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| **NEW ISSUE** | **OFFICIAL STATEMENT** | **Ratings:** |
| **BOOK-ENTRY-ONLY** | **July 17, 2018** | **Moody's: "Aa2"** |

**(See "RATINGS" herein.)**

*In the opinion of Bond Counsel, under existing law, (i) interest on the Certificates is excludable from gross income for federal income tax purposes and (ii) the Certificates are not "private activity bonds". See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel.*

**THE CERTIFICATES HAVE NOT BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS**

**$9,260,000**
**CITY OF BEAUMONT, TEXAS**
**(A political subdivision of the State of Texas located within Jefferson County, Texas)**
**CERTIFICATES OF OBLIGATION, SERIES 2018**

**Dated: July 1, 2018 (Interest to accrue from the Delivery Date)** **Due: March 1, as shown on inside cover**

The City of Beaumont, Texas (the "City") is issuing its $9,260,000 Certificates of Obligation, Series 2018 (the "Certificates"). The Certificates are issued pursuant to the Constitution and general laws of the State of Texas, particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") passed by the City Council on July 17, 2018. See "THE CERTIFICATES – Authorization" herein.

The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of an annual ad valorem tax levied, within the limits prescribed by law, against all taxable property within the boundaries of the City. The Certificates will further be payable from a junior and subordinate pledge of the net revenues of the City's waterworks and sewer system but only to the extent of and in an amount not in excess of $10,000. See "THE CERTIFICATES - Source of Payment."

Interest on the Certificates will accrue from the Delivery Date (defined below) and is payable on March 1 and September 1 of each year, commencing March 1, 2019, to the registered owners appearing on the registration books of the Paying Agent/Registrar on the Record Date. See "THE CERTIFICATES - Description." Principal of and interest on the Certificates are payable by UMB Bank, N.A., Austin, Texas, the initial paying agent/registrar (the "Paying Agent/Registrar"). The Certificates are initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Certificates may be acquired in denominations of $5,000 or integral multiples thereof. **No physical delivery of the Certificates will be made to the beneficial owners thereof**. Principal of and interest on the Certificates will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Certificates. See "THE CERTIFICATES - Book-Entry-Only System" herein.

Proceeds from the sale of the Certificates will be used to pay the costs of construction of public works, more specifically, the construction of roads within the City, and any items related thereto, and to pay the costs of issuance of the Certificates. See "THE CERTIFICATES – Use of Proceeds".

The City reserves the right, at its option, to redeem Certificates maturing March 1, 2028 and thereafter, in whole or in part, in the principal amount of $5,000 or any integral multiple thereof (and if within a maturity by lot) on March 1, 2027 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE CERTIFICATES – Redemption Provisions" herein.

**SEE MATURITY SCHEDULE ON INSIDE COVER PAGE**

*The Certificates are offered when, as and if issued, subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Bracewell LLP, Houston, Texas, Bond Counsel for the City, as to the validity of the issuance of the Certificates under the Constitution and laws of the State of Texas. See "LEGAL MATTERS." Certain legal matters will be passed upon for the Underwriters listed below by their co-counsel Creighton, Fox, Johnson & Mills, PLLC, Beaumont, Texas and West & Associates, L.L.P., Houston, Texas. Delivery of the Certificates through DTC is expected to be on or about August 9, 2018 (the "Delivery Date").*

**ESTRADA HINOJOSA & COMPANY, INC.** **HUTCHINSON, SHOCKEY, ERLEY & CO.**

**MATURITY SCHEDULE**
**Base CUSIP No: 074509[1]**

**$9,260,000**
**CERTIFICATES OF OBLIGATION, SERIES 2018**

| Maturity Date (3/1) | Principal Amount | Interest Rate | Yield | CUSIP No. Suffix[1] |
|---|---|---|---|---|
| 2019 | $430,000 | 2.00% | 1.48% | 4L1 |
| 2020 | 465,000 | 3.00 | 1.67 | 4M9 |
| 2021 | 475,000 | 4.00 | 1.86 | 4N7 |
| 2022 | 500,000 | 4.00 | 2.04 | 4P2 |
| 2023 | 520,000 | 5.00 | 2.16 | 4Q0 |
| 2024 | 550,000 | 5.00 | 2.34 | 4R8 |
| 2025 | 575,000 | 5.00 | 2.51 | 4S6 |
| 2026 | 605,000 | 5.00 | 2.65 | 4T4 |
| 2027 | 635,000 | 5.00 | 2.76 | 4U1 |
| 2028 | 670,000 | 5.00 | 2.84[2] | 4V9 |
| 2029 | 705,000 | 5.00 | 2.88[2] | 4W7 |
| 2030 | 735,000 | 4.00 | 3.10[2] | 4X5 |
| 2031 | 765,000 | 4.00 | 3.16[2] | 4Y3 |
| 2032 | 800,000 | 4.00 | 3.26[2] | 4Z0 |
| 2033 | 830,000 | 4.00 | 3.33[2] | 5A4 |

**(Interest to accrue from the Delivery Date)**

The City reserves the right, at its option, to redeem Certificates maturing March 1, 2029 and thereafter, in whole or in part, in the principal amount of $5,000 or any integral multiple thereof (and if within a maturity by lot) on March 1, 2028 or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. (See "THE CERTIFICATES - Redemption Provisions" herein).

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[1] 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. Neither the Underwriters, the City nor 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 Certificates denoted and sold at a premium will be redeemed on March 1 2027, the first optional call date for the Certificates, at a redemption price of par plus accrued interest to the date of redemption.

## USES 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 other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City.

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

This Official Statement contains, in part, estimates, assumptions and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates, assumptions or matters of opinion or as to the likelihood that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the condition of the City or other matters described herein since the date hereof.

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

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

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

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

THIS OFFICIAL STATEMENT CONTAINS "FORWARD-LOOKING" STATEMENTS WITHIN THE MEANING OF SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. SUCH STATEMENTS MAY INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINITIES AND OTHER FACTORS WHICH MAY CAUSE THE ACTUAL RESULTS, PERFORMANCE AND ACHIEVEMENTS TO BE DIFFERENT FROM THE FUTURE RESULTS, PERFORMANCE AND ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. INVESTORS ARE CAUTIONED THAT THE ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THOSE SET FORTH IN THE FORWARD-LOOKING STATEMENTS.

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

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 REMARKETING MEMORANDUM FOR PURPOSES OF, AND AS THAT TERM IS DEFINED IN RULE 15C2-12 OF THE UNITED STATED SECURITIES AND EXCHANGE COMMISSION, AS AMENDED.

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**$9,260,000**
**CITY OF BEAUMONT, TEXAS**
(A political subdivision of the State of Texas located within Jefferson County)
**CERTIFICATES OF OBLIGATION, SERIES 2018**

## INTRODUCTORY STATEMENT

Information contained in this Official Statement, including Appendices A and B, has been obtained from the City of Beaumont, Texas (the "City") in connection with the offering by the City of its $9,260,000 Certificates of Obligation, Series 2018 (the "Certificates") identified on the cover page hereof.

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

There follows in this Official Statement descriptions of the Certificates and Ordinance (as defined herein) 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 during the offering period from the City's Financial Advisor, RBC Capital Markets, LLC, 303 Pearl Parkway, Suite 220, San Antonio, Texas 78215.

This Official Statement speaks only as of its date and the information contained herein is subject to change. An electronic version of the Official Statement will be deposited with the Municipal Securities Rulemaking Board ("MSRB"), at www.emma.msrb.org. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

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 offering document.

## SALE AND DISTRIBUTION OF THE CERTIFICATES

### Underwriting

The Underwriters have agreed to purchase Certificates from the City for $10,101,705.01 (being the principal amount of the Certificates, plus a net premium on the Certificates of $904,115.35 and less an Underwriters' discount of $62,410.34), plus no accrued interest.

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

### Prices and Marketability

The delivery of the Certificates is conditioned upon the receipt by the City of a certificate executed and delivered by the Underwriters on or before the Delivery Date of the Certificates as set forth on the cover page, stating the prices at which a substantial amount of the Certificates of each maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bondhouse, broker or similar person acting in the capacity of underwriter or wholesaler. The City has no control over trading of the Certificates after a bona fide offering of the Certificates is made by the Underwriters at the yields specified on the inside cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

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

**Securities Laws**

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

## OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

| | |
|---|---|
| The City | The City of Beaumont, Texas (the "City" or the "Issuer") is a home rule city of the State of Texas located within Jefferson County, Texas. The City operates under the Council/Manager form of government where the Mayor and six Council members are elected for two-year terms. The City Council formulates operating policies for the City while the City Manager is the Chief Administrative Officer. See "ADMINISTRATION OF THE CITY" herein. The City had a 1990 census population of 114,323, a 2000 census population of 113,866, and a 2010 census population of 118,296. |
| The Certificates | $9,260,000 City of Beaumont, Texas Certificates of Obligation, Series 2018, dated July 1, 2018, maturing as described on the inside cover page of this Official Statement. |
| Other Characteristics | The Certificates are issued in fully registered form in integral multiples of $5,000. The Certificates maturing on and after March 1, 2028 are subject to redemption, at the option of the City, at a price of the par value thereof plus accrued interest from the most recent Interest Payment Date to the date of redemption, on March 1, 2027 or any date thereafter. See "THE CERTIFICATES - Redemption Provisions – *Optional Redemption*." |
| Paying Agent/Registrar | The initial paying agent/registrar is UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar"). The City intends to use the book-entry-only system of The Depository Trust Company ("DTC"), but reserves the right on its behalf or on behalf of the DTC to discontinue such system. (See "THE CERTIFICATES - Book-Entry-Only System.") |
| Source of Payment | The Certificates constitute direct obligations of the City payable from a continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property within the boundaries City. The Certificates will be further payable from a junior and subordinate pledge of the net revenues of the City's waterworks and sewer system, but only to the extent and in an amount not in excess of $10,000 (as described on the cover page). See "THE CERTIFICATES –Source of Payment". |
| Use of Proceeds | Proceeds from the sale of the Certificates will be used to pay the costs of construction of public works, more specifically, the construction of roads within the City, and any items related thereto, and to pay the costs of issuance of the Certificates. See "THE CERTIFICATES – Use of Proceeds" herein. |
| Tax Exemption | In the opinion of Bond Counsel, under existing law, (i) interest on the Certificates is excludable from gross income for federal income tax purposes and (ii) the Certificates are not private activity bonds. See "TAX MATTERS" herein for a discussion of the opinion of Bond Counsel. |
| Ratings | Moody's Investors Service, Inc. (Underlying) .............................. "Aa2" |

## SELECTED FINANCIAL INFORMATION

| | | |
|---|---|---|
| 2017 Certified Assessed Valuation (100% of market value) See "TAX DATA." | | $7,426,450,815 (a) |
| Direct Debt: | | |
| Outstanding Ad Valorem Tax Debt (as of July 1, 2018) | | $ 198,920,000 (b) |
| Plus: The Certificates | | 9,260,000 |
| Total Direct Ad Valorem Tax Debt | | $ 208,180,000 |
| Less: Self-Supported Debt | | $ 1,978,500 (b) |
| Total Direct Ad Valorem Tax Supported Debt | | $ 206,201,500 |
| Estimated Overlapping Debt | | $ 225,468,462 |
| Direct Ad Valorem Tax Supported and Estimated Overlapping Debt | | $ 431,669,962 |
| Interest & Sinking Fund Balance (As of September 30, 2017) | | $ 3,254,014 |
| Ratio of Direct Ad Valorem Tax Debt to: | 2017 Certified Assessed Valuation ($7,426,450,815) | 2.80 % |
| | Estimated Population (118,299) | $1,760 |
| Ratio of Direct Ad Valorem Tax Supported Debt to: | 2017 Certified Assessed Valuation ($7,426,450,815) | 2.78 % |
| | Estimated Population (118,299) | $1,743 |
| Ratio of Direct Ad Valorem Tax Supported and Estimated Overlapping Debt to: | 2017 Certified Assessed Valuation ($7,426,450,815) | 5.81 % |
| | Estimated Population (118,299) | $3,649 |

(a) As certified by the Jefferson County Appraisal District on July 20, 2017.

(b) Certain tax debt of the City is being paid from revenues other than ad valorem taxes. See "CITY TAX DEBT - Revenue Support of Ad Valorem Tax Debt."

## INTRODUCTION

This Official Statement and the Appendices hereto provide certain information with respect to the issuance by The City of Beaumont, Texas (the "City") of its Certificates of Obligation, Series 2018 (the "Certificates").

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

## HURRICANE HARVEY AND RISK FROM WEATHER EVENTS

The City is located near the United States Gulf Coast and is subject to hurricanes, tropical storms and other weather events that can cause damage to property through strong winds, storm surges and flooding. Such events may cause a reduction in the taxable assessed valuation of the City, which may exist for several years or longer. Consequently, the ability of the City to raise revenue through its ad valorem taxes could be negatively impacted.

The City experienced a substantial natural disaster on August 23-27, 2017. Over those days significant rainfall resulting from Hurricane Harvey, measuring up to 55 inches in some areas, caused major flooding in portions of the City. Damaged property included residential and commercial properties, as well as numerous City-owned facilities and infrastructure. The estimate of the total damage to City-owned facilities and infrastructure is approximately $50 million. As a result of the flooding, the City incurred disaster-related expenses, including debris removal, police, firefighter and emergency personnel overtime and emergency repairs to City facilities (collectively, “Disaster Related Expenses”) in the approximate amount of $8 million.

The City anticipates that $3 million of the damage to City-owned facilities and infrastructure will be covered by flood insurance that the City maintains. The City also anticipates that $53 million of the damage to City-owned facilities and infrastructure plus damage to City vehicles, which is not covered by the City’s flood insurance policy, together with the Disaster Related Expenses will be covered by advances and grants from the Federal Emergency Management Agency (“FEMA”) and the State. The City has weekly meetings with FEMA and State personnel to assist in preparing FEMA documentation for eligible projects. At this time, the City is not able to provide an estimate of time it will take to receive the funds from FEMA or the State.

Shortly after the storm, the City established a Hurricane Harvey Recovery Fund to account for all expenses and reimbursements related to the storm. All repairs to City-owned facilities and infrastructure as well as all disaster related expenses are being funded by excess fund balances within the other funds of the City (General Fund, Water Utilities Fund and the Solid Waste Fund). As of June, 2018, the City has received approximately $ 4.2 million in advances from FEMA. Additional grants and advances have been requested.

Property owners who suffered damage have been offered the opportunity to make property tax payments in installments in calendar year 2018. See “PROPERTY TAXES – Taxing Procedures”. Preliminary values for Fiscal Year 2019, as of June 2018, are slightly higher than the certified values from the prior year. The City is monitoring the impact of the storm and flooding on its Fiscal Year 2019 budget and is reporting that impact in its monthly financial reports that are distributed to City Council Members.

## THE CERTIFICATES

### Description

The Certificates are dated July 1, 2018 and bear interest from the Delivery Date at the stated interest rates indicated under "MATURITY SCHEDULE" on the inside cover page hereof, which interest is payable initially on March 1, 2019, and each September 1 and March 1 (the “Interest Payment Date” as referenced in the Ordinance) thereafter until the earlier of maturity or prior redemption. The Certificates are issued in fully registered form in denominations of $5,000 each or any multiple thereof. Principal of the Certificates is payable to the principal payment office of UMB Bank, N.A., Austin, Texas (the "Paying Agent/Registrar"). Interest on the Certificates will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar. The Certificates initially will be registered only to Cede & Co., the nominee of The Depository Trust Company pursuant to the Book-Entry-Only System described below.

In the event the Book-Entry-Only System is discontinued, the Certificates may be transferred and exchanged on the bond register kept by the Paying Agent/Registrar upon surrender and reissuance. The Certificates are exchangeable for an equal principal amount of Certificates of the same maturity in any authorized denomination upon surrender of the Certificates to be exchanged at the principal payment office of the Paying Agent/Registrar. No service charge will be made for any transfer, but the City may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith. It will be required that all transfers be made within three (3) business days after request and presentation.

The record date (the "Record Date") for the interest payable on any Interest Payment Date means the 15th day of the month next preceding such Interest Payment Date.

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

**Redemption Provisions**

*- Optional Redemption -*

The Certificates maturing on March 1, 2028 and thereafter are subject to optional redemption prior to maturity, in whole or in part, on March 1, 2027, or any date thereafter, at the option of the City at a price equal to the principal amount thereof plus accrued interest from the most recent Interest Payment Date to the date of redemption. The Certificates may be redeemed only in integral multiples of $5,000. If a Certificate is subject to redemption and is in a denomination larger than $5,000, a portion of such Certificate may be redeemed, but only in multiples of $5,000. If less than all of the Certificates are redeemed within a stated maturity at any time, the City shall direct the Paying Agent/Registrar to select by lot the particular Certificates or portions thereof to be redeemed.

Not less than 30 days prior to a redemption date for the Certificates, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to the registered owners of the Certificates to be redeemed, in whole or in part at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar. ANY NOTICE SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE. NOTICE HAVING BEEN SO GIVEN, THE CERTIFICATES CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, NOTWITHSTANDING THAT ANY CERTIFICATE OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH CERTIFICATE OR PORTION THEREOF SHALL CEASE TO ACCRUE.

By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Certificates or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Certificates have been called for redemption in whole or in part and due provision has been made to redeem the same, the Certificates or portions thereof shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the registered owners to collect interest which would have otherwise accrued after the redemption date on any Certificates or portion thereof called for redemption shall terminate on the date fixed for redemption.

So long as the Book-Entry-Only System is used for the Certificates, any notice of redemption will only be sent to DTC. Any failure by DTC to advise any DTC participants, or of any DTC participant or indirect participant to notify the beneficial owner of the Certificates, will not affect the validity of the redemption of the Certificates called for redemption or any other action premised on any such notice.

**Defeasance**

The Ordinance provides for the defeasance of the Certificates in any manner permitted by law, which includes when the payment of the principal of and premium, if any, on the Certificates, plus interest therein to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably with a paying agent or other authorized bank in trust (1) money sufficient to make cash payment or (2) pursuant to an escrow or trust agreement, funds or direct U.S. or U.S. guaranteed obligations in such amounts to insure availability of sufficient money to make such payment, and all necessary and proper fees, compensation and expenses of the paying agent and, if applicable, the escrow agent for the Certificates, provided that if any such Certificates to be defeased are to be redeemed prior to maturity, provision shall have been made for giving the required notice for redemption. Upon such deposit as described above, such Certificates shall no longer be regarded to be outstanding or unpaid.

**Amendment of Ordinance**

The Ordinance provides that owners of at least 51% of the aggregate principal amount of the outstanding Certificates may approve amendments by the City of the Ordinance other than amendments to (1) change maturities, (2) reduce the rate of interest, (3) reduce the amount of principal payable, (4) modify or condition the terms of payment, (5) affect less than all outstanding Certificates, or (6) change the percentage necessary for monetary consent. Other amendments are permitted without such consent provided they do not adversely affect the interests of the owners of the Certificates.

**Book-Entry-Only System**

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

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

DTC will act as securities depository for the Certificates. The Certificates will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Certificate will be issued for each maturity of the Certificates, 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 industries. 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 Standard & Poor's rating of "AA+". The DTC Rules applicable to its Participants are on file with the United States Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

All payments on the Certificates will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or 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. Payments on the Certificates to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Certificates at any time by giving reasonable notice to the City or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, 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, Certificates will be printed and delivered.

Information concerning DTC and DTC's book-entry system has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor, the Underwriter, or Bond Counsel.

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

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

**Paying Agent/Registrar**

The initial Paying Agent/Registrar for the Certificates is UMB Bank, N.A., Austin, Texas. In the Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Certificates are duly paid and any successor Paying Agent/Registrar shall be a qualified bank, trust company, financial institution or other agency legally authorized to serve and perform the duties and services of Paying Agent/Registrar for the Certificates. Upon any change in the Paying Agent/Registrar for the Certificates, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Certificates by United States mail, first class, postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of the Certificates will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar. Interest on the Certificates will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the bond register, or by other such method acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of, the registered owner. If the date for the payment of the principal of or interest on the Certificates shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding business day which is not a Saturday, Sunday, or legal holiday on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

**Successor Paying Agent/Registrar**

Provision is made in the Ordinance for replacing the Paying Agent/Registrar. If the City replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor paying agent/registrar (the "Successor Paying Agent/Registrar"), and the Successor Paying Agent/Registrar shall 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 agency legally qualified to serve and perform the duties of the Paying Agent/Registrar for the Certificates.

**Source of Payment**

The Certificates, when issued, will constitute valid and binding obligations of the City and will be payable from the proceeds of a continuing ad valorem tax levied, within the limits prescribed by law, against all taxable property within the City (see "TAX DATA - Tax Rate Limitations" herein). The Certificates are further payable from the Subordinate Pledge, which is a junior and subordinate pledge of the net revenues of the City's waterworks and sewer system, but only to the extent and in an amount not in excess of $10,000.

**Authorization**

The Certificates are issued pursuant to the Constitution and general laws of the State of Texas (the "State" or "Texas"), particularly Subchapter C of Chapter 271, Texas Local Government Code, as amended, and an ordinance (the "Ordinance") passed by the City Council on July 17, 2018.

**Use of Proceeds**

Proceeds from the sale of the Certificates will be used to pay the costs of construction of public works, more specifically, the construction of roads within the City, and any items related thereto, and to pay the costs of issuance of the Certificates.

**Sources and Uses of Funds**

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

| | |
|---|---|
| SOURCES OF FUNDS: | |
| Principal Amount of the Certificates | $ 9,260,000.00 |
| Net Premium/Discount on the Certificates | 904,115.35 |
| Total Sources of Funds | $10,164,115.35 |
| | |
| USES OF FUNDS | |
| Deposit to Construction Fund | $10,000,000.00 |
| Expenses: | |
| Underwriters' Discount | 62,410.34 |
| Other Issuance Expenses, and excess proceeds | 101,705.01 |
| Total Uses of Funds | $10,164,115.35 |

**Future Debt**

The City does not plan to issue more tax supported debt in the next twelve months.

**Legal Investments in Texas**

Pursuant to the Texas Public Securities Procedures Act, Chapter 1201, Texas Government Code, as amended, the Certificates, whether rated or unrated, are (a) legal investments for insurance companies, fiduciaries and trustees and (b) legal investments for the sinking funds of political subdivisions or public agencies of the State. Most political subdivisions in Texas are required to adopt investment guidelines under the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, and such political subdivisions may impose a requirement consistent with such act that the Certificates have a rating of not less than "A" or its equivalent to be legal investments for such entity's funds. The Certificates are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, as amended, to secure deposits of public funds of the State or any political subdivision or public agency of the State and are lawful and sufficient security for those deposits to the extent of their market value. Again, political subdivisions in Texas may impose a requirement that the Certificates have a rating of not less than "A" or its equivalent to be eligible to serve as collateral for their funds.

The City has not made any investigations of any other laws, rules, regulations or investment criteria that might affect the suitability of the Certificates for any of the above purposes or limit the authority of any of the above entities or persons to purchase or invest in the Certificates.

**Remedies in the Event of Default**

The Ordinance does not establish specific events of default with respect to the Certificates. Under Texas law, there is no right to the acceleration of maturity of the Certificates upon the failure of the City to observe any covenant under the Ordinance. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City to levy, assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Certificates as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis and would be subject to judicial discretion, sovereign police powers and the applicable provisions of the federal bankruptcy laws and to any other similar laws affecting the rights of creditors in general and creditors of political subdivisions generally.

It is unclear whether or not the Tooke Ruling described below will be construed to have any effect with respect to the remedy of mandamus or any injunctive relief, though not at issue in that case. The Ordinance does not provide for the appointment of a trustee to represent the interest of the holders of the Certificates upon any failure of the City to perform in accordance with the terms of the Ordinance, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in Tooke v. City of Mexia 197 S.W.3rd 325 (Tex. 2006) that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Effective September 1, 2005, the Texas Legislature amended Chapter 271 of the Local Government Code to waive immunity to suit of municipalities to adjudication of claims regarding written agreements for providing goods or services subject to stated limitations. Because it is unclear whether the Texas legislature has effectively waived the City's sovereign immunity from a suit for money damages, holders of the Certificates may not be able to bring such a suit against the City for breach of the Certificates or 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 pledge of the pledged revenues to pay the principal of and interest on the Certificates. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Chapter 9 includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Certificates which have sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the Certificates are qualified with respect to the customary rights of debtors relative to their creditors.

## INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY

The City invests its investable funds in investments authorized by Texas law in accordance with investment policies approved by the 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, (2) direct obligations of the State 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 of and interest on which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rates as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) certificates of deposit issued by a savings bank or a state or national bank domiciled in the State 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, (7) certificates of deposit and share certificates issued by a savings bank or a state or federal credit union domiciled in the State of Texas that 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 the clauses (1) through (5) or in any other manner and amount provided by law for City deposits, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State, (9) bankers' acceptances with a stated maturity of 270 days or less from date of issuance, 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, (10) commercial paper with a stated maturity of 270 days or fewer from the date of issuance 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), (11) no-load money market mutual funds registered with and/or regulated by 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, and (12) no-load mutual funds registered with the Securities and Exchange Commission that: have an average weighted maturity of less than two years; invests exclusively in obligations described in the preceding clauses; and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of no less than AAA or its equivalent.

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 or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. 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 the market index.

**Investment Policies**

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

Under Texas law, 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) the beginning market value, any additions and changes to market value, the ending value for each pooled fund group, and fully accrued interest for the reporting period, (3) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (4) the maturity date of each separately invested asset, (5) the account or fund or pooled fund group for which each individual investment was acquired, and (6) the compliance of the investment portfolio as it related to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

The City's investment policy requires investments in accordance with applicable State law. However the City's investments are limited to direct obligations of the United States or its agencies and instrumentalities which are non-callable and have a maximum stated maturity of 5 years or less; certificates of deposit issued by approved depository banks with a maximum stated maturity of 5 years or less; fully collateralized direct repurchase agreements as described above with a defined termination date of 90 days or less; no load money market mutual funds regulated by the Securities and Exchange Commission with a dollar weighted average stated maturity of 90 days or less; and approved investment pools which are continuously rated no lower than AAA, AAA- by at least one nationally recognized agency. Texpool (an investment pool operated by the State of Texas for the benefit of local governments), LOGIC (Local Government Investment Cooperative) and Texas TERM (a fixed rate, fixed term pool 60 days to one year) are currently the City's approved investment pools.

City policy allows for investment in securities with maximum maturity dates of two years or less for pooled and debt service funds and five years or less for debt service reserve funds.

**Current Investments**

The City's investment balances on September 30, 2017 were as follows:

| | Face Amount |
|---|---|
| Money Market Funds and Pools | $80,936,907 |
| Bank Deposits and CDs | 48,379,992 |
| Agency Securities | 9,500,000 |
| Total Portfolio | $138,816,899 |

Source: The City's Audited Financial Statements for the Fiscal Year Ended September 30, 2017.

**Additional Provisions**

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) 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 Mayor and City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (7) restrict the investment in mutual funds in the aggregate to no more than 80% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service and further restrict the investment in non-money market mutual funds of any portion of bond proceeds, reserves and funds held for debt service to not more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

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## CITY TAX DEBT

### General

The following tables and calculations relate to the Certificates and to all other tax supported debt of the City. In addition to outstanding tax-supported debt the City has also issued revenue bonds and has incurred contractual obligations and other indebtedness and liabilities which are not included below. The City and various other political subdivisions of government which overlap all or a portion of the City are empowered to incur debt to be paid from revenues raised or to be raised by ad valorem taxation against all or a portion of property within the City.

### Bonded Indebtedness

| | | |
|---|---|---|
| 2017 Certified Assessed Valuation (100% of market value) See "TAX DATA." | $7,426,450,815 | (a) |
| Direct Debt: | | |
| Outstanding Ad Valorem Tax Debt (as of July 1, 2018) | $ 198,920,000 | (b) |
| Plus: The Certificates | 9,260,000 | |
| Total Direct Ad Valorem Tax Debt | $ 208,180,000 | |
| Less: Self-Supported Debt | $ 1,978,500 | (b) |
| Total Direct Ad Valorem Tax Supported Debt | $ 206,201,500 | |
| Interest & Sinking Fund Balance (As of September 30, 2017) | $ 3,254,014 | |

(a) As certified by the Jefferson County Appraisal District on July 20, 2017.

(b) Certain tax debt of the City is being paid from revenues other than ad valorem taxes. See "CITY TAX DEBT - Revenue Support of Ad Valorem Tax Debt."

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**Tax Supported Debt Service Schedule**

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

| FY Ending 30-Sep | Current Total Debt Service | Plus: The Certificates | | Total Debt Service Requirements |
|---|---|---|---|---|
| | | Principal | Interest | |
| 2018 | $ 16,589,377 | | | $ 16,589,377 |
| 2019 | 16,682,473 | $ 430,000 | $ 419,879 | 17,532,352 |
| 2020 | 16,685,093 | 465,000 | 384,175 | 17,534,268 |
| 2021 | 16,545,249 | 475,000 | 367,700 | 17,387,949 |
| 2022 | 16,201,513 | 500,000 | 348,200 | 17,049,713 |
| 2023 | 16,234,031 | 520,000 | 325,200 | 17,079,231 |
| 2024 | 16,247,631 | 550,000 | 298,450 | 17,096,081 |
| 2025 | 16,243,088 | 575,000 | 270,325 | 17,088,413 |
| 2026 | 16,050,463 | 605,000 | 240,825 | 16,896,288 |
| 2027 | 16,045,013 | 635,000 | 209,825 | 16,889,838 |
| 2028 | 16,036,763 | 670,000 | 177,200 | 16,883,963 |
| 2029 | 16,045,625 | 705,000 | 142,825 | 16,893,450 |
| 2030 | 16,049,234 | 735,000 | 110,500 | 16,894,734 |
| 2031 | 16,057,397 | 765,000 | 80,500 | 16,902,897 |
| 2032 | 16,058,163 | 800,000 | 49,200 | 16,907,363 |
| 2033 | 16,071,856 | 830,000 | 16,600 | 16,918,456 |
| 2034 | 11,909,000 | - | - | 11,909,000 |
| 2035 | 9,794,619 | - | - | 9,794,619 |
| 2036 | 9,789,169 | - | - | 9,789,169 |
| 2037 | 9,783,763 | - | - | 9,783,763 |
| 2038 | 5,721,725 | - | - | 5,721,725 |
| 2039 | 2,861,125 | - | - | 2,861,125 |
| 2040 | 2,864,875 | - | - | 2,864,875 |
| Total | $344,132,867 | $9,260,000 | $3,441,404 | $ 325,268,647 |

Average Annual Requirements (2018-2040)............................................................. $14,142,115

Maximum Annual Requirement (2020) ..................................................................... $17,534,268

*[Remainder of Page Intentionally Left Blank]*

**Revenue Support of Ad Valorem Tax Debt**

Certain tax bonds and certificates of obligation of the City are being paid from revenues other than ad valorem taxes. As of the fiscal year ended September 30, 2017, the City had a total of $1,053,850 of such bonds and certificates of obligation which are presently outstanding. The following is a schedule of revenues used by the City to pay debt service on certain of its tax obligations in the years 2013 through 2017. The City has pursued a policy of recording bonds and certificates of obligation associated with enterprise fund activities in the appropriate enterprise funds. The debt service of these bonds and certificates of obligation are paid directly from these funds.

| | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| Debt Service paid from Enterprise Funds | $491,354 | $419,016 | $410,193 | $565,556 | $530,179 |

Source: The City of Beaumont, Tax Department.

**Estimated Overlapping Debt**

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the City and the estimated percentages and amounts of such indebtedness attributable to property within the City. The information is based upon data secured from individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

| Taxing Jurisdiction | Debt as of 07/01/2018 | Overlapping Percent | Overlapping Amount |
|---|---|---|---|
| Beaumont Independent School District | $332,680,000 | 65.22% | $216,973,896 |
| Jefferson County | 31,380,000 | 27.07 | 8,494,566 |
| Port of Beaumont Navigation District | - | 67.62 | - |
| TOTAL ESTIMATED OVERLAPPING DEBT | | | $225,468,462 |
| The City | | | $206,201,500(a) |
| TOTAL DIRECT AD VALOREM TAX SUPPORTED AND ESTIMATED OVERLAPPING DEBT | | | $431,669,962 |

(a) Includes the Certificates.

**Debt Ratios**

| | Direct Ad Valorem Tax Supported Debt | Direct Tax Supported and Overlapping Debt |
|---|---|---|
| Per 2017 Taxable Valuation ($7,426,450,815[a]) | 2.78% | 5.81% |
| Per Capita (118,299) | $1,743 | $3,649 |

(a) As certified by the Jefferson County Appraisal District on July 20, 2017.

## TAX DATA

**General**

One of the City's principal sources of operational revenue and its principal source of funds for debt service payments on tax supported debt is the receipts from ad valorem taxation. See “SELECTED FINANCIAL DATA - Historical

Operations of the City." The following is a recapitulation of (a) the Texas Property Tax Code, including methodology, limitations, remedies and procedures; (b) historical analysis of collection and trends of tax receipts and provisions for delinquencies; (c) an analysis of the tax base, including relative property composition, principal taxpayers and adequacy of the tax base to service debt requirements; and (d) taxation that may add to the City's taxpayers' tax costs.

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

The Texas Property Tax Code (the "Property Tax Code") establishes for each county in Texas a single appraisal district with responsibility for recording and appraising property for all taxing units within the county, and a single appraisal review board, with responsibility for reviewing and equalizing the values established by the appraisal district. The Property Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the prior tax year or the value rendered by the property owner or whose property was not on the appraisal roll the preceding year or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the City; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition, taxing units, such as the City are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records or the grant in whole or in part of an exemption. A taxing unit may not, however, challenge the valuation of individual properties.

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

**Tax Rate Limitations**

Article XI, Section 5 of the Texas Constitution, provides for an overall limitation for Home Rule Cities (more than 5,000 population), such as the City, of $2.50 per $100 assessed valuation. The Attorney General of Texas provides a further limitation, with respect to Home Rule Cities, such as the City, which have such a $2.50 limitation, of approving ad valorem tax bonds only to the extent that all of such city's ad valorem tax debt can be serviced by a tax rate of $1.50 per $100 assessed valuation at a 90% collection rate. For the City's actual tax rate see "TAX DATA – Historical Analysis of Tax Collection."

**Property Subject to Taxation by the City**

Except for certain exemptions provided by Texas law, all the property in the City, real or personal, is subject to taxation by the City. Principal categories of exempt property include property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by producers; certain property associated with charitable organizations, use and development associations, religious organizations, and qualified schools; designated historic sites; solar and wind powered energy devices; most individually owned automobiles; property of disabled veterans only to the extent of $3,000 of taxable valuation; and residential homesteads of persons over 65 years, to the extent the governing body of the political subdivision granting an exemption deems it advisable to exempt such homestead. The City presently exempts from taxation up to $17,500 assessed valuation on residential homesteads to persons over 65 years of age or disabled. Such homestead and disabled veterans exemptions from the 2017 Certified tax roll approximate $198,452,540.

An eligible owner of agricultural and timberland may apply to have such properties which meet certain requirements appraised on the basis of productivity value or market value, whichever is less. However, eligible timberland may not be appraised at a value lower than was assigned on the 1978 tax rolls. The total loss in value due to grants of agricultural use and open-space land appraisal from the 2017 tax roll approximates $49,316,388.

The City has the authority to enter into tax abatement agreements to encourage economic development. Under such agreements, a property owner agrees to construct certain improvements on its property. The City 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. Such abatement agreement may last for a period of up to 10 years. The City currently provides two tax abatements.

The Property Code also provides for an exemption from ad valorem taxation for certain pollution control property. The value of such property exempt from ad valorem taxation from the 2017 tax roll is $695,770. The Property Code also enables cities to adopt a Historical Tax Abatement Ordinance.

Voters of Texas have approved a state constitutional amendment which permits local governments the option of granting homestead exemptions of up to 20% of market value. The City currently does not grant an additional homestead exemption.

Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of "goods-in-transit." "Goods-in-transit" is defined by a provision of the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out-board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in- transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods-in-transit exemptions for items of personal property. On September 25, 2007, the City passed a resolution electing not to grant the "goods-in-transit" exemption. In December 2011 the City passed a second resolution electing not to grant the "goods-in-transit" exemption.

**Notice, Hearing and Repeal Procedures**

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

**Levy and Collection of Taxes**

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

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

The City is prohibited from adopting a tax rate that exceeds the lower of the rollback tax rate or 103 percent of the "effective tax rate" until it has held a public hearing on the proposed tax rate and has otherwise complied with the Property Tax Code. Reference is made to the Property Tax Code for definitive requirements for the levy and collection of ad valorem taxes and the calculation of the various defined tax rates.

Taxes are due on receipt of the tax bill, and become delinquent after January 31 of the following year, or on the first day of the calendar month next following the expiration of twenty-one (21) days after mailing of the tax bills, whichever occurs later. A delinquent tax account incurs an initial penalty of six percent (6%) of the amount of the tax and accrues an additional penalty of one percent (1%) per month up to July 1, at which time the total penalty becomes twelve percent (12%). In addition, delinquent taxes accrue interest at one percent (1%) per month. If the tax is not paid by July 1, an additional penalty of up to twenty percent (20%) may under certain circumstances be imposed by the City. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payments, partial payments of taxes and the postponement of the delinquency date of taxes under certain circumstances. The City does not permit such payments, except for those property owners who are over the age of 65 as provided in the Property Tax Code.

**Collections**

The City contracts with the Jefferson County Tax Assessor-Collector to collect ad valorem taxes on behalf of the City. The Jefferson County Tax Assessor-Collector currently charges a rate of $0.32 per account per year for such collection.

The City has a lien granted by statute for unpaid taxes on real property which is discharged upon payment. Thereafter, no lien exists in favor of the City until it again levies taxes. A tax lien may not be enforced on personal property transferred to a bona fide purchaser for value who does not have actual notice of the existence of the lien. In the event a taxpayer fails to make timely payment of taxes owing to the City on real property, a penalty of 6% of the unpaid taxes is incurred in February and 1% is added monthly until July 1 when the penalty becomes 12%. In addition, interest on delinquent taxes accrues at the rate of 1% per month until paid. The City may file suit for the collection of delinquent taxes and may foreclose such lien in a foreclosure proceeding. The City may also impose an additional penalty to defray costs of collection by an attorney, not to exceed 20% of the total amount due. The property subject to the City's lien may be sold, in whole or in part, pursuant to a court order to collect the amounts due. The ability of the City to collect delinquent taxes by foreclosure may be adversely affected by many factors, including, but not limited to the condition of the property, the amount of taxes owed to other taxing units, adverse market conditions, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of the taxpayer's debt.

**Collection of Delinquent Taxes**

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

**Historical Analysis of Tax Collection**

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 6% of the amount of the tax for the first calendar month it is delinquent plus one percent 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 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 1% for each month or portion of a month the tax remains unpaid; and an additional penalty up to a maximum of 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.

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- Collection Ratios -

| Tax Year | Assessed Valuation | Tax Rate Per $100 of Assessed Valuation | Adjusted Tax Levy | % Tax Collections Current Year | % Tax Collections Current and Prior Years | Fiscal Year Ended 9-30 |
|---|---|---|---|---|---|---|
| 2000 | $3,779,873,302 | $0.635 | $24,002,195 | 97.05% | 99.23% | 2001 |
| 2001 | 3,908,466,045 | 0.635 | 24,818,759 | 97.43 | 99.51 | 2002 |
| 2002 | 3,935,778,866 | 0.670 | 26,369,718 | 97.10 | 100.00 | 2003 |
| 2003 | 4,188,524,756 | 0.670 | 28,063,116 | 97.66 | 100.22 | 2004 |
| 2004 | 4,568,580,979 | 0.664 | 30,237,242 | 96.75 | 99.34 | 2005 |
| 2005 | 4,913,341,853 | 0.659 | 32,190,392 | 97.63 | 99.29 | 2006 |
| 2006 | 4,890,473,995 | 0.659 | 32,035,224 | 97.88 | 99.41 | 2007 |
| 2007 | 5,587,189,473 | 0.654 | 36,363,713 | 97.92 | 99.25 | 2008 |
| 2008 | 6,332,199,832 | 0.640 | 40,390,005 | 97.19 | 99.30 | 2009 |
| 2009 | 6,556,908,133 | 0.640 | 41,652,488 | 97.46 | 99.21 | 2010 |
| 2010 | 6,808,190,820 | 0.640 | 44,224,825 | 97.91 | 99.05 | 2011 |
| 2011 | 6,753,396,435 | 0.640 | 43,087,639 | 97.95 | 98.82 | 2012 |
| 2012 | 6,785,451,898 | 0.640 | 43,431,623 | 98.12 | 98.44 | 2013 |
| 2013 | 6,748,564,770 | 0.690 | 46,628,688 | 97.26 | 99.44 | 2014 |
| 2014 | 6,871,823,695 | 0.690 | 47,415,985 | 97.17 | 100.53 | 2015 |
| 2015 | 6,935,933,700 | 0.690 | 47,921,399 | 97.48 | 98.73 | 2016 |
| 2016 | 7,209,192,016 | 0.690 | 49,743,425 | 97.35 | 98.48 | 2017 |
| 2017 | 7,426,450,815 | 0.710 | 52,727,801 | (in process of collection) | | 2018 |

Source: Texas Municipal Report published by the Municipal Advisory Council of Texas, the Jefferson County Appraisal District, State Comptroller's Office, Property Tax Division, and information supplied by the City.

- Tax Rate Distribution -

| | Tax Year 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---|---|---|---|---|
| General Fund | $0.490585 | $0.483809 | $0.480000 | $0.470000 | $0.470000 |
| Interest & Sinking Fund | 0.219415 | 0.206191 | 0.210000 | 0.220000 | 0.220000 |
| Total | $0.710000 | $0.690000 | $0.690000 | $0.690000 | $0.690000 |

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**Analysis of Tax Base**

- Tax Base Distribution -

| Type of Property | 2017 Tax Roll (a) Amount | % | 2016 Tax Roll (a) Amount | % |
|---|---|---|---|---|
| Residential | $4,071,764,615 | 45.69% | $3,942,274,561 | 48.76% |
| Commercial and Industrial | 3,062,161,574 | 34.36 | 2,978,592,379 | 36.84 |
| Utilities | 274,014,080 | 3.07 | 273,009,880 | 3.38 |
| Vacant Lots/Tracts/Acreage | 212,727,573 | 2.39 | 209,063,047 | 2.59 |
| Minerals | 8,984,123 | 0.10 | 4,585,676 | 0.06 |
| Other Personal | 1,282,068,650 | 14.39 | 678,206,699 | 8.39 |
| Gross Assessed Value | $8,911,720,645 | 100.00% | $8,085,732,242 | 100.00% |
| Less: Exemptions | 1,431,295,330 | | 876,540,226 | |
| Net Assessed Value | $7,426,450,815 | | $7,209,192,016 | |

| Type of Property | 2015 Tax Roll (a) Amount | % | 2014 Tax Roll (a) Amount | % |
|---|---|---|---|---|
| Residential | $3,826,102,012 | 49.20% | $3,763,479,804 | 52.79% |
| Commercial and Industrial | 2,822,666,035 | 36.30 | 2,842,657,900 | 39.88 |
| Utilities | 278,982,420 | 3.59 | 247,887,090 | 3.48 |
| Vacant Lots/Tracts/Acreage | 184,895,633 | 2.38 | 193,229,471 | 2.71 |
| Minerals | 2,337,241 | 0.03 | 28,704,523 | 0.40 |
| Other Personal | 661,833,489 | 8.51 | 637,826,947 | 0.74 |
| Gross Assessed Value | $7,776,816,830 | 100.00% | $7,713,785,735 | 100.00% |
| Less: Exemptions | 840,883,130 | | 841,962,040 | |
| Net Assessed Value | $6,935,933,700 | | $6,871,823,695 | |

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

Source: The Jefferson County Appraisal District, State Comptroller's Office, Property Tax Division, and information supplied by the City.

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- Principal Taxpayers -

| Taxpayer | Tax Year 2017 Taxable Assessed Valuation (a) | Tax Year 2017 % Total Assessed Valuation | Tax Year 2016 Taxable Assessed Valuation (a) | Tax Year 2016 % Total Assessed Valuation | Tax Year 2015 Taxable Assessed Valuation (a) | Tax Year 2015 % Total Assessed Valuation |
|---|---|---|---|---|---|---|
| ExxonMobil Oil Corporation | $ 180,311,729 | 2.43% | $182,925,675 | 2.54% | $146,138,254 | 2.11% |
| Entergy Texas, Inc. | 149,190,870 | 2.01% | 140,895,760 | 1.95% | 143,840,760 | 2.07% |
| Enterprise Beaumont Marine | 118,949,530 | 1.60% | (b) | (b) | (b) | (b) |
| Golden Triangle Storage | 78,271,380 | 1.05% | 86,560,220 | 1.20% | 91,944,450 | 1.33% |
| BP America Production Co. | 77,416,350 | 1.04% | 50,588,720 | 0.70% | 34,920,660 | 0.50% |
| Parkdale Mall Associates | 56,795,860 | 0.76% | 56,752,800 | 0.79% | 50,090,790 | 0.72% |
| American Valve & Hydrant Mfg. | 50,133,620 | 0.68% | 52,016,350 | 0.72% | 42,821,710 | 0.62% |
| Transcanada Keystone | 39,515,740 | 0.53% | 40,881,940 | 0.57% | 44,804,490 | 0.65% |
| West End Apts. | 34,679,350 | 0.47% | (b) | (b) | (b) | (b) |
| Premcor Refining Group, Inc. | 32,125,290 | 0.43% | 31,525,560 | 0.44% | 34,595,060 | 0.50% |
| Oiltanking Beaumont Partnership | (b) | (b) | 80,402,080 | 1.12% | (b) | (b) |
| Christus Health Southeast TX | (b) | (b) | 28,348,211 | 0.39% | (b) | (b) |
| Chevron Phillips Chemical Co. | (b) | (b) | (b) | (b) | 70,525,000 | 1.02% |
| Wal-Mart Stores, Inc. | (b) | (b) | (b) | (b) | 31,699,270 | 0.46% |
| | $817,389,719 | 11.01% | $642,147,025 | 10.42% | $589,156,174 | 9.97% |

(a) Source: The City of Beaumont, Tax Department.
(b) Not a principal taxpayer in that tax year.

- Tax Adequacy -

| | |
|---|---|
| Average Annual Debt Service Requirements (2018-2040) ............................................. | $14,142,115(a) |
| Maximum Annual Debt Service Requirements (2024)..................................................... | $17,534,268(a) |
| Tax Rate of $0.2434 per $100 assessed valuation against the 2017 Certified Assessed Valuation at 97% collection produces .............................................................................. | $17,534,268 |

(a) Includes the Certificates.

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**Sales Tax**

- Authority -

The City has adopted the provisions of Section 321.001 et seq. of the Texas Tax Code, as amended, which grants the City the power to impose and levy a 1% sales tax. The City may not pledge the proceeds from the sales tax as security for the Certificates.

- Sales Tax Option -

In 1986 the Texas Legislature passed a statute giving Texas cities the option of assessing a 1/2 cent sales tax, in addition to the 1% sales tax authorized under Section 321.001 of the Texas Tax Code that is discussed above. The sales tax must be approved by a majority of a city's voters in a local option election and, if the tax is approved, then the city must reduce its ad valorem tax property levy by the estimated sales tax revenues.

The City had a special election of the City's voters on August 8, 1987, approving the one-half cent sales tax.

- Collection History -

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

| | | Ad Valorem Taxation Comparisons | | |
|---|---|---|---|---|
| Fiscal Year Ended 9-30 | Sales Tax Receipts | Equivalent Tax Year | Tax Rate Equivalent | % of Actual Tax Levy |
| 1999 | $25,054,702 | (1998) | $0.684 | 107.75% |
| 2000 | 26,481,128 | (1999) | .715 | 112.66 |
| 2001 | 26,180,055 | (2000) | .693 | 109.07 |
| 2002 | 26,145,127 | (2001) | .669 | 105.34 |
| 2003 | 26,506,111 | (2002) | .673 | 100.52 |
| 2004 | 27,411,884 | (2003) | .654 | 97.68 |
| 2005 | 27,818,618 | (2004) | .609 | 91.70 |
| 2006 | 36,984,234 | (2005) | .662 | 114.22 |
| 2007 | 35,913,802 | (2006) | .734 | 111.87 |
| 2008 | 38,134,102 | (2007) | .683 | 104.36 |
| 2009 | 40,099,811 | (2008) | .633 | 99.28 |
| 2010 | 33,779,627 | (2009) | .515 | 81.10 |
| 2011 | 34,619,069 | (2010) | .508 | 78.28 |
| 2012 | 35,399,926 | (2011) | .524 | 82.16 |
| 2013 | 40,448,273 | (2012) | .596 | 93.13 |
| 2014 | 37,803,568 | (2013) | .560 | 81.07 |
| 2015 | 38,035,367 | (2014) | .553 | 80.22 |
| 2016 | 39,590,496 | (2015) | .571 | 82.72 |
| 2017 | 38,954,160 | (2016) | .540 | 78.31 |

Source: Comprehensive Annual Financial Reports of The City of Beaumont.

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**Industrial District Contracts**

The City has created within its extraterritorial jurisdiction, but outside of the City limits, Industrial Districts and has entered into contracts with the industries within such districts. Contracts with the industries listed below were negotiated between 2008 and 2010 and expired on December 31, 2015. The City renegotiated all contracts for a new seven year term. There were no significant changes to the terms of the contracts for 2016-2022. The contracts specify payments to be made in lieu of ad valorem taxes and protect the industries from annexation by the City during the term of the respective contracts. Such revenues are not pledged to the payment of the Certificates.

Industries with contracts with the City and payments are as follows:

| Industrial District | 2017 | 2016 | 2015 |
|---|---|---|---|
| Exxon Mobil Oil Corporation | $11,000,000 | 10,577,623 | 11,098,845 |
| Goodyear Tire & Rubber Co. | 1,038,099 | 1,051,960 | 1,052,991 |
| Enterprise Refined Products | 2,037,521 | - | - |
| Du Pont E.I. de Nemours & Co. | 182,631 | 177,400 | 173,091 |
| Arkema, Inc. | 698,242 | 716,121 | 699,239 |
| Lucite International | 276,388 | 307,098 | 388,110 |
| Cetana Interstate Pipeline | 393,940 | 417,476 | 577,225 |
| Oiltanking BMT Partners LP | 145,656 | 460,894 | 776,241 |
| Martin Gas Sales. | 411,412 | 452,591 | 532,524 |
| Entergy Gulf States, Inc. | 261,319 | 337,513 | 308,585 |
| Chemtrade Refining Services | 181,795 | 189,733 | 161,929 |
| DCP Midstream | 39,439 | 42,425 | 47,349 |
| Coastal Caverns | 166,601 | 181,686 | - |
| 850 Pine Str, Inc. | 32,127 | 18,976 | 18,368 |
| Federal Correctional Complex | 6,000 | 6,000 | 6,000 |
| IBEW Local | 3,499 | 3,639 | 3,009 |
| Nat Gasoline | 58,051 | 58,051 | 43,647 |
| Air Liquide | 150,617 | - | |
| Slamback Partners | 4,971 | 4,668 | 4,668 |
| Total Petrochem | 85,208 | - | |
| Koch Nitrogen Company, LLC | 3,136 | 46,978 | 47,505 |
| Koch Nitrogen International Sarl | 42,731 | 57,232 | 18,816 |
| OCI Beaumont LLC | 715,681 | - | |
| TE Products. | - | 448,594 | 180,793 |
| Cray Valley USA (prev. Sartomer Company) | - | 109,228 | 118,884 |
| Pandora Methanol | - | 744,984 | 239,169 |
| Enterprise Marine | - | 280,069 | - |
| Total | $17,935,064 | $16,690,939 | $16,496,988 |

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Total revenue to the City from these contracts is summarized and compared to ad valorem taxation in the table below:

| Fiscal Year Ended 9-30 | Revenues from Industrial District Contracts | Ad Valorem Taxation Comparisons: Equivalent Tax Year | Tax Rate Equivalent | % of Actual Tax Levy |
|---|---|---|---|---|
| 2001 | $11,266,499 | (2000) | $0.2981 | 46.94% |
| 2002 | 12,313,204 | (2001) | .3150 | 49.61 |
| 2003 | 11,757,638 | (2002) | .2987 | 44.59 |
| 2004 | 11,920,119 | (2003) | .2846 | 42.50 |
| 2005 | 11,456,951 | (2004) | .2508 | 35.39 |
| 2006 | 11,491,345 | (2005) | .2339 | 35.80 |
| 2007 | 12,081,915 | (2006) | .2470 | 33.06 |
| 2008 | 13,178,802 | (2007) | .2359 | 36.07 |
| 2009 | 16,102,794 | (2008) | .2543 | 38.88 |
| 2010 | 14,745,496 | (2009) | .2249 | 35.40 |
| 2011 | 13,220,777 | (2010) | .1942 | 29.89 |
| 2012 | 13,434,606 | (2011) | .1989 | 31.18 |
| 2013 | 14,926,084 | (2012) | .2200 | 34.37 |
| 2014 | 16,095,254 | (2013) | .2384 | 34.52 |
| 2015 | 16,496,988 | (2014) | .2401 | 34.79 |
| 2016 | 16,690,939 | (2015) | .2410 | 34.88 |
| 2017 | 17,935,064 | (2016) | .2488 | 36.06 |

(a) Source: The City of Beaumont, Tax Department.

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## SELECTED FINANCIAL DATA

### Historical Operations of the City

- General Fund -

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

| | Fiscal Year Ended September 30 | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| **REVENUES** | | | | | |
| Property Taxes | $ 34,374,191 | $ 33,621,025 | $ 32,488,239 | $ 31,567,375 | $ 31,344,833 |
| Gross Receipts Taxes | 8,135,619 | 7,923,994 | 8,420,236 | 8,408,861 | 8,187,844 |
| Sales and Use Taxes | 38,954,160 | 39,590,496 | 38,035,367 | 38,306,699 | 40,448,273 |
| Industrial Payments | 17,935,064 | 16,690,939 | 16,496,988 | 16,095,254 | 14,926,084 |
| License and Permits | 1,690,014 | 2,024,439 | 1,974,833 | 2,000,446 | 1,617,747 |
| Charges for Services | 4,043,492 | 4,244,423 | 4,482,102 | 4,395,936 | 4,302,405 |
| Fines and Forfeits | 1,544,896 | 2,078,996 | 1,778,531 | 1,915,436 | 1,524,879 |
| Recreational Activities | 786,191 | 851,544 | 891,816 | 840,118 | 881,388 |
| Intergovernmental | -- | 66,839 | -- | --- | --- |
| Interest | 330,101 | 284,868 | 166,077 | 102,105 | 95,393 |
| Miscellaneous | 1,383,123 | 1,033,067 | 1,106,147 | 922,429 | 1,064,782 |
| Total Revenues | $109,176,851 | $108,410,630 | $105,840,336 | $104,554,659 | $104,393,628 |
| **EXPENDITURES** | | | | | |
| General Government | $ 13,465,729 | $ 15,234,625 | $ 15,113,549 | $ 15,079,944 | $ 13,020,232 |
| Public Safety | 65,317,054 | 61,103,423 | 59,179,757 | 58,413,985 | 56,941,047 |
| Public Works | 18,232,420 | 18,215,459 | 18,101,493 | 19,175,874 | 19,400,192 |
| Health and Welfare | 7,345,315 | 7,260,094 | 6,968,953 | 7,470,549 | 7,335,837 |
| Culture & Recreational | 7,850,861 | 7,506,505 | 7,333,223 | 7,609,003 | 9,248,304 |
| Housing and economic development | 3,212,826 | 3,219,062 | 3,041,127 | 3,211,353 | 3,204,283 |
| Capital Outlay | 106,325 | 243,179 | -- | 12,744 | 106,414 |
| Total Expenditures | $115,530,530 | $110,973,452 | $109,738,102 | $110,973,452 | $109,256,309 |
| Excess Revenues Over Expenditures | $ (6,353,679) | $ (4,371,717) | $ (3,897,766) | $ (6,418,793) | $ (4,862,681) |
| Other Financing Sources (Uses) | | | | | |
| Operating Transfers In | $ 9,700,000 | $ 9,700,000 | $ 9,700,000 | $ 9,700,000 | $ 8,883,333 |
| Operating Transfers Out | (2,500,000) | (3,700,000) | (4,170,000) | (3,445,000) | (3,500,000) |
| Total Other Financing Sources (Uses) | 7,200,000 | 6,000,000 | 5,530,000 | 6,725,000 | 5,383,333 |
| Excess Revenues and Other Financing Sources (Under) Expenditures and Other Uses | $ 846,321 | $ 1,628,283 | $ 1,632,234 | $ (163,793) | $ 520,652 |
| Fund Balance, Beginning of Year | $35,120,463 | $33,492,180 | $31,859,946 | $32,023,739 | $31,503,087 |
| Prior Period Adjustment | --- | --- | --- | --- | --- |
| Fund Balance | $35,966,784 | $35,120,463 | $ 33,492,180 | $ 31,859,946 | $ 32,023,739 |

Source: Comprehensive Annual Financial Reports of The City of Beaumont.

**Financial Statements**

A copy of the City's Financial Statements for the fiscal year ended September 30, 2017, is attached hereto in “APPENDIX B". Copies of such statements for preceding years are available, for a fee, upon request.

## ADMINISTRATION OF THE CITY

Policy-making and legislative functions are the responsibility of and are vested in the Mayor and City Council under provisions of the "Charter of The City of Beaumont" (the "Charter") approved by the electorate December 6, 1947, and amended in 1952, 1972, 1983, 1986, 1998 and 2003. The City Council is composed of seven members, including the Mayor. The Mayor and two (2) Councilmembers are elected at-large. Four (4) Councilmembers are elected only by the qualified voters residing in the ward from which each such ward councilmember is elected. All members are elected in odd numbered years and serve two-year terms. The Mayor is entitled to vote on all matters before the City Council, but has no power to veto City Council action. Members of the City Council are described below:

| Council Members | Position | Term Expires | Occupation |
|---|---|---|---|
| Becky Ames | Mayor | May 2019 | CEO, Victory Medical Center |
| Robin Mouton | Mayor Pro-Tem Councilmember, Ward 4 | May 2019 | Retired |
| Virginia Jordan | Councilmember, Ward 1 | May 2019 | Retired |
| Mike Getz | Councilmember, Ward 2 | May 2019 | Attorney at Law |
| Audwin Samuel | Councilmember, Ward 3 | May 2019 | Attorney at Law |
| William Sam* | Councilmember, At Large | May 2019 | Retired |
| W.L. Pate, Jr. | Councilmember, At Large | May 2019 | President, Pate Resources Group, Inc. |

**Administration**

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

(1) Appoint and remove all department heads and all other employees in the administrative service of the City and may authorize the head of a department to appoint and remove subordinates in his respective department;

(2) Prepare the budget annually, submit it to City Council, and be responsible for its administration;

(3) Prepare and submit to City Council a complete report on the finances and administrative activities of the City;

(4) Keep City Council advised of the financial condition and future needs of the City and make appropriate recommendations; and

(5) Perform such other necessary duties as prescribed by the Charter or required by City Council.

* Mr. Sam is filling the unexpired term of Councilmember Gethrel Williams Wright. Councilmember Wright passed away in February 2018.

Members of the administrative staff are described below:

| Staff Member | Position | Years in Position | Years of Service |
|---|---|---|---|
| Kyle Hayes | City Manager | 15 | 25 |
| Tyrone E. Cooper | City Attorney | 13 | 38 |
| Tina Broussard | City Clerk | 10 | 15 |
| Todd Simoneaux | Chief Financial Officer | 2 | 13 |
| James P. Singletary | Police Chief | 6 | 36 |
| Earl White | Fire Chief | 0 | 35 |
| Kirstin Ferguson | Controller | 2 | 12 |

**Consultants**

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

Bond Counsel ........................................................................................................................ Bracewell LLP
Houston, Texas

Auditors ........................................................................................................................ BKD LLP
Houston, Texas

Financial Advisor ........................................................................................................ RBC Capital Markets, LLC
San Antonio, Texas

## OTHER CONSIDERATIONS

**Pension Fund**

The City participates in two pension plans for its employees. The Texas Municipal Retirement System (TMRS), an agent multi-employer defined contribution plan, covers all eligible employees except firefighters. Firefighters are covered by the Beaumont Firemen's Relief and Retirement Fund, a single-employer defined benefit plan. Both plans are created under Texas statutes which establish each plan's provisions. The City's contributions to the pension plans are actuarially determined and established in a collective bargaining agreement, respectively.

The City contributes 14% of covered payroll for all eligible civilian employees and police officers. All employees, civilian and police, have a 7% contribution rate. The City's unfunded pension obligation for this plan totaled $83,771,318 at the December 31, 2016 valuation date, which will be amortized over 30 years.

Under the Firefighter's Relief and Retirement Fund, the City contributes 15.5% and firefighters contribute 15.5% of covered payroll in accordance with the collective bargaining agreement effective October 1, 2015.

For more information regarding the TMRS, the assumptions used in calculations, and the City's estimated contributions and unfunded liability, reference is made to the website of the TMRS at www.tmrs.org and the latest valuation report as of December 31, 2016 thereon. There can be no assurance that the assumptions used in calculating the City's unfunded liabilities with respect to its pension plans and the other Post-Employment Benefits discussed below, including but not limited to estimates regarding the value of funded assets, earnings thereon, and benefits payable, will prove correct, and the liability could be greater than estimated. Minor changes in such estimates can materially change the City's annual and long-term liabilities. Whether correct or not, there can be no assurance that the City will be able to satisfy such existing and future unfunded liabilities or to make currently estimated or future annual contributions toward their payment without raising taxes or cutting services.

**Other Post-Employment Benefits (OPEB)**

The City offers post employment health insurance to its retirees until age 65. The retiree and the City share in the cost based on a percentage applied to the plan the retiree is on. The City's actuarial unfunded liability, as required by GASB 45, is $36,502,000, as of the valuation at September 30, 2017. The annual required contribution is $2,720,000. The City no longer offers subsidized rates to employees hired as of December 31, 2016 upon their retirement.

**Collective Bargaining**

Police officers and firemen employed by the City have collective bargaining rights under the Texas Fire and Police Employees Relations Act. Neither the police officers nor the firemen have the right to strike, but under the Texas

Local Government Code firemen may submit any unsettled issues relating to compensation or other conditions of employment to a state district court to be resolved, while the policemen may submit such issues to a factfinder with a referendum election finally determining all unresolved issues. The current labor agreement with police officers expires September 30, 2018. The current labor agreement with the firemen expires September 30, 2020.

**Litigation**

The City is a defendant in various lawsuits and is aware of pending claims arising in the ordinary course of its municipal and enterprise activities, certain of which seek substantial damages. That litigation includes lawsuits claiming damages that allege that the City caused personal injuries and wrongful deaths; other lawsuits and claims alleging unlawful employment practices and certain civil rights violations arising under Federal Law 42 U.S.C. §1983; various claims from contractors for additional amounts under construction contracts; and various other liability claims. The status of such litigation ranges from an early discovery stage to various levels of appeal of judgments both for and against the City. The amount of damages is limited in certain cases under the Texas Tort Claims Act and is subject to appeal. The City intends to defend itself vigorously against the suits; however, no prediction can be made, as of the date hereof, with respect to the liability of the City for such claims or the final outcome of such suits. The City typically utilizes its General Liability Fund to liquidate claims and judgments; however, the City may, at its option, issue Tax-Supported Certificates to pay any final, unappealable judgments and settlements resulting from lawsuits against the City. See Note 4 to the Financial Statements for Fiscal Year 2017 in APPENDIX A. See also the section captioned "PROPERTY TAXES — City Charter Tax and Revenue Propositions."

In the opinion of the City, it is improbable that the lawsuits now outstanding and the claims now pending against the City could become final in a time and manner as to have a material impact upon the City or its ability to repay the Certificates.

**Risk Management/Self Insurance**

The City has retained all liability risk which includes, but is not limited to, torts, statutory causes of action, contract claims and errors and omissions. Transactions related to these risks are recorded in the City's General Liability Fund. Contributions are made to this fund by all appropriate City funds based on the amounts needed for prior and current claims and to establish a reserve. The General Liability Fund had audited net current assets as of September 30, 2017, of $836,191. However, there can be no assurance that the City may not experience claims or suffer losses substantially in excess of the balance in the fund from time to time.

Under the laws of the State, most claims for torts are limited to $250,000 per person and $500,000 per incident. Therefore, to the extent that amounts in the General Liability Fund are not sufficient, the City may find it necessary to use current revenues or to incur additional indebtedness in order to satisfy such claims and losses which may, either individually or in the aggregate, be significant.

The City has purchased commercial property and casualty insurance on its real property and associated improvements with a deductible of $100,000 per occurrence. There is a $50,000 deductible on all perils not specified with other deductible amounts. The deductible for loss due to a flood is $100,000, except in the case of a named storm where the deductible is 2% with a $100,000 minimum. Subject to the deductible, the insurance provides for payment of replacement cost.

The City retains all risks associated with the employee indemnity health program up to $150,000 per person. Risks associated with workers' compensation are retained by the City up to $500,000 per incident. The City purchases commercial insurance to cover losses beyond the retained risk. Transactions related to employee health claims (including the prescription drug program), workers' compensation claims, dental insurance premiums and the administration of these programs are recorded in the Employee Benefits Fund. Contributions are made to this fund by all appropriate City funds based on the amounts needed for prior, current and estimated future claims. As of September 30, 2017, the City reported its liability for claims incurred in the fund to be $3,631,792, and on the same day, the fund had net unrestricted assets of $3,012,355, before considering the estimated claims liability and OPEB liability. The City implemented changes to its benefits in 2015. Employees hired as of January 1, 2015 will not receive a subsidized health insurance rate following their retirement from the City.

## LEGAL MATTERS

**Legal Opinions**

The delivery of the Certificates is subject to the approving opinions of the Attorney General of Texas to the effect that the obligations are valid and legally binding obligations of the City payable from the proceeds of a continuing ad valorem tax levied, within the limits prescribed by law, upon all taxable property in the City, and the approving legal opinion of Bracewell LLP, Bond Counsel to the City ("Bond Counsel"), in substantially the form attached as APPENDIX C. In connection with the issuance of the Certificates, Bond Counsel has represented only the City. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Certificates is payable only upon the sale and delivery of the Certificates.

Bond Counsel has participated in the preparation of the Official Statement, but such firm has not undertaken to independently verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Certificates in the Official Statement to verify that such description conforms to the provisions of the Ordinance. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of any kind with regard to the accuracy or completeness of any of the information contained herein.

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

**No-Litigation Certificate**

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

**No Material Adverse Change**

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

## TAX MATTERS

**Tax Exemption**

In the opinion of Bracewell LLP, Bond Counsel, under existing law (i) interest on the Certificates is excludable from gross income for federal income tax purposes and (ii) the Certificates are not "private activity bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and, as such, interest on the Certificates is not subject to the alternative minimum tax.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Certificates, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of certificate proceeds and the source of repayment of certificates, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of certificate proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The City has covenanted in the Ordinance that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Ordinance pertaining to those sections of the Code that affect the excludability from gross income of interest on the Certificates for federal income tax purposes and, in addition, will rely on representations by the City, the City's Financial Advisor and the Underwriters with respect to matters solely within the knowledge of the City, the City's Financial Advisor and the Underwriters, respectively, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Ordinance or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Certificates could become includable in gross income from the date of delivery of the Certificates, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Certificates.

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems 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 as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Certificates could adversely affect the value and liquidity of the Certificates regardless of the ultimate outcome of the audit.

**Additional Federal Income Tax Considerations**

**Collateral Tax Consequences**

Prospective purchasers of the Certificates should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Certificates. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences. Prospective purchasers of the Certificates should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Certificates, received or accrued during the year.

**Tax Accounting Treatment of Original Issue Premium**

The issue price of all or a portion of the Certificates may exceed the stated redemption price payable at maturity of such Certificates. Such Certificates (the "Premium Certificates") are considered for federal income tax purposes to have "bond premium" equal to the amount of such excess. The basis of a Premium Certificate in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Certificate in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Certificate by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Certificate that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Certificate) is determined using the yield to maturity on the Premium Certificate based on the initial offering price of such Premium Certificate.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Certificates that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Certificates should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Certificate and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption of other disposition of such Premium Certificates.

**Tax Accounting Treatment of Original Issue Discount**

The issue price of all or a portion of the Certificates may be less than the stated redemption price payable at maturity of such Certificates (the "Original Issue Discount Certificates"). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Certificate, and (ii) the initial offering price to the public of such Original Issue Discount Certificate constitutes original issue discount with respect to such Original Issue Discount Certificate in the hands of any owner who has purchased such Original Issue Discount Certificate in the initial public offering of the Certificates. Generally, such initial owner 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 Certificate equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Certificate continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Certificates under the captions "TAX MATTERS – Tax Exemption", "TAX MATTERS - Additional Federal Income Tax Considerations – Collateral Tax Consequences", and "- Tax Legislative Changes" generally applies and should be considered in connection with the discussion in this portion of the Official Statement.

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

The foregoing discussion assumes that (i) the Underwriters have purchased the Certificates for contemporaneous sale to the public and (ii) all of the Original Issue Discount Certificates have been initially offered, and a substantial amount of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the cover page of this Official Statement. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Certificates will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Certificate accrues 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 Certificates 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 Certificate 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 (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yields 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 (ii) the amounts payable as current interest during such accrual period on such Certificate.

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

**Tax Legislative Changes**

Public Law No. 115-97 (i.e., Tax Cuts and Jobs Act), which makes significant changes to the Code, including changing certain provisions affecting tax-exempt obligations, such as the Certificates, was signed into law on December 22, 2017. The changes include, among others, changes to the federal income tax rates for individuals and corporations and the alternative minimum tax for tax years beginning after December 31, 2017. Further, current law may change so as to directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Certificates from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Certificates. Prospective purchasers of the Certificates should consult with their own tax advisors with respect to any proposed, pending or future legislation.

## RATINGS

In connection with the sale of the Certificates, the City has made application to Moody's Investors Service, Inc. ("Moody's") for ratings and the underlying rating of "Aa2", has been assigned to the Certificates. An explanation of the significance of such ratings may be obtained from Moody's. The ratings reflect only the views of Moody's, and the City makes no representation as to the appropriateness of such rating.

There is no assurance that such rating will continue for any period of time or that it will not be revised downward or withdrawn entirely by Moody's, if, in the judgment of Moody's, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Certificates.

## CONTINUING DISCLOSURE OF INFORMATION

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

### Annual Reports

The City undertakes and agrees for the benefit of the Certificate holders to provide annually to the MSRB, within six months after the end of each fiscal year, financial information and operating data with respect to the City of the general type included in the final Official Statement authorized in this Ordinance (i) under the headings "INVESTMENT AUTHORITY AND INVESTMENT OBJECTIVES OF THE CITY;" "ADMINISTRATION OF THE CITY;" "CITY TAX DEBT (except under the heading "estimated Overlapping Debt;" "TAX DATA;" "SELECTED FINANCIAL DATA;" and in APPENDIX B. The information to be provided shall include the financial statements of the City prepared in accordance with the accounting principles the City may be required to employ from time to time pursuant to State law or regulation and audited, if the audit is completed within the period during which they must be provided. If the audit of such financial statements is not completed within such period, then the City shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when the audit report on such statement becomes available. The City will provide the updated information to the MSRB via EMMA.

If the City changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to the MSRB or filed with the SEC as permitted Rule 15c2-12 of the United States Securities and Exchange Commission under the Securities Act of 1934, as amended and in effect from time to time (the "Rule"). The City's current fiscal year end is September 30.

### Event Notices

The City will also provide timely notice (not in excess of ten (10) business days after the occurrence of the event) of any of the following events with respect to the Certificates: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Certificates, or other material events affecting the tax status of the Certificates; (7) modifications to right of holder of the Certificates, if material; (8) Certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Certificates, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the City; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor Paying Agent/Registrar or change in the name of the Paying Agent/Registrar, if material. As used above, the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the Board and officials or officers of the City in possession but subject to 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. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports". The City will provide each notice in this paragraph to the MSRB.

**Availability of Information**

The City has agreed to provide the foregoing information only to the MSRB. The information will be available to the public at www.emma.msrb.org.

**Limitations and Amendments**

The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Certificates at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any material breach, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, of its continuing disclosure agreement or from any statement made pursuant to its agreement. Holders or beneficial owners of Certificates may seek as their sole remedy a writ of mandamus to compel the City to comply with its agreement. No default by the City with respect to its continuing disclosure agreement shall constitute a material breach of or default under the Ordinance for purposes of any other provision of the Ordinance. Nothing in this paragraph is intended or shall act to disclaim, waive, or otherwise limit the duties of the City under federal and state securities laws. The City's undertakings and agreements are subject to appropriation of necessary funds and to applicable legal restrictions.

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, but only if, (i) the agreement, as so amended, would have permitted a purchaser to purchase or sell the Certificates in the offering made hereby 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 amount of the outstanding Certificates consent to such amendment or (b) a person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Certificates. The City may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid, and the City may amend the agreement in its discretion in any other circumstance or manner, but in either case only to the extent that its right to do so would not prevent the Underwriters from purchasing the Certificates in the offering described herein in compliance with the Rule. If the City amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**Compliance With Prior Undertakings**

The City has made a continuing disclosure agreement and has complied in all material respects with its prior continuing disclosure agreements made in accordance with the Rule, except that certain financial and operating data was not included in the annual filing the City made on March 28, 2014. The City updated and amended the filing on July 23, 2014 to include such financial and operating data. The City has implemented policies and procedures to ensure compliance in the future.

## FINANCIAL ADVISOR

RBC Capital Markets, LLC (the "Financial Advisor"), is employed as Financial Advisor to the City. The fees paid to the Financial Advisor for services rendered in connection with the issuance and sale of the Certificates are based on the amount of Certificates actually issued, sold and delivered, and therefore such fees are contingent on the sale and delivery of the Certificates.

## GENERAL CONSIDERATIONS

**Sources and Compilation of Information**

The information contained in this Official Statement has been obtained primarily from the City and from other sources believed to be reliable. No representation is made as to the accuracy or completeness of the information derived from sources other than the City. The summaries of the statutes, orders, ordinances and other related documents are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The information contained in this Official Statement in the section entitled "APPENDIX B – Audited Financial Statements of the City" has been provided by BKD LLP, Houston, Texas and has been included herein in reliance upon their authority as an expert in the fields of auditing and accounting.

RBC Capital Markets, LLC is employed by the City as its Financial Advisor to perform certain professional services for the City, including compiling of this Official Statement, for a fee to be computed on each separate issuance of indebtedness, contingent upon such indebtedness, such as the Certificate actually being issued, sold and delivered.

**Forward-Looking Statements**

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

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

**Updating of Official Statement**

The City will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the City and, to the extent that information comes to its attention, in the other matters described in the Official Statement, until the delivery of the Certificates to the Underwriters.

## CONCLUDING STATEMENT

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

**Neither this Official Statement nor any statement that may have been made orally or in writing is to be construed as or as part of a contract with the original or subsequent owners of the Certificates.**

This Official Statement has been duly authorized and approved by the City Council of The City of Beaumont, Texas as of the date specified on the cover page hereof.

**THE CITY OF BEAUMONT, TEXAS**

*Becky Ames*
Mayor
The City of Beaumont, Texas

ATTEST:

*Tina Broussard*
City Clerk
The City of Beaumont, Texas

# APPENDIX A

## ECONOMIC AND DEMOGRAPHIC CHARACTERISTICS

### General

The Third Congress of the Republic of Texas chartered Beaumont on December 16, 1838. Beaumont, however, came of age January 10, 1901, when the first great oil well in the world, the Anthony F. Lucas Gusher, blew in at Spindletop. At the turn of the century the population was 8,500; within 30 days after the discovery of oil at Spindletop, the population exploded to 30,000 people. With a population of over 100,000, Beaumont is the major city in an area with more than 400,000 residents.

The City of Beaumont, the county seat of Jefferson County, is located ninety miles east of Houston and approximately 35 miles north of the Gulf of Mexico on the banks of the Neches River. The area is a natural resource basin producing oil, gas sulphur and salt; a healthy agricultural economy includes rice, soybeans, blueberries, crawfish, wheat, corn, grain, sorghum and livestock.

Financing in the Beaumont area is available from a number of sources. Beaumont's financial community is strongly behind economic development efforts and demonstrates flexibility and creativity in meeting corporate needs for new facilities and business expansion. Banks represented in Beaumont are as follows: Chase Bank, N.A.; Capital One Bank N.A.; Community Bank; BBVA Compass Bank; Bank of America, N.A.; Gulf Coast Bank; Wells Fargo Bank N.A.; Prosperity Bank, MidSouth Bank and Woodforest National Bank.

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

- Beaumont -
- Major Employers -

According to The City of Beaumont and Texas Workforce Commission, the following is a listing of some of the largest firms in the area, in terms of employment and relevant product.

| Name | Product |
|---|---|
| Beaumont Independent School District | Education |
| ExxonMobile Corporation | Chemical/Energy |
| Christus St. Elizabeth Hospital | Health Care |
| Memorial Hermann Baptist | Health Care |
| The City of Beaumont | Government |
| Burrow Global Services | Engineering/Construction |
| County of Jefferson | Government |
| Lamar University | Education |
| Conn Appliances Inc | Electronics |
| Alorica | Customer Service Products |

- Beaumont, Port Arthur, Orange MSA -
- Major Employers -

| 1000+ Employees | |
|---|---|
| Beaumont Independent School District | Education |
| City of Beaumont | Government |
| Christus St. Elizabeth Hospital | Medical |
| Conn Appliances | Household Goods |
| Entergy Gulf States Inc. | Public Utilities |
| Jefferson County | Government |
| Lamar University | Education |
| Texas Department Criminal Justice | Mark Stiles State Prison |
| Memorial Hermann Baptist Hospital | Medical |
| Signal International | Ship Builders |
| Wholesale Electric Supply Co. | Electric Equipment and Sales |

| 500-999 Employees | |
|---|---|
| Ameripol-Synpol | Synthetic Rubber Manufacturing |
| ENGlobal Engineering | Engineering Services |
| Goodyear Tire & Rubber Co. | Rubber Manufacturers |
| Huntsman Corporation | Petrochemical Manufacturing |
| Matrix Engineering | Engineering Services |
| Motiva Enterprises | Petrochemical Manufacturing |
| Valero Port Arthur Refinery | Petrochemical Manufacturing |
| Walmart Supercenter | Department Store |
| West Corp. | Communications Services |
| West Orange-Cove ISD | Education |
| Xerox Corporation | Copy Machines |

Source: The City of Beaumont, Texas Workforce Commission.

-Port of Beaumont -

Beaumont's water resources mean much more than water sports and outdoor recreation. Our rivers have deep-and-wide commercial transportation value that continues to enrich our communities.

The Sabine-Neches Waterway serves the greater Beaumont area ports of Beaumont, Port Arthur, Orange, and Sabine Pass. The federally maintained deep-water channel from the Gulf of Mexico to the Port of Beaumont – the inland port the greatest distance from the gulf – is ranked fourth in the nation in strategic importance. The waterway averages 4,000 vessels a year, about 87 million tons annually, including military and strategic fuels cargoes. The port handles ten percent of our nation's gasoline and 20 percent of its jet fuel. At least 30 percent of all military equipment – 800,000 tons – rolled through our port coming or going on 100 ships during Operation Iraqi Freedom and Enduring Freedom.

The Port of Beaumont maintains complete facilities to handle a variety of cargo, including, but not limited to – forest products, grains, project cargo, military, bagged goods, aggregate, metals, and wood chips. In addition to the deep-water channel to the gulf, the Intracoastal Waterway and Mississippi River connect Beaumont with a vast inland waterway system serving such cities as Minneapolis, Chicago, St. Louis, Kansas City, Louisville, Omaha and Memphis.

- Lamar University -

Lamar University is a regional, comprehensive university and a member of the Texas State University System. The Texas State University System consists of five universities including Lamar, Angelo State University, Sam Houston State University, Southwest Texas State University and Sul Ross State University. In addition, three two-year institutions belong to the System-Lamar State College-Port Arthur, Lamar State College-Orange and the Lamar Institute of Technology.

Lamar University is located in Beaumont-the industrial center of Southeast Texas. The university's assets to area industry include the faculty, division of continuing education, research centers, computer center and the Gray Library with over a million volumes. Lamar University has over 13,000 students and five academic colleges.

Lamar University is accredited by the Commission on Colleges of the Southern Association of Colleges and Schools to award degrees at the associate, baccalaureate, master's and doctoral levels. Several of the university's colleges and degree programs are accredited as well. Lamar offers 63 undergraduate (bachelor's) degrees in 76 fields of study, 47 master's degrees and nine doctoral degrees in arts and sciences, business, education and human development, engineering, fine arts and communication.

- Building Permits -
(Source: The City of Beaumont)

| | Commercial | | Residential | |
|---|---|---|---|---|
| Year | Number of Permits | Value | Number of Permits | Value |
| 1993 | 264 | $20,385,846 | 241 | $21,947,590 |
| 1994 | 267 | 42,449,464 | 152 | 15,361,265 |
| 1995 | 310 | 54,888,652 | 135 | 12,534,264 |
| 1996 | 312 | 66,970,817 | 179 | 14,240,087 |
| 1997 | 254 | 44,994,846 | 179 | 19,478,736 |
| 1998 | 287 | 57,494,510 | 276 | 29,706,765 |
| 1999 | 349 | 86,719.87 | 283 | 31,627,775 |
| 2000 | 441 | 67,175,157 | 295 | 33,398,956 |
| 2001 | 123 | 83,388,703 | 269 | N/A |
| 2002 | 109 | 105,059,108 | 202 | 30,258,516 |
| 2003 | 56 | 25,955,137 | 254 | 41,023,182 |
| 2004 | 64 | 46,266,590 | 251 | 38,164,783 |
| 2005 | 56 | 140,615,539 | 205 | 31,493,965 |
| 2006 | 411 | 67,008,358 | 357 | 40,226,543 |
| 2007 | 242 | 132,869,780 | 446 | 51,659,666 |
| 2008 | 333 | 145,372,719 | 345 | 39,958,046 |
| 2009 | 607 | 204,297,987 | 480 | 41,622,697 |
| 2010 | 323 | 212,579,555 | 1,278 | 43,709,109 |
| 2011 | 208 | 115,549,763 | 1,262 | 48,621,171 |
| 2012 | 191 | 93,508,061 | 381 | 63,171,407 |
| 2013 | 37 | 94,134,538 | 160 | 67,782,376 |
| 2014 | 45 | 56,176,095 | 344 | 44,679,716 |
| 2015 | 35 | 52,401,755 | 195 | 29,117,125 |
| 2016 | 49 | 48,917,584 | 166 | 33,723,231 |
| 2017 | 38 | 45,664,992 | 127 | 23,724,169 |

- Growth Indicators -
(Source: Local Utility Providers)

| | 1960 | 1970 | 1980 | 1990 | 2000 | 2010 |
|---|---|---|---|---|---|---|
| Electric Meters (a) | 39,285 | 42,835 | 44,859 | 53,310 | 52,374 | 55,905 |
| Water Meters | 32,357 | 37,975 | 41,423 | 44,844 | 48,000 | 42,389 |
| Population | 119,175 | 117,548 | 118,102 | 114,323 | 113,866 | 118,296 |

(a) Provided by Entergy Corporation.

- Employment Information -
(Source: Texas Workforce Commission)

**Jefferson County**

| | 2018[1] | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Labor Force | 107,258 | 107,321 | 106,985 | 108,580 | 111,452 |
| Employed | 100,376 | 99,467 | 99,453 | 101,003 | 102,266 |
| Unemployed | 6,882 | 7,854 | 7,532 | 7,577 | 9,186 |
| Unemployed Rate | 6.4% | 7.3% | 7.0% | 7.0% | 8.2% |

**City of Beaumont**

| | 2018[1] | 2017 | 2016 | 2015 | 2014 |
|---|---|---|---|---|---|
| Labor Force | 51,560 | 51,560 | 51,445 | 52,370 | 53,837 |
| Employed | 48,265 | 48,265 | 48,529 | 49,186 | 49,866 |
| Unemployed | 3,295 | 3,295 | 3,186 | 3,184 | 3,971 |
| Unemployed Rate | 6.4% | 6.4% | 6.2% | 6.1% | 7.4% |

(1) As of April 2018.

# APPENDIX B

# AUDITED FINANCIAL STATEMENTS OF THE CITY

*[This page is intentionally left blank.]*

# City of
# Beaumont, Texas

## Comprehensive Annual Financial Report

***For the Fiscal Year ended September 30, 2017***

**Prepared by the**
**Finance Department**

**Todd Simoneaux, CPA**
***Chief Financial Officer***

**Kristin Ferguson, CPA, *Controller***

**Janice Ridley, *Grants Manager***

**Lynnsey McClusky, *Senior Accountant***
**Angie Breeden, *Accountant***
**Chance Chapman, *Grants Accountant***
**Victoria Castillo, *Fiscal Assistant***

**CITY OF BEAUMONT, TEXAS**
**COMPREHENSIVE ANNUAL FINANCIAL REPORT**
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2017**

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BEAUMONT

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BEAUMONT
TEXAS

March 20, 2018

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Beaumont:

It is our pleasure to submit the Comprehensive Annual Financial Report (CAFR) of the City of Beaumont as of and for the year ended September 30, 2017. This report was prepared by the Finance Department, in accordance with the City Charter, and in compliance with State law, to provide citizens, investors, grantor agencies and other interested parties with reliable financial information about the City.

The report consists of management's representations concerning the finances of the City of Beaumont. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, management of the City of Beaumont has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse, and to compile sufficient reliable information for the preparation of the City of Beaumont's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the City of Beaumont's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Beaumont's financial statements have been audited by BKD, LLP, a firm of licensed certified public accountants. The goal of the independent audit was to provide reasonable assurance that the financial statements of the City of Beaumont for the fiscal year ended September 30, 2017, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. Based upon the audit, the independent auditor concluded that there was a reasonable basis for rendering an unmodified opinion that the City of Beaumont's financial statements for the fiscal year ended September 30, 2017, and that those statements are fairly presented in conformity with GAAP. The independent auditor's report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the City of Beaumont was a part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the City of Beaumont's separately issued Single Audit Report.

GAAP require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Beaumont's MD&A can be found immediately after the report of the independent auditors.

**PROFILE OF THE GOVERNMENT**

The City of Beaumont, Texas, incorporated in 1838, is located in the southeast corner of the state and is the seat of Jefferson County. With a population of an estimated 118,000, the City occupies a land area of 84.01 square miles. The City has a major interstate highway dividing it and is serviced by a major port, a regional airport and three railroad lines. This City is empowered to levy a property tax on both real and personal properties located within its boundaries and collects sales tax revenues on taxable sales and purchases. The City is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing council.

The City has a Council-Manager form of government. It is governed by an elected Council composed of a Mayor and six council members, who each serve two-year terms. Four council members serve a separate ward district, and two serve at-large. They are charged with formulating public policy, enacting local legislation, adopting budgets, and appointing the City Manager, City Attorney, City Clerk and City Magistrates. The City Manager is the chief administrative and executive officer of the City, and implements Council directives and policies, administers the fiscal affairs, and is responsible for the administration of the municipal operations.

The City of Beaumont provides a full range of services, including police and fire protection; construction and maintenance of streets and other infrastructure; recreational activities; health and welfare services; and cultural events.

The annual budget serves as the foundation for the City of Beaumont's financial planning and control. All departments of the City are required to submit requests for appropriation to the City Manager on or before May 15 of each year. The City Manager uses these requests as the starting point for developing a proposed budget which is presented to the Council for review by August 15. The Council is required to hold public hearings on the proposed budget and to adopt a final budget no later than September 27, in the last month of the City of Beaumont's fiscal year. The appropriated budget is prepared by fund, function, (e.g. public safety), and department (e.g. police). Transfers between expenditure accounts within a department may occur with the approval of the Department Director and review of the Budget Officer. Transfers between operating departments may occur within the same fund with the approval of the City Manager. Transfers of appropriations between funds, however, require the special approval of the City Council. Budget-to-actual comparisons are provided in this report for each individual governmental fund for which an appropriated annual budget has been adopted. For the General Fund, this comparison is presented on page 72 of the required supplementary information section of the report. For governmental funds, other than the General Fund, with appropriated annual budgets, this comparison is presented in the governmental fund subsection of this report, which starts on page 98.

**History**

In 1835, Henry Millard, Joseph Pulsifer and Thomas Huling visited two small communities located on the banks of the Neches River with the hopes of starting a mercantile business. Given a tour of the riverfront property, Millard and his partners recognized its potential and purchased the property for $500, naming the town "Beaumont" after his late wife "Mary Beaumont." However, plans for the development of the new town were abruptly halted by the onset of the Texas Revolution.

Returning from war, Millard continued his quest to establish the settlement. On December 16, 1838, by an act of the Third Congress of the Republic of Texas, the City of Beaumont received its charter. By August 1840, the first elected officials were sworn in. Order of business was promptly addressed with passage of the first ordinance establishing a liability for removing carcasses of cattle that drowned while being driven across the Neches. By the early 1900's Beaumont came of age when the first great oil well of the world, the Anthony F. Lucas Gusher, blew in at Spindletop. With the discovery of oil at Spindletop, Beaumont's population exploded.

The early 1920's were hard and the citizens of Beaumont were met with many adversities. They fought an epidemic of the bubonic plague brought on by one of the ships docked in the port and had to replace the wooden streets with asphalt and concrete after the town was destroyed by a flood. By the latter part of the decade, the City enjoyed an economic growth spurred by the growing oil economy. Good times were short-lived, however, because in 1929 the stock market crashed and started the Great Depression. During World War II, wartime changes again brought prosperity to Beaumont. Local industries such as oil refining and manufacturing and shipbuilding experienced increased production which caused an expanded population.

The 1960's and 1970's were years of both torment and triumph. The area, now referred to as the Golden Triangle, had become the petrochemical complex of Southeast Texas. In 1971, Beaumont approved its first bond issue since 1921, totaling $12 Million. By 1975, the economy had progressed so far that the nationwide recession had little effect on the area. In 1978, Beaumont was named by *Money* magazine as the town with the most potential for growth in the entire country.

During 1982, the local economy began to slide into the deepest recession since the Great Depression. Tens of thousands of jobs in the chemical, petroleum, shipbuilding, and oil drilling industries were lost. By 1987, the recession reached its deepest point, and a steady sustainable recovery had begun and continued through the early 2000's.

In the summer of 2005, as Beaumont was assisting with the housing of evacuees from Hurricane Katrina, the City was dealt a major blow of its own when it took a direct hit from Hurricane Rita. Many homes and businesses suffered major damage or were completely destroyed by winds and downed trees. Most of the electrical utility grid and telecommunications throughout the area were destroyed and had to be rebuilt. Thousands of workers from other parts of the country descended on the area to help rebuild. Residential and commercial construction was soon at an all-time high for hotels and new and remodeled homes, with a need not only to accommodate the increasing labor force, but to replace those structures that had been destroyed. Businesses flourished with renewed activity. As the area attempted to return to a normal life, we were soon forced to deal with the arrival of Hurricanes Humberto in 2007 and Gustav and Ike in 2008. While Humberto was a relatively minor storm, and Gustav skirted the eastern edge of the area, Ike was a completely different story. As one of the largest and most devastating storms in history, encompassing the entire Gulf of Mexico at one point, the storm surge completely obliterated some areas around Beaumont. While the damage in the City itself was not as severe as with Rita, many residents had to relocate, businesses were closed and the rebuilding began again. Nine years later in August 2017, Hurricane Harvey, a category 4 hurricane made landfall on the Texas gulf coast. After striking land, Harvey weakened to a tropical storm and for about two days stalled over Southeast Texas dropping very heavy rainfall and causing widespread flooding.

While striving to return to pre-storm conditions, the City of Beaumont is committed to future development citywide. Exciting plans are now under construction for a new activity center and a central fire station.

**Factors Affecting Financial Conditions**

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the City operates. The City, its area residents, and local businesses continue their recovery efforts from the impact of Hurricane Harvey in August 2017. This restoration has been a combination of repairs to return structures to pre-storm conditions and major renovations. As a result of this activity, Beaumont is expecting an increase in sales tax revenue resulting in a major financial boost.

Although Beaumont's economy continues to be dominated by the petrochemical industry, employment trends show a shift to service-oriented jobs. This shift from manufacturing is consistent with national trends. Area chemical plants continue to upgrade and expand their facilities to meet increased product demand and stricter environmental controls. Multibillion dollar investments in local energy projects have provided employment for thousands of temporary workers for several years, as well as adding hundreds of permanent positions. New expansion projects are also being considered for the area. This will have a direct impact on the housing, retail, and service markets as well.

Lamar University and Lamar Institute of Technology, both a part of the Texas State University System, are dedicated to providing a quality education for all who seek it. Satisfying the demand for qualified labor has become a top priority for both, and enrollment has steadily increased over the past several years. With workers needed for construction and the ensuing permanent positions, many of the specialized fields of education are tailored to meet the needs of area businesses. Lamar University has some of the best MBA and chemical engineering programs in the county, with plans for a new degree program in energy engineering.

The Beaumont Independent School District has completed numerous construction projects that include a new athletic complex, nine new elementary schools, one new middle school, numerous classroom additions, and several facility repairs and renovations.

Beaumont has much to offer. City officials and the Greater Beaumont Chamber of Commerce continue to aggressively market our community to business and industry. A four-year university and one of the fastest-growing technical colleges in Texas provide the basis for an educated and skilled workforce to meet the requirements of companies competing in a global economy.

**Long-term financial planning**

By charter, the City of Beaumont maintains a five-year Capital Program which serves as its planning document to ensure that its facilities, streets and water and sewer infrastructure are well maintained. The Capital Program is prepared annually to provide for both short and long range physical development within the City. As included in the 2018 Capital Program, there are approximately $130.5 million of street/drainage, water/sewer and facility improvements in the design or construction phase.

**Relevant financial policies**

The City of Beaumont has adopted a comprehensive set of financial policies. During the current year, two of these policies were particularly relevant. The City of Beaumont has a policy that requires any budget amendments calling for new fund appropriations that exceed unencumbered fund balances to be approved by the City Council. In August 2017, due to unforeseen expenditures, council approved budget amendments in the following funds: General Fund; $300,000, Solid Waste Fund; $100,000, Municipal Airport Fund; $1.6 million, and Tyrrell Historical Fund; $180,000.

In addition, the City of Beaumont has a policy that requires transfers between funds must be accomplished by budget amendments approved by the City Council. In August 2017 in order to strengthen the fund balance for FY 2018, transfers were approved by City Council in the following funds: General Liability Fund; $1 million, Capital Reserve Fund; $1 million, and Henry Homberg Golf Course Fund; $400,000.

## AWARDS AND ACKNOWLEDGMENTS

### Awards

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Beaumont for its Comprehensive Annual Financial Report for the fiscal year ended September 30, 2016. This was the thirty-first consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized Comprehensive Annual Financial Report. This report must satisfy 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 Comprehensive Annual Financial Report continues to meet the Certificate of Achievement Program's requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

### Acknowledgments

The preparation of this Comprehensive Annual Financial Report was made possible by the dedicated service and hard work of the entire staff of the Finance Department. The professional expertise and commitment of Kristin Ferguson, Controller; Janice Ridley, Grants Manager; Staff Accountants, Lynnsey McClusky, Angie Breeden & Chance Chapman; and Victoria Castillo, Fiscal Assistant made this presentation possible.

Appreciation is also expressed to the staff of the operating departments for their cooperation and contribution, to the firm of BKD for their professional assistance and to City Council for their interest and support.

Respectfully submitted,

Todd Simoneaux

| | |
|---|---|
| Kyle Hayes | Todd Simoneaux, CPA |
| City Manager | Chief Financial Officer |

Government Finance Officers Association

# Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Beaumont**

**Texas**

For its Comprehensive Annual Financial Report for the Fiscal Year Ended

**September 30, 2016**

Christopher P. Morrill

Executive Director/CEO

# City of

# Beaumont, Texas

# List of Principal Officials

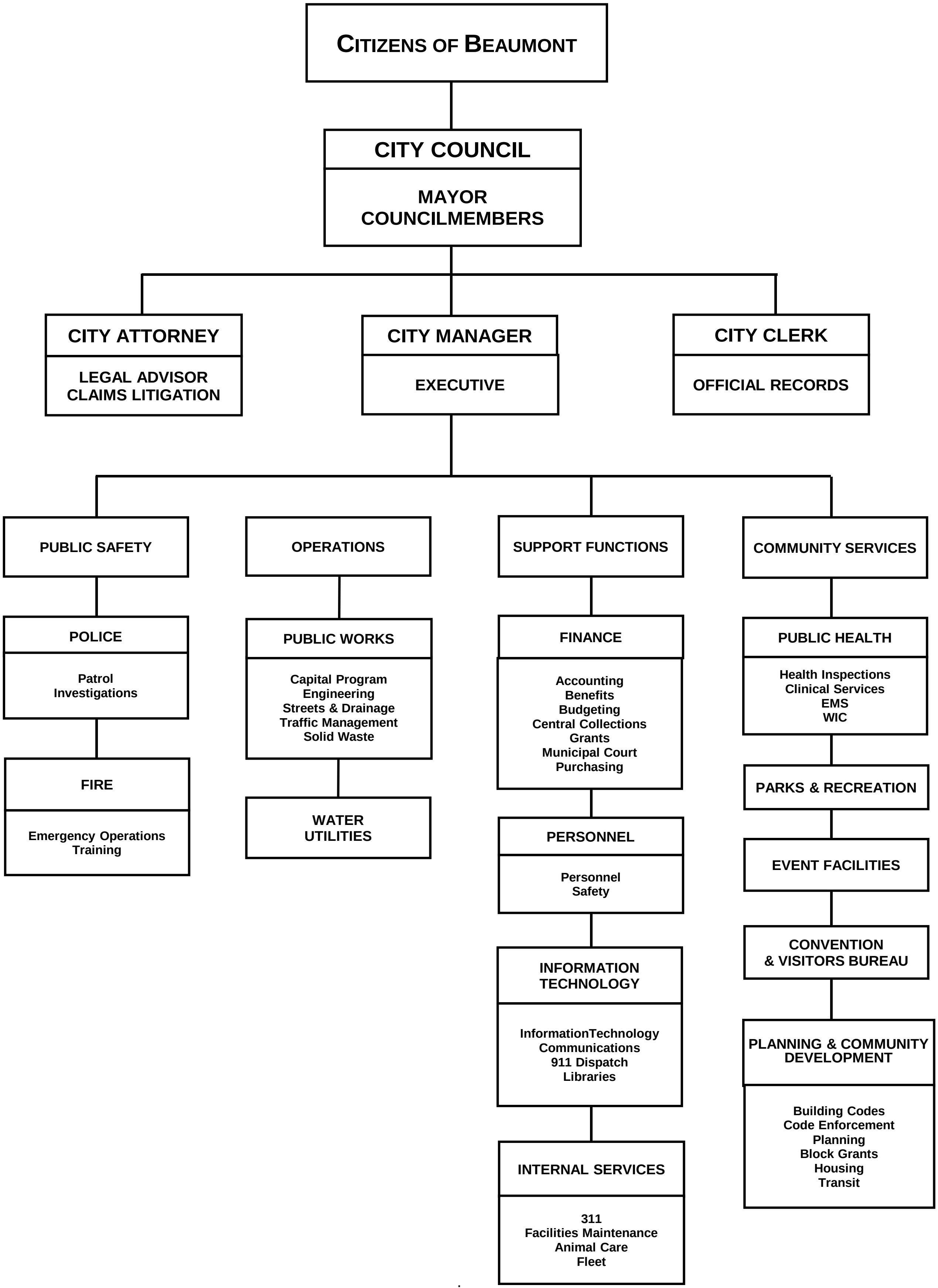
Becky Ames, *Mayor*

Gethrel Williams-Wright, *At Large, Mayor Pro-Tem*

W. L. Pate, Jr., *At Large*
Virginia Jordan, *Ward I*
Mike Getz, *Ward II*
Audwin M. Samuel, *Ward III*
Robin Mouton, *Ward IV*

Kyle Hayes, *City Manager*

# CITY OF BEAUMONT
## ORGANIZATIONAL CHART



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# Independent Auditor's Report

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

## Report on the Financial Statements

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

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

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Beaumont Firemen's Relief and Retirement Fund, which represent 48 percent, 58 percent and 17 percent, respectively, of the assets, net position and revenues of the aggregate remaining fund information. Those statements were audited by other auditors, whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Beaumont Firemen's Relief and Retirement Fund, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of Beaumont Firemen's Relief and Retirement Fund, a pension trust fund included in the financial statements of the aggregate remaining fund information, were not audited in accordance with *Government Auditing Standards*.

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

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

***Opinions***

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

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary, and pension and other postemployment benefits information 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 and other auditors 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 accompanying introductory section, combining individual fund statements, schedules of revenues, expenditures and changes in fund balance – budget and actual, and statistical section as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining individual fund statements and schedules of revenues, expenditures, and changes in fund balance – budget and actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the accompanying combining individual fund statements and schedules of revenues, expenditures, and changes in fund balance – budget and actual as listed in the table of contents are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated March 14, 2018, 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 solely 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 the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

BKD, LLP

Houston, Texas
March 14, 2018

## CITY OF BEAUMONT, TEXAS

### Management's Discussion and Analysis

As management of the City of Beaumont (the City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended September 30, 2017. We encourage readers to consider the information presented here in conjunction with our letter of transmittal at the front of this report and the City's financial statements, which follow this section.

**Financial Highlights**

- The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the close of 2017 by $323 million. Of this amount, a negative $76.6 million is considered unrestricted. The unrestricted net position of the City's governmental activities is a negative $81.2 million. The unrestricted net position of the City's business-type activities is a positive $4.6 million.
- The net position decreased by $22 million in 2017. The key factors for the decrease were due to increases in the Beaumont Firemen's Relief and Retirement Fund's net pension liability and expenditures related to Hurricane Harvey, a category 4 hurricane that made landfall on the Texas gulf coast on August 25, 2017.
- As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of $96.2 million. Approximately $31.4 million of the $96.2 million fund balance is considered unassigned at September 30, 2017.
- The General Fund reported a fund balance of $36 million at the end of the current fiscal year. The unassigned fund balance for the General Fund was $35.4 million or 30.6 percent of total General Fund expenditures (excluding transfers out).
- The City's total liabilities increased by $24 million during the current fiscal. The key factors for the increase was due to increases in the Beaumont Firemen's Relief and Retirement Fund's net pension liability and an increase in accounts payable due to the timing of Hurricane Harvey.

**Overview of the Financial Statements**

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

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

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

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

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public works, public safety, housing, economic development, health and welfare, and culture and recreation. The business-type activities of the City include two enterprise activities: a water and sewer system, and a solid waste system.

The government-wide financial statements can be found on pages 13 – 15 of this report.

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

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

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

The City maintains 33 individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund & Debt Service Fund. Data from the other 31 governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City of Beaumont adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 16 – 17 of this report.

**Proprietary funds.** The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its water and solid waste operations. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions including employee benefits, self-insurance, fleet management, capital reserve and general liability. The services provided by these funds predominantly benefit the governmental rather than the business-type functions. They have been included within *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the water and solid waste operations. The Water Fund and the Solid Waste Fund are considered to be major funds of the City. Conversely, all internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

The basic proprietary fund financial statements can be found on pages 19 – 21 of this report.

**Fiduciary funds.** The Beaumont Firemen's Relief and Retirement Fund is being reported as a blended component unit. The fiduciary fund financial statements can be found on pages 22 – 23 of this report.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 24 – 71 of this report.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Beaumont's progress in funding its obligation to provide pension benefits to its employees, other post-employment benefits and the General Fund's budgetary information. Required supplementary information can be found on pages 72 - 78 of this report.

The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the required supplementary information on pensions. Combining and individual fund statements and schedules can be found on pages 82 - 123 of this report.

## Government-wide Financial Analysis

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's assets and deferred outflows exceeded liabilities and deferred inflows by $323 million at the close of the most recent fiscal year.

The largest portion of the City's net position reflects its investment in capital assets (e.g. land, buildings, improvements other than buildings, equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; therefore, these assets are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay debt must be provided from other sources, since capital assets themselves cannot be used to liquidate these liabilities.

### Net Position

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Current and other assets | $ 139,233,569 | 157,098,209 | 54,846,091 | 35,956,893 | 194,079,660 | 193,055,102 |
| Capital assets | 456,957,887 | 449,307,145 | 254,033,197 | 258,445,169 | 710,991,084 | 707,752,314 |
| Total assets | 596,191,456 | 606,405,354 | 308,879,288 | 294,402,062 | 905,070,744 | 900,807,416 |
| Total deferred outflows of resources | 67,778,203 | 69,197,139 | 9,943,808 | 11,497,747 | 77,722,011 | 80,694,886 |
| Long-term liabilities outstanding | 398,220,122 | 393,914,411 | 197,705,172 | 188,402,926 | 595,925,294 | 582,317,337 |
| Other liabilities | 36,534,775 | 28,264,237 | 21,783,851 | 19,847,242 | 58,318,626 | 48,111,479 |
| Total liabilities | 434,754,897 | 422,178,648 | 219,489,023 | 208,250,168 | 654,243,920 | 630,428,816 |
| Total deferred inflows of resources | 4,689,992 | 5,071,907 | 933,811 | 1,007,886 | 5,623,803 | 6,079,793 |
| Net position | | | | | | |
| Net Investment in capital assets | 263,388,476 | 259,373,739 | 87,910,685 | 90,255,620 | 351,299,161 | 349,629,359 |
| Restricted | 42,331,445 | 53,811,814 | 5,890,461 | 5,304,552 | 48,221,906 | 59,116,366 |
| Unrestricted | (81,195,151) | (64,833,615) | 4,599,116 | 1,081,583 | (76,596,035) | (63,752,032) |
| Total net position | $ 224,524,770 | 248,351,938 | 98,400,262 | 96,641,755 | 322,925,032 | 344,993,693 |

An additional portion of the City's net position represents resources that are subject to restrictions as to how they may be used. The remaining balance of unrestricted net position may be used to meet the government's on-going obligations to citizens and creditors.

The government's net position decreased by $22 million during the current fiscal year. Governmental activities decreased the City's net position by $23.8 million and the Business-Type activities increased by $1.8 million. The underlying reasons for the decreases in net position was due to a $17.5 million increase in the BFRRF's net pension liability and expenditures related to Hurricane Harvey. The significant increase in the BFRRF's net pension liability was attributed to changes of assumptions, specifically the discount rate was decreased from 6.17% to 5.94%.

**CHANGES IN NET POSITION**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Revenues | | | | | | |
| Program revenues | | | | | | |
| Charges for services | $ 9,333,095 | 11,306,839 | 59,484,249 | 58,899,545 | 68,817,344 | 70,206,384 |
| Operating grants and contributions | 21,895,140 | 36,119,172 | - | - | 21,895,140 | 36,119,172 |
| Capital grants and contributions | 7,115,597 | 7,202,017 | - | 2,338,891 | 7,115,597 | 9,540,908 |
| General revenues | | | | | | |
| Property taxes | 49,679,296 | 48,024,927 | - | - | 49,679,296 | 48,024,927 |
| Industrial payments | 17,935,064 | 16,690,939 | - | - | 17,935,064 | 16,690,939 |
| Sales taxes | 38,954,160 | 39,590,496 | - | - | 38,954,160 | 39,590,496 |
| Franchise taxes | 11,262,669 | 10,706,995 | - | - | 11,262,669 | 10,706,995 |
| Investment earnings | 2,042,426 | 1,684,736 | 335,318 | 202,401 | 2,377,744 | 1,887,137 |
| Miscellaneous | 1,811,004 | 986,604 | 884,855 | 1,406,524 | 2,695,859 | 2,393,128 |
| Oil and gas royalties | 13,496 | 3,724 | - | - | 13,496 | 3,724 |
| Gain on disposal of assets | 1,960,253 | 118,625 | 365,924 | 7,751 | 2,326,177 | 126,376 |
| Total revenues | 162,002,200 | 172,435,074 | 61,070,346 | 62,855,112 | 223,072,546 | 235,290,186 |
| Expenses | | | | | | |
| General government | 16,461,499 | 19,920,494 | - | - | 16,461,499 | 19,920,494 |
| Public safety | 84,386,432 | 73,799,214 | - | - | 84,386,432 | 73,799,214 |
| Public works | 45,915,421 | 38,722,894 | - | - | 45,915,421 | 38,722,894 |
| Health and welfare | 21,332,145 | 25,100,329 | - | - | 21,332,145 | 25,100,329 |
| Culture and recreation | 13,157,491 | 12,752,150 | - | - | 13,157,491 | 12,752,150 |
| Housing and economic development | 4,188,246 | 4,372,302 | - | - | 4,188,246 | 4,372,302 |
| Interest on long-term debt | 9,518,134 | 9,737,521 | - | - | 9,518,134 | 9,737,521 |
| Water | - | - | 41,213,605 | 36,497,264 | 41,213,605 | 36,497,264 |
| Solid waste | - | - | 8,968,234 | 7,700,249 | 8,968,234 | 7,700,249 |
| Total expenses | 194,959,368 | 184,404,904 | 50,181,839 | 44,197,513 | 245,141,207 | 228,602,417 |
| Increase (decrease) in net position before transfers | (32,957,168) | (11,969,830) | 10,888,507 | 18,657,599 | (22,068,661) | 6,687,769 |
| Transfers | 9,130,000 | 9,930,000 | (9,130,000) | (9,930,000) | - | - |
| Increase (decrease) in net position | (23,827,168) | (2,039,830) | 1,758,507 | 8,727,599 | (22,068,661) | 6,687,769 |
| Net position, beginning | 248,351,938 | 250,391,768 | 96,641,755 | 87,914,156 | 344,993,693 | 338,305,924 |
| Net position, ending | $ 224,524,770 | 248,351,938 | 98,400,262 | 96,641,755 | 322,925,032 | 344,993,693 |

## Financial Analysis of the Government's Funds

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

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

As of September 30, 2017, the City's governmental funds reported combined ending fund balances of $96.2 million, a decrease of $26.6 million in comparison with the prior year. Approximately $31.4 million of this amount constitutes *unassigned fund balance*, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City. At September 30, 2017 unassigned fund balance of the general fund was $35.4 million, while total fund balance was $36 million. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures (excluding transfers out). Unassigned fund balance represents 30.6 percent of total general fund expenditures (excluding transfers out), while total fund balance represents 31.1 percent of that same amount.

The fund balance of the City's General Fund increased by $0.8 million during 2017. It was budgeted to incur a decrease of $0.6 million in fund balance this year, therefore producing a $1.3 million favorable variance. This change in fund balance is attributable to lower workforce and energy costs.

The Debt Service Fund has a total fund balance of $3.3 million. The net decrease in fund balance during 2017 in this fund was approximately $436 thousand. The Debt Service Fund is funded with property tax revenue at the level necessary to meet debt service requirements.

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

The unrestricted net position at the end of the year amounted to $6.8 million for the Water Fund. The net position in the Water Fund increased by $1.3 million during 2017. Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

## General Fund Budgetary Highlights

During the year there were increases of $300,000 in appropriations between the original and final amended budget. The additional appropriations in the General Fund were mainly due to a higher retirement ratio in the Fire Department than anticipated as compared to historical experience within that department.

Actual expenditures in the General Fund came in under budgeted amounts by $2 million.

## Capital Asset and Debt Administration

**Capital assets.** The City's investment in capital assets for governmental and business-type activities as of September 30, 2017, amounted to $711 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, equipment, streets and drainage systems and infrastructure.

**CAPITAL ASSETS**
**(net of depreciation)**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| Land | $ 55,087,140 | 52,986,702 | 3,496,212 | 3,496,212 | 58,583,352 | 56,482,914 |
| Buildings | 61,120,683 | 62,556,282 | 1,901,543 | 1,828,383 | 63,022,226 | 64,384,665 |
| Improvements other than buildings | 17,875,616 | 19,319,499 | 229,741,671 | 228,953,814 | 247,617,287 | 248,273,313 |
| Infrastructure | 263,138,924 | 258,564,066 | 2,815,171 | 2,895,800 | 265,954,095 | 261,459,866 |
| Machinery and equipment | 15,887,241 | 15,372,639 | 7,033,793 | 7,270,244 | 22,921,034 | 22,642,883 |
| Construction in progress | 43,848,283 | 40,507,957 | 9,044,808 | 14,000,716 | 52,893,091 | 54,508,673 |
| Total | $ 456,957,887 | 449,307,145 | 254,033,198 | 258,445,169 | 710,991,085 | 707,752,314 |

Additional information on the City's capital assets can be found in Note 1 on page 29 and Note 4 on pages 42 - 44 of this report.

**Long-term debt.** At September 30, 2017, the City, the primary government, had $366.9 million of long-term bonds and certificates outstanding. Of this amount, $203.8 million comprises bonds backed by the full faith and credit of the City and $162 million secured solely by specified revenue sources (i.e. revenue bonds).

**General Obligation & Revenue Bonds Outstanding**

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|---|---|---|---|---|---|
| | 2017 | 2016 | 2017 | 2016 | 2017 | 2016 |
| General obligation bonds | $ 110,801,150 | 115,484,250 | 1,053,850 | - | 111,855,000 | 115,484,250 |
| Certificates of obligation | 93,005,000 | 94,390,000 | - | - | 93,005,000 | 94,390,000 |
| Revenue bonds | - | - | 162,045,000 | 151,405,750 | 162,045,000 | 151,405,750 |
| Total | $ 203,806,150 | 209,874,250 | 163,098,850 | 151,405,750 | 366,905,000 | 361,280,000 |

Total long-term bonds and certificates outstanding at September 30, 2017 increased by $5.6 million, a 1.5% increase, compared to September 30, 2016.

The City's most recent bond ratings are shown in the following table.

| | Standard & Poor's | Moody's Investor Services |
|---|---|---|
| General Obligation Debt | AA- | Aa2 |
| Revenue Bonds | AA | A2 |

Additional information regarding the City's long-term debt can be found in Note 2 on pages 34 - 35 and in Note 4 on pages 46 - 51 of this report.

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

Sales tax is the largest single source of revenue for the General Fund representing 32.8% of total General Fund revenues for FY 2017. In the last five years, FY 2013 through FY 2017, since the significant decline in collections in FY 2010, collections have increased 18% but have been relatively unpredictable on a year by year basis. In FY 2017, sales tax revenues decreased 1% compared to the prior year, FY 2016. In modest anticipation of the same trend continuing, the FY 2018 Budget includes sales tax revenue of $39.1 million, 0.5% more than what was collected in FY 2017.

The tax rate for FY 2018 is $0.71 per $100 of assessed valuation, a $0.02 increase of FY 2017. The General Fund is allocated $0.491 of the tax rate and $0.219 to the Debt Service Fund. The increase is needed in the Debt Service Fund in order to repay debt including a new $10 million being borrowed in FY 2018. The increase will also help pay for salary increases for all City employees.

Industrial payments account for 15.2% of the General Fund's overall revenue in the FY 2018 Budget. The City has more than 20 negotiated contracts with FY 2017 being the second payment of a seven year agreement. The new contracts call for payments based on 80% of the appraised value for the first three years and 75% of the value the last four years. Industrial payments are expected to be approximately $530K more in FY 2018 than in FY 2017.

Property tax revenues account for 29.4% or $35.8 million of the revenues in the General Fund's FY 2018 Budget. Assessed values for 2017 are 3.0% higher than the previous year. Property tax revenue exclusive of delinquent taxes, penalties and interest, increased $2.6 million.

Coupled with the revenues discussed above, overall revenue is expected to increase by approximately $3 million in the General Fund in FY 2018. Expenditures for FY 2018, including transfers, are expected to total $123 million. The budget allows for a 2% wage increase for civilian employees and pursuant to the current labor agreements, sworn employees will receive 2.5% and 2% increases in the Fire Department and Police Department, respectively. Overall budgeted expenditures, not including transfers, are expected to grow 2.4% over FY 2017 mostly attributable to salary increases. The General Fund's Budget contemplates using $1.3 million of prior years' excess funds in the fund balance, however still leaving a healthy ending balance of 24% of total expenditures.

The City is confident in its financial sustainability. The stable outlook reflects management's historical commitment to maintaining sound reserves, which, provides stability during the time of economic uncertainty and downturn and allows the City to continue to provide service to all citizens and to enhance quality of life through new and renovated public facilities, improved city streets and beautification of the City.

## Requests for Information

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 accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of Beaumont, Finance Department, P.O. Box 3827, Beaumont, Texas, 77704.

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

| | Business-Type Activities - Enterprise Funds | | | Governmental Activities Internal Service Funds |
|---|---|---|---|---|
| | Water | Solid Waste | Total | |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Cash received from customers | $ 49,545,263 | 10,518,866 | 60,064,129 | 4,524,560 |
| Cashed received from interfund charges for services | - | - | - | 27,385,960 |
| Cash payments for goods and services | (7,958,424) | (705,279) | (8,663,703) | (28,609,613) |
| Payments to other funds for services provided | (3,352,210) | (3,372,020) | (6,724,230) | - |
| Cash payments to employees | (8,341,899) | (3,187,765) | (11,529,664) | (2,306,268) |
| Net Cash Provided by Operating Activities | 29,892,730 | 3,253,802 | 33,146,532 | 994,639 |
| **CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES** | | | | |
| Transfers in | - | - | - | 2,030,000 |
| Transfers (out) | (7,420,000) | (1,710,000) | (9,130,000) | - |
| Net Cash Provided (Used) by Noncapital Financing Activities | (7,420,000) | (1,710,000) | (9,130,000) | 2,030,000 |
| **CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES** | | | | |
| Proceeds from sale of capital assets | 89,983 | 275,941 | 365,924 | 1,973,910 |
| Proceeds from capital debt | 21,000,000 | - | 21,000,000 | 652,000 |
| Payments for capital acquisitions | (7,913,831) | (1,054,051) | (8,967,882) | (4,232,583) |
| Principal payments on capital debt | (9,341,383) | (1,491,449) | (10,832,832) | (308,628) |
| Interest paid and fiscal charges | (7,233,049) | (93,758) | (7,326,807) | (16,108) |
| Net Cash (Used) by Capital and Related Financing Activities | (3,398,280) | (2,363,317) | (5,761,597) | (1,931,409) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| (Purchase) sale of investments | (15,575,203) | (205,546) | (15,780,749) | - |
| Receipt of interest | 294,540 | 40,778 | 335,318 | 72,911 |
| Net Cash Provided (Used) by Investing Activities | (15,280,663) | (164,768) | (15,445,431) | 72,911 |
| **NET INCREASE (DECREASE) IN CASH** | 3,793,787 | (984,283) | 2,809,504 | 1,166,141 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 11,535,508 | 2,595,041 | 14,130,549 | 8,828,709 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | 15,329,295 | 1,610,758 | 16,940,053 | 9,994,850 |
| Restricted | 5,863,762 | - | 5,863,762 | - |
| Unrestricted | 9,465,533 | 1,610,758 | 11,076,291 | 9,994,850 |
| **RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:** | | | | |
| Operating income (loss) | 21,027,508 | 2,191,565 | 23,219,073 | (3,079,305) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities: | | | | |
| Depreciation | 7,700,624 | 1,228,710 | 8,929,334 | 3,755,353 |
| Landfill closure costs | - | 73,390 | 73,390 | - |
| Change in assets and liabilities: | | | | |
| (Increase) decrease in accounts and other receivable | (225,904) | (482,688) | (708,592) | (125,521) |
| (Increase) decrease in inventory | 146,789 | - | 146,789 | 6,067 |
| Increase (decrease) in accrued payroll | 16,718 | 29,079 | 45,797 | 72,545 |
| Increase (decrease) in accrued compensated absences and retirement benefits | 426,455 | 174,073 | 600,528 | - 7,104 |
| Increase (decrease) in accounts payable | 201,606 | (23,772) | 177,834 | 87,040 |
| Increase (decrease) in other liabilities | 195,317 | 63,445 | 258,762 | 271,356 |
| Increase (decrease) in customer deposits | 403,617 | - | 403,617 | - |
| Net Cash Provided by Operating Activities | $ 29,892,730 | 3,253,802 | 33,146,532 | 994,639 |
| Noncash investing, capital and financial activities | | | | |
| Contributions of capital assets from government | $ - | - | - | - |

**The notes to the financial statements are an integral part of this statement.**

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Beaumont, Texas (the "City") have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The following represents the significant accounting policies and practices used by the City.

### Reporting Entity

The City is a municipal corporation operating under a Council-Manager form of government. It is governed by an elected board composed of a Mayor and six (6) Council members.

As required by GAAP, these financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the City's operations.

**Blended Component Units Reported with the Primary Government**

Blended component units provide services exclusively or almost exclusively for the City, or their board of directors are substantially the same as the City Council. The following blended component units are reported:

Beaumont Firemen's Relief and Retirement Fund - Presented as a Fiduciary Fund

The government-wide financial statements include the statement of net position and the statement of activities. They report information on all of the non-fiduciary activities of the City of Beaumont, the primary government. While government-wide and fund financial statements are presented separately, they are interrelated. The governmental activities column of the government wide statements incorporates data from governmental funds and internal service funds, while business-type activities incorporate data from the City's enterprise funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds. However, data from the fiduciary funds is not incorporated in the government-wide financial statements. The component unit provides services entirely, or almost entirely, to the primary government or otherwise exclusively, or almost exclusively, benefits the primary government even though it does not provide services directly to it. The fiduciary fund's fiscal year end is December 31, 2016, and therefore the fiduciary fund's financials are presented as of and for the year ended December 31, 2016.

Beaumont Municipal Transit Corporation - Presented as a Blended Component Unit due to the following criteria having been met:

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Reporting Entity (continued)

#### Blended Component Units Reported with the Primary Government (continued)

The component unit's governing body is substantively the same as the governing body of the primary government and there is a financial burden relationship between the primary government and the component unit.

The management of the primary government has operational responsibility for the component unit.

#### Excluded From the Financial Reporting Entity

The following agencies were considered in the determination of component units of the City's financial reporting entity:

Beaumont Multi-Family Housing Corporation
Beaumont Industrial Development Corporation
Beaumont Health Facilities Development Corporation
Beaumont Housing Financing Corporation

#### Related Organization

The Beaumont Housing Authority (Authority) is a legally separate organization formed to administer housing programs funded by the U. S. Department of Housing and Urban Development (HUD), which has a scope of public service within the geographic boundaries of the City. The City governing authority appoints a majority of the Authority members; however, the City's accountability does not extend beyond making the appointments, as the administration of the Authority is vested solely with its board, and there is no financial relationship between the Authority and the primary government.

### Government-wide and Fund Financial Statements

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

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Government-wide and Fund Financial Statements (continued)**

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

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be *available* when it is collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, industrial payments, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenue of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City has the following major governmental funds:

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

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

The City reports the following major proprietary funds:

The ***Water Fund*** accounts for the provision of water and sewer services to residents and commercial businesses in the City and proximate area.

The ***Solid Waste Fund*** accounts for trash and brush collection, disposal services and the operations of the City landfill.

Additionally, the government reports the following fund types:

***Special Revenue Funds*** account for the proceeds of specific revenue sources that are legally restricted to expenditure for specified purposes.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Measurement Focus, Basis of Accounting and Financial Statement Presentation (continued)**

***Permanent Funds*** are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that benefit the City or its citizenry.

***Internal Service Funds*** account for employee benefits, risk management, fleet and other capital asset management services provided to other departments or agencies of the City on a cost reimbursement basis.

***Fiduciary Funds*** account for assets held by the City in a trustee capacity or as an asset for individuals, private organizations, other governmental units and other funds.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, interfund services provided and used are not eliminated in the process of consolidation.

Amounts reported as *program revenue* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenue* rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish *operating* revenue and expenses from *nonoperating* items. Operating revenue and expenses generally result from providing services and producing and delivering goods regarding a proprietary fund's principal ongoing operation. The principal operating revenue of the Water Fund, of the Solid Waste Fund, and of the City's Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprise Funds and Internal Service Funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

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

# 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

### Deposit and Investments

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

State statutes and policies mandated by City Council authorize the City to invest in obligations of the U.S. Treasury, certificates of deposit, and certain investment pools.

Government agency securities are stated at fair value; TexasTERM is stated at net asset value; and certificates of deposit and TexPool are stated at amortized cost.

### Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances, outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown net of an allowance for uncollectibles.

### Inventories and Prepaid Items

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

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

### Restricted Assets

Funds set aside for payment of enterprise fund revenue bonds are classified as restricted assets since their use is limited by applicable bond indentures. Additionally, cash received for utility deposits is restricted on the Water Fund statement of net position. Also, unspent bond proceeds are restricted in the Water Fund for construction projects.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

### Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

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

Capital assets of the primary government are depreciated using the straight-line method over the following useful lives:

| Assets | Years |
|---|---|
| Buildings | 15 - 50 |
| Improvements other than buildings | 10 - 50 |
| Machinery and equipment | 3 - 12 |
| Infrastructure | 12 – 50 |

Interest Capitalization – Because the City issues general-purpose capital improvement bonds, which are recorded within the proprietary funds, the City capitalizes interest costs for business-type activities and enterprise funds according to GASB Statement No. 62. The City capitalized interest of approximately $322,664 net of interest earned, for the business-type activities and the enterprise funds during the current fiscal year.

### Compensated Absences

The City's employees earn paid time off (PTO), sick leave, personal leave and short-term disability, all of which may either be taken or accumulated, up to certain amounts, until paid on termination or retirement. For all funds, this liability reflects amounts attributable to cumulative employee services already rendered. Amounts liquidated with expendable available financial resources are reported as an expenditure and a fund liability of the governmental fund receiving the benefit only when those absences have matured (i.e., unused reimbursable leave still outstanding following an employee's resignation or retirement). Amounts for compensated absences that are not expected to be liquidated with expendable available financial resources are not reported in the Governmental Fund financial statements. In proprietary fund types, this liability is recorded as a current liability in the individual proprietary fund since payment of this liability will be made from resources of these funds.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**<u>Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance</u> (continued)**

### Compensated Absences (continued)

Policies relating to the accrual and payment of these benefits are as follows:

**Paid time off -** Employees may earn from 4.62 to 12.92 hours of paid time off per pay period and may accrue up to 120 days (960 hours) to be used in future periods. Upon separation, employees are paid for accumulated leave if they have completed 12 consecutive months of service with the City. Fire Department employees are paid for this accumulation without a service waiting period.

**Sick Leave -** Police and Fire Department employees earn 1.25 days of sick leave for each month of service. Payment for accrued sick leave is limited to 90 days upon separation. Unlike Fire Department employees, who have no waiting period, Police Department employees must have two years of employment before qualifying to receive accumulated sick leave upon separation.

**Personal Leave -** Police Department personnel earn one day of personal leave per quarter up to a maximum of 32 hours. Fire Department personnel earn one day of personal leave per year for 10 years of service and 2 days per year for 20 years of service.

**Short-term Disability (STD) -** Employees other than Police and Fire earn 3.69 hours of short-term disability per pay period. Short-term disability leave may only be used after an employee has been absent five consecutive working days. Accrual of short-term disability leave is limited to 720 hours. Upon termination, employees are paid for up to 720 unused STD hours accumulated prior to October 1, 1991, at the employee’s rate of pay as of September 30, 1991. Upon termination, employees are not paid for accumulated STD leave earned on or after October 1, 1991.

### Long-term Obligations

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

### Long-term Obligations (continued)

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

### Fund Balance Policies

Beginning with fiscal year 2011, the City of Beaumont, Texas implemented GASB Statement No. 54 "Fund Balance Reporting and Governmental Fund Type Definitions." This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent. The following classifications describe the relative strength of the spending constraints:

**Nonspendable fund balance –** amounts that are not in spendable form or are required to be maintained intact. As such, the inventory, prepaid, and permanent fund principal items have been properly classified in the Governmental Funds Balance Sheet.

**Restricted fund balance -** amounts that can be spent only for specific purposes because of local, state or federal laws, or externally imposed conditions by grantors or creditors.

**Committed fund balance –** amounts constrained to specific purposes by the City itself, using its highest level of decision-making authority (i.e. the City Council). To be reported as committed, amounts cannot be used for any other purposes unless the City takes the same highest level of action to remove or change the constraint. The City establishes (and modifies or rescinds) fund balance commitments by passage of a resolution.

**Assigned fund balance –** amounts the City intends to use for a specific purpose. City Council authorized that the assignment of fund balance can be expressed by the City Manager through its fund balance policy.

**Unassigned fund balance –** amounts that are available for any purpose. Positive amounts are reported only in the general fund.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)**

### Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources,* represents a consumption of net position that applies to a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City has a deferred charge on refunding, which results from the difference in carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt. The City also has deferred outflows for pensions related to contributions and investment experience. Deferred pension amounts are amortized in accordance with GASB Statement No. 68.

In addition to liabilities, the statement of net position and 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's deferred inflows include property taxes, EMS fees, demolition fees, forfeitures, notes and grants in the governmental funds and pension actuarial differences in expected and actual experience in the proprietary and internal service funds. Unavailable revenues are deferred and recognized as an inflow of resources in the period that the amounts become available. Deferred pension amounts are amortized in accordance with GASB Statement No. 68. For additional information on deferred outflows/inflows related to pensions, reference note 4 Employee Retirement Systems.

### Net Position Flow Assumption

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

### Fund Balance Flow Assumptions

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

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Net Position/Fund Balance (continued)

**Pensions**

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

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Beaumont Firemen's Relief and Retirement Fund (BFRRF) and additions to/deductions from BFRRF's fiduciary net position have been determined on the same basis as they are reported by BFRRF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. Copies of the BFRRF's financial statements can be obtained by writing to 1515 Cornerstone Ct., Beaumont, TX 77706.

**New pronouncements**

The City implemented GASB Statement No. 77, *Tax Abatement Disclosures*, which establishes guidance requiring state and local governments to disclose key information about tax abatement agreements.

In FY 2018, the City will implement GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB)*, such as retiree health insurance. This statement addressed accounting and financial reporting by governments that provide OPEB to their employees or employees of other governments. The effects of this standard on the City's financial statements has not been determined.

**Use of Estimates**

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

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

**Explanation of Certain Differences between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Position**

The governmental fund balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net position - governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains, "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds." The details of this difference are as follows:

| | |
|---|---|
| Bonds Payable | $ 203,806,150 |
| Plus: Unamortized premiums | 15,804,781 |
| Accrued interest payable | 777,926 |
| Notes payable | 1,370,000 |
| Compensated absences | 22,316,912 |
| Net pension liability | 158,905,696 |
| Deferred pension gains/losses | 4,519,406 |
| Less: Deferred loss on refunding bonds | (7,354,533) |
| Less: Deferred pension losses | (59,622,862) |
| Net adjustment to reduce *fund balance - total governmental funds* to arrive at *net position - governmental activities* | $ 340,523,476 |

**Explanation of Certain Differences between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities**

The governmental fund statement of revenue, expenditures and changes in fund balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains, "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense." The details of this difference are as follows:

| | |
|---|---|
| Capital outlay | $ 20,595,293 |
| Contributed capital assets | 3,710,227 |
| Depreciation expense | ( 19,242,035) |
| Net adjustment to increase *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities* | $ 5,063,485 |

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (continued)

**Explanation of Certain Differences Between the Governmental Funds Statement of Revenue, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities (continued)**

Another element of that reconciliation states, "the issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities." The details of this difference are as follows:

| | | |
|---|---|---|
| Accrued interest | $ | 12,661 |
| Principal repayments: | | |
| General obligation debt | | 7,168,100 |
| Net adjustment to increase *net charges in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities* | $ | 7,180,761 |

Another element of that reconciliation states, "Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds." The details of this difference are as follows:

| | | |
|---|---|---|
| Compensated absences | $ | (1,378,631) |
| Amortized deferred loss on refunding bonds | | (782,938) |
| Pension costs | | (12,038,735) |
| Loss on disposal of capital assets | | (1,586,543) |
| Net adjustment to decrease *net changes in fund balances - total governmental funds* to arrive at *changes in net position of governmental activities* | $ | (15,786,847) |

## 3. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### Budgetary Information

The City uses the following procedures for establishing the budget reported in the financial statements:

1. At least 45 days prior to the close of the fiscal year, City Council is presented with a proposed budget for the next fiscal year which begins October 1st. The budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain citizens' comments.

3. The budget is legally enacted through passage of an ordinance no later than September 27th.

4. The City Manager may transfer budgeted amounts between departments within any fund; however, transfers between funds must be approved by the City Council.

5. Budgets are considered a management control and planning tool and, as such, are incorporated into the accounting system of the City.

6. Annual budgets are adopted for all funds, except for capital projects funds and certain special revenue funds where funds are designated for a specific purpose as identified in the grant award document, which adopts grant year or project length financial plans. These funds include the American Recovery and Reinvestment Act (ARRA) Fund, EDA Small Business Loan Fund, Health Grant Fund, HOME Fund, HUD Community Development Fund, Library Grants Fund, Miscellaneous Grant Fund, Municipal Health Care Fund, Police Grant Fund, and Shelter Plus Care Fund.

7. Annual budgets are adopted and reported on a basis consistent with generally accepted accounting principles (GAAP) for budgeted governmental funds except for the General Fund, which adopts a budget which does not include all of the accruals required by GAAP.

## 4. DETAILED NOTES ON ALL FUNDS

### Deposits and Investments

Deposits - State statutes require that all deposits in financial institutions be fully collateralized by U.S. Government obligations or its agencies and instrumentalities or direct obligations of Texas or its agencies and instrumentalities that have a market value of not less than the principal amount of the deposits. The City's deposits were fully insured or collateralized as required by state statutes and the City's investment policy as of September 30, 2017.

Investments - The City has a written investment policy regarding the investment of its funds. The investments of the City are in compliance with the investment policy, the City Charter, the Public Funds Investment Act (Chapter 2256 of the Government Code, as amended) and all other state and local statutes governing the investment of public funds. The City is authorized to invest in U.S. government obligations and its agencies or instrumentalities, collateralized certificates of deposit, fully collateralized repurchase agreements, no load money market mutual funds and approved government investment pools.

The City follows GASB Statement 31 (Accounting and Financial Reporting for Certain Investments and for External Investment Pools), Statement 40 (Deposit and Investment Risk Disclosures), Statement 72 (Fair Value Measurement and Application), and Statement 79 (Certain External Investment Pools and Pool Participants). These statements require, with limited exception, that governmental entities report investments at fair value and that all investment income, including changes in the fair value of investments, be reported as revenue in the statement of activities. The City reports the change in fair value as part of investment earnings (loss). In addition, Statement 79 requires the disclosure of the presence of any limitations or restrictions on withdrawals.

The City's cash and investments are as follows:

| | As of 09/30/2017 | Percentage of Total | Weighted Average Maturity (Days) |
|---|---|---|---|
| Agencies | $ 9,483,601 | 6.8% | 594 |
| Money Market Account/Petty Cash | 37,607,107 | 27.1% | 1 |
| Government Investment Pools | 43,329,800 | 31.2% | 1 |
| Certificates of Deposit | 48,379,992 | 34.9% | 445 |
| Total Investments | $ 138,800,500 | 100.00% | |
| Portfolio Weighted Average Maturity | | | 195 |

Interest Rate Risk - Fair value fluctuates with interest rates and increasing rates may cause fair value to decline below original cost. In compliance with the City's Investment policy, the City minimized interest rate risk by limiting the weighted average maturity of the portfolio to 365 days with a stated final maturity date not to exceed 3 years from the date of purchase. In addition, the portfolio is structured so that securities mature to meet cash flow requirements, thereby avoiding the need to sell securities prior to maturity and below the original cost.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

**Deposits and Investments (continued)**

Credit Risk - The City's investment policy requires approved investment pools to be continuously rated no lower than AAA, AAA-m or an equivalent rating by at least one nationally recognized agency. In compliance with the City's investment policy, as of September 30, 2017, all of the City's purchased investments in investment pools, TexPool, and TexasTERM were rated AAAm by Standard & Poors. The agency investments held at year end include Federal Home Loan Bank and Freddie Mac agency notes and are both rated AA+ by Standards & Poor's and AAA by Moody's.

Concentration Risk - The City's investment policy allows no more than 30% par of the portfolio to be invested with any one U.S. Agency. In compliance with the policy, as of September 30, 2017 the City has 6.8% invested in U.S. Agency investments.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The City requires that deposits and repurchase agreements be held in an institution that has a minimum collateral level of 102.0 percent of the market value. FNMA, GNMA, FFCB, FHLMC, FHLB and Municipal Bond investments are held in the City's name in third party safekeeping by a Federal Reserve member financial institution designated as a city depository.

Local Government Investment Pools are established under the authority of the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and are subject to the provisions of the Public Funds Investment Act (PFIA), Chapter 2236 of the Texas Government Code. In addition to other provisions of the PFIA designed to promote liquidity and safety of principal, the PFIA requires pools to (1) have an advisory board composed of participants in the pool and other persons who do not have a business relationship with the pool and are qualified to advise the pool; (2) maintain a continuous rating of no lower than AAA or AAA-m or an equivalent rating by at least one nationally recognized rating service; and (3) maintain the market value of its underlying investment portfolio within one half of one percent of the value of its shares.

The City participates in TexPool, and TexasTERM which are external investment pools. The State Comptroller of Public Accounts maintains oversight responsibility for TexPool. This responsibility includes the ability to influence operations, designation of management and accountability for fiscal matters. TexasTERM is a public funds investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code and is privately managed. TexPool reports investments in compliance with GASB 79 which permits the pools to use amortized cost (which excludes unrealized gains and losses) rather than fair value when computing their net position and share price. Investments in TexasDAILY, a portfolio established by TexasTERM, are measured using the net asset value per share practical expedient.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

**Deposits and Investments (continued)**

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs. The City has the following recurring fair value measurements as of September 30, 2017:

- U.S. Agency securities of $9.5 million are valued at the market closing price reported on the Interactive Date Pricing and Reference Data (IDC) using significant other observable inputs (Level 2 inputs)

Interest Income on pooled cash and investments is allocated monthly based on the percentage of a fund's pooled cash and investments monthly balance compared to the total city-wide monthly balance in pooled cash and investments. Bond funds and other separate non-pooled cash are distributed to the fund where the cash and investment is recorded.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

| | Fair Value 09/30/2017 | Unfunded Commitements | Redemption Frequency (If Currently Eligible) | Redemption Notice Period |
|---|---|---|---|---|
| TexasDAILY | $ 43,329,312 | - | Daily | Same Day |

**Investment in State Investment Pools**

During the year, the City invested in multiple public fund investment pools, including TexPool, and TexasTERM. Investments in the pools are not categorized in accordance with GASB Statement No. 31 disclosure requirements since the City has not been issued certificates, but rather it owns an individual beneficial interest in the net position of the related investment pool. The fair value of the position of the pools is measured at net asset value and is designed to approximate the share value. Each pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds.

Interest Income on pooled cash and investments is allocated monthly based on the percentage of a fund's pooled cash and investments monthly balance compared to the total city-wide monthly balance in pooled cash and investments. Bond funds and other separate non-pooled cash are distributed to the fund where the cash and investment is recorded.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Property Taxes

Property appraisal within the City is the responsibility of the Jefferson County Appraisal District (Appraisal District). The Appraisal District is required under the Property Tax Code to appraise all property within the county on the basis of 100% of its market value. The value of real property within the Appraisal District must be reviewed every five years; however, the City may, at its own expense, require annual reviews of appraised values. The City can appeal classes of appraised values established by the Appraisal District through various appeals and legal action. Under the Property Tax Code legislation, the City establishes tax rates for property within the city's corporate limits. However, if the new tax rate exceeds the effective tax rate after certain adjustments for the previous year by more than eight percent (8%), qualified voters of the City may petition for an election to determine whether to limit the tax rate to no more than eight percent (8%) above the effective tax rate.

The City's property taxes are levied annually in October on the basis of the Appraisal District's assessed values as of January 1 of that calendar year. Taxes are applicable to the fiscal year in which they are levied. They become delinquent, with an enforceable lien on property, on February 1 of the subsequent calendar year. The City has contracted with the Jefferson County Tax Assessor-Collector to bill and collect its taxes.

In the fund financial statements, property taxes that are measurable and available (receivable within the current period and collected within the current period or within 60 days thereafter to be used to pay liabilities of the current period) are recognized as revenue in the year of levy. Property taxes that are measurable, but not available, are recorded, net of estimated uncollectible amounts, as unavailable revenues in the year of levy. Such unavailable revenues are recognized as revenue in the fiscal year in which they become available.

The balance of property taxes receivable and property tax assessments included in unavailable revenues as of September 30, 2017 are as follows:

**Property Taxes**

| | General Fund | Debt Service | Total |
|---|---|---|---|
| Property taxes receivable | $ 4,123,950 | 2,058,121 | 6,182,071 |
| Less: allowance for doubtful accounts | (123,718) | (61,743) | (185,461) |
| Net property taxes receivable | $ 4,000,232 | 1,996,378 | 5,996,610 |
| Unavailable property taxes | $ 3,815,100 | 1,915,458 | 5,730,558 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Receivables

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

**Receivables - All Funds**

| | | General | Debt Service | Nonmajor Governmental | Water | Solid Waste | Internal Service | Total |
|---|---|---|---|---|---|---|---|---|
| Receivables: | | | | | | | | |
| Interest | $ | 16,538 | 1,618 | 15,398 | 22,319 | 2,117 | 5,807 | 63,797 |
| Taxes - Property | | 4,123,950 | 2,058,121 | - | - | - | - | 6,182,071 |
| Taxes - Other | | 6,611,663 | - | - | - | - | - | 6,611,663 |
| Utilities | | - | - | | 7,324,593 | 1,297,652 | - | 8,622,245 |
| Notes | | - | 120,605 | 719,421 | - | - | 453,007 | 1,293,033 |
| Intergovernmental | | 432,054 | - | 13,971,546 | - | - | - | 14,403,600 |
| Other | | 21,337,511 | - | 9,460,128 | 38,231 | 570,533 | 126,699 | 31,533,102 |
| Gross receivables | | 32,521,716 | 2,180,344 | 24,166,493 | 7,385,143 | 1,870,302 | 585,513 | 68,709,511 |
| Less: allowance for uncollectibles | | (16,000,929) | (61,743) | (101,996) | (294,852) | (83,461) | - | (16,542,981) |
| Net Total Receivables | $ | 16,520,787 | 2,118,601 | 24,064,497 | 7,090,291 | 1,786,841 | 585,513 | 52,166,530 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Capital Assets

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

**Capital Assets**

| | Beginning Balance | Current Year Additions | Current Year Deletions | Ending Balance |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 52,986,702 | 2,105,938 | 5,500 | 55,087,140 |
| Construction in progress | 40,507,957 | 19,382,849 | 16,042,523 | 43,848,283 |
| Total Capital Assets Not Being Depreciated | 93,494,659 | 21,488,787 | 16,048,023 | 98,935,423 |
| Capital assets being depreciated: | | | | |
| Buildings | 96,134,351 | 892,124 | 45,000 | 96,981,475 |
| Improvements other than buildings | 49,727,105 | 154,843 | 1,829,487 | 48,052,461 |
| Infrastructure | 419,704,351 | 18,758,692 | - | 438,463,043 |
| Machinery and equipment | 87,414,360 | 5,415,364 | 3,247,037 | 89,582,687 |
| Total Capital Assets Being Depreciated | 652,980,167 | 25,221,023 | 5,121,524 | 673,079,666 |
| Less accumulated depreciation for: | | | | |
| Buildings | (33,578,069) | (2,327,723) | (45,000) | (35,860,792) |
| Improvements other than buildings | (30,407,606) | (1,598,726) | (1,829,487) | (30,176,845) |
| Infrastructure | (161,140,285) | (14,183,834) | - | (175,324,119) |
| Machinery and equipment | (72,041,721) | (4,887,105) | (3,233,380) | (73,695,446) |
| Total Accumulated Depreciation | (297,167,681) | (22,997,388) | (5,107,867) | (315,057,202) |
| Total Capital Assets Being Depreciated, Net | 355,812,486 | 2,223,635 | 13,657 | 358,022,464 |
| Governmental Activities Capital Assets, Net | $ 449,307,145 | 23,712,422 | 16,061,680 | 456,957,887 |
| Business-type Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | $ 3,496,212 | - | - | 3,496,212 |
| Construction in progress | 14,000,716 | 4,151,761 | 9,107,670 | 9,044,807 |
| Total Capital Assets Not Being Depreciated | 17,496,928 | 4,151,761 | 9,107,670 | 12,541,019 |
| Capital assets being depreciated: | | | | |
| Buildings and system | 3,758,917 | 155,754 | - | 3,914,671 |
| Improvements other than buildings | 373,742,327 | 7,567,397 | - | 381,309,724 |
| Infrastructure | 3,902,943 | - | - | 3,902,943 |
| Machinery and equipment | 33,875,788 | 1,750,120 | 3,536,844 | 32,089,064 |
| Total Capital Assets Being Depreciated | 415,279,975 | 9,473,271 | 3,536,844 | 421,216,402 |
| Less accumulated depreciation for: | | | | |
| Buildings and system | (1,930,534) | (82,594) | - | (2,013,128) |
| Improvements other than buildings | (144,788,513) | (6,779,540) | - | (151,568,053) |
| Infrastructure | (1,007,143) | (80,629) | - | (1,087,772) |
| Machinery and equipment | (26,605,544) | (1,986,571) | (3,536,844) | (25,055,271) |
| Total Accumulated Depreciation | (174,331,734) | (8,929,334) | (3,536,844) | (179,724,224) |
| Total Capital Assets Being Depreciated, Net | 240,948,241 | 543,937 | - | 241,492,178 |
| Business-type Activities Capital Assets, Net | $ 258,445,169 | 4,695,698 | 9,107,670 | 254,033,197 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Capital Assets (continued)

Depreciation expense was charged to function/programs of the City as follows:

| | | |
|---|---|---|
| Governmental Activities: | | |
| General government | $ | 681,239 |
| Public safety | | 1,496,276 |
| Public works | | 14,841,461 |
| Health and welfare | | 194,597 |
| Culture and recreation | | 2,028,462 |
| Capital assets held by the City's Internal Service Funds are charged to the various functions based on their usage of the assets | | 3,755,353 |
| Total Depreciation Expense - Governmental Activities | $ | 22,997,388 |
| Business-type Activities: | | |
| Water | $ | 7,700,624 |
| Solid waste | | 1,228,710 |
| Total Depreciation Expense - Business-type Activities | $ | 8,929,334 |

### Construction Commitments

The City has active construction projects as of September 30, 2017. At year-end, the City's commitments are as follows on the next two pages:

| Project | | Expenditures to Date | Remaining Commitments |
|---|---|---|---|
| **Governmental Activities:** | | | |
| Lakeside Center | $ | 4,225,752 | 3,139,100 |
| Fire Station No. 1 Relocation | | 3,905,806 | 4,407,000 |
| Riverfront Development | | 162,412 | 119,000 |
| Washington Blvd - MLK to IH10 | | 17,767,826 | 14,645,800 |
| Northwest Parkway | | 5,701,614 | 5,919,500 |
| Magnolia Overlay | | 1,376,775 | 1,333,000 |
| Storm Water Master Plan | | 1,347,930 | 155,000 |
| Airport Improvements | | 4,855,082 | 75,700 |
| Total Governmental Activities | $ | 39,343,197 | 29,794,100 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Capital Assets (continued)

#### Construction Commitments (continued)

| Project | Expenditures to Date | Remaining Commitments |
|---|---|---|
| **Business-type Activities:** | | |
| 36" Diameter Water Transmission Line | $ 330,399 | 24,045 |
| Florida Avenue & Fannett Rd Interceptors | 419,443 | 20,000 |
| Primer Sanitary Sewer Lift Station | 71,574 | 77,900 |
| Wall & Ave C Lift Stations | 125,312 | 100,000 |
| Dowlen - College to Walden | 173,608 | 5,000 |
| Washington - Langham to Major | 84,076 | 81,900 |
| Washington - IH10 to MLK | 1,671,073 | 1,425,000 |
| South Major Drive WS Relocation | 156,204 | 346,900 |
| Northwest Parkway | 1,218,356 | 148,000 |
| WWTP Clarifiers Rehab | 4,030,227 | 2,054,400 |
| WWTP Chlorine Disinfection System | 157,346 | 103,000 |
| WWTP Sludge Thickener | 31,929 | 32,500 |
| WWTP Sludge Improvements | 77,180 | 315,000 |
| Reahb West Elevated Storage Tank | 21,774 | 47,930 |
| Drinking Water Quality Assessment | 248,910 | 41,250 |
| Loeb Well No. 3 | 137,027 | 118,700 |
| Total Business-type Activities | $ 8,954,438 | 4,941,525 |

Due to a change in management priorities and budget constraints, the City determined that certain construction projects as previously recorded as construction in progress will not be completed in the foreseeable future. As a result, the City removed these assets from construction in progress in 2017 resulting in $5,084,842 reported in the Water fund as other non-operating expenses and $1,689,101 reported in government type activities as public works expense.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Interfund Receivables, Payables and Transfers

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

**Due to/from other funds:**

| Receivable Fund | Payable Fund | | Amount |
|---|---|---|---|
| General | Governmental Funds | | |
| | Nonmajor Governmental | | 8,074,809 |
| | Total Governmental Funds | $ | 8,074,809 |

The outstanding balances between funds result mainly from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur; (2) transactions are recorded in the accounting system; and (3) payments between funds are made.

**Interfund transfers:**

Interfund transfers during the year ended September 30, 2017, were as follows:

| | | Transfers In | | | | |
|---|---|---|---|---|---|---|
| | | General | Debt Service | Nonmajor Governmental | Internal Service | Total |
| Transfers Out: | | | | | | |
| General | $ | - | - | 2,500,000 | - | 2,500,000 |
| Nonmajor Governmental | | 600,000 | 989,966 | 3,100,000 | 2,000,000 | 6,689,966 |
| Water | | 7,400,000 | - | - | 20,000 | 7,420,000 |
| Solid Waste | | 1,700,000 | - | - | 10,000 | 1,710,000 |
| Total Transfers Out | $ | 9,700,000 | 989,966 | 5,600,000 | 2,030,000 | 18,319,966 |

Transfers are primarily used to move funds from:

- The Proprietary Funds and Hotel Occupancy Tax Fund to the General Fund for payments in lieu of taxes.
- HUD Community Development Fund to the Debt Service Fund to cover a debt payment.
- The General Fund to finance various programs in accordance with budgetary authorizations.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Long-term Liabilities

The City issues general obligation bonds, certificates of obligation, revenue bonds, notes and capital leases to finance various long-term projects of the City. These debt instruments are reported in the Proprietary Funds only if they are expected to be repaid from proprietary revenues. The general obligation bonds and certificates of obligation are paid through the Debt Service fund from property tax revenues.

The following is a summary of changes in the City's governmental and business-type activity total long-term liabilities for the year ended September 30, 2017:

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**Changes in Long-Term Liabilities**

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Governmental Activities** | | | | | |
| Bonds payable: | | | | | |
| General obligation bonds | $ 115,484,250 | - | 4,683,100 | 110,801,150 | 5,449,600 |
| Certificates of obligation | 94,390,000 | - | 1,385,000 | 93,005,000 | 1,415,000 |
| Issuance premiums | 16,870,972 | - | 1,066,191 | 15,804,781 | 1,066,191 |
| Total Bonds Payable | 226,745,222 | - | 7,134,291 | 219,610,931 | 7,930,791 |
| OPEB liability | 2,423,000 | 2,829,000 | 2,888,995 | 2,363,005 | - |
| Net pension liability BFRRF | 78,253,558 | 26,880,132 | 13,413,542 | 91,720,148 | - |
| Net pension liability TMRS | 71,322,067 | 32,520,029 | 34,135,483 | 69,706,613 | - |
| U. S. Government Note | 2,470,000 | - | 1,100,000 | 1,370,000 | 1,370,000 |
| Notes | 1,097,445 | - | 308,628 | 788,817 | 313,653 |
| Capital leases | - | 652,000 | - | 652,000 | 156,639 |
| Claims payable | 296,261 | 692,132 | 294,136 | 694,257 | - |
| Compensated absences | 21,106,898 | 2,956,947 | 1,571,212 | 22,492,633 | 1,407,199 |
| Governmental Activity Long-term Liabilities | $ 403,714,451 | 66,530,240 | 60,846,287 | 409,398,404 | 11,178,282 |

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|---|---|---|---|---|---|
| **Business-type Activities** | | | | | |
| Bonds payable: | | | | | |
| Revenue and refunding bonds | $ 150,310,000 | 18,550,000 | 6,815,000 | 162,045,000 | 7,585,000 |
| General obligation bonds | 1,095,750 | - | 41,900 | 1,053,850 | 85,400 |
| Issuance premiums | 12,557,472 | 2,761,682 | 848,274 | 14,470,880 | 951,837 |
| Total Bonds Payable | 163,963,222 | 21,311,682 | 7,705,174 | 177,569,730 | 8,622,237 |
| Capital leases | 9,201,276 | 752,458 | 1,905,216 | 8,048,518 | 2,001,862 |
| Notes/Loans | 7,756,020 | - | 2,070,717 | 5,685,303 | 2,045,558 |
| Net pension liability TMRS | 14,378,034 | 6,307,561 | 6,620,890 | 14,064,705 | - |
| Compensated absences | 1,199,661 | 233,008 | 49,622 | 1,383,047 | 137,347 |
| Accrued landfill closure costs | 3,687,483 | 73,390 | - | 3,760,873 | - |
| Business-type Activity Long-term Liabilities | $ 200,185,696 | 28,678,099 | 18,351,619 | 210,512,176 | 12,807,004 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Long-term Liabilities (continued)

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. In general, the City uses the General Fund and the Debt Service Fund to liquidate governmental long-term liabilities. Compensated absences are typically liquidated by the General Fund.

Long-term liabilities applicable to the City's proprietary funds are reported in the appropriate proprietary funds' financial statements and are accounted for using the accrual basis of accounting.

### Bonds and Certificates of Obligation Payable

A summary of the terms of general obligation bonds, certificates of obligation and revenue bonds payable, as of September 30, 2017, follows:

| Series | Original Issue | Matures | Interest Rate (%) | Debt Outstanding |
|---|---|---|---|---|
| **Governmental Activities** | | | | |
| General Obligation Bonds | | | | |
| Series 2011 Refunding | $ 17,785,000 | 2025 | 5.00 | $ 9,650,000 |
| Series 2012 Refunding | 24,130,000 | 2033 | 4.10 | 20,590,000 |
| Series 2015 Refunding | 41,935,000 | 2030 | 4.41 | 41,080,000 |
| Series 2016 Refunding | 41,658,000 | 2034 | 2.04 | 39,481,150 |
| Total General Obligation Bonds | | | | $ 110,801,150 |
| Certificates of Obligation | | | | |
| Series 2009 | $ 29,950,000 | 2034 | 4.70 | 3,710,000 |
| Series 2011 | 35,380,000 | 2040 | 4.88 | 27,405,000 |
| Series 2012 | 22,400,000 | 2038 | 2.56 | 21,850,000 |
| Series 2013 | 41,080,000 | 2037 | 4.41 | 40,040,000 |
| Total Certificates of Obligation | | | | $ 93,005,000 |
| **Business-type Activities** | | | | |
| General Obligation Bonds | | | | |
| Series 2016 Refunding | $ 1,112,000 | 2034 | 2.04 | $ 1,053,850 |
| Total General Obligation Bonds | | | | $ 1,053,850 |
| Revenue & Refunding Bonds | | | | |
| Series 2010 Refunding | 6,540,000 | 2020 | 4.93 | $ 6,540,000 |
| Series 2010A | 5,980,000 | 2020 | 4.93 | 2,290,000 |
| Series 2010B | 19,040,000 | 2036 | 4.93 | 19,040,000 |
| Series 2012 | 19,890,000 | 2032 | 2.89 | 15,925,000 |
| Series 2014A Refunding | 69,300,000 | 2034 | 3.11 | 65,720,000 |
| Series 2014B Refunding | 9,755,000 | 2018 | 2.23 | 3,185,000 |
| Series 2015A Refunding | 31,055,000 | 2036 | 3.69 | 30,795,000 |
| Series 2017 | 18,550,000 | 2037 | 2.98 | 18,550,000 |
| Total Revenue & Refunding Bonds | | | | $ 162,045,000 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Long-term Liabilities (continued)

#### Bonds and Certificates of Obligation Payable (continued)

The annual requirements to amortize governmental activity general obligation bonds outstanding at September 30, 2017, are as follows:

| Year Ending September 30 | Governmental Activities Principal | Governmental Activities Interest | Business-type Activities Principal | Business-type Activities Interest |
|---|---|---|---|---|
| 2018 | $ 5,449,600 | 4,969,006 | 85,400 | 44,188 |
| 2019 | 5,375,000 | 4,764,334 | - | 43,334 |
| 2020 | 5,710,000 | 4,497,209 | - | 43,334 |
| 2021 | 7,413,200 | 4,176,020 | 36,800 | 42,598 |
| 2022 | 7,772,500 | 3,803,268 | 87,500 | 39,675 |
| 2023-2027 | 38,982,150 | 12,867,956 | 442,850 | 128,210 |
| 2028-2032 | 33,842,600 | 5,073,463 | 312,400 | 45,035 |
| 2033-2034 | 6,256,100 | 207,705 | 88,900 | 3,595 |
| Total | $ 110,801,150 | 40,358,961 | 1,053,850 | 389,969 |

The annual requirements to amortize governmental activity certificates of obligation outstanding at September 30, 2017, are as follows:

| Year Ending September 30 | Governmental Activities Principal | Governmental Activities Interest |
|---|---|---|
| 2018 | $ 1,415,000 | 4,280,619 |
| 2019 | 1,925,000 | 4,229,257 |
| 2020 | 1,920,000 | 4,168,139 |
| 2021 | 400,000 | 4,130,476 |
| 2022 | 380,000 | 4,118,570 |
| 2023-2027 | 8,260,000 | 20,139,055 |
| 2028-2032 | 24,885,000 | 16,088,684 |
| 2033-2037 | 43,040,000 | 7,752,109 |
| 2038-2040 | 10,780,000 | 667,725 |
| Total | $ 93,005,000 | 65,574,634 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Long-term Liabilities (continued)

#### Bonds and Certificates of Obligation Payable (continued)

The annual requirements to amortize business-type activity revenue bonds outstanding as of September 30, 2017, are as follows:

| Year Ending September 30 | | Principal | Interest |
|---|---|---|---|
| 2018 | $ | 7,585,000 | 7,471,435 |
| 2019 | | 8,015,000 | 7,272,081 |
| 2020 | | 8,310,000 | 6,979,431 |
| 2021 | | 8,680,000 | 6,610,431 |
| 2022 | | 9,080,000 | 6,218,420 |
| 2023-2027 | | 52,340,000 | 24,173,897 |
| 2028-2032 | | 44,770,000 | 11,596,217 |
| 2033-2037 | | 23,265,000 | 2,875,845 |
| Total | $ | 162,045,000 | 73,197,757 |

#### Revenue Bonds

Revenue bonds are used to finance the acquisition and construction of major capital improvements for the water and sewer system and related facilities. These revenue bonds constitute special obligations of the City solely secured by a lien on and pledge of the net revenues of the water and sewer system.

During the year, $18,550,000 of revenue bonds were issued to finance water and sewer infrastructure projects. In order to service the associated debt, an increase in water and sewer rates of 3% occurred in FY 2017.

The revenue bonds are collateralized by the revenue of the water and sewer system and the various special funds established by the bond ordinances. The ordinances provide that the revenue of the system is to be used first to pay operating and maintenance expenses of the system and second to establish and maintain the revenue bond funds. Remaining revenues may then be used for any lawful purpose. For fiscal year 2017, net revenue available for debt service was 1.8 times the average annual debt service requirement. The ordinances also contain provisions which, among other items, restrict the issuance of additional revenue bonds unless the special funds noted above contain the required amounts and certain financial ratios are met. Management of the City believes that it is in compliance with all significant financial requirements as of September 30, 2017.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Long-term Liabilities (continued)

#### Prior year defeasance of debt

In prior years, the government defeased bonds by placing the proceeds of the new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the City's financial statements. At September 30, 2017, $39,325,000 of defeased bonds remain outstanding.

#### Capital Lease Obligations

The City has entered into certain capital lease agreements in order to purchase various pieces of equipment. During the current year, the City entered into a 4-year lease purchase agreement in the amount of $652,000 to fund a Fire Pumper truck. These capital lease obligations are paid out of the Capital Reserve Fund.

Following is a summary of future lease payments outstanding as of September 30, 2017:

| Year Ending September 30 | | Governmental Activities | Business-type Activities | Totals |
|---|---|---|---|---|
| 2018 | $ | 173,982 | 2,144,000 | 2,317,982 |
| 2019 | | 173,982 | 2,208,001 | 2,381,983 |
| 2020 | | 173,981 | 2,275,000 | 2,448,981 |
| 2021 | | 173,982 | 1,770,847 | 1,944,829 |
| Total minimum lease payments | | 695,927 | 8,397,848 | 9,093,775 |
| Less: amount representing interest | | 43,927 | 349,330 | 393,257 |
| Present value of minimum lease payments | $ | 652,000 | 8,048,518 | 8,700,518 |

The net book value of capital assets under capital lease are $16,318,543 as of September 30, 2017.

#### Notes Payable

The City entered into a note payable with Wells Fargo in 2016 in order to pay for various equipment. The note obligations for this agreement are paid out of the Capital Reserve Fund ($493,757), the Water Fund ($256,531) and the Solid Waste Fund ($2,724,585) with an interest rate of 1.80% per annum.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Long-term Liabilities (continued)

#### Notes Payable (continued)

The City entered into a note payable with Wells Fargo in 2014 in order to pay for various equipment. The note obligations outstanding for this agreement are paid out of the Capital Reserve Fund ($295,059), the Water Fund ($894,690) and the Solid Waste Fund ($586,498) with an interest rate on 1.46% per annum.

The City entered into a note payable in a prior year in the amount of $11,000,000 which is guaranteed under Section 108 of the Housing and Community Development Act of 1974, to be repaid with Community Development Block Grant Funds, payable in varying installments with interest at 0.56 – 3.12 %.

The City entered into a tax note payable in the amount of $1,600,000 with Wells Fargo in order to pay for a landfill cell. The note obligations for this agreement are paid out of the Solid Waste Fund with an interest rate of 1.84% per annum.

The annual requirements to amortize governmental activity note payables outstanding at September 30, 2017, are as follows:

| Year Ending | | Governmental Activities | | Business-type Activities | |
|---|---|---|---|---|---|
| September 30 | | Principal | Interest | Principal | Interest |
| 2018 | $ | 1,683,652 | 53,828 | 2,045,559 | 85,041 |
| 2019 | | 272,996 | 5,988 | 1,850,134 | 50,773 |
| 2020 | | 149,776 | 2,407 | 1,241,288 | 23,947 |
| 2021 | | 52,392 | 204 | 548,323 | 4,386 |
| Total | $ | 2,158,816 | 62,427 | 5,685,304 | 164,147 |

### Conduit Debt Obligations

The City has issued Industrial Revenue Bonds, Housing Finance Corporation Bonds, Multi-Family Housing Finance Corporation Bonds, Housing Corporation Mortgage Bonds and Health Facilities Development Corporation Bonds to provide financial assistance to private-sector entities for the acquisition and construction of facilities deemed to be in the public interest. The bonds are secured by the property financed and are payable solely from payments received on the underlying mortgage loans. Upon repayment of the bonds, ownership of the acquired facilities transfers to the private-sector entity served by the bond issuance. Neither the City, the State nor any political subdivision thereof is obligated in any manner for repayment of the bonds. Accordingly, the bonds are not reported as liabilities in the accompanying financial statements.

There is one issue currently outstanding. The Beaumont Multi-Family Housing Development Corporation – Multi-Family Mortgage Revenue Bonds, Series 1998, had an original issue amount of $8,280,000 and had an outstanding balance at September 30, 2017 of $5,595,000.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Segment Information

The City only reports two enterprise funds, the Water Fund and the Solid Waste Fund. Each of these funds is presented individually in the basic financial statements. Therefore, segment information is not presented in the notes to the financial statements.

### Endowment

David E. Dickenson willed the residuary of his estate "absolutely and in fee simple to the City to be credited to the Beaumont Public Library System Endowment Trust, the income only therefrom to be used for the purchase of books, not computer software, selected by the Director of Public Libraries of the Beaumont Public Library System with the approval of the Beaumont Library Commission." Earnings from investments available for expenditure were $7,797 at September 30, 2017. Accumulated earnings available for expenditure are reported as restricted, expendable net assets.

### Other Information

#### Risk Management/Insurance Funds

Transactions related to the City's risk management program are recorded in two separate internal service funds - the Employee Benefits Fund and the General Liability Fund. The City's General, Water, Solid Waste, Hotel Occupancy Tax, Fleet and certain Grant Funds participate in the program and make contributions based on amounts needed to fund prior and current claims and to establish a reserve for unexpected and unusual claims. Employees of the City also participate in the form of contributions for coverage of dependents.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Other Information (continued)

#### Risk Management/Insurance Funds (continued)

The Employee Benefits Fund records all transactions related to employee health claims, workers' compensation claims, dental insurance premiums and the administration of these programs. The program is managed by a benefit coordinator with necessary support staff. The City offers employees an indemnity health plan. Under the indemnity health plan, the City retains all risks associated with the employee health program up to $150,000 per person. Risks associated with workers' compensation liabilities are also retained by the City, up to $1,000,000 per incident. The City purchases commercial insurance to cover losses beyond coverage provided by the fund. The City has not incurred losses in excess of insurance coverage for the past three fiscal years. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred, but not reported (IBNR). Claim liabilities are calculated considering recent claim settlement trends. Changes in the Employee Benefits Fund's claims liability (including an estimate for claims incurred, but not reported) were:

| | Year Ended 09/30/17 | Year Ended 09/30/16 |
|---|---|---|
| Liability for claims, beginning of fiscal year | $ 3,269,811 | 3,787,186 |
| Incurred claims and changes in estimated | 14,489,421 | 14,229,219 |
| Claim payments | (14,127,440) | (14,746,594) |
| Liability for claims, end of fiscal year | 3,631,792 | 3,269,811 |
| Long-term portion | 694,257 | 296,261 |
| Short-term portion | $ 2,937,535 | 2,973,550 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Other Information (continued)

#### Risk Management/Insurance Funds (continued)

The General Liability Fund accounts for the City's risk management activity related to torts and other statutory causes of action. The City retains all risks associated with torts and other statutory causes of action, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. Under the laws of the State of Texas, claims for torts are limited to $250,000 per person and $500,000 per incident. This limit does not apply to claims arising from other causes of action. The General Liability Fund records a claim as payable when information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the General Liability Fund's claims liability were:

| | | Year Ended 09/30/17 | Year Ended 09/30/16 |
|---|---|---|---|
| Liability for claims, beginning of fiscal year | $ | 586,100 | 788,800 |
| Incurred claims and changes in estimated | | 565,044 | 1,190,109 |
| Claim payments | | (629,994) | (1,392,809) |
| Liability for claims, end of fiscal year | $ | 521,150 | 586,100 |

### Contingent Liabilities

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

Various claims and lawsuits are pending against the City. Those judgments which are considered "probable" and estimable are accrued, while those claims and judgments which are considered "reasonably possible" are disclosed but not accrued. In the opinion of the City Attorney, the potential loss resulting from all significant claims which are considered reasonably possible, excluding condemnation proceedings, is approximately $1.1 million as of September 30, 2017. At September 30, 2017, approximately $255,000 has been recorded in the risk funds for claims and lawsuits considered to be probable. In the opinion of the City Attorney, this is the total of all such claims which represent probable loss to the City.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Employee Retirement Systems

The City of Beaumont participates in two defined benefit pension plans; Texas Municipal Retirement System (TMRS), an agent multiple employer defined benefit pension plan and the Beaumont Firefighters' Relief and Retirement Fund (BFRRF), a single employer defined benefit pension plan, both of which are described in detail below. Aggregate amounts for the two pension plans are as follows:

| | | TMRS | BFRRF | Total |
|---|---|---|---|---|
| Net pension liability | $ | 83,771,318 | 91,720,148 | 175,491,466 |
| Deferred outflows of resources | | 26,015,265 | 38,677,095 | 64,692,360 |
| Deferred inflows of resources | | 5,623,803 | - | 5,623,803 |
| Pension expense | | 14,208,675 | 12,911,457 | 27,120,132 |

### Texas Municipal Retirement System (TMRS)

**Plan Description**

The City of Beaumont participates as one of 872 plans in the nontraditional, joint contributory, hybrid agent multiple-employer 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.tmrs.com.

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

**Benefits Provided**

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

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

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Texas Municipal Retirement System (TMRS) (continued)

#### Benefits Provided (continued)

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

| | Plan Year December 31, 2016 |
|---|---|
| Employee deposit rate | 7% |
| Matching ratio (City to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility | 20 years at any age, 5 years at age 60 and above |
| Updated Service Credit | 100% Repeating, Transfers |
| Annuity Increase (to retirees) | 70% of CPI Repeating |
| Supplement death benefit | |
| for active employees | No |
| for retirees | No |

***Employees covered by benefit terms***

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

| | As of December 31, 2015 | 2016 |
|---|---|---|
| Inactive employees or beneficiaries currently receiving benefits | 812 | 832 |
| Inactive employees entitled to but not yet receiving benefits | 339 | 343 |
| Active employees | 988 | 1003 |
| | 2139 | 2178 |

#### Contributions

Under the state law governing TMRS, the contribution rate for each City is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City of Beaumont were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the City of Beaumont were 200% of employee contributions in calendar years 2015 and 2016, respectively. The City's contributions to TMRS for the year ended September 30, 2017 were $11,640,816, and were equal to the required contributions.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Texas Municipal Retirement System (TMRS) (continued)

#### Net Pension Liability

The City's net pension liability (NPL) was measured as of December 31, 2016, and the total pension liability (TPL) used to calculate the net pension liability was determined by an actuarial valuation as of that date.

***Actuarial assumptions:***

The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.5% per year (3% in prior year) |
| Overall payroll growth | 3.0% per year |
| Investment Rate of Return | 6.75%, net of pension plan investment expense, including inflation (7% in prior year) |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct RP2000 Combined Healthy Mortality Table, with male rates multiplied by 109% and female rates multiplied by 103%. The rates are projected on a fully generational basis by scale BB to account for future mortality improvements. For disabled annuitants, the gender-distinct RP2000 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, 2016 valuation were based on the results of actuarial experience studies. The experience study of TMRS was for the period December 31, 2010 to December 31, 2014, (January 1, 2006 to December 31, 2009 in prior years). They were adopted in 2015 and first used in the December 31, 2015 actuarial valuation. 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.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

**Texas Municipal Retirement System (TMRS) (continued)**

### Net Pension Liability (continued)

***Actuarial assumptions: (continued)***

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future 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). The target allocation and best estimates of real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|---|---|---|
| Domestic Equity | 17.5% | 4.55% |
| International Equity | 17.5% | 6.35% |
| Core Fixed Income | 10.0% | 1.00% |
| Non-Core Fixed Income | 20.0% | 4.15% |
| Real Return | 10.0% | 4.15% |
| Real Estate | 10.0% | 4.75% |
| Absolute Return | 10.0% | 4.00% |
| Private Equity | 5.0% | 7.75% |
| Total | 100.0% | |

***Discount Rate***

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

## 4. DETAILED NOTES ON ALL FUNDS (continued)

## Texas Municipal Retirement System (TMRS) (continued)

### Net Pension Liability (continued)

#### *Changes in the Net Pension Liability*

| | Total Pension Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
|---|---|---|---|
| Balance at 9/30/16 | $ 438,256,212 | 352,556,109 | 85,700,103 |
| Changes for the year: | | | |
| Service cost | 9,341,259 | | 9,341,259 |
| Interest | 29,202,744 | | 29,202,744 |
| Change of benefit terms | - | | - |
| Difference between expected and actual experience | (2,398,676) | | (2,398,676) |
| Changes of assumptions | - | | - |
| Contributions - employer | | 10,646,369 | (10,646,369) |
| Contributions - employee | | 3,887,563 | (3,887,563) |
| Net investment income | | 23,823,767 | (23,823,767) |
| Benefit payments, including refunds of employee contributions | (20,587,182) | (20,587,182) | - |
| Administrative expense | | (269,089) | 269,089 |
| Other changes | | (14,498) | 14,498 |
| Net changes | 15,558,145 | 17,486,930 | (1,928,785) |
| Balance at 9/30/17 | $ 453,814,357 | 370,043,039 | 83,771,318 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Texas Municipal Retirement System (TMRS) (continued)

### Net Pension Liability (continued)

***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:

| | Discount Rate (5.75%) | Discount Rate (6.75%) | Discount Rate (7.75%) |
|---|---|---|---|
| City's net pension liability | $144,681,748 | $83,771,318 | $33,529,790 |

***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 and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended September 30, 2017, the City recognized pension expense of $14,208,677.

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

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|---|
| Change of assumptions | $ 255,563 | $ - |
| Differences between expected and actual economic experience | - | 5,623,803 |
| Differences between projected and actual investment earnings | 16,511,998 | - |
| Contribution subsequent to the measurement date | 9,247,704 | - |
| Total | $ 26,015,265 | $ 5,623,803 |

$9,247,704 reported as deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the year ending September 30, 2018. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

## 4. DETAILED NOTES ON ALL FUNDS (continued)

**Texas Municipal Retirement System (TMRS)** **(continued)**

**Net Pension Liability (continued)**

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)**

Year ended September 30:

| | | |
|---|---|---|
| 2017 | $ | 3,066,185 |
| 2018 | | 3,870,969 |
| 2019 | | 4,229,706 |
| 2020 | | (23,102) |
| Total | $ | 11,143,758 |

**Basis for allocations**

The City allocates pension items between governmental activities and business type activities on the basis of covered payroll of the respective activities.

**Beaumont Firemen's Relief and Retirement Fund (BFRRF)**

**Plan Description**

The Board of Trustees of the BFRRF is the administrator of a single-employer defined benefit pension plan. This pension fund is a trust fund. Firefighters in the Beaumont Fire Department are covered by the Beaumont Firemen's Relief and Retirement Fund.

The Fund is governed by a seven-member Board of Trustees (the "Board") consisting of three firefighter members (elected by the membership), one member representing the Mayor of the City of Beaumont, one member representing the City's Finance Officer and two residents of the City of Beaumont (non-employees of the City) who are elected by the previously defined five members of the Board. The Board has general powers and duties to administer the Fund, including appointing an administrator to carry out the business of the Board, investing the assets of the Fund, making expenditures from the Fund, and determining employees' eligibility for benefits.

***Plan Membership as of the December 31, 2016 valuation and measurement date:***

| | |
|---|---|
| Inactive Plan Members or Beneficiaries Currently Receiving Benefits | 217 |
| Inactive Plan Members Entitled to But Not Yet Receiving Benefits | 4 |
| Active Plan Members | 232 |
| | 453 |

**Benefits Provided**

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.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Beaumont Firemen's Relief and Retirement Fund (BFRRF) (continued)

#### Benefits Provided (continued)

The plan provides retirement, termination, disability and death benefits.

Service Retirement:
Date: Attainment of age 50 and 20 years of service.
Benefit: 63.15% of highest 60-month average salary plus a longevity benefit equal to $123 per month for each year of service in excess of 20 years.

Early Retirement:
Date: Attainment of 20 years of service.
Benefit: Equal to the service retirement as shown above multiplied by an actuarial reduction factor based on age at time of commencement.

Vesting:
Schedule: 100% after 20 years of service.
Benefit: Member will receive his (her) accrued benefit payable at age 50. Non-vested members receive a refund of accumulated member contributions without interest.

Death Benefits:
Surviving Spouse of Member (eligible for service retirement): Accrued benefit, as shown under the service retirement benefit provision on the previous page; reduced to be equivalent to the 100JS optional form of benefit.

Surviving Spouse of Member (not eligible for service retirement): 47.36% of the member's highest 60-month average salary plus a longevity benefit equal to $92.25 per month for each year of service in excess of 20 years.

Dependent Children of Member (with surviving spouse): Each child is entitled to 9.47% of the member's highest 60-month average salary, payable until age 18 or until age 25 as along as the child remains a full-time student.

Dependent Children of Member (with no surviving spouse): Each child is entitled to 18.94% of the member's highest 60-month average salary, payable until age 18 or until age 25 as long as the child remains a full-time student.

Maximum Death Benefit Payable: For a retired member or member who was not retired but was eligible for service retirement at time of death, the sum of death benefits being paid shall not exceed the benefit the member was receiving or would have received had the member retired on the date of death. For a member who was not retired and was not eligible for service retirement at time of death, the sum of death benefits being paid shall not exceed the disability retirement benefit that the member would have received had the member become disabled on the date of death.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Beaumont Firemen's Relief and Retirement Fund (BFRRF) (continued)

#### Benefits Provided (continued)

Disability Retirement:

Eligibility: For first 2 ½ years, disabled to extent of being unable to perform the duties of a position offered in fire department providing the member with pay that is greater than or equal to the pay the disabled member would have been received had disability not occurred. Thereafter, the member must be unable to perform the duties of any occupation for which the member is reasonably suited by education, training, and experience.

Benefit: Accrued benefit, as shown under the service retirement benefit provision

Deferred Retirement Option Program

*5-Year Retro Deferred Retirement Option Program (DROP):*
Eligibility: Attainment of age 50 and 20 years of Service.
Participation Period: Not to Exceed 60 Months.
Accumulation: Sum of the monthly Service Retirement benefit the Member would have received if had retired on the Retro DROP determination date plus an amount equal to the Member contributions deposited into the fund subsequent to the Retro DROP determination date.

*7-Year Retro Deferred Retirement Option Program (DROP):*
Eligibility: Attainment of age 55 and 25 years of Service.
Participation Period: Not to Exceed 84 Months.
Accumulation: Sum of the monthly Service Retirement benefit the Member would have received if had retired on the Retro DROP determination date plus an amount equal to the Member contributions deposited into the fund subsequent to the Retro DROP determination date.

Post Retirement Option Plan (PROP)
Eligibility: Service Retiree or Retro DROP Retiree.
Rate of Return: 2.0% less than the actuarial assumed investment return.

The PROP balance as December 31, 2016 is $28,627,514.

#### 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 BFRRF be approved by an eligible actuary. The actuary certifies that the contribution commitment by the firefighters and the City provides an adequate financing arrangement. Member contributions can be changed by a vote of the firefighters in accordance with section 29 of the TLFFRA. The City's contribution rate is determined periodically as a part of collective bargaining agreement between the City and the firefighters.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

**Beaumont Firemen's Relief and Retirement Fund (BFRRF) (continued)**

### Contributions (continued)

Employees were required to contribute 15% of their annual gross earnings during the fiscal year. The contribution rates for the City were 15% in calendar year 2016. The City's contributions to BFRRF for the year ended September 30, 2017 were $2,908,525, and were equal to the required contributions.

### Net Pension Liability

The BFRRF's net pension liability (NPL) was measured as of December 31, 2016, and the total pension liability (TPL) used to calculate the NPL was determined by an actuarial valuation as of December 31, 2016. The components of the NPL on December 31, 2016 were as follows:

| | | |
|---|---|---|
| Total Pension Liability | $ | 194,155,812 |
| Plan Fiduciary Net Pension | | (102,435,664) |
| Sponsor's Net Pension Liability | $ | 91,720,148 |
| Plan Fiduciary Net Pension as a percentage of Total Pension Liability | | 52.76% |

***Actuarial Assumptions:***

The total pension liability was determined by an actuarial valuation as of December 31, 2016 using the following actuarial assumptions:

| | |
|---|---|
| Inflation | 2.50% |
| Salary Increases | 4.00% - 10.00% |
| Discount Rate | 5.94% |
| Investment Rate of Return | 8.00% |

Mortality Rates – Healthy Lives: RP2000 Combined Health Male Mortality Table without projection.
Mortality Rates – Disables Lives: RP2000 Combined Healthy Male Mortality Table without projection.
Mortality Rates – Spouses: RP2000 Combined Healthy Female Mortality Table without projection.

The actuarial assumptions used in the December 31, 2016 valuation were based on the results of an actuarial experience study performed on August 20, 2013, for the period 2004-2012.

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 expenses and inflation) are developed for each major asset class. For 2016, the inflation rate assumption of the investment advisor was 2.50%.

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.

### 4. DETAILED NOTES ON ALL FUNDS (continued)

**<u>Beaumont Firemen's Relief and Retirement Fund (BFRRF)</u> (continued)**

**Net Pension Liability (continued)**

***Actuarial Assumptions: (continued)***

Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of December 31, 2016 are summarized in the following table:

| Asset Class | Target Allocation | Long Term Expected Real Rate of Return |
|---|---|---|
| Domestic Equity | 45% | 7.50% |
| International Equity | 15% | 8.50% |
| Domestic Fixed Income | 20% | 2.50% |
| Global Fixed Income | 5% | 3.50% |
| Real Estate | 10% | 4.50% |
| Alternative | 5% | 6.00% |
| Total | 100% | |

**Discount Rate**

The projection of cash flows used to determine the Discount Rate assumed that current Plan Member and Sponsor contributions will be made at the current contribution rate. Future Member's contributions in excess of their normal cost were also included. Based on those assumptions, the Pension Plan's Fiduciary Net Position was projected to provide future benefit payments for 35 years. These payments were discounted using a discount rate of 8.00%. Future benefits payments beyond 35 years were discounted using a high quality municipal bond rate of 3.78%. The high quality municipal bond rate was based on the week closest to, but not later than, the measurement date of the Bond Buyer 20-Bond Index as published by the Bond Buyer. The single equivalent discount rate was 5.94%.

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

The following presents the net pension liability of the BFRRF, calculated using the discount rate of 5.94%, as well as what the BFRRF's net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (4.94%) or 1 percentage point higher (6.94%) than the current rate:

| | 1% Decrease 4.94% | Current Discount Rate 5.94% | 1% Increase 6.94% |
|---|---|---|---|
| BFRRF's net pension liability | $ 109,732,904 | $ 91,720,148 | $ 76,201,870 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Beaumont Firemen's Relief and Retirement Fund (BFRRF) (continued)

#### Changes in Net Pension Liability

| | Total Pension Liability (a) | Increase (Decrease) Plan Fiduciary Net Position (b) | Net Pension Liability (a)-(b) |
|---|---|---|---|
| Balance at September 30, 2016 | $ 176,631,107 | 98,377,549 | 78,253,558 |
| Changes for the year: | | | |
| Service cost | 5,066,507 | - | 5,066,507 |
| Interest | 10,932,945 | - | 10,932,945 |
| Difference between expected and actual experience | 6,553,232 | - | 6,553,232 |
| Changes of assumptions | 3,873,763 | - | 3,873,763 |
| Changes of benefit terms | 103,039 | - | 103,039 |
| Contributions - employer | - | 2,702,543 | (2,702,543) |
| Contributions - employee | - | 2,702,543 | (2,702,543) |
| Net investment income | - | 8,008,456 | (8,008,456) |
| Benefit payments, including refunds of employee contributions | (9,004,781) | (9,004,781) | - |
| Administrative expense | - | (350,646) | 350,646 |
| Net changes | 17,524,705 | 4,058,115 | 13,466,590 |
| Balance at September 30, 2017 | $ 194,155,812 | 102,435,664 | 91,720,148 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

**Beaumont Firemen's Relief and Retirement Fund (BFRRF) (continued)**

### Changes in Net Pension Liability (continued)

For the year ended September 30, 2017, the City recognized pension expense of $12,911,457.

As of September 30, 2017, the City reported deferred outflows of resources related to BFFRF from the following sources:

| | | Deferred Outflows of Resources |
|---|---|---|
| Differences between Expected and Actual Experience | $ | 6,137,541 |
| Changes of assumptions | | 22,458,894 |
| Net difference between Projected and Actual Earnings on Pension Plan investments | | 7,761,984 |
| Employer contributions subsequent to the measurement date | | 2,318,676 |
| Total | $ | 38,677,095 |

Deferred outflows of resources related to pensions resulting from employer contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended September 30, 2018. Other amounts reported as deferred outflows of resources related to pensions will be recognized in pension expense as follows:

| Year ending September 30: | | |
|---|---|---|
| 2018 | $ | 6,873,053 |
| 2019 | | 6,873,052 |
| 2020 | | 5,834,224 |
| 2021 | | 3,860,444 |
| 2022 | | 3,919,697 |
| Thereafter | | 8,997,949 |
| | $ | 36,358,419 |

***Pension Plan Fiduciary Net Position:***

Information about the pension plan fiduciary net position can be found at https://www.beaumontfirepension.com

## Postemployment Benefits Other Than Pension Benefits

### Plan Description

All City of Beaumont employees retiring under TMRS or BFRRF will be provided the opportunity to elect employer-subsidized health insurance until age 65 if retired and/or hired by the City on or before December 31, 2016. Civilian employees who retire and were hired by the City of Beaumont January 1, 2017 or later will be offered insurance at unsubsidized rates. Eligible retirees may elect PPO coverage. The PPO and Rx coverage is self-insured by the City. As of the valuation date, the City subsidizes 31% to 46% of the cost of eligible retirees' health insurance. The City subsidizes spouse and family health coverage. As of the valuation date, a total of 224 retirees are participating in the City's group health program.

The City's annual other postemployment benefits (OPEB) cost is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameter of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The City had its OPEB actuarial valuation performed for the fiscal year beginning October 1, 2015 as required by GASB. The City's annual OPEB cost for the fiscal year ending September 30, 2017 is as follows:

| | |
|---|---|
| Annual required contribution | $ 2,720,000 |
| Interest on OPEB obligation | 109,000 |
| Adjustment to ARC | (99,000) |
| Annual OPEB cost end of year | 2,730,000 |
| Net estimated employer contributions | (2,791,000) |
| Increase in net OPEB obligation | (61,000) |
| Net OPEB obligation - as of beginning of the year | 2,424,000 |
| Net OPEB obligation - as of end of year | $ 2,363,000 |

### Funding status and funding progress

The funded status of the City's retiree health care plan, under GASB Statement No. 45 as of September 30, 2017, is as follows:

| Fiscal Year Ending | Actuarial Accrued Liability (AAL) | Actuarial Value of Assets | Unfunded AAL (UAAL) | Funded Ratio | Estimated Covered Payroll | UAAL as a Percent of Payroll |
|---|---|---|---|---|---|---|
| September 30, 2014 | $ 33,646,000 | 0 | 33,646,000 | 0% | 73,891,000 | 45.5% |
| September 30, 2015 | 34,162,000 | 0 | 34,162,000 | 0% | 72,301,000 | 47.2% |
| September 30, 2016 | 36,163,000 | 0 | 36,163,000 | 0% | 73,299,000 | 49.3% |
| September 30, 2017 | 36,502,000 | 0 | 36,502,000 | 0% | 78,874,000 | 46.3% |

Under the reporting parameters, the City's retiree health care plan is 0% funded with an estimated actuarial accrued liability exceeding actuarial assets by $36,502,000 at September 30, 2017.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Postemployment Benefits Other Than Pension Benefits (continued)

#### Actuarial methods and assumptions

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

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

*Actuarial Method and Assumptions*

| | |
|---|---|
| Discount rate | 4.5%, net of expenses |
| Actuarial cost method | Projected Unit Credit Cost Method |
| Amortization method | Level percentage payroll, 30yr, Closed |
| Growth rate | 3.0% per annum |
| Health care trend | |
| (initial/ultimate/grade down) | 10%/4.5%/0.5% |

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

OPEB disclosure as of September 30, 2017 is as follows:

| Fiscal Year Ended | Employer Annual Required Contribution | Employer Amount Contributed (est.) | Interest on NOO (9) x 4.5% | ARC Adjustment (9) / (6) | Amortization Factor | OPEB Cost (2)+(4)-(5) | Change in NOO (7) - (3) | NOO Balance NOO + (8) |
|---|---|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) | (8) | (9) |
| September 30, 2014 | 2,375,000 | 2,378,000 | 108,000 | 98,000 | 24.52000 | 2,385,000 | 7,000 | 2,407,000 |
| September 30, 2015 | 2,462,000 | 2,555,000 | 108,000 | 98,000 | 24.52000 | 2,472,000 | (83,000) | 2,324,000 |
| September 30, 2016 | 2,627,000 | 2,537,000 | 105,000 | 95,000 | 24.52000 | 2,637,000 | 100,000 | 2,424,000 |
| September 30, 2017 | 2,720,000 | 2,791,000 | 109,000 | 99,000 | 24.52000 | 2,730,000 | (61,000) | 2,363,000 |

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Postemployment Benefits Other Than Pension Benefits (continued)

#### Actuarial methods and assumptions (continued)

**Employer Contribution Percentage**

| Fiscal Year Ending | Annual OPEB Cost | Employer Contribution | Percentage Contributed | Net OPEB Obligation |
|---|---|---|---|---|
| September 30, 2014 | 2,385,000 | 2,378,000 | 100% | 2,407,000 |
| September 30, 2015 | 2,472,000 | 2,555,000 | 103% | 2,324,000 |
| September 30, 2016 | 2,637,000 | 2,537,000 | 96% | 2,424,000 |
| September 30, 2017 | 2,730,000 | 2,791,000 | 102% | 2,363,000 |

### Closure and Postclosure Care Cost

The City owns and operates a landfill site located on Lafin Road. State and federal laws and regulations require the City to place a final cover on the landfill when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. Although closure and postclosure care costs will be paid only near or after the date that the landfill stops accepting waste, the City reports a portion of these costs as an operating expense in each period based on landfill capacity used as of each balance sheet date. The $3.76 million reported as landfill closure and postclosure care liability at September 30, 2017 represents the cumulative amount reported to date based on the use of estimated capacity of the landfill that had previously been in existence. The City has obtained approval to expand the landfill vertically, and therefore, the revised capacity estimates greatly exceed that which previously had been considered. The remaining estimated liability for landfill closure and postclosure care, estimated at $3.53 million, will be recognized as the remaining capacity is filled. These amounts are based on what it would cost to perform all closure and postclosure care in 2017. The City expects to close the landfill in the year 2065. Actual costs may be higher due to inflation, changes in technology or changes in regulations. As of September 30, 2017, 23% of the landfill's total capacity has been used.

The City is required by state and federal laws and regulations to demonstrate financial assurance for closure and postclosure care costs. The City has complied with the financial test criteria as specified in Subchapter K of 31 Texas Administrative Code, Chapter 330.285.

## 4. DETAILED NOTES ON ALL FUNDS (continued)

### Tax Abatements

The City enters into economic development agreements to provide financial incentives for the purposes of stimulating the local economic development and business and commercial activity in the City. These agreements are authorized under Chapter 380 of the Texas Local Government Code. The City has entered into one (1) Chapter 380 agreement that calls for rebates of property taxes of 100% on assessed values for 10 years. In exchange for the ten-year tax abatement, the agreement calls for payments to the City in the amount of $1,000,000 for fiscal years 2017 & 2018 and $139,000 for the next 8 years. The City abated no property tax under the Chapter 380 agreements during fiscal year 2017.

The City enters into industrial agreements to collect payments in lieu of taxes with companies located outside the city limits in our Extra Territorial Jurisdiction or ETJ. These agreements are made under the authority of Section 42.044 of the Texas Local Government Code. The City's practice is to have seven-year agreements with these companies whereby they make payments based on 80% of the appraised value for the first three years of the agreement and 75% of the appraised value during the last four years. In return, the companies provide for significant construction projects within the City's ETJ per the terms of the agreement. If the payments made by the companies under the agreements are not made timely to the city, the tax abatements may be recaptured immediately and paid to the City within 60 days. For fiscal year 2017, the City abated property taxes of $1.4 million or 20% of the $6.9 million total levy.

### Operating Leases

The City is a party to numerous operating leases both as a lessor and as a lessee. Many of these leases are on a month-to-month basis while others terminate up to 82 years in the future. Most leases extending more than six years in the future are de minimum in amount. No material early cancellation penalties exist.

### Negative Fund Balances

Several funds ended the fiscal year with a negative fund balance or Net Position as follows:

The American Recovery and Reinvestment Act (ARRA) Fund had a negative fund balance in the amount of $92,949 due to the timing of reimbursements related to current year expenditures.

The Harvey Recovery Fund had a negative fund balance in the amount of $3,890,608 due to timing of reimbursements related to current year expenditures.

The Fleet Fund had a negative Net Position of $735,051 due to pension costs accrued due to GASB 68.

The Employee Benefits Fund had a negative Net Position of $2,982,442 due to higher claim payments than anticipated.

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# APPENDIX C

## FORM OF BOND COUNSEL OPINION

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_______________, 2018

City of Beaumont, Texas
801 Main Street
Beaumont, Texas 77701

Re: The City of Beaumont, Texas Certificates of Obligation, Series 2018

Ladies and Gentlemen:

WE HAVE ACTED as bond counsel for the CITY OF BEAUMONT, TEXAS (the "City"), in connection with an issue of obligations described as follows:

> THE CITY OF BEAUMONT, TEXAS, CERTIFICATES OF OBLIGATION, SERIES 2018 (the "Certificates"), in the aggregate original principal amount of $9,260,000, issuable in fully registered form only, in denominations, dated the date, bearing interest, maturing in the years and amounts, and transferable and exchangeable as set out in the Certificates and in the Ordinance ("Ordinance") adopted by the City Council of Beaumont, Texas authorizing their issuance.

WE HAVE ACTED as bond counsel for the sole purpose of rendering an opinion with respect to the legality and validity of the Certificates under the Constitution and laws of the State of Texas and with respect to the status of the interest on the Certificates under federal income tax law. In such capacity we have examined relevant provisions of the Constitution and laws of the State of Texas; a transcript of certain certified proceedings pertaining to the issuance of the Certificates; certain certifications and representations concerning the use of proceeds of the Certificates, the use of other funds of the City, and other material facts within the knowledge and control of the City, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Certificates, including executed Certificates. We have also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), court decisions, Treasury Regulations, and published rulings of the Internal Revenue Service (the "Service") as we have deemed relevant. We have not been requested to examine, and have not investigated or verified, any original proceedings, records, data, or other material, but have relied upon the transcript of certified proceedings. We have not assumed any responsibility with respect to the financial condition or capabilities of the City or the disclosure thereof in connection with the sale of the Certificates. Capitalized terms used herein, unless otherwise defined, have the meaning set forth in the Ordinance.

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bracewell.com

BASED ON SUCH EXAMINATION, it is our opinion that:

(1) the transcript of certified proceedings evidences complete legal authority for the issuance of the Certificates in full compliance with the Constitution and laws of the State of Texas presently in effect; the Certificates are valid and legally binding Certificates of the City in accordance with the terms and conditions thereof, except to the extent that the enforcement of the rights and remedies of the owners thereof may be limited by laws relating to bankruptcy, insolvency, reorganization, or moratorium or other similar laws affecting the rights of creditors, or the exercise of judicial discretion in accordance with general principles of equity; the Certificates have been authorized in accordance with law; the Certificates and any additional obligations hereafter issued on a parity therewith are payable from and are secured solely by a limited pledge of ad valorem taxes received and collected by the City and $10,000 of the net revenues of the City's waterworks and sewer system; and

(2) Ad valorem taxes, within the limit prescribed by law, upon all taxable property within the City, necessary to pay the interest on and principal of the Certificates, have been pledged irrevocably for such purpose, and, solely to permit the sale of the Certificates for cash, $10,000 of the net revenues of the City's waterworks and sewer system have also been pledged.

IT IS FURTHER OUR OPINION that, under existing law:

(1) Interest on the Certificates is excludable from gross income for federal income tax purposes.

(2) The Certificates are not "private activity Certificates" within the meaning of the Code, and, as such, and interest on the Certificates is not subject to the alternative minimum tax.

In providing such opinions, we have relied on representations of the City, the City's Financial Advisor, and the Underwriter with respect to matters solely within the knowledge of the City, the City's Financial Advisor, and the Underwriter, respectively, which we have not independently verified. In addition, we have assumed for purposes of this opinion continuing compliance with the covenants in the Ordinance pertaining to those sections of the Code that affect the excludability from gross income of interest on the Certificates for federal income tax purposes.

Except as stated above, we express no opinion as to any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or the acquisition, ownership, or disposition of the Certificates.

Owners of the Certificates should be aware that the ownership of tax exempt Certificates may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers qualifying for the health insurance premium assistance credit, and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively-connected earnings and profits (including tax-exempt interest such as interest on the Certificates).

The opinions set forth above 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 these opinions to reflect any facts or circumstances that may hereafter come to our attention or to reflect any changes in any law that may hereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on 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 as to whether or not the Service will commence an audit of the Certificates. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the City as the taxpayer. We observe that the City has covenanted in the Ordinance 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 Certificates as includable in gross income for federal income tax purposes.

Very truly yours,

RBC Capital Markets®