, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 975,000	\$ 300,750	\$ 1,275,750
2020	995,000	277,307	1,272,307
2021	1,025,000	252,694	1,277,694
2022	1,040,000	227,232	1,267,232
2023	1,075,000	201,063	1,276,063
2024-2028	4,995,000	483,946	5,478,946
2029-2030	590,000	24,544	614,544
Totals	\$ 10,695,000	\$ 1,767,536	\$ 12,462,536

Issue	Date of Issue	Original Issue	Interest Rates	Maturity Date	Outstanding	Purpose of Issue
C.O. Bonds	2/1/2007	\$ 460,000	4.0% - 4.375%	2/15/2027	\$ 190,000	Animal Shelter
C.O. Bonds	3/3/2010	4,200,000	2.0% - 4.125%	2/15/2030	2,910,000	Family Aquatic Center
G.O. Refunding Bonds	3/1/2016	7,980,000	2.0% - 3.0%	2/15/2027	7,595,000	Refunding of G.O and C.O. Bonds
		\$ 26,925,000			\$ 10,695,000	

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2018	\$ 550,000	\$ 312,537	\$ 862,537
2019	565,000	295,419	860,419
2020	585,000	277,732	862,732
2021	605,000	259,413	864,413
2022	620,000	240,538	860,538
2023-2027	3,285,000	901,073	4,186,073
2028-2032	2,990,000	284,960	3,274,960
Totals	<u>\$ 9,200,000</u>	<u>\$ 2,571,672</u>	<u>\$ 11,771,672</u>

Issue	Date of Issue	Original Issue	Interest Rates	Maturity Date	Outstanding	Purpose of Issue
2012 C.O Bonds	7/15/2012	\$ 11,725,000	2.0% - 5.0%	2/15/2032	\$ 8,930,000	Water Improvements
2007 C.O. Bonds	2/1/2007	640,000	4.0% - 4.375%	2/15/2027	270,000	Elevated Reservoir Repair
		<u>\$ 12,365,000</u>			<u>\$ 9,200,000</u>	

Economic Conservation debt requirements at September 30, 2018, are as follows:

Year Ending September 30,	Governmental Activities		
	Principal	Interest	Total
2019	\$ 168,327	\$ 22,058	\$ 190,385
2020	175,379	15,005	190,384
2021	182,727	7,656	190,383
Totals	<u>\$ 526,433</u>	<u>\$ 44,719</u>	<u>\$ 571,152</u>

Year Ending September 30,	Business-Type Activities		
	Principal	Interest	Total
2019	\$ 283,935	\$ 37,207	\$ 321,142
2020	295,833	25,310	321,143
2021	308,230	12,915	321,145
Totals	<u>\$ 887,998</u>	<u>\$ 75,432</u>	<u>\$ 963,430</u>

The effective interest rate on the Economic Conservation debt is 4.112%.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

3. Capital Leases

The City uses an annual capital lease package to buy various pieces of machinery, equipment and vehicles for various departments within the City. Below are the related costs and accumulated depreciation of the lease assets as of September 30, 2018:

	Governmental Activities	Business-Type Activities
Machinery and Equipment	\$ 9,534,545	\$ 5,974,283
Less: Accumulated Depreciation	<u>(6,111,129)</u>	<u>(2,563,243)</u>
Totals	<u>\$ 3,423,416</u>	<u>\$ 3,411,040</u>

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of September 30, 2018, as follows:

	Governmental Activities		
	Principal	Interest	Total
Year Ending September 30,			
2019	\$ 583,649	\$ 29,174	\$ 612,823
2020	428,925	19,020	447,945
2021	322,879	11,040	333,919
2022	216,720	4,639	221,359
2023	<u>76,286</u>	<u>493</u>	<u>76,779</u>
Total Minimum Rentals	<u>\$ 1,628,459</u>	<u>\$ 64,366</u>	<u>\$ 1,692,825</u>

The effective interest rate on capital leases is 1.17% to 3.85%.

	Business-Type Activities		
	Principal	Interest	Total
Year Ending September 30,			
2019	\$ 823,800	\$ 36,349	\$ 860,149
2020	605,413	23,698	629,111
2021	455,732	13,756	469,488
2022	305,893	5,780	311,673
2023	<u>107,675</u>	<u>614</u>	<u>108,289</u>
Total Minimum Rentals	<u>\$ 2,298,513</u>	<u>\$ 80,197</u>	<u>\$ 2,378,710</u>

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

4. Continuing Disclosure

The City has entered into a continuing disclosure undertaking to provide Annual Reports and Material Event Notices to the State Information Depository of Texas, which is the Municipal Advisory Council. This information is required under SEC Rule 15c2-12 to enable investors to analyze the financial condition and operations of the City.

G. Risk Management

The City is exposed to various risks of loss related to torts, theft, damage or destruction of assets, errors and omissions, injuries to employees, and natural disasters. During fiscal year 2018, the City obtained general liability coverage at a cost that is considered to be economically justifiable by joining together with other governmental entities in the State as a member of the Texas Municipal League Intergovernmental Risk Pool (TML). TML is a self-funded pool operating as a common risk management and insurance program. The City pays an annual premium to TML for its above insurance coverage. The agreement for the formation of TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of acceptable risk levels; however, each category of coverage has its own level of reinsurance. The City continues to carry commercial insurance for other risks of loss. There were no significant reductions in commercial insurance coverage in the past fiscal year and settled claims resulting from these risks have not exceeded coverage in any of the past three fiscal years.

H. Pension Plans

Texas Municipal Retirement System (TMRS)

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. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

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

Benefits Provided

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

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75.00% of the member’s deposits and interest.

Currently the city has adopted the following provisions related to the pension plan:

	<u>December 31, 2017</u>
Employee Deposit Rate	7.00%
Matching Ratio (City to Employee)	2 to 1
Years Required for Vesting	5
Service Requirement Eligibility (Expressed as Age / Years of Service)	60/5,0/20
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to Retirees)	70% of CPI

Employees Covered by Benefit Terms

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	141
Inactive Employees Entitled to but not Yet Receiving Benefits	103
Active Employees	<u>176</u>
Total Plan Employees	<u><u>420</u></u>

Contributions

The contribution rates for employees in TMRS are either 5.00%, 6.00%, or 7.00% of employee gross earnings, and the city matching percentages are either 100.00%, 150.00%, or 200.00%, both as adopted by the governing body of the City. Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5.00% of their annual gross earnings during the fiscal year. The required contribution rates for the City were 16.93% and 17.38% in calendar years 2017 and 2018, respectively. The City’s contributions to TMRS for the year ended September 30, 2018, were \$2,136,581, and were equal to the required contributions.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

Inflation	2.50% per year
Overall Payroll Growth	2.70% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation
Amortization Period	28 years

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table with Blue Collar Adjustment, 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. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return (Arithmetic)</u>
Domestic Equity	17.50%	4.55%
International Equity	17.50%	6.35%
Core Fixed Income	10.00%	1.00%
Non-Core Fixed Income	20.00%	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%

Discount Rate

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

Changes in Net Pension Liability

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance 12/31/2016	\$ 51,871,128	\$ 40,273,123	\$ (11,598,005)
Service Cost	1,389,056		(1,389,056)
Interest (on the Total Pension Liability)	3,431,109		(3,431,109)
Difference Between Expected and Actual Experience	(457,245)		457,245
Contributions - Employer		1,485,185	1,485,185
Contributions - Employee		614,208	614,208
Net Investment Income		5,517,900	5,517,900
Benefit Payments	(2,443,510)	(2,443,510)	
Administrative Expense		(28,605)	(28,605)
Proportionate Share Adjustment	(106,349)		106,349
Other		(54,123)	(54,123)
Balance 12/31/2017	<u>\$ 53,684,189</u>	<u>\$ 45,364,178</u>	<u>\$ (8,320,011)</u>

CITY OF BIG SPRING, TEXAS

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

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

<u>1% Decrease</u>	<u>Current Rate Assumption</u>	<u>1% Increase</u>
\$ 15,846,329	\$ 8,320,011	\$ 2,177,078

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.

Pension Expense, Deferred Outflows, and Deferred Inflows Related to Pensions

For the year ended September 30, 2018, the City recognized pension expense of \$2,524,734 and calculated as shown below:

Total Service Cost	\$ 1,389,056
Interest on the Total Pension Liability	3,431,109
Employee Contributions (Reduction of Expense)	(614,208)
Projected Earnings on Plan Investments (Reduction of Expense)	(2,688,187)
Administrative Expense	28,605
Other Changes in Fiduciary Net Position	54,123
Recognition of Current Year Outflow (Inflow) of Resources-Liabilities	293,649
Recognition of Current Year Outflow (Inflow) of Resources-Assets	<u>630,587</u>
Total Pension Expense	<u>\$ 2,524,734</u>

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

<u>Deferred Outflows of Resources - Pension Plan</u>	<u>Plan Year</u>	<u>Amount</u>	<u>Remaining Period (Years)</u>
Employer Contribution Deferrals	2017	\$ 1,158,046	1.000
Differences Between Projected and Actual Investment Earnings	2017	(2,263,771)	4.000
Differences Between Projected and Actual Investment Earnings	2016	(1,570)	3.000
Differences Between Projected and Actual Investment Earnings	2015	1,050,453	2.000
Differences Between Projected and Actual Investment Earnings	2014	93,620	1.000
Differences Between Expected and Actual Economic Experience	2017	(316,069)	2.250
Differences Between Expected and Actual Economic Experience	2016	<u>97,493</u>	1.230
Total Deferred Outflows of Resources		<u>\$ (181,798)</u>	

<u>Plan Year</u>	<u>Amortization of Deferred Outflows</u>
2018	\$ 1,149,214
2019	(163,484)
2020	(601,585)
2021	<u>(565,943)</u>
	<u>\$ (181,798)</u>

Big Spring Firemen's Relief and Retirement Fund (BSFRRF)

Plan Description

Firemen of the City are covered by a single employer defined benefit pension plan, which is administered by a seven-member board. This board consists of the Mayor or his designee, the Chief Financial Officer, three firemen and two outside citizens. Texas Local Fire Fighters' Retirement Act (TLFFRA) requires that the Mayor, or his designee, and the Chief Financial Officer be permanent members of the Board. In addition, three firemen trustees are elected by the firemen. These five members are then charged with the responsibility of appointing the two final board members, who must be local citizens.

Benefits Provided

The City now provides a defined contribution to the fund of 13% of the firemen's salary and the firemen contribute 13%. Upon reaching the age of 50 with 20 years of service, the fireman is eligible for full retirement benefits. Vesting begins in the plan after 10 years of service, when the fireman is eligible for a deferred benefit (commencing at the end of the month in which his normal retirement date would have occurred). City contributions and interest forfeited by firemen who leave employment before full vesting remain in the plan.

CITY OF BIG SPRING, TEXAS

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A firefighter has the option to participate in a Deferred Retirement Option Plan (DROP) which provides a lump sum benefit and a reduced annuity upon termination of employment. Firefighters must retire within 5 years of a DROP election. This option is available with a reduced monthly benefit is determined based on an elected lump sum amount such that the combined present value of the benefits under the option is actuarially equivalent to that of the normal form of the monthly benefit. Optional forms are also available at varying levels of surviving spouse benefits instead of the standard two-thirds form.

There is no provision for automatic post-retirement benefit increases. BSFRRF has the authority to provide, and has periodically provided for in the past, ad hoc post-retirement benefit increases. The benefit provisions of this plan are authorized by the Texas Local Fire Fighter's Retirement Act (TLFFRA). TLFFRA provides the authority and procedure to amend benefit provisions. Amending the plan requires approval of any proposed change by: a) an eligible actuary and b) a majority of the participating members of the fund.

Currently the City has the following provisions related to the BSFRRF Plan:

	<u>December 31, 2017</u>
Employee Deposit Rate	13.00%
Matching Ratio (City to Employee)	1 to 1
Years Required for Vesting	10/50% + 5%/year to 20
Service Requirement Eligibility (Expressed as Age / Years of Service)	50/20

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

	<u>Total Pension Liability</u>
Retirees and Beneficiaries	\$ 7,856,596
Active Employees	<u>13,524,505</u>
Total Plan Employees - Pension Liability	<u>\$ 21,381,101</u>

Contributions

The contribution provisions of this plan are authorized by TLFFRA. TLFFRA provides the authority and procedure to change the amount of contributions determined as a percentage of pay by each firefighter and a percentage of payroll by the city. While the actual contribution rates are not actuarially determined, state law requires that each plan of benefits adopted by BSFRRF be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the city provides an adequate financing arrangement. Using the entry age actuarial cost method, BSFRRF's service cost contribution rate is determined as a percentage of payrolls. The excess of the total contribution rate over the service cost contribution is used to amortize BSFRRF's net pension liability, if any, and the number of years needed to amortize BSFRRF's net pension liability, if any is determined using a level percentage of payroll method. The costs of administering the plan are financed by BSFRRF.

CITY OF BIG SPRING, TEXAS

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Employees were required to contribute 13.00% of their annual gross earnings during the fiscal year. The contribution rate for the City was 13.00% in calendar year 2017 and 2018. The City's contributions to BSFRRF for the year ended September 30, 2018 were \$578,137 and were equal to the required contributions.

Net Pension Liability

The BSFRRF's Net Pension Liability (NPL) was measured as of December 31, 2017, and the Total Pension Liability (TPL) used to calculate the NPL was determined by an actuary valuation as of that date.

Actuarial Assumptions

The TPL in the December 31, 2017 actuarial valuation was determined using the following assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level Dollar
Remaining Amortization Period	30 years (funding)
Asset Valuation Method	5 year amortization of investment
Inflation	3.00%
Salary Increases	4.50%
Investment Rate of Return	7.75%
Retirement Age	Age and Service - Related
Mortality	RP2000 Projected

Changes in assumptions during the plan year 2017, were related to changing the discount rate to 7.75% and reducing pay increases to 4.50%.

The assumed rate of return was developed using both the plan's historical rates of return and expected future rates of return. Rate of return experience studies have been performed in connection with the Plan's valuations. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return</u>
Large Cap Stock - S&P 500	30.00%	5.50%
Mid/Small Cap Stocks - Russell 2000	30.00%	6.30%
International Stocks - MSCI EAFE	5.00%	5.20%
Bonds - Barclays US	10.00%	2.50%
Multi-Sector Bonds	20.00%	3.50%
Real Estate	5.00%	4.80%
Cash Equivalents - 3 Mo. Treasury	0.00%	0.00%

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in Net Pension Liability

	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balance 12/31/2016	\$ 20,112,378	\$ 10,399,251	\$ (9,713,127)
Service Cost	545,439		(545,439)
Interest (on the Total Pension Liability)	1,562,997		(1,562,997)
Changes in Assumptions	392,133		(392,133)
Contributions - Employee		488,555	488,555
Contributions - Employer		488,555	488,555
Net Investment Income		1,655,622	1,655,622
Benefit Payments	(1,231,846)	(1,231,846)	
Administrative Expense		(107,814)	(107,814)
Balance 12/31/2017	<u>\$ 21,381,101</u>	<u>\$ 11,692,323</u>	<u>\$ (9,688,778)</u>

Sensitivity of the Net Pension Liability to changes in discount rate:

<u>1% Decrease</u>	<u>Current Rate Assumption</u>	<u>1% Increase</u>
\$ 12,479,903	\$ 9,688,778	\$ 7,378,453

Pension Expense and Deferred Outflows of Resources

Pension Expense for the year ended September 30, 2018 is as follows:

Total Service Cost	\$ 545,439
Interest on the Total Pension Liability	1,562,997
Employee Contributions (Reduction of Expense)	(488,555)
Projected Earnings on Plan Investments (Reduction of Expense)	(796,961)
Administrative Expense	107,814
Amortization of Deferred Inflows and Outflows	46,297
Total Pension Expense	<u>\$ 977,031</u>

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Deferred Outflows of Resources related to the pension plan at September 30, 2018 were made up of as follows and will be amortized according to the table below:

Deferred Outflows of Resources - Pension Plan	Amount	Amortization Period
Employer Contribution Deferrals	\$ 453,257	1.000
Differences Between Projected and Actual Investment Earnings	50,482	1.000
Differences Between Projected and Actual Investment Earnings	395,801	2.000
Differences Between Projected and Actual Investment Earnings	78,463	3.000
Differences Between Projected and Actual Investment Earnings	(686,929)	4.000
Changes in Assumptions	325,444	4.880
Experience Differences	(486,076)	3.880
Total Deferred Outflows of Resources	\$ 130,442	

Plan Year	Amortization of Deferred Outflows
2019	\$ 497,473
2020	(6,266)
2021	(204,166)
2022	(215,287)
2023	58,688
	\$ 130,442

Pension Plan Fiduciary Net Position

Additional information regarding the BSFRRF Pension Plan's fiduciary net position is available in a separately issued BSFRRF financial report and can be obtained from the following address, 310 Nolan, Big Spring, Texas 79720.

I. Self-Insurance

Changes in the claims liability amounts for the self-insurance Internal Service Funds were as follows:

	Liability Balance at 10-01	Current Year Claims and Changes in Estimates	Claim Payments	Liability Balance at 9-30	Total Internal Service Funds
Year Ending 09-30-17					
Health Insurance Claims	\$ 135,855	\$ 3,193,349	\$ 3,134,948	\$ 194,256	\$
Workers' Compensation Claims	428,989	148,921	129,155	448,755	643,011
Year Ending 09-30-18					
Health Insurance Claims	\$ 194,256	\$ 2,325,307	\$ 2,323,127	\$ 196,436	\$
Workers' Compensation Claims	448,755	141,051	192,468	397,338	593,774

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Health Insurance

Effective October 1, 2001, the City changed from a fully-insured to a self-insured health insurance plan. The City's health insurance plan is administered by a third-party administrator, Employee Benefits Administrators (EBA). EBA reviews and processes all health insurance claims. The City has acquired stop-loss coverage, which limits the City's possible liability exposure to \$90,000 per claim. The City informally budgets for current claims based on actuarial and historical data. Estimated liability on claims that have been incurred but not reported are accrued at year end. Estimated liability for health insurance claims is \$196,436 at September 30, 2018.

Workers' Compensation

The City's workers' compensation plan is administered by Texas Municipal League's Intergovernmental Risk Pool (TML). TML reviews and processes all workers' compensation claims. The City has acquired stop-loss coverage, which limits the City's possible loss to \$250,000 per occurrence. The City informally budgets for current claims based on actuarial valuations and historical data. Estimated liability on claims that have been incurred but not reported are accrued at year-end. The estimated liability for workers' compensation claims is \$397,338 at September 30, 2018.

J. Other Post-Employment Benefits (OPEB)

Big Spring Retiree Health Insurance Plan

Plan Description:

The City sponsors and administers an informal single-employer health/dental plan, which is available for employees who retire with a minimum of 20 years of service or five consecutive years of service at age 60 or above, at the time of qualified retirement to continue receiving medical coverage until they are age 65 and qualify for Medicare. Texas statute provides that retirees from a municipality with a population of 25,000 or more and that receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the person and the person's dependents unless the person is eligible for group health benefits coverage through another employer. The State of Texas has the authority to establish and amend the requirements of this statute. The City does not issue stand-alone financial statements for the health/dental plan. However, all required information is presented in this report.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Funding Policy:

The contribution requirements of plan members are established by the City and may be amended as needed. Retiree medical/dental coverage levels for retirees are the same as coverage provided to active City employees in accordance with the terms and conditions of the current City Benefit Plan. Plan members may purchase retiree health/dental care coverage for eligible spouses and dependents at their own expense. The City is not required to make contributions to the plan on behalf of the retirees and funds the plan on a projected pay-as-you-go financing method.

Employees Covered by Benefit Terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	23
Inactive Employees Entitled to but not Yet Receiving Benefits	0
Active Employees	<u>239</u>
Total Plan Employees	<u><u>262</u></u>

Total OPEB Liability:

The City's total OPEB liability of \$4,287,748 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

Balance as of December 31, 2016	\$ 3,978,993
Changes for the year:	
Service Cost	234,314
Interest on Total OPEB Liability	151,828
Experience Differences	(49,191)
Effect of Assumptions Changes or Inputs	194,116
Benefit Payments	<u>(222,312)</u>
Balance as of December 31, 2017	<u><u>\$ 4,287,748</u></u>

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Actuarial Methods and Assumptions:

Actuarial Cost Method	Individual Entry Age
Discount Rate	3.31% as of December 31, 2017
Inflation	2.5%
Salary Increases	3.50% to 10.50% including inflation - General 5.00% to 10.00% including inflation - Firefighters
Demographic Assumptions	Based on the experience study covering the four year period ending December 31, 2014 as conducted for TMRS.
Mortality rates – General	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 generational basis with scale BB.
Mortality rates – Firefighters	The rates of mortality are the applicable gender-distinct RP2000 mortality tables for Employees, Healthy Annuitants and Disabled Retirees. The rates are projected on a fully generational basis by scale AA to account for future mortality improvements.
Health Care Trend Rates	Initial Rate of 7.50% declining to an ultimate rate of 4.25% after 15 years.
Participation Rates	It was assumed that 35% of general employees and 80% of firefighters would choose to participate in the retiree medical plan after retirement, if eligible. The participation assumption was assumed to be 10% for non-disability related retirements prior to the age of 50. All retirees are assumed to discontinue coverage at the age of 65.

Sensitivity Analysis:

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.31%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate. It also show how increasing or decreasing the Healthcare Cost Trend (HCT) Rate over the life of the plan would affect the liability.

	<u>1% Decrease in Discount Rate (2.31%)</u>	<u>Discount Rate (3.31%)</u>	<u>1% Increase in Discount Rate (4.31%)</u>
Total OPEB Liability	\$ <u>4,710,014</u>	\$ <u>4,287,748</u>	\$ <u>3,910,017</u>
	<u>1% Decrease in HCT Rate</u>	<u>Current HCT Rate Assumption</u>	<u>1% Increase in HCT Rate</u>
Total OPEB Liability	\$ <u>3,782,810</u>	\$ <u>4,287,748</u>	\$ <u>4,895,283</u>

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$404,600. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
ER Contributions Deferral	\$ 25,627	\$
Experience Differences		42,926
Changes in Assumptions	<u>169,393</u>	<u></u>
	<u>\$ 195,020</u>	<u>\$ 42,926</u>

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

	<u>Amortization of Deferred Resources</u>
2018	\$ 44,085
2019	18,458
2020	18,458
2021	18,458
2022	18,458
Thereafter	<u>34,177</u>
	<u>\$ 152,094</u>

TMRS – Supplemental Death Benefit Fund

Plan Description:

Texas Municipal Retirement System (TMRS) administers a defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF). This is a voluntary program in which participating member cities may elect, by ordinance, to provide group-term life insurance coverage for their active members, including or not including retirees. The death benefit for active employees provides a lump-sum payment approximately equal to the employee’s annual salary (calculated based on the employee’s actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an OPEB and is a fixed amount of \$7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan.

The member city contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

The funding policy for the SDBF is to assure that adequate resources are available to meet all death benefit payments for the upcoming year. The intent is not to pre-fund retiree term life insurance during employees' entire careers.

Benefits Provided:

The plan provides a \$7,500 post-retirement death benefit to beneficiaries of service retirees and disability retirees of employers that have elected participation in the SDBF. The OPEB benefit is a fixed \$7,500 lump-sum benefit and no future increases are assumed in the benefit amount.

The SDBF fund does not meet the requirements of a trust under Paragraph 4b of GASB No. 75, as the assets of the SDBF can be used to pay active SDBF benefits which are not part of the OPEB plan. The contributions for retiree SDBF coverage are assigned to the OPEB plan under GASB 75 and are used to determine the benefit payments shown in the changes in the total OPEB liability.

Benefit terms are established under the TMRS Act. Participation in the retiree SDBF is optional and the employer may elect to opt out of (or opt into) coverage as of Jan. 1 each year. The City's contribution rate for the retiree SDBF program is calculated annually on an actuarial basis, and is equal to the cost of providing a one-year death benefit equal to \$7,500.

Employees Covered by Benefit Terms:

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	105
Inactive Employees Entitled to but not Yet Receiving Benefits	28
Active Employees	<u>178</u>
Total Plan Employees	<u><u>311</u></u>

Total OPEB Liability:

The City's total OPEB liability of \$667,563 was measured as of December 31, 2017, and was determined by an actuarial valuation as of that date.

Balance as of December 31, 2016	\$	584,714
Changes for the year:		
Service Cost		20,080
Interest on Total OPEB Liability		22,350
Effect of Assumptions Changes or Inputs		47,404
Benefit Payments		<u>(6,985)</u>
Balance as of December 31, 2017	\$	<u><u>667,563</u></u>

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Actuarial Assumptions:

The total OPEB liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions:

Actuarial Cost Method	Entry Age Normal
Amortization Method	
Recognition of Economic/Demographic Gains and Losses and Assumptions Changes or Inputs	Straight-Line Amortization over Expected Working Life
Inflation	2.5%
Salary Increases	3.50% to 10.5% including inflation
Discount Rate	3.31%
Retirees' Share of Benefit-Related Costs	\$0
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 generational basis with scale BB.
Mortality rates – Disabled Retirees	RP2000 Combined Mortality Table with Blue Collar Adjustment with male rates multiplied by 109% and female rates multiplied by 103% with a 3 year set-forward for both males and females. The rates are projected on a fully generational basis with scale BB to account for future mortality improvements subject to the 3% floor.

The TMRS SDBF is treated as unfunded OPEB plan because the SDBF trust covers both actives and retirees and the assets are not segregated for these groups. Under GASB 75 (paragraph 155), the discount rate for an unfunded OPEB plan should be based on 20-year tax-exempt AA or higher Municipal Bonds. Therefore, a discount rate of 3.31% based on the 20 Year Bond GO Index published by bondbuyer.com is used as of the measurement date of December 31, 2017. At transition, GASB 75 also requires that the Total OPEB Liability (TOL) as of the prior fiscal year end be estimated based on the 20 Year Bond GO Index.

Annuity Purchase Rates:

Annuity purchase rates are used to determine the amount of the monthly benefit at the time of retirement for both healthy and disabled annuitants, the annuity purchase rates (APRs) for 2014 are based on the UP-1984 Table with an age setback of two years for retirees and an age setback of eight years for beneficiaries. Beginning in 2027 the APRs will be based on a unisex blend of the RP-2000 Combined Healthy Mortality Tables with Blue Collar Adjustment for males and females with both male and female rates multiplied by 107.5% and projected on a fully generational basis with scale BB. For members, a unisex blend of 70% of the males table and 30% of the female table is used, while 30% of the male table and 70% of the female table is used for beneficiaries. From 2015 through 2026, the fully generational APRs will be phased into.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

Experience Studies:

Actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four year period from December 31, 2010 to December 31, 2014. They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. The post-retirement mortality assumption for healthy annuitants and Annuity Purchase Rate (APRs) are based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. TMRS uses the experience studies as a basis for determining assumptions, except where required to be treated different by GASB 75.

Factors Affecting the Total OPEB Liability:

Changes of assumptions or other inputs reflect a change in the discount rate from 2016 to 2017.

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

Sensitivity Analysis:

The following presents the Total OPEB Liability of the employer, calculated using the discount rate of 3.31%, as well as what the Total OPEB Liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.31%) or 1 percentage point higher (4.31%) than the current rate. Note that the healthcare cost trend rate does not affect the Total OPEB Liability, so sensitivity to the healthcare cost trend rate is not shown.

	1% Decrease in Discount Rate (2.31%)	Discount Rate (3.31%)	1% Increase in Discount Rate (4.31%)
Total OPEB Liability	\$ 789,132	\$ 667,563	\$ 572,552

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

For the year ended September 30, 2018, the City recognized OPEB expense of \$54,233. At September 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Assumptions	\$ 37,548	\$
Contributions Made Subsequent to Measurement Date	5,200	
	<u>\$ 42,748</u>	<u>\$ 0</u>

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

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

	<u>Amortization of Deferred Resources</u>
2018	\$ 16,083
2019	10,883
2020	10,883
2021	4,899
2022	0
Thereafter	<u>0</u>
	<u>\$ 42,748</u>

K. Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The City's Deferred Compensation Plan is administered by two trustees; the International City Management Association Retirement Corporation (ICMARC) and the Nationwide Retirement Solutions. In 1997, the City implemented the requirements of GASB No. 32, *Accounting and Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*. In accordance with this statement and recent tax law changes, the City amended their trust agreements, which establish that all assets and income of the trust are for the exclusive benefit of eligible employees and their beneficiaries. Due to the implementation of these changes, the City does not have any fiduciary responsibility or administrative duties relating to the deferred compensation plan other than remitting employees' contributions to the trustees. Accordingly, the City has not presented the assets and liabilities from the Deferred Compensation Plan in these basic financial statements. Deferred compensation investments are held by outside trustees. The City's Deferred Compensation Plan investments are chosen by the individual (employee) participant and include mutual funds whose focus is on stocks, bonds, treasury securities, money market-type investments or a combination of these. The City's Deferred Compensation Plan, available to all permanent City employees, permits them to defer until future years up to \$18,500. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

L. Commitments, Contingencies, Litigation, and Subsequent Events

1. Contingencies

The City participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the City has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectability of any related receivable may be impaired. In the opinion of the City, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

CITY OF BIG SPRING, TEXAS

NOTES TO FINANCIAL STATEMENTS

2. Litigation

The City does not currently have any litigation that is expected to have a material impact on the financial statements.

3. Subsequent Events

The City has evaluated subsequent events through March 21, 2019, the date which the financial statements were available to be issued.

4. Commitments

The City is committed to a construction contract for work on the City's water treatment plant in the amount of \$1,402,621.

M. Closure and Post-closure Care Cost

State and federal laws and regulations require the City to place a final cover on its Big Spring Sanitary Landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and post-closure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these closure and post-closure care costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The \$3,140,844 reported as landfill closure and post-closure care liability at September 30, 2018, represents the cumulative amount reported to date based on the use of 91.6% of the estimated capacity of the landfill. The City will recognize the remaining estimated cost of closure and post-closure care of \$294,308 as the remaining estimated capacity is filled. These amounts are based on what it would cost to perform all closure and post-closure care in 2018. Actual cost may be higher due to inflation, changes in technology, or changes in regulations.

The City is required by state and federal laws and regulations to make annual contributions to a trust to finance closure and post-closure care. The City has not placed funds in a trust to cover these costs. However, at September 30, 2018 the City has designated an investment in the amount of \$4,440,410 for this purpose.

APPENDIX D

FORM OF OPINION OF BOND COUNSEL

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Proposed Form of Opinion of Bond Counsel

An opinion in substantially the following form will be delivered by McCall, Parkhurst & Horton L.L.P., Bond Counsel, upon the delivery of the Bonds, assuming no material changes in facts or law.

**CITY OF BIG SPRING, TEXAS
GENERAL OBLIGATION REFUNDING BONDS, SERIES 2020**

IN THE AGGREGATE PRINCIPAL AMOUNT OF \$2,455,000

AS BOND COUNSEL for the City of Big Spring, Texas (the "Issuer"), the issuer of the above-described Bonds (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the date specified in the text of the Bonds, at the rates and payable on the dates as stated in the text of the Bonds, maturing all in accordance with the terms and conditions stated in the text of the Bonds.

WE HAVE EXAMINED the applicable and pertinent provisions of the Constitution and laws of the State of Texas, and a transcript of certified proceedings of the Issuer, and other pertinent instruments authorizing and relating to the issuance of the Bonds, including one of the executed Bonds (Bond Number T-1).

BASED ON SAID EXAMINATION, IT IS OUR OPINION that the Bonds have been authorized and issued and the Bonds delivered concurrently with this opinion have been duly delivered and that, assuming due authentication, Bonds issued in exchange therefore will have been duly delivered, in accordance with law, and that the Bonds, except as may be limited by laws applicable to the Issuer relating to governmental immunity and bankruptcy, reorganization and other similar matters affecting creditors' rights generally, and by general principles of equity which permit the exercise of judicial discretion, constitute valid and legally binding special obligations of the Issuer, and that ad valorem taxes sufficient to provide for the payment of the interest, if any, on and principal of the Bonds have been levied and pledged for such purpose, within the limits prescribed by law, as provided in the ordinance adopted by the City Council of the Issuer, pursuant to which the Bonds have been issued.

IT IS FURTHER OUR OPINION that, except as discussed below, the interest on the Bonds is excludable from the gross income of the owners for federal income tax purposes under the statutes, regulations, published rulings, and court decisions existing on the date of this opinion. We are further of the opinion that the Bonds are not "specified private activity bonds" and that, accordingly, interest on the Bonds will not be included as an individual alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). In expressing the aforementioned opinions, we have relied on, certain representations, the accuracy of which we have not independently verified, and assume compliance with certain covenants regarding the use

600 Congress Ave., Suite 1800
Austin, Texas 78701
T 512.478.3805
F 512.472.0871

717 North Harwood, Suite 900
Dallas, Texas 75201
T 214.754.9200
F 214.754.9250

700 N. St. Mary's Street, Suite 1525
San Antonio, Texas 78205
T 210.225.2800
F 210.225.2984



and investment of the proceeds of the Bonds and the use of the property financed therewith. We call your attention to the fact that if such representations are determined to be inaccurate or if the Issuer fails to comply with such covenants, interest on the Bonds may become includable in gross income retroactively to the date of issuance of the Bonds.

EXCEPT AS STATED ABOVE, we express no opinion as to any other federal, state, or local tax consequences of acquiring, carrying, owning, or disposing of the Bonds, including the amount, accrual or receipt of interest on, the Bonds. Owners of the Bonds should consult their tax advisors regarding the applicability of any collateral tax consequences of owning the Bonds.

OUR OPINIONS ARE BASED ON EXISTING LAW, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "Service"); rather, such opinions represent our legal judgment based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the Issuer as the taxpayer. We observe that the Issuer has covenanted not to take any action, or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal income tax purposes.

WE EXPRESS NO OPINION as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

OUR SOLE ENGAGEMENT in connection with the issuance of the Bonds is as Bond Counsel for the Issuer, and, in that capacity, we have been engaged by the Issuer for the sole purpose of rendering our opinions with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas, and with respect to the exclusion from gross income of the interest on the Bonds for federal income tax purposes, and for no other reason or purpose. The foregoing opinions represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result. 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 disclosure thereof in connection with the sale of the Bonds, and have not assumed any responsibility with respect thereto. We express no opinion and make no comment with respect to the



marketability of the Bonds and have relied solely on certificates executed by officials of the Issuer as to the current outstanding indebtedness of, and assessed valuation of taxable property within the Issuer. 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.

THE FOREGOING OPINIONS represent our legal judgment based upon a review of existing legal authorities that we deem relevant to render such opinions and are not a guarantee of a result.

Respectfully,

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APPENDIX E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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BAM

BUILD AMERICA MUTUAL

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY ("BAM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

BAM may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee, the Paying Agent, the Member and the Issuer specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee, the Paying Agent, the Member or the Issuer (a) copies of all notices required to be delivered to BAM pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to BAM and shall not be deemed received until received by both and (b) all payments required to be made by BAM under this Policy may be made directly by BAM or by the Insurer's Fiscal Agent on behalf of BAM. The Insurer's Fiscal Agent is the agent of BAM only, and the Insurer's Fiscal Agent shall in no event be liable to the Trustee, Paying Agent or any Owner for any act of the Insurer's Fiscal Agent or any failure of BAM to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, BAM agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

200 Liberty Street, 27th floor
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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Financial Advisory Services
Provided By:

