**OFFICIAL STATEMENT**

**Dated March 8, 2013**

**Ratings:**
**Moody's: Aa2**
**S&P: AA**
**See ("OTHER INFORMATION – Ratings" herein)**

**NEW ISSUE – BOOK-ENTRY-ONLY**

In the opinion of Bond Counsel, interest on the Series 2013 Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under "TAX MATTERS – TAX EXEMPTION" herein including the alternative minimum tax consequences for corporations.

THE SERIES 2013 BONDS **WILL NOT** BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS

**$14,895,000**
**CITY OF LEAGUE CITY, TEXAS**
**(Galveston and Harris Counties)**
**GENERAL OBLIGATION REFUNDING BONDS, SERIES 2013**

**Dated Date: March 1, 2013** **Due: February 15 as shown on inside cover page**

**AUTHORITY FOR ISSUANCE** . . . The $14,895,000 City of League City, Texas General Obligation Refunding Bonds, Series 2013 (the "Series 2013 Bonds") are issued pursuant to the Constitution and general laws of the State of Texas, (the "State") particularly Chapter 1207, Texas Government Code, as amended, and an Ordinance passed by the City Council of the City (the "Bond Ordinance") and constitute direct obligations of the City of League City, Texas (the "City"), payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, as provided in the Bond Ordinance (see "THE SERIES 2013 BONDS – AUTHORITY FOR ISSUANCE").

**PAYMENT TERMS** . . . Interest on the Series 2013 Bonds will accrue from March 1, 2013, (the "Dated Date") and will be payable February 15 and August 15 of each year commencing August 15, 2013, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Series 2013 Bonds will be 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 Series 2013 Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Series 2013 Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Series 2013 Bonds will be payable by the respective Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE SERIES 2013 BONDS –Book-Entry-Only System" herein. The initial Paying Agent/Registrar for the Series 2013 Bonds is Wells Fargo Bank, N.A., Dallas, Texas (see "THE SERIES 2013 BONDS – PAYING AGENT/REGISTRAR").

**PURPOSE** . . . Proceeds from the sale of the Series 2013 Bonds will be used (i) to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") and (ii) to pay the costs of issuance associated with the Series 2013 Bonds.

**SEE MATURITY SCHEDULE ON INSIDE COVER**

**OPTIONAL REDEMPTION** . . . The City reserves the right, at its option, to redeem Series 2013 Bonds having stated maturities on and after February 15, 2024, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption (see "THE SERIES 2013 BONDS - OPTIONAL REDEMPTION").

**LEGALITY** . . . The Series 2013 Bonds are offered for delivery when, as and if issued and received by Underwriters shown below (the "Underwriters") and subject to the approving opinions of the Attorney General of Texas and the opinions of Fulbright & Jaworski L.L.P., Bond Counsel, Houston, Texas (see APPENDIX C -"FORM OF BOND COUNSEL'S OPINION"). Certain legal matters will be passed upon for the Underwriters by Andrews Kurth LLP, Houston, Texas, counsel for the Underwriters.

**DELIVERY** . . . It is expected that the Series 2013 Bonds will be available for delivery through The Depository Trust Company on or about March 26, 2013.

**SOUTHWEST SECURITIES** **COASTAL SECURITIES, INC.**

**MATURITY SCHEDULE**

**$14,895,000**
**SERIES 2013 BONDS**

**$13,490,000 Serial Bonds**

| Maturity | Principal | Interest Rate (%) | Initial Price Or Yield% (1) | CUSIP(2) | Maturity | Principal | Interest Rate (%) | Initial Price Or Yield% (1) | CUSIP(2) |
|---|---|---|---|---|---|---|---|---|---|
| 02/15/2014 | $2,070,000 | 2.000 | 0.220 | 5217684E8 | 02/15/2021 | $625,000 | 3.000 | 1.900 | 5217684M0 |
| 02/15/2015 | 1,250,000 | 3.000 | 0.400 | 5217684F5 | 02/15/2022 | 645,000 | 3.000 | 2.150 | 5217684N8 |
| 02/15/2016 | 1,380,000 | 3.000 | 0.600 | 5217684G3 | 02/15/2023 | 660,000 | 3.000 | 2.350 | 5217684P3 |
| 02/15/2017 | 1,395,000 | 3.000 | 0.800 | 5217684H1 | 02/15/2024 (3) | 505,000 | 3.000 | 2.530 | 5217684Q1 |
| 02/15/2018 | 1,420,000 | 2.000 | 1.000 | 5217684J7 | 02/15/2025 (3) | 525,000 | 3.000 | 2.680 | 5217684R9 |
| 02/15/2019 | 1,130,000 | 3.000 | 1.300 | 5217684K4 | 02/15/2026 (3) | 535,000 | 3.000 | 2.900 | 5217684S7 |
| 02/15/2020 | 1,140,000 | 4.000 | 1.600 | 5217684L2 | 02/15/2027 (3) | 210,000 | 3.000 | 3.070 | 5217684T5 |

**$1,405,000 Term Bonds (4)**

$435,000 3.125% Term Bond due February 15, 2029; Priced to yield 3.260%; CUSIP No. 5217684V0

$470,000 3.250% Term Bond due February 15, 2031; Priced to yield 3.410%; CUSIP No. 5217684X6

$500,000 3.375% Term Bonds due February 15, 2033; Priced to yield 3.520%; CUSIP No. 5217684Z1

(1) The initial reoffering prices or yields are furnished by Underwriters and represent the initial offering price or yield to the public, which may be changed by the Underwriters at any time.

(2) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by Standard and Poor's CUSIP Service Bureau, A Division of the McGraw-Hill Companies, Inc. and included solely for the convenience of the purchasers of the Series 2013 Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. Neither the City, the Financial Advisors nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(3) The City reserves the right, at its option, to redeem Series 2013 Bonds having stated maturities on and after February 15, 2024, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023, interest to the date of redemption, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption.

(4) The Term Bonds are subject to mandatory sinking fund redemption. (See "THE SERIES 2013 BONDS – MANDATORY SINKING FUND REDEMPTION" herein.)

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*This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy Series 2013 Bonds in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.*

*No dealer, broker, salesperson or other person has been authorized to give 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.*

*The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.*

*The information and expressions of opinion contained herein 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 affairs of the City or other matters described.*

*Neither the City, nor the Financial Advisors, nor the Underwriters make any representation or warranty with respect to the information contained in the Official Statement regarding the Depository Trust Company ("DTC") or its Book-Entry-Only System as described under "THE SERIES 2013 BONDS- BOOK-ENTRY-ONLY SYSTEM" as such information has been provided by DTC.*

*The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement pursuant to its responsibilities to investors under the federal securities laws, but the Underwriters do not guarantee the accuracy or completeness of such information.*

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

# OFFICIAL STATEMENT SUMMARY

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

**THE CITY** ............................................. The City of League City, Texas (the "City") is a political subdivision and municipal corporation of the State, located in Galveston and Harris Counties, Texas. The City covers approximately 53 square miles (see "INTRODUCTION – DESCRIPTION OF THE CITY").

**THE SERIES 2013 BONDS** ...................... The Series 2013 Bonds are issued as $14,895,000 General Obligation Refunding Bonds, Series 2013. The Series 2013 Bonds are issued as serial bonds maturing February 15, 2014 through February 15, 2027 and Term Bonds maturing February 15, 2029, February 15, 2031 and February 15, 2033 (see "THE SERIES 2013 BONDS – DESCRIPTION OF THE BONDS").

**PAYMENT OF INTEREST** ........................ Interest on the Series 2013 Bonds accrues from March 1, 2013, and is payable August 15, 2013 and each February 15 and August 15 thereafter until maturity or prior redemption (see "THE SERIES 2013 BONDS – DESCRIPTION OF THE BONDS").

**AUTHORITY FOR ISSUANCE** .................. The Series 2013 Bonds are issued pursuant to the general laws of the State, including particularly Chapter 1207, Texas Government Code, as amended, and an ordinance passed by the City Council of the City (see " THE SERIES 2013 BONDS – AUTHORITY FOR ISSUANCE")

**SECURITY FOR THE OBLIGATIONS** ....................................... The Series 2013 Bonds constitute direct obligations of the City, payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property within the City, (see "THE SERIES 2013 BONDS – SECURITY AND SOURCE OF PAYMENT").

**REDEMPTION** ........................................ The City reserves the right, at its option, to redeem Series 2013 Bonds having stated maturities on and after February 15, 2024, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023, or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption (see "THE SERIES 2013 BONDS – OPTIONAL REDEMPTION"). Additionally, the principal amounts designated in the maturity schedule on the inside cover page combined to create term bonds ("Term Bonds"), are subject to mandatory redemption as set forth herein. (See "THE SERIES 2013 BONDS – MANDATORY SINKING FUND REDEMPTION").

**TAX EXEMPTION** .................................. In the opinion of Bond Counsel, the interest on the Series 2013 Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under the caption "TAX MATTERS" herein, including the alternative minimum tax consequences for corporations.

**USE OF PROCEEDS** ................................ Proceeds from the sale of the Series 2013 Bonds will be used (i) to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") and (ii) to pay the costs of issuance associated with the Series 2013 Bonds.

**RATINGS** ............................................... The Series 2013 Bonds are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by Standard & Poor's Ratings Services, A Division of McGraw-Hill Companies, Inc. ("S&P"), without regard to credit enhancement (see "OTHER INFORMATION - RATINGS").

**BOOK-ENTRY-ONLY SYSTEM** ................................................. The Series 2013 Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the BOOK-ENTRY-ONLY SYSTEM described herein. Beneficial ownership of the Series 2013 Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Series 2013 Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Series 2013 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2013 Bonds (see " THE SERIES 2013 BONDS – BOOK-ENTRY-ONLY SYSTEM").

**PAYMENT RECORD** ............................... The City has never defaulted in payment of its general obligation tax debt.

**SELECTED FINANCIAL INFORMATION**

| Fiscal Year Ended 09/30 | Estimated City Population[1] | Taxable Assessed Valuation[2] | Per Capita Taxable Assessed Valuation | G.O. Tax Debt Outstanding At Year End[3] | Ratio of G.O. Tax Debt to Taxable Assessed Valuation | Percent of Total Tax Collections | G.O. Tax Debt Per Capita |
|---|---|---|---|---|---|---|---|
| 2006 | 72,000 | $ 3,587,297,017 | 49,824 | $ 88,395,000 | 2.46% | 99.81% | $ 1,228 |
| 2007 | 76,700 | 4,221,023,262 | 55,033 | 82,520,000 | 1.95% | 99.74% | 1,076 |
| 2008 | 79,300 | 4,423,578,307 | 55,783 | 91,265,000 | 2.06% | 98.93% | 1,151 |
| 2009 | 81,300 | 4,884,974,169 | 60,086 | 84,225,000 | 1.72% | 99.57% | 1,035 |
| 2010 | 83,560 | 5,225,447,588 | 62,535 | 96,335,000 | 1.84% | 99.29% | 1,153 |
| 2011 | 85,300 | 5,333,571,116 | 62,527 | 107,135,000 | 2.01% | 99.13% | 1,256 |
| 2012 | 87,400 | 5,464,304,958 | 62,521 | 196,185,000 | 3.59% | 98.04% | 2,245 |
| 2013 | 89,500 | 5,623,366,259 [4] | 62,831 | 181,415,000 [5] | 3.23% | 84.37% [6] | 2,027 |

(1) Population estimated by the City, except for fiscal year end 2010, which was the City's official census population.
(2) As reported by the Galveston Central and Harris County Appraisal District, subject to adjustments throughout the year.
(3) Includes self-supporting debt.
(4) Value includes $283,744,863 net taxable value that is still subject to the Appraisal Review Board hearing process.
(5) Includes the Series 2013 Bonds. Excludes the refunded obligations.
(6) Collections through January 31, 2013.

**GENERAL FUND CONSOLIDATED STATEMENT SUMMARY**

| | For Fiscal Year Ended September 30 | | | | |
|---|---|---|---|---|---|
| | 2012 | 2011 | 2010 | 2009 | 2008 |
| Beginning Balance | $20,725,877 | $21,665,348 | $20,938,122 | $18,297,705 | $17,039,664 |
| Total Revenue | 46,563,437 | 45,152,558 | 44,680,986 | 46,431,027 | 41,504,892 |
| Total Expenditures | 46,575,076 | 45,325,204 | 44,302,596 | 42,914,071 | 40,859,105 |
| Other Financing Sources (Uses) [1] | (4,342,720) | (766,825) | 348,836 | (876,538) | 612,254 |
| Ending Balance | $16,371,518 | $20,725,877 | $21,665,348 | $20,938,123 | $18,297,705 |

(1) The increase in "Other Financing Uses" for FY 2012 was budgeted by City Council to fund a $3 million cash contribution toward the General Obligation Refunding Bond, Series 2012. Additional funds were also contributed to the capital projects funds for programmed projects."

## CITY OFFICIALS, STAFF AND CONSULTANTS

### ELECTED OFFICIALS

| City Council | Title | Length of Service | Term Expires November | Occupation |
|---|---|---|---|---|
| Timothy Paulissen | Mayor | 2 Years | 2014 | Publisher |
| Dan Becker | Council Member | 2 Years | 2014 | Engineer |
| Dennis OKeeffe | Council Member | 2 Years | 2014 | Public Water System |
| Heidi Thiess | Council Member | 6 Mo | 2015 | Business Owner |
| Todd Kinsey | Council Member | 6 Mo | 2015 | Freelance Writer |
| Geraldine Bentley | Council Member | 6 Mo | 2015 | Interior Designer |
| Andy Mann | Council Member | 2 Years | 2013 | Systems Integrator |
| Joanna Sharp Dawson | Council Member | 3 Years | 2013 | Retired |

### SELECTED ADMINISTRATIVE STAFF

| Name | Position | Service To City | Total Governmental Service |
|---|---|---|---|
| Michael W. Loftin | City Manager | 3 Years | 39 Years |
| Rebecca Underhill | Director of Finance | 1 Year | 21 Years |
| Lonna Stein | Controller | 29 Years | 29 Years |
| Diana Stapp | City Secretary | 10 Years | 10 Years |

### CONSULTANTS AND ADVISORS

Auditors ........................................ Belt Harris Pechacek, L.L.P
Houston, Texas

Bond Counsel ........................................ Fulbright & Jaworski L.L.P
Houston, Texas

Co-Financial Advisor........................................ M.E. Allison & Co., Inc.
San Antonio, Texas

Co-Financial Advisor........................................ Hutchinson, Shockey, Erley & Co.
Houston, Texas

For additional information regarding the City, please contact:

| | | | | |
|---|---|---|---|---|
| City of League City<br>Rebecca Underhill<br>Director of Finance<br>300 West Walker<br>League City, Texas 77573<br>(281)554-1368 Phone<br>(281)554-1354 Fax | or | Mark C. Nitcholas<br>Financial Advisor<br>Hutchinson, Shockey, Erley & Co.<br>4545 Post Oak Place, Suite 125<br>Houston, Texas 77027<br>(713)429-4838 Phone<br>(713)621-4022 Fax | or | Mark A. Seal<br>Financial Advisor<br>M.E. Allison & Co., Inc.<br>950 E. Basse Road, 2nd Fl.<br>San Antonio, Texas 78209<br>(210)293-4504 Phone<br>(210)930-4001 Fax |

**OFFICIAL STATEMENT RELATING TO**

**$14,895,000**
**CITY OF LEAGUE CITY, TEXAS**
**(Galveston and Harris Counties)**
**GENERAL OBLIGATION**
**REFUNDING BONDS,**
**SERIES 2013**

## INTRODUCTION

This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of $14,895,000 City of League City, Texas, General Obligation Refunding Bonds, Series 2013 (the "Series 2013 Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the applicable ordinances approving the Series 2013 Bonds, except as otherwise indicated herein.

There follows in this Official Statement descriptions of the Series 2013 Bonds and certain information regarding 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's Co-Financial Advisors, Hutchinson, Shockey, Erley & Co., Houston, Texas and M.E. Allison & Co., Inc., San Antonio, Texas.

### DESCRIPTION OF THE CITY

The City is a political subdivision and municipal corporation of the State, duly organized under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1961, and first adopted its Home Rule Charter on March 27, 1962. The City operates with a City Council comprised of the Mayor and seven Councilmembers serving staggered three-year terms. By virtue of municipal elections conducted on May 8, 2010, the City's Home Rule Charter was amended so as to adopt the Council-Manager form of government. A City Manager now serves as the Chief Administrative and Executive Officer of the City, appointed by the City Council to administer all municipal affairs of the City. Some of the services that the City provides are public safety, highways and streets, water and sanitary sewer utilities, culture-recreation, planning and zoning, and general administrative services. The 2010 Census population for the City was 83,560, while the estimated 2012 population is 89,500. The City covers approximately 53 square miles.

## THE BONDS

### AUTHORITY FOR ISSUANCE

The Series 2013 Bonds are being issued pursuant to the Constitution and general laws of the State of Texas, Chapter 1207, Texas Government Code (the "Act"), as amended, and an ordinance (the "Bond Ordinance") passed by the City Council.

### DESCRIPTION OF THE BONDS

The Series 2013 Bonds are dated March 1, 2013, and mature on February 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing August 15, 2013. The definitive Series 2013 Bonds will be issued only in fully registered form in any integral multiple of $5,000 for any one maturity and will be 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. No physical delivery of the Series 2013 Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Series 2013 Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Series 2013 Bonds. (see "THE SERIES 2013 BONDS – Book-Entry-Only System" herein).

### SECURITY AND SOURCE OF PAYMENT

All taxable property within the City is subject to a continuing direct annual ad valorem tax levied by the City sufficient to provide for the payment of principal of and interest on all obligations payable in whole or in part from ad valorem taxes, which tax must be levied within the limits prescribed by law.

### TAX RATE LIMITATION

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

The Home Rule Charter of the City limits its tax rate to $0.60 per $100 Assessed Valuation for the operation and maintenance of City services and $1.60 per $100 Taxable Assessed Valuation for all City purposes; including the payment of debt service.

Administratively, the Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for all General Obligation debt service, as calculated at the time of issuance. See "TABLE 4 - TAX RATE, LEVY AND COLLECTION HISTORY" for the City's current tax rate and historical tax rate, levy, and collection history.

**OPTIONAL REDEMPTION**

The City reserves the right, at its option, to redeem Series 2013 Bonds having stated maturities on and after February 15, 2024, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on February 15, 2023 or any date thereafter, at the par value thereof plus accrued interest from the most recent interest payment date to the date of redemption. If less than all of the Series 2013 Bonds are to be redeemed, the City may select the maturities of such Series 2013 Bonds to be redeemed. If less than all the Series 2013 Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Series 2013 Bonds are in Book-Entry-Only form) shall determine by lot the Series 2013 Bonds, or portions thereof, within such maturity to be redeemed. If a Series 2013 Bond (or any portion of the principal sum thereof) shall have been called for redemption and notice of such redemption shall have been given, such Series 2013 Bond or the principal amount thereof to be redeemed) shall become due and payable on such redemption date and interest thereon shall cease to accrue from and after the redemption date, provided funds for the payment of the redemption price and accrued interest thereon are held by the Paying Agent/Registrar on the redemption date.

**MANDATORY SINKING FUND REDEMPTION**

In addition to the foregoing optional redemption provision, the principal amounts designated in the maturity schedule on the inside cover page combined to create Term Bonds, shall be subject to mandatory sinking fund redemption commencing on February 15 of the first year which has been combined to form such Term Bond and continuing on February 15 in each year thereafter until the stated maturity date of that Term Bond, and the amount required to be redeemed in any year shall be equal to the principal amount for such year set forth in the maturity schedule below. Term Bonds to be redeemed in any year by mandatory sinking fund redemption shall be redeemed at par and shall be selected by lot from and among the Term Bonds then subject to redemption. The City, at its option, may credit against any mandatory sinking fund redemption requirement Term Bonds of the maturity then subject to redemption which have been purchased and canceled by the City or have been redeemed and not theretofore applied as a credit against any mandatory sinking fund redemption requirement.

| Term Bonds Stated to Mature On February 15, 2029 | | Term Bonds Stated to Mature On February 15, 2031 | | Term Bonds Stated to Mature On February 15, 2033 | |
|---|---|---|---|---|---|
| Year | Principal Amount ($) | Year | Principal Amount ($) | Year | Principal Amount ($) |
| 2028 | 210,000 | 2030 | 230,000 | 2032 | 245,000 |
| 2029 | 225,000* | 2031 | 240,000* | 2033 | 255,000* |

*Payable at Stated Maturity

The principal amount of Term Bonds required to be redeemed pursuant to the operation of such mandatory redemption provisions may be reduced, at the option of the City, by the principal amount of Term Bonds of the same maturity which (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase and delivered to the Paying Agent/Registrar for cancellation or (ii) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

**NOTICE OF REDEMPTION**

Not less than 30 days prior to a redemption date for the Series 2013 Bonds, 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 Series 2013 Bonds 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 at the close of business on the business day next preceding the date of mailing such notice. 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 SERIES 2013 BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND NOTWITHSTANDING THAT ANY SERIES 2013 BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH SERIES 2013 BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

**DEFEASANCE**

The Ordinance provides for the defeasance of the Series 2013 Bonds when the payment of the principal of and premium, if any, on the Series 2013 Bonds, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), is provided by irrevocably depositing with a paying agent, in trust (1) money sufficient to make such payment or (2) Governmental Obligations, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times to insure the availability, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, of sufficient money to make such payment, or (3) a combination of money and Governmental Obligations together so certified sufficient to make such payment, provided that all necessary and proper fees, compensation and expenses of the paying agent for the Series 2013 Bonds. The term Governmental Obligations, as used herein, shall mean (i) direct noncallable bonds of the United States, including bonds that are unconditionally guaranteed by, the United States of America; (ii) noncallable bonds of an agency or instrumentality of the United States, including bonds that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) noncallable bonds of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent. The City has additionally reserved the right, subject to satisfying the requirements of (1) and (2) above, to substitute other Governmental Obligations for the Governmental Obligations originally deposited, to reinvest the uninvested moneys on deposit for such defeasance and to withdraw for the benefit of the City moneys in excess of the amount required for such defeasance.

Upon such deposit as described above, such Series 2013 Bonds will no longer be regarded to be outstanding or unpaid. Provided, however, the City has reserved the option, to be exercised at the time of the defeasance of the Series 2013 Bonds, to call for redemption, at an earlier date, those Series 2013 Bonds which have been defeased to their maturity date, if the City: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Series 2013 Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Series 2013 Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

**BOOK-ENTRY-ONLY SYSTEM**

*This section describes how ownership of the Series 2013 Bonds is to be transferred and how the principal of, premium, if any, and interest on the Obligations are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Series 2013 Bonds are registered in its nominee name. The information in this section concerning DTC and the BOOK-ENTRY-ONLY SYSTEM has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

*The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Series 2013 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Series 2013 Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 Series 2013 Bonds. The Series 2013 Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for each maturity of the Series 2013 Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Series 2013 Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series 2013 Bonds on DTC's records. The ownership interest of each actual purchaser of each Series 2013 Bonds ("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 Series 2013 Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive Series 2013 Bonds representing their ownership interests in Series 2013 Bonds, except in the event that use of the book-entry system for the Series 2013 Bonds is discontinued.

To facilitate subsequent transfers, all Series 2013 Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Series 2013 Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series 2013 Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series 2013 Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Series 2013 Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series 2013 Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Series 2013 Bonds documents. For example, Beneficial Owners of Series 2013 Bonds may wish to ascertain that the nominee holding the Series 2013 Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the register and request that copies of the notices be provided directly to them.

Redemption notices for the Series 2013 Bonds will be sent to DTC. If less than all of the Series 2013 Bonds of 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 Series 2013 Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Series 2013 Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Series 2013 Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar of each series, on the 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 of each series, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or Paying Agent/Registrar of each series, 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 Series 2013 Bonds at any time by giving reasonable notice to the City or the respective Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Series 2013 Bonds are required to be printed and delivered.

The City may decide to discontinue the use of the system of BOOK-ENTRY-ONLY transfers through DTC (or a successor depository). In that event, Series 2013 Bonds, as appropriate, will be printed and delivered.

Use of Certain Terms in Other Sections of this Official Statement. In reading this Official Statement it should be understood that while the Series 2013 Bonds are in the BOOK-ENTRY-ONLY SYSTEM, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Series 2013 Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Ordinance will be given only to DTC.

Information concerning DTC and the Book-Entry-Only 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, or the Underwriters.

Effect of Termination of BOOK-ENTRY-ONLY SYSTEM. In the event that the BOOK-ENTRY-ONLY SYSTEM of the Series 2013 Bonds is discontinued, printed Series 2013 Bonds will be issued to the DTC Participants or the holder, as the case may be, and such Series 2013 Bonds will be subject to transfer, exchange and registration provisions as set forth in the Ordinances and summarized under "THE BONDS – TRANSFER, EXCHANGE AND REGISTRATION" below.

**PAYING AGENT/REGISTRAR**

The initial Paying Agent/Registrar for the Series 2013 Bonds is Wells Fargo Bank, N.A., Dallas, Texas. In the Bond Ordinance, the City retains the right to replace the Paying Agent/Registrar for the Series 2013 Bonds. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Series 2013 Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank or trust company organized under the laws of the United States of America or of any other State, authorized under such laws to exercise corporate trust power, having a combined capital and surplus of at least $10,000,000 subject to supervision or examination of a federal or state authority, registered as a transfer agent with the Securities and Exchange Commission. Upon any change in the Paying Agent/Registrar for the Series 2013 Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Series 2013 Bonds which notice shall also give the address of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION**

In the event the Book-Entry-Only System should be discontinued, the Series 2013 Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar and such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. Series 2013 Bonds may be assigned by the execution of an assignment form on the respective Series 2013 Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Series 2013 Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Series 2013 Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Series 2013 Bonds issued in an exchange or transfer of Series 2013 Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Series 2013 Bonds to be canceled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Series 2013 Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of $5,000 for any one maturity and for a like aggregate principal amount as the Series 2013 Bonds surrendered for exchange or transfer. See "THE SERIES 2013 BONDS – BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Series 2013 Bonds. Neither the City nor the Paying Agent/Registrar is required to transfer or exchange any Series 2013 Bonds called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of Series 2013 Bonds.

**RECORD DATE FOR INTEREST PAYMENT**

The record date ("Record Date") for the interest payable on the Series 2013 Bonds on any interest payment date means the close of business on the last business day of the preceding month.

In the event of a non-payment of interest on a scheduled payment date, and for 10 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date", which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Series 2013 Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

**REFUNDED BONDS**

The Bond Ordinance does not establish specific events of default with respect to the Series 2013 Bonds. If the City defaults in the payment of principal, interest, or redemption price on the Series 2013 Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Ordinance, or defaults in the observation or performance of any other covenants, conditions, or Series 2013 Bonds set forth in the Bond Ordinance, the registered owners may seek a writ of mandamus to compel City officials to carry out their legally imposed duties with respect to the Series 2013 Bonds if there is no other available remedy at law to compel performance of the Series 2013 Bonds or Bond Ordinance and the City's Series 2013 Bonds are not uncertain or disputed. The issuance of a writ of mandamus is controlled by equitable principles, and with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Series 2013 Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Ordinance does not provide for the appointment of a trustee to represent the interest of the bondholders any failure of the City to perform in accordance with the terms of the Bond 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. Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Further, the registered owners cannot themselves foreclose on property within the City or sell property within the City to enforce the tax lien on taxable property to pay the principal of and interest on the Series 2013 Bonds. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or bondholders or of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Ordinance and the Series 2013 Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

**BONDHOLDERS REMEDIES**

The Refunded Bonds (as indicated in Schedule I – Refunded Obligations) and the interest due thereon are to be paid on their scheduled interest payment and maturity dates or dates of redemption from funds to be deposited with Wells Fargo Bank, N.A., Dallas Texas (the "Escrow Agent"), pursuant to an Escrow Agreement (the "Escrow Agreement") between the City and the Escrow Agent.

A portion of the proceeds of the Bonds, together with other available funds of the City, will be used to purchase a portfolio of obligations authorized under Texas law and the ordinances authorizing the issuance of the Refunded Bonds (the "Escrowed Securities") to be deposited in an escrow fund (the "Escrow Fund") with the Escrow Agent, the maturing principal of and interest on which will be sufficient with other funds on deposit in the Escrow Fund, if any, to pay, when due, the principal of and interest on the Refunded Bonds.

Grant Thornton, LLP, Minneapolis, MN, Certified Public Accountants, will verify from the information provided to them the mathematical accuracy as of the date of the closing of the Bonds of the computations contained in the provided schedules to determine that the anticipated receipts from the Federal Securities in the schedules provided by Coastal Securities, Inc. will mature and pay interest in such amounts which, together with uninvested funds, if any, in the Escrow Fund will be sufficient to pay, when due, the principal of and interest on the Refunded Bonds. **Such maturing principal of and interest on the Federal Securities will not be available to pay the debt service on the Bonds. See "OTHER INFORMATION – VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS."**

By deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the City will have made firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds pursuant to the terms of Chapter 1207, Texas Government Code, as amended, and the orders authorizing the issuance of the Refunded Bonds. Thereafter, the Refunded Bonds will be deemed to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor pursuant to the Escrow Agreement.

**SOURCES AND USES OF FUNDS**

Proceeds from the sale of the Series 2013 Bonds will be used (i) to refund certain obligations of the City described in Schedule I (the "Refunded Obligations") and (ii) to pay the costs of issuance associated with the Series 2013 Bonds.

Proceeds from the sale of the Series 2013 Bonds are expected to be expended as follows:

| **The Series 2013 Bonds** | |
|---|---|
| **Sources of Funds** | |
| Principal Amount of Series 2013 Bonds | $14,895,000.00 |
| Net Reoffering Premium | 801,428.90 |
| Accrued Interest | 29,648.87 |
| Issuer Contribution | 1,200,000.00 |
| Total Sources of Funds | $16,926,077.77 |
| | |
| **Uses of Funds** | |
| Deposit to Escrow Account | $16,649,482.72 |
| Deposit to Debt Service Fund | 29,648.87 |
| Issuance Expenses | 158,000.00 |
| Underwriters' Discount | 84,302.71 |
| Rounding Amount | 4,643.47 |
| Total Uses of Funds | $16,926,077.77 |

## TAX INFORMATION

**AD VALOREM TAX LAW**

The appraisal of property within the City is the responsibility of the Galveston County Appraisal District and Harris County Appraisal District (collectively, the "Appraisal District). Excluding agricultural and open-space land, which may be taxed on the basis of productive capacity, the Appraisal District is required under the Texas Tax Code (the "Property Tax Code") to appraise all property within the Appraisal District on the basis of 100% of its market value and is prohibited from applying any assessment ratios. In determining market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the less of (1) the market value of the property, or (2) the sum of (a) 10% of the appraised value of the property for the last year in which the property was appraised for taxation times the number of years since the property was last appraised, plus (b) the appraised value of the property for the last year in which the property was appraised plus (c) the market value of all new improvements to the property. A residence homestead is valued solely on the basis of its value as a residence homestead, regardless of whether residential use by the owner is considered to be the highest and best use of the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of three members appointed by the Board of Directors of the Appraisal District. The Appraisal District is required to review the value of property within the Appraisal District at least every three years. The City may require annual review at its own expense, and is entitled to challenge the determination of appraised value of property within the City by petition filed with the Appraisal Review Board.

Reference is made to the V.T.C.A., Tax Code, for identification of property subject to taxation; property exempt or which may be exempted from taxation, if claimed; the appraisal of property for ad valorem taxation purposes; and the procedures and limitations applicable to the levy and collection of ad valorem taxes.

Article VIII of the State Constitution ("Article VIII") and State law provide for certain exemptions from property taxes, the valuation of agricultural and open-space lands at productivity value, and the exemption of certain personal property from ad valorem taxation.

Under Section 1-b, Article VIII, and State law, the governing body of a political subdivision, at its option, may grant: (1) An exemption of not less than $3,000 of the market value of the residence homestead of persons 65 years of age or older and the disabled from all ad valorem taxes thereafter levied by the political subdivision; or (2) An exemption of up to 20% of the market value of residence homesteads. The minimum exemption under this provision is $5,000.

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

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

Under Article VIII and State law, the governing body of a county, municipality or junior college district, may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the county, municipality or junior college district, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferable to a different residence homestead and to a surviving spouse living in such homestead who is disabled or is at least 55 years of age. If improvements (other than maintenance or repairs) are made to the property, the value of the improvements is taxed at the then current tax rate, and the total amount of taxes imposed is increased to reflect the new improvements with the new amount of taxes then serving as the ceiling on taxes for the following years. Once established, the tax rate limitation may not be repeated or rescinded.

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

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

Article VIII, Section 1 j, provides for "freeport property" to be exempted from ad valorem taxation. Freeport property is defined as goods detained in Texas for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

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 in the Tax Code, which is effective for tax years 2008 and thereafter, as personal property acquired or imported into Texas and transported to another location in the State or outside of the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and out board motor, heavy equipment and manufactured housing inventory. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods in transit during the following tax year. A taxpayer may receive only one of the freeport exemptions or the goods in transit exemptions for items of personal property.

The City and the other taxing bodies within its territory may agree to jointly create tax increment financing zones, under which the tax values on property in the zone are "frozen" at the value of the property at the time of creation of the zone. The City also may enter into tax abatement agreements to encourage economic development. Under the 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. The abatement agreement could last for a period of up to 10 years.

Cities are also authorized, pursuant to Chapter 380, Texas Local Government Code ("Chapter 380") to establish programs to promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grant of public fund for economic development purposes, however, no Bonds secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City.

**EFFECTIVE TAX RATE AND ROLLBACK TAX RATE**

By each September 1 or as soon thereafter as practicable, the City Council adopts a tax rate per $100 taxable value for the current year. The City Council will be required to adopt the annual tax rate for the City before the later of September 30 or the 60th day after the date the certified appraisal roll is received by the City. If the City Council does not adopt a tax rate by such required date the tax rate for that tax year is the lower of the effective tax rate calculated for that tax year or the tax rate adopted by the City for the preceding tax year. The tax rate consists of two components: (1) a rate for funding of maintenance and operation expenditures, and (2) a rate for debt service.

Under the Property Tax Code, the City must annually calculate and publicize its "effective tax rate" and "rollback tax rate". Effective 2005, a tax rate cannot be adopted by the City Council that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings have been held on the proposed tax rate following notice of such public hearings (including the requirement that notice be posted on the City's website if the City owns, operates or controls an internet website and public notice be given by television if the City has free access to a television channel) and the City Council has otherwise complied with the legal requirements for the adoption of such tax rate. If the adopted tax rate exceeds the rollback tax rate the qualified voters of the City by petition may require that an election be held to determine whether or not to reduce the tax rate adopted for the current year to the rollback tax rate.

"Effective tax rate" means the rate that will produce last year's total tax levy (adjusted) from this year's total taxable values (adjusted). "Adjusted" means lost values are not included in the calculation of last year's taxes and new values are not included in this year's taxable values.

"Rollback tax rate" means the rate that will produce last year's maintenance and operation tax levy (adjusted) from this year's values (adjusted) multiplied by 1.08 plus a rate that will produce this year's debt service from this year's values (unadjusted) divided by the anticipated tax collection rate.

The Property Tax Code provides that certain cities and counties in the State may submit a proposition to the voters to authorize an additional one-half cent sales tax on retail sales of taxable items. If the additional tax is levied, the effective tax rate and the rollback tax rate calculations are required to be offset by the revenue that will be generated by the sales tax in the current year.

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.

### PROPERTY ASSESSMENT AND TAX PAYMENT

Property within the City is generally assessed as of January 1 of each year. Business inventory may, at the option of the taxpayer, be assessed as of September. Oil and gas reserves are assessed on the basis of a valuation process which uses an average of the daily price of oil and gas for the prior year. Taxes become due October 1 of the same year, and become delinquent on February 1 of the following year. Taxpayers 65 years old or older are permitted by State law to pay taxes on homesteads in four installments with the first due on February 1 of each year and the final installment due on August 1.

### PENALTIES AND INTEREST

Charges for penalty and interest on the unpaid balance of delinquent taxes are made as follows:

| Month | Cumulative Penalty | Cumulative Interest | Total |
|---|---|---|---|
| February | 6% | 1% | 7% |
| March | 7% | 2% | 9% |
| April | 8% | 3% | 11% |
| May | 9% | 4% | 13% |
| June | 10% | 5% | 15% |
| July | 12% | 6% | 18% |

After July, penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee is added to the total tax penalty and interest charge. Under certain circumstances, taxes which become delinquent on the homestead of a taxpayer 65 years old or older incur a penalty of 8% per annum with no additional penalties or interest assessed. In general, property subject to the City's lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. Federal law does not allow for the collection of penalty and interest against an estate in bankruptcy. Federal bankruptcy law provides that an automatic stay of action by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post- petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

### CITY APPLICATION OF TAX CODE

The City grants an exemption to the market value of the residence homestead of persons 65 years of age or older of $45,000; the disabled are also granted an exemption of $45,000.

The City has granted an additional exemption of 10% of the market value of residence homesteads; minimum exemption of $5,000. See Table 1 for a listing of the amounts of the exemptions described above.

Pursuant to Article VIII, Section I-b of the Constitution of the State of Texas, the City has granted an ad valorem tax freeze on residence homesteads of the disabled and of individuals sixty-five (65) years of age or older. Ad valorem tax year 2006 serves as the base valuation year. The freeze loss for tax year 2010, 2011 and 2012 was $53,232, $53,814 and $54,713, respectively.

Ad valorem taxes are not levied by the City against the exempt value of residence homesteads for the payment of debt.

The City does not tax nonbusiness personal property;

Galveston County collects taxes for the City.

Galveston County does permit split payments, and does not permit discounts. The City does not tax freeport property

The City has adopted a tax abatement policy.

**TAX ABATEMENT POLICY**

The City may grant up to 100% abatement of property taxes on buildings, fixed machinery and business personal property for up to ten years. Minimum qualifications for tax abatement are $1 million in real property improvements and 15 new jobs created. Up to 50% tax abatement may be granted for eligible projects with $500,000 to $1 million in improvements and 7 jobs created.

Galveston County may join The City on projects that meet the county's eligibility requirements. Certain manufacturing or research and development corporations may qualify for reduction in school district property taxes under the Texas Economic Development Act. This incentive program was created in order to provide companies making a substantial capital investment to receive tax credits from participating local school districts.

The tax abatement on the 2012 assessed valuation is $0.

**TAX INCREMENT FINANCING ZONE**

The City has three tax increment reinvestment zones that are currently in existence. Tax increments have been used to finance the development of major infrastructure within the City.

The Tax Increment Reinvestment Zone No. 2 – Victory Lakes ("TIRZ No. 2") was created with a base year of January 1, 1999 and encompasses an area of approximately 540 acres. The zone was enlarged in 2006 to include an additional 102 acres. Tax increments generated within the zone will be used for capital improvements including streets, drainage, and water and sewer infrastructure.

The Tax Increment Reinvestment Zone No. 3 – Centerpointe ("TIRZ No. 3") was created with a base year of January 1, 2000 and encompasses an area of approximately 352 acres. Tax increments generated within the zone will be used for capital improvements including streets, drainage, and water and sewer infrastructure.

The Tax Increment Reinvestment Zone No. 4 – Westwood ("TIRZ No. 4") was created with a base year of January 1, 2003 and encompasses an area of approximately 493 acres. Tax increments generated within the zone will be used for capital improvements including streets, drainage, and water and sewer infrastructure.

The City participates at 100% for TIRZ No. 2 and No. 3 and at 75% for TIRZ No. 4.

Incremental value created within the tax increment financing zones produces tax revenues which are not pledged to the repayment of the Obligations. The 2012 Taxable Assessed Value within the three existing zones is equal to $405,077,401.

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**TABLE 1 - VALUATION, EXEMPTION AND GENERAL OBLIGATION**

| | | | |
|---|---|---|---|
| 2012/13 Market Valuation Established by Galveston Central and Harris County Appraisal District | | | |
| Less Exemptions/Reductions at 100% Market Value: | | $6,033,431,454 | |
| Over 65/Homestead Exemptions | $155,230,062 | | |
| Veteran Homestead Exemptions | 22,456,899 | | |
| Homestead Cap Adjustment | 6,392,052 | | |
| Disabled Persons | 18,720,590 | | |
| Prorated Exempt | 574,462 | | |
| Local Optional Exemptions | 402,176,138 | | |
| Freeport Exemptions | 15,222,793 | | |
| Abatement | 0 | | |
| Pollution | 14,561 | | |
| Houston Bill 366 | 8,039 | | |
| Productivity Loss | 73,014,462 | $693,810,058 | |
| Taxable Assessed Valuation | | $5,339,621,396 | |
| Value Still Subject to Appraisal Review Board | | 283,744,863 | (1) |
| 2012/13 Taxable Assessed Valuation | | $5,623,366,259 | |
| General Obligation Debt Payable from Ad Valorem Taxes (as of March 1, 2013)(2) | | | |
| The Series 2013 Bonds | $14,895,000 | | |
| General Obligation Bonds(3) | 31,210,000 | | |
| Assumed Municipal Utility District Debt(3) | 1,815,000 | | |
| Combination Tax & Revenue Certificates of Obligation(3) | 133,495,000 | 181,415,000 | |
| Less: Self-Supporting Debt | | 84,350,013 | (4) |
| Net General Obligation Debt Payable from Ad Valorem Taxes | | 97,064,987 | |
| Estimated Interest Sinking Fund (as of 9-30-2013) | | $4,329,826 | (5) |
| Ratio Net General Obligation Debt to Taxable Assessed Valuation | | 1.73% | |

2013 Estimated Population – 89,500

Per Capita Taxable Assessed Valuation - $62,831

Per Capita Net General Obligation Funded Debt - $1,084

(1) Value still subject to Appraisal Review Board hearing process.
(2) The City has outstanding Contractual Certificates sold by the Gulf Coast Water authority for the benefit of the City. The City is responsible for 100% of the currently outstanding $2,055,000 Gulf Coast Water Authority Water System Contract Revenue Certificates, Series 2011F; approximately 1.85% of the currently outstanding $16,475,000 Water System Contract Revenue Refunding Bonds, Series 2011A; and approximately 2.05% of the currently outstanding $3,105,000 Water System Contract Revenue Refunding Bonds, Series 2011B. The Contractual Certificates are payable as operating expenses of the City's waterworks system.
(3) Excludes debt refunded by the Series 2013 Bonds.
(4) General obligation debt in the amounts shown for which repayment is provided from revenues of the respective revenue systems. The amount of self-supporting debt is based on the percentages of revenue support as shown in Table 11. It is the City's current policy to provide these payments from respective system revenues; this policy is subject to change in the future.
(5) Unaudited. Provided by the City.

**TABLE 2 – TAXABLE ASSESSED VALUATION BY CATEGORY**

| | Fiscal Year Ended September 30 | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2011 | |
| Category | Amount | % Total | Amount | % Total | Amount | % Total |
| Real, Residential, Single-Family | $ 4,716,202,520 | 78.17% | $ 4,687,645,032 | 78.36% | $ 4,576,515,793 | 77.33% |
| Real, Residential, Multi-Family | 235,660,210 | 3.91% | 222,409,880 | 3.72% | 231,243,020 | 3.91% |
| Real, Vacant Platted Lots/Tracts | 100,187,391 | 1.66% | 101,830,382 | 1.70% | 110,763,289 | 1.87% |
| Real, Acreage (Land Only ) | 128,825,834 | 2.14% | 129,793,121 | 2.17% | 143,405,631 | 2.42% |
| Real, Farm and Ranch Improvements | 7,942,620 | 0.13% | 7,802,410 | 0.13% | 7,935,910 | 0.13% |
| Real, Commercial and Industrial | 492,900,506 | 8.17% | 493,086,795 | 8.24% | 499,619,165 | 8.44% |
| Real, Oil, Gas & Other Mineral Reserves | 196,611 | 0.00% | 149,770 | 0.00% | 255,071 | 0.00% |
| Real and Intangible Personal, Utilities | 75,289,371 | 1.25% | 69,264,362 | 1.16% | 68,091,185 | 1.15% |
| Tangible Personal, Business | 208,448,208 | 3.45% | 190,279,678 | 3.18% | 197,271,968 | 3.33% |
| Tangible Personal, Other | 5,091,123 | 0.08% | 5,038,968 | 0.08% | 5,538,793 | 0.09% |
| Real, Inventory | 43,192,030 | 0.72% | 55,764,948 | 0.93% | 61,745,142 | 1.04% |
| Special Inventory | 19,495,030 | 0.32% | 18,802,230 | 0.31% | 16,137,290 | 0.27% |
| Total Appraised Value Before Exemptions | $ 6,033,431,454 | 100.00% | $ 5,981,867,576 | 100.00% | $ 5,918,522,257 | 100.00% |
| Less: Total Exemption/Reductions | 693,810,058 | | 682,798,120 | | 680,282,857 | |
| Plus: Value still subject to ARB Hearing (1) | 283,744,863 | | - | | - | |
| Adjustments Made afer Certification | - | | 165,235,502 | | 95,331,716 | |
| Taxable Assessed Value | $ 5,623,366,259 | | $ 5,464,304,958 | | $ 5,333,571,116 | |

| | 2010 | | 2009 | |
|---|---|---|---|---|
| Category | Amount | % Total | Amount | % Total |
| Real, Residential, Single-Family | $ 4,463,002,935 | 75.58% | $ 4,261,513,587 | 76.84% |
| Real, Residential, Multi-Family | 240,868,783 | 4.08% | 147,365,720 | 2.66% |
| Real, Vacant Platted Lots/Tracts | 125,022,118 | 2.12% | 131,183,222 | 2.37% |
| Real, Acreage (Land Only ) | 146,384,375 | 2.48% | 166,533,973 | 3.00% |
| Real, Farm and Ranch Improvements | 7,803,030 | 0.13% | 7,660,910 | 0.14% |
| Real, Commercial and Industrial | 540,658,986 | 9.16% | 481,825,565 | 8.69% |
| Real, Oil, Gas & Other Mineral Reserves | 73,610 | 0.00% | 197,140 | 0.00% |
| Real and Intangible Personal, Utilities | 64,857,152 | 1.15% | 66,943,739 | 1.21% |
| Tangible Personal, Business | 220,746,470 | 3.74% | 170,677,743 | 3.08% |
| Tangible Personal, Other | 5,135,063 | 0.09% | 20,126,828 | 0.36% |
| Real, Inventory | 70,257,478 | 1.19% | 67,626,898 | 1.22% |
| Special Inventory | 20,391,800 | 0.35% | 24,369,001 | 0.44% |
| Total Appraised Value Before Exemptions | $ 5,905,201,800 | 100.00% | $ 5,546,024,326 | 100.00% |
| Less: Total Exemption/Reductions | 679,754,212 | | 661,050,157 | |
| Plus: Value still subject to ARB Hearing (1) | - | | - | |
| Adjustments Made afer Certification | - | | - | |
| Taxable Assessed Value | $ 5,225,447,588 | | $ 4,884,974,169 | |

(1) Owner's estimate value still subject to Appraisal Review Board hearing process.

NOTE: Valuations shown are certified taxable assessed values reported by the Galveston Central and Harris County Appraisal District to the State Comptroller of Public Account as of January 1 of the preceding calendar year. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

**TABLE 3 – VALUATION AND GENERAL OBLIGATION DEBT HISTORY**

| Fiscal Year Ended 09/30 | Estimated City Population[(1)] | Taxable Assessed Valuation[(2)] | Per Capita Taxable Assessed Valuation | G.O. Tax Debt Outstanding At Year End[(3)] | Ratio of G.O. Tax Debt to Taxable Assessed Valuation | G.O. Tax Debt Per Capita |
|---|---|---|---|---|---|---|
| 2007 | 76,700 | $ 4,221,023,262 | 55,033 | $ 82,520,000 | 1.95% | $ 1,076 |
| 2008 | 79,300 | 4,423,578,307 | 55,783 | 91,265,000 | 2.06% | 1,151 |
| 2009 | 81,300 | 4,884,974,169 | 60,086 | 84,225,000 | 1.72% | 1,035 |
| 2010 | 83,560 | 5,225,447,588 | 62,535 | 96,335,000 | 1.84% | 1,153 |
| 2011 | 85,300 | 5,333,571,116 | 62,527 | 107,135,000 | 2.01% | 1,256 |
| 2012 | 87,400 | 5,464,304,958 | 62,521 | 196,185,000 | 3.59% | 2,245 |
| 2013 | 89,500 | 5,623,366,259 (4) | 62,831 | 181,415,000 (5) | 3.23% | 2,027 |

(1) Population estimated by the City.
(2) As reported by the Galveston Central and Harris County Appraisal District as of January 1 of the preceding calendar year. Subject to adjustments throughout the year.
(3) Includes self-supporting debt.
(4) Value includes $283,744,863 net taxable value that is still subject to the Appraisal Review hearing process.
(5) Includes the Series 2013 Bonds. Excludes the bonds to be refunded by the Series 2013 Bonds.

**TABLE 4 – TAX RATE, LEVY AND COLLECTION HISTORY**

| | | | | Collected Within the Fiscal Year of the Levy | | | Total Collections to Date | | |
|---|---|---|---|---|---|---|---|---|---|
| Fiscal Year | Tax Year | Tax Rate | Total Tax Levy for Fiscal Year | Amount | Percent of Levy | Amount | Amount | | Percent of Levy |
| 2004 | 2003 | $ 0.640000 | $ 18,925,427 | $ 18,510,765 | 97.81% | $ 374,804 | $ 18,885,569 | | 99.79% |
| 2005 | 2004 | 0.630000 | 20,702,136 | 20,338,727 | 98.24% | 321,597 | 20,660,324 | | 99.80% |
| 2006 | 2005 | 0.627500 | 23,402,232 | 23,019,283 | 98.36% | 338,798 | 23,358,081 | | 99.81% |
| 2007 | 2006 | 0.608800 | 25,667,520 | 25,256,206 | 98.40% | 356,523 | 25,612,729 | | 99.79% |
| 2008 | 2007 | 0.608800 | 26,915,141 | 26,441,828 | 98.24% | 410,868 | 26,852,696 | | 99.77% |
| 2009 | 2008 | 0.630000 | 30,871,831 | 30,476,981 | 98.72% | 331,124 | 30,808,105 | | 99.79% |
| 2010 | 2009 | 0.630000 | 32,878,547 | 32,560,792 | 99.03% | 243,166 | 32,803,958 | | 99.77% |
| 2011 | 2010 | 0.616000 | 32,809,064 | 32,527,089 | 99.14% | 175,627 | 32,702,717 | | 99.68% |
| 2012 | 2011 | 0.610000 | 33,300,629 | 32,955,026 | 98.96% | 104,396 | 33,059,422 | | 99.28% |
| 2013 | 2012 | 0.597000 | 33,358,156 | 28,142,831 | 84.37% | 0 | 28,142,831 | (1) | 84.37% |

(1) Collections through January 31, 2013

**TABLE 5 – TEN LARGEST TAXPAYERS**

| Name of Taxpayer | Nature of Property | 2012/13 Taxable Assessed Valuation | % of Total Taxable Assessed Valuation |
|---|---|---|---|
| Inland America League City Victory Lakes LP | Retail Development | $ 26,902,140 | 0.48% |
| Texas-New Mexico Power Co | Electric Utility | 26,140,010 | 0.46% |
| American National Insurance Co | Insurance | 24,631,475 | 0.44% |
| Komatsu America Corp | Developer | 38,431,839 | 13.54% |
| Sunstone Broadstone LP | Developer | 19,930,700 | 0.35% |
| League City Towne Center LTD | Retail Development | 19,643,690 | 0.35% |
| GS Beacon Lakes LP | Developer | 18,576,440 | 0.33% |
| GTE Southwest Inc | Utility | 17,787,800 | 0.32% |
| Haven at South Shore LP | Developer | 17,219,450 | 0.31% |
| Amalfi Tuscan Lake Investors LLC | Developer | 16,404,660 | 0.29% |
| | | $ 225,668,204 | 16.87% |

## GENERAL OBLIGATION DEBT LIMITATION

No general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter.

## TABLE 6 – TAX ADEQUACY

| | |
|---|---|
| Maximum Principal and Interest Requirements (2013) | $9,691,719 (1) |
| $0.1795 Tax Rate at 96% Collection Produces | 9,691,719 |
| Maximum Principal and Interest Requirements (2013-2018) | $9,440,937 (1) |
| $0.1749 Tax Rate at 96% Collection Produces | 9,440,937 |
| Maximum Principal and Interest Requirements (2019-2030) | $8,825,545(1) |
| $0.1635 Tax Rate at 96% Collection Produces | 8,825,545 |
| Maximum Principal and Interest Requirements (2031-2033) | $2,885,806 (1) |
| $0.0535 Tax Rate at 96% Collection Produces | 2,885,806 |

(1) Projected. Includes the Series 2013 Bonds. Excludes self supporting debt and the Refunded Obligations.

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**TABLE 7 – ESTIMATED OVERLAPPING DEBT**

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

| | 2012/2013 Taxable Assessed Value | 2012/2013 Tax Rate | Total G.O. Debt as of 1/31/13 | Estimated % Applicable | Overlapping G.O. Debt as of 1/31/13 |
|---|---|---|---|---|---|
| City of League City | $5,623,366,259 (1) | $0.60 | $181,415,000 (2) | 100.00% | $180,975,000 |
| Bay Colony West MUD | 87,108,133 | 1.00 | 9,250,000 | 100.00% | 9,250,000 |
| Clear Creek ISD | 14,859,113,553 | 1.36 | 624,970,000 | 29.44% | 183,991,168 |
| Dickinson ISD | 2,254,360,902 | 1.54 | 226,737,560 | 26.30% | 59,631,978 |
| Galveston County | 19,257,001,176 | 0.61 | 319,793,434 | 23.16% | 74,064,159 |
| Galveston Co MUD # 2 | 207,858,513 | 0.24 | 1,870,000 | 100.00% | 1,870,000 |
| Galveston Co MUD # 3 | 278,964,731 | 0.12 | 2,900,000 | 100.00% | 2,90,000 |
| Galveston Co MUD # 6 | 350,957,416 | 0.44 | 16,760,000 | 100.00% | 16,760,000 |
| Galveston Co MUD # 13 | 151,838,346 | 0.55 | 5,045,000 | 100.00% | 5,045,000 |
| Galveston Co MUD # 14 | 179,952,418 | 0.78 | 13,300,000 | 100.00% | 13,300,000 |
| Galveston Co MUD # 15 | 186,112,982 | 0.79 | 11,945,000 | 100.00% | 11,945,000 |
| Galveston Co MUD # 39 | 201,222,748 | 0.90 | 20,910,000 | 100.00% | 20,910,000 |
| Galveston Co MUD # 43 | 221,932,596 | 1.00 | 23,555,000 | 100.00% | 23,555,000 |
| Galveston Co MUD # 44 | 57,665,807 | 0.80 | 6,920,000 | 100.00% | 6,920,000 |
| Galveston Co MUD # 46 | 102,710,088 | 1.00 | 16,895,000 | 100.00% | 16,895,000 |
| Harris County | 276,716,398,000 | 0.39 | 2,345,417,190 | 0.03% | 703,625 |
| Harris Co Dept. of Education | 276,576,760,983 | 0.01 | 7,795,000 | 0.03% | 2,339 |
| Harris Co Flood Control District | 268,523,035,000 | 0.03 | 96,470,000 | 0.03% | 28,941 |
| Port of Houston Authority | 268,270,468,000 | 0.02 | 731,969,397 | 0.03% | 219,591 |
| Santa Fe ISD | 926,135,625 | 1.45 | 75,670,000 | 2.39% | 1,808,513 |
| South Shore Harbour MUD # 6 | 247,999,733 | 0.29 | 2,460,000 | 100.00% | 2,460,000 |
| South Shore Harbour MUD # 7 | 287,779,491 | 0.60 | 20,460,000 | 100.00% | 20,460,000 |
| Tara Glen MUD | 62,778,554 | 0.66 | 2,835,000 | 100.00% | 2,835,000 |
| Total Direct and Overlapping Funded Debt | | | | | $656,970,314 |
| Ratio of Direct and Overlapping Funded Debt to Taxable Assessed Valuation | | | | | 11.68% |
| Per Capita Overlapping Funded Debt | | | | | $7,517.00 |

(1) Value includes $283,744,863 net taxable value that is still subject to the Appraisal Review Board hearing process.

(2) Includes the Series 2013 Bonds. Includes self-supporting debt. Excludes the Refunded Obligations.

## DEBT INFORMATION TABLE

**TABLE 8 – PRO-FORMA GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS**

| Fiscal Yr Ending 30-Sep | Outstanding Debt Service | The Series 2013 Bonds Principal | The Series 2013 Bonds Interest | The Series 2013 Bonds Total | Less: Refunded Debt Service | Less: Self-Supporting Debt | Net Debt Service Requirementts |
|---|---|---|---|---|---|---|---|
| 2013 | $ 18,617,932 | $ - | $ 194,497 | $ 194,497 | $ 327,877 | $ 8,792,833 | $ 9,691,719 |
| 2014 | 16,483,791 | 2,070,000 | 406,244 | 2,476,244 | 2,753,535 | 6,765,562 | 9,440,937 |
| 2015 | 15,208,061 | 1,250,000 | 366,794 | 1,616,794 | 1,888,400 | 6,525,897 | 8,410,557 |
| 2016 | 15,189,455 | 1,380,000 | 327,344 | 1,707,344 | 1,983,429 | 6,469,008 | 8,444,362 |
| 2017 | 15,706,858 | 1,395,000 | 285,719 | 1,680,719 | 1,957,940 | 7,134,512 | 8,295,125 |
| 2018 | 16,279,290 | 1,420,000 | 250,594 | 1,670,594 | 1,944,235 | 7,121,953 | 8,883,695 |
| 2019 | 15,563,826 | 1,130,000 | 219,444 | 1,349,444 | 1,612,626 | 6,475,098 | 8,825,545 |
| 2020 | 15,492,240 | 1,140,000 | 179,694 | 1,319,694 | 1,584,414 | 6,754,226 | 8,473,294 |
| 2021 | 14,560,843 | 625,000 | 147,519 | 772,519 | 888,504 | 6,534,680 | 7,910,177 |
| 2022 | 14,822,493 | 645,000 | 128,469 | 773,469 | 884,744 | 6,861,538 | 7,849,679 |
| 2023 | 14,450,758 | 660,000 | 108,894 | 768,894 | 884,359 | 6,749,333 | 7,585,959 |
| 2024 | 14,191,213 | 505,000 | 91,419 | 596,419 | 676,706 | 7,120,855 | 6,990,070 |
| 2025 | 13,736,582 | 525,000 | 75,969 | 600,969 | 677,153 | 6,787,017 | 6,873,381 |
| 2026 | 11,608,079 | 535,000 | 60,069 | 595,069 | 676,469 | 5,296,854 | 6,229,825 |
| 2027 | 11,505,217 | 210,000 | 48,894 | 258,894 | 318,094 | 5,648,252 | 5,797,766 |
| 2028 | 11,824,827 | 210,000 | 42,463 | 252,463 | 312,484 | 6,020,513 | 5,744,292 |
| 2029 | 12,975,203 | 225,000 | 35,666 | 260,666 | 316,438 | 7,433,606 | 5,485,826 |
| 2030 | 11,717,388 | 230,000 | 28,413 | 258,413 | 314,844 | 7,493,644 | 4,167,313 |
| 2031 | 9,842,366 | 240,000 | 20,775 | 260,775 | 317,703 | 6,899,631 | 2,885,806 |
| 2032 | 4,341,897 | 245,000 | 12,741 | 257,741 | 315,016 | 1,412,588 | 2,872,034 |
| 2033 | 545,578 | 255,000 | 4,303 | 259,303 | 316,781 | - | 488,100 |
| | $ 274,663,895 | $ 14,895,000 | $ 3,035,919 | $ 17,930,919 | $ 20,951,751 | $ 130,297,601 | $ 141,345,461 |

### TABLE 9 – INTEREST AND SINKING FUND BUDGET PROJECTION

| | | |
|---|---|---|
| Net Tax Obligation Debt Service Requirements, Fiscal Year Ending 9-30-2013 | | $ 9,702,385(1) |
| Interest and Sinking Fund, 9-30-12 | $ 4,881,211 | |
| Budgeted Interest and Sinking Fund Collections | 12,418,000 | |
| Less: Rebates to Municipal Utility Districts | (2,476,000) | |
| Less: Rebates to Tax Increment Zone | (849,000) | |
| Less: Estimated Fees | (5,000) | |
| Estimated Investment Income/Penalty & Interest | 63,000 | |
| Budgeted Transfer from General Fund | 0 | $ 14,032,211 |
| Estimated Balance, 9/30/2013 | | $ 4,329,826 |

(1) Projected. Includes the Series 2013 Bonds. Excludes self-supporting debt and the Refunded Obligations.

### TABLE 10 – REVENUES OF WATERWORKS AND SANITARY SEWER SYSTEM USED TO PAY GENERAL OBLIGATION DEBT SERVICE

The City has outstanding Contractual Certificates sold by the Gulf Coast Water authority for the benefit of the City. The City is responsible for 100% of the currently outstanding $2,055,000 Gulf Coast Water Authority Water System Contract Revenue Certificates, Series 2011F; approximately 1.85% of the currently outstanding $16,475,000 Water System Contract Revenue Refunding Bonds, Series 2011A; and approximately 2.05% of the currently outstanding $3,105,000 Water System Contract Revenue Refunding Bonds, Series 2011B. The Contractual Certificates are payable as operating expenses of the City's waterworks system.

### TABLE 11 – COMPUTATION OF SELF-SUPPORTING DEBT

The City has certain outstanding general obligation bonds of which some of the proceeds were used for projects that generate revenue for the subsequent repayment. The debt from these bonds is currently being paid in full or in part from such revenue and is listed below:

| Issue | Percent Attributed Self-Supporting Revenue | Revenue Source Fund | Self-Supporting Debt Due in 2013 Fiscal Year |
|---|---|---|---|
| General Obligation Refunding Bonds, Series 2003 | 18% | Waterworks and Sewer System | 124,435 |
| Combination Tax and Revenue Certificates of Obligation, Series 2005A | 94% | TIRZ 2 | 717,453 |
| General Obligation Refunding Bonds, Series 2007 | 86% | Waterworks and Sewer System | 2,193,755 |
| Combination Tax and Revenue Certificates of Obligation, Series 2010 | 100% | TIRZ 2 | 773,550 |
| Combination Tax and Revenue Certificates of Obligation, Series 2011 | 45% | 4B Corporation | 666,061 |
| General Obligation Refunding Bonds, Series 2011A | 41% | Waterworks and Sewer System | 285,956 |
| General Obligation Refunding Bonds, Series 2011B | 100% | TIRZ 3 | 977,000 |
| Combination Tax and Revenue Certificates of Obligation, Series 2011A | 100% | Waterworks and Sewer System | 1,428,525 |
| General Obligation Refunding Bonds, Series 2012 | 49% | Waterworks and Sewer System | 300,900 |
| Combination Tax & Waterworks and Sewer System Revenue Certificates of Obligation, Series 2012B | 100% | Waterworks and Sewer System | 1,413,675 |
| General Obligation Refunding Bonds, Series 2013 | 7% | Waterworks and Sewer System | 12,974 |
| | | | $ 8,881,310 |

(1) Proportionately allocated according to original debt service requirements each year.

The repayment of the general obligation debt in the preceding table is expected to be paid from revenues other than ad valorem tax revenues, including surplus revenues of the water and sewer system, payments from tax increment reinvestment zones, and payments from the 4B Development Corporation. Payments from tax increment reinvestment zones and the 4B Development Corporation may not be legally pledged to the obligations to which their payments are expected to be dedicated, but are contractually obligated to be paid to the City for that purpose. Water and sewer revenues are pledged to pay certificates of obligation on a subordinate basis, but it is the historic policy of the City to pay portions of the listed general obligation refunding bonds from surplus revenues of the water and sewer system.

**TABLE 12 – AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS**

| Date of Authorization | Purpose | Amount Authorized | Issued to Date | Authorized but Unissued |
|---|---|---|---|---|
| July 15, 1969 | City Hall | $ 862,250 | $ 856,000 | $ 6,250 |
| September 19, 1992 | Public Safety Improvements | 400,000 | - | 400,000 |
| | | $ 1,262,250 | $ 856,000 | $ 406,250 |

**ANTICIPATED ISSUANCE OF GENERAL OBLIGATION DEBT**

The City does anticipate the issuance of additional general obligation debt in the next 12 months in an amount to be determined.

**TABLE 13 – OTHER OBLIGATIONS**

As of September 30, 2012, the City currently has no other obligations outstanding.

**PENSION FUND**

The City provides pension benefits for all of its full-time employees through the Texas Municipal Retirement System ("TMRS"), a State administered pension plan. The City makes annual contributions to the plan equal to the amounts accrued for pension expense. (For more detailed information concerning the retirement plan, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" - Note # IV-C)

**OTHER POST-EMPLOYMENT BENEFITS**

In addition to providing pension benefits through the Texas Municipal Retirement System ("TMRS"), the City has opted to provide eligible retired employees with the following post-employment benefits:

- Employees retiring from the City with 20 years of service, between the ages of 60 and 65, will have premiums paid at 100% by the City.
- Those employees eligible under TMRS for disability retirement will have their premium paid on a scale (50% to 100%) based on their age.

The City recognizes its share of the costs of providing these benefits when paid, on a "pay-as-you-go" basis. These payments are budgeted annually. The amount budgeted for the fiscal year ending September 30, 2013 is $68,000. The appropriation for the fiscal year ending September 30, 2012 was $68,000. At September 30, 2011, there were 13 participants eligible to receive such benefits.

As of fiscal year 2009, the City implemented GASB Statement No. 45 "Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions." In preparation of GASB 45, the City commissioned an actuarial valuation of its post-retirement benefit liability. (For more information concerning the City's post-employment benefits and a summary of the actuarial results, see APPENDIX B, "EXCERPTS FROM THE CITY'S ANNUAL FINANCIAL REPORT" - Note #IV-D).

## FINANCIAL INFORMATION

### TABLE 14 – CHANGE IN NET ASSETS

| | Fiscal Year Ended September 30 | | | | |
|---|---|---|---|---|---|
| Revenue: | 2012 | 2011 | 2010 | 2009 | 2008 |
| Program Revenue: | | | | | |
| Charges for Services | $ 12,971,491 | $ 12,398,954 | $ 12,987,556 | $ 10,366,374 | $ 10,058,664 |
| Operating Grants and Contributions | 4,325,024 | 4,933,663 | 2,283,291 | 4,888,926 | 3,090,510 |
| Capital Grants and Contributions | 3,750,170 | 5,154,406 | 3,062,763 | 6,710,627 | 21,942,670 |
| General Revenue: | | | | | |
| Property Tax | $ 36,513,595 | $ 36,285,502 | $ 36,162,871 | $ 34,255,809 | $ 29,800,358 |
| Franchise Tax | 12,283,836 | 11,167,925 | 4,831,866 | 4,613,734 | 4,463,564 |
| Sales and Uses Taxes | 5,187,232 | 4,927,378 | 10,359,528 | 10,938,166 | 10,171,516 |
| Unrestricted Investment Earnings | 291,101 | 146,199 | 192,401 | 406,217 | 1,364,833 |
| Miscellaneous | 1,635,709 | 572,180 | 473,164 | 716,331 | 793,599 |
| Gain/Loss on Disposition of Capital Assets | | | - | 30,410 | - |
| Total Revenue | $ 76,958,158 | $ 75,586,207 | $ 70,353,440 | $ 72,926,594 | $ 81,685,714 |
| | | | | | |
| Expenses: | | | | | |
| General Government | $ 14,271,174 | $ 12,458,678 | $ 13,532,893 | $ 16,304,411 | $ 15,841,598 |
| Public Safety | 20,755,216 | 22,078,186 | 21,024,434 | 16,477,536 | 15,614,443 |
| Public Works | 36,387,633 | 25,107,956 | 30,791,382 | 21,718,351 | 21,712,338 |
| Community Services | 6,869,957 | 4,243,548 | 6,855,694 | 6,838,427 | 6,461,008 |
| Interest on Long-Term Debt | 4,541,184 | 3,868,803 | 3,500,914 | 2,823,301 | 2,546,158 |
| Total Expenses | $ 82,825,164 | $ 67,757,171 | $ 75,705,317 | $ 64,162,026 | $ 62,175,545 |
| | | | | | |
| Increase in Net Assets before Transfers | $ (5,867,006) | $ 7,829,036 | $ (5,351,877) | $ 8,764,568 | $ 19,510,169 |
| Transfers | 2,240,000 | 686,001 | 953,006 | 1,000,000 | 3,353,160 |
| Increase (Decrease) in Net Assets | $ (3,627,006) | $ 8,515,037 | $ (4,398,871) | $ 9,764,568 | $ 22,863,329 |
| | | | | | |
| Net Assets at Beginning of Year | 177,985,479 (1) | 170,419,761 | 174,818,632 | 165,354,627 | 146,348,250 |
| | | | | | |
| Net Assets at End of Year | $ 174,358,473 | $ 178,934,798 | $ 170,419,761 | $ 175,119,195 | $ 169,211,579 |

(1) In the fiscal year ending September 30, 2012, the City implemented GASB Statement No. 65, Items Previously Reported as Assets and Liabilities. In accordance with this statement, beginning net position has been reduced to remove previously capitalized bond issuance costs.

Restatement of Net Position

| | |
|---|---|
| Beginning Net Position | $178,934,798 |
| Restatement-bond issuance costs | (949,319) |
| Beginning Net Position-restated | $177,985,479 |

**TABLE 14A – GENERAL FUND REVENUES & EXPENDITURES**

| | For Fiscal Year Ended September 30 | | | | |
|---|---|---|---|---|---|
| **Revenues:** | 2012 | 2011 | 2010 | 2009 | 2008 |
| Taxes | $36,631,388 | $35,755,336 | $34,558,480 | $34,038,572 | $29,600,254 |
| Licenses & Permits | 2,125,034 | 1,785,027 | 2,079,481 | 1,727,849 | 2,746,066 |
| Fines and Forfeitures | 1,724,216 | 1,871,106 | 1,844,046 | 1,291,966 | 1,327,425 |
| Intergovernmental | 1,178,982 | 1,312,944 | 1,624,434 | 4,531,498 (1) | 2,992,844 |
| Charges for Services | 4,635,264 | 4,150,633 | 4,312,570 | 4,333,205 | 3,793,597 |
| Interest on Investments | 33,325 | 47,085 | 74,005 | 163,120 | 688,011 |
| Other | 235,228 | 230,427 | 187,970 | 344,817 | 356,695 |
| Total Revenues | $46,563,437 | $45,152,558 | $44,680,986 | $46,431,027 | $41,504,892 |
| **Expenditures:** | | | | | |
| General Government | $10,583,854 | $ 9,585,484 | $ 9,461,310 | $12,623,694 | $11,619,713 |
| Public Safety | 19,973,537 | 19,496,258 | 18,580,696 | 16,322,642 | 14,974,299 |
| Public Works | 11,823,735 | 11,689,655 | 11,629,846 | 9,273,918 | 9,607,668 |
| Community Services | 4,193,950 | 4,553,807 | 4,630,744 | 4,693,817 | 4,657,425 |
| Capital Outlay | | | - | - | - |
| Total Expenditures | $46,575,076 | $45,325,204 | $44,302,596 | $42,914,071 | $40,859,105 |
| Excess (Deficit) of Revenues Over Expenditures | $ (11,639) | $ (172,646) | $ 378,390 | $ 3,516,956 | $ 645,787 |
| Other Financing sources (Uses): | | | | | |
| Operating Transfers In | $ 2,000,000 | $ 2,000,000 | $ 1,024,349 | $ 1,000,000 | $ 1,687,892 |
| Operating Transfers (Out) | (6,342,720) | (2,766,825) | (675,513) | (1,876,538) | (1,075,638) |
| Total Other Financing Sources (Uses) | $ (4,342,720) | $ (766,825) | $ 348,836 | $ (876,538) | $ 612,254 |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses | $ (4,354,359) | $ (939,471) | $ 727,226 | $ 2,640,418 | $ 1,258,041 |
| Fund Balance, Beginning of Year | $20,725,877 | $21,665,348 | $20,938,122 | $18,297,705 | $17,039,664 |
| Fund Balance, End of Year | $16,371,518 | $20,725,877 | $21,665,348 | $20,938,123 | $18,297,705 |

(1) Includes $2,438,786 Reimbursement from FEMA for damage incurred by Hurricane Ike.

The City anticipates the Fund Balance, End of Year 2013 of $13,917,392.

General Fund budget includes a proposed appropriation from fund balance for $2.5 million for cash funded CIP Projects ($2 million) and one time operating needs in accordance with priorities preliminary agreed to by City Council. The General Fund is projected to end FY2013 with 95 days of working capital.

**TABLE 15 – MUNICIPAL SALES TAX HISTORY**

The City has adopted the Municipal Sales and Use Tax Act, Tax Code, Chapter 321, which grants the City the power to impose and levy a 1% Local Sales and Use Tax within the City; the proceeds are credited to the General Fund and are not pledged to the payment of the Bonds. Collections and enforcements are effected through the offices of the Comptroller of Public Accounts, State of Texas, who remits the proceeds of the tax, after deduction of a 2% service fee, to the City monthly. On May 7, 1994, the voters of the City approved the imposition of an additional one-half of one percent (½ of 1%) for property tax reduction and another one-quarter of one percent (¼ of 1%) for the Section 4B Industrial Development Corporation which is pledged to the Sales Tax Revenue Bond issued by the Corporation. The sales tax increase went into effect on October 1, 1994.

| Fiscal Year Ended 9/30 | Total Collected[1] | % of Ad Valorem Tax Levy | Equivalent of Ad Valorem Tax Rate | Per Capita[2] |
|---|---|---|---|---|
| 2007 | $ 7,883,618 | 30.71% | 0.1870 | 103 |
| 2008 | 10,059,628 | 37.38% | 0.2275 | 127 |
| 2009 | 12,639,588 [3] | 40.94% | 0.2579 | 155 |
| 2010 | 11,944,243 | 36.33% | 0.2289 | 143 |
| 2011 | 12,892,295 | 39.29% | 0.2421 | 151 |
| 2012 | 14,205,178 | 42.66% | 0.2602 | 163 |

(1) Provided by the City
(2) Based on population estimates by the City
(3) 2009 total includes tax receipts on Hurricane Ike property repairs

The sales tax breakdown for the City is as follows:

| | |
|---|---|
| 4 B Industrial Development Corporation | ¼% |
| Property Tax Relief | ½% |
| City Sales & Use Tax | 1% |
| State Sales & Use Tax | 6 ¼% |
| Total | 8% |

**CAPITAL IMPROVEMENT PROGRAM**

The City adopts a multi-year capital improvement plan that addresses all major categories of improvements and addresses all forms of funding. The current plan including FY2013 through FY2017 was adopted by City Council on September 11, 2012, along with the first year of the CIP to serve as its Capital Budget for FY2013. The approved CIP includes financing plans that account for all capital funding sources, including current year pay-as-you-go cash funded projects, proceeds from prior years' bond sales, and new funds needed from future bond sales. The CIP includes debt service models for tax supported and revenue supported projects to anticipate and demonstrate the affordability of new bonds within revenue streams from existing property tax rates and water and wastewater rates. Projects are not included in the five year CIP unless financing can be made available through allocation of existing or projected funding sources.

The FY2014 – FY2018 Capital Improvement Plan is currently being formulated with the anticipation of presenting to City Council early Summary 2013.

## FINANCIAL POLICIES

The financial statements of the City are prepared in conformity with the generally accepted accounting principles ("GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The following are the City's governmental fund types:

*Basis of Accounting* . . .Basis of accounting refers to the time when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statement, regardless of measurement focus applied. Governmental fund types (General, Debt Service, Special Revenue and Capital Projects) are accounted for on a "spending" or "financial resources" measurement focus. Accordingly, only current assets and current liabilities are included on their balance sheets, and the reported fund balance provides an indication of available spendable or appropriable resources. Operating statements for governmental fund types report increases and decreases in available spendable resources. Proprietary fund types (Enterprise and Internal Service) are accounted for on an "income determination" or "economic resources" measurement focus. Accordingly, all assets and all liabilities are included on their balance sheets, and the reported fund equity provides an indication of the economic net worth of the fund. Operating statements for the Enterprise Fund report increases and decreases in total economic net worth.

*General Fund*. . .The General Fund is used to account for all financial transactions which are not accounted for in another fund. The principal sources of revenue of the General Fund are property taxes, sales and use taxes, franchise taxes, licenses and permits, and fines and forfeitures. Expenditures are for general government, public safety, public works and other community services.

*Special Revenue Funds*. . .Special Revenue Funds are used to account for revenues derived from specific governmental grants or other revenue sources which are legally restricted or designated to finance particular activities of the City. Capital outlays are charged to expenditures in the accounts of these funds and capitalized in the General Fixed Assets Account Group, as appropriate.

*Debt Service Fund*. . .The Debt Service Fund is used to account for the payment of interest and principal on all general long-term debt of the City except for capital leases which are accounted for in the General Fund. The primary source of revenue for the Debt Service Fund is general property taxes.

*Capital Projects Funds*. . .Capital Projects Funds are used to account for the receipt and expenditure of resources used for acquisition of or improvements to major capital assets. Principal sources of revenues are cash funding, bond sale proceeds, federal grants and interest revenue.

*Enterprise Fund*. . .The Enterprise Fund is used to account for operations of the water and wastewater division and the construction of related facilities. The fund is financed and operated in a manner similar to private business enterprises; where the intent of the City is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges. The acquisition, maintenance and improvement of the physical plant facilities required to provide these goods and services are financed from existing cash resources, the issuance of bonds (revenue or general obligation), federal grants and impact fees.

*Internal Service Fund*. . .The Internal Service Fund is used to account for the financing of goods or services by one department to other departments, on a cost reimbursement basis.

*General Budget Policies* . . .The budget for the City Government shall present a complete financial plan for the ensuing fiscal year. It shall set forth all proposed expenditures for the administration, operation and maintenance of all departments and agencies of the City Government for which appropriations are required to be made or taxes levied by the City. The budget shall also include: (1) the revenues and expenses of the water and sewer system, and such system may be shown in the budget as a self-supporting enterprise; (2) all expenditures for capital projects to be undertaken or executed during the fiscal year; (3) all interest and debt redemption charges during the fiscal year and the actual or estimated operating deficits from prior fiscal years. In addition, the budget shall set forth the anticipated income and other means of financing the total proposed expenditures of the City for the fiscal year.

The budget process begins in early spring each year with the preparation of the Long Range Financial Plan. The Long Range Financial Plan is prepared under the direction of the City Manager, presented to Council. The Long Range Financial Plan includes all majors funds; General, Utility and Debt Service Funds of the City. One the Long Range Financial Plan has been presented to Council, city departments present their budgets to the City Manager for review. The budget is prepared under the direction of the City Manager including the Capital Budget which is based on the first year of the five-year Capital Improvement Plan ("CIP"). The Budget and CIP are then presented to Council for review. At least ten (10) days before the beginning of the fiscal year, the Council must approve the budget and enact the appropriation ordinance. As soon thereafter as possible, the City Council passes the tax levy ordinance and such other ordinances as may be required to make the budget effective.

**INVESTMENTS**

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) bonds of the United States or its agencies and instrumentalities, including letters of credit; (2) direct bonds of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage bonds 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 bonds, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities; (5) bonds of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) bonds of deposit meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by bonds described in clauses (1) through (6) 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 bonds described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) bonds that are described in clauses (1) through (6) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in bonds described in clauses (1) through (6) above, clauses (11) through (13) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less, (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term bonds of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated 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 (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in bonds described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by bonds, including letters of credit, of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited bonds described in the next succeeding paragraph.

The City may invest in such bonds directly or through government investment pools that invest solely in such bonds provided that the pools are rated no lower than AAA or AAAm or an equivalent by at least one nationally recognized rating service. The City is specifically prohibited from investing in: (1) bonds whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) bonds whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage bonds that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage bonds the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Governmental bodies in the State are authorized to implement securities lending programs if (i) the securities loaned under the program are collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) bonds that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in bonds that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the Agency or a third party designated by the Agency; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

**INVESTMENT POLICIES**

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

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

**ADDITIONAL PROVISIONS**

Under Texas law the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (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 its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; and (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements.

**TABLE 16 – CURRENT INVESTMENTS**

As of December 31, 2012 the City's investable funds were invested in the following categories:

| Description | Percent of Total | Book Value | Market Value |
|---|---|---|---|
| Cash | 0.74% | $ 1,569,302 | $ 1,569,302 |
| TexPool | 70.48% | 148,960,487 | 148,960,487 |
| TexSTAR | 23.54% | 49,746,393 | 49,746,393 |
| Portfolio Investments | 0.00% | - | - |
| Certificates of Deposits | 5.25% | 11,087,727 | 11,087,727 |
| | 100.00% | $ 211,363,909 | $ 211,363,909 |

## TAX MATTERS

**TAX EXEMPTION**

The delivery of the Series 2013 Bonds is subject to the opinion of Bond Counsel to the effect that interest on such Series 2013 Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A Form of Bond Counsel's opinion is reproduced as Appendix C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Series 2013 Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust ("FASIT"). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Series 2013 Bonds pertaining to the use, expenditure, and investment of the proceeds of the Series 2013 Bonds and will assume continuing compliance by the City with the provisions of the Bond Ordinance subsequent to the issuance of the Series 2013 Bonds. The Bond Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Series 2013 Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Series 2013 Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of the proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Series 2013 Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Series 2013 Bonds.

Bond Counsel's opinions are not a guarantee of a result, but represent its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Series 2013 Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Series 2013 Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Series 2013 Bonds, the City may have different or conflicting interests from the owners of the Series 2013 Bonds. Public awareness of any future audit could adversely affect the value and liquidity of the Series 2013 Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Series 2013 Bonds. Prospective purchasers of the Series 2013 Bonds should be aware that the ownership of tax-exempt obligations such as the Series 2013 Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Series 2013 Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Series 2013 Bonds. Prospective purchasers of the Series 2013 Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

### TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN SERIES 2013 BONDS

The initial public offering price of the Series 2013 Bonds maturing in 2027, 2029, 2031 and 2033 (the "Discount Bonds") is less than the amount payable on such Series 2013 Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Series 2013 Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchasers will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Series 2013 Bonds described above under "TAX EXEMPTION." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation's alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with "subchapter C" earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bonds were held) is includable in gross income.

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

The initial public offering price of certain Series 2013 Bonds maturing in the years 2014 through 2026 (the "Premium Bonds") is greater than the amount payable on such Series 2013 Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Series 2013 Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

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

## CONTINUING DISCLOSURE OF INFORMATION

In the respective Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Series 2013 Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Series 2013 Bonds. 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 (the “MSRB”).

### ANNUAL REPORTS

The City will provide certain updated financial information and operating data to the MSRB through EMMA. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 6 and 8 through 16 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2013.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB’s Internet Web site or filed with the United States Securities and

Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from time to time pursuant to State law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB through EMMA of the change.

**MATERIAL NOTICES**

The City will also provide notices of certain events to the MSRB through EMMA, of any of the following events with respect to the Series 2013 Bonds in a timely manner, and not more than 10 business days after occurrence of the event. The City will provide notice of any of the following events with respect to the Series 2013 Bonds, if such event is material to a decision to purchase or sell Series 2013 Bonds: (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 of determination with respect to the tax-exempt status of the Series 2013 Bonds, or other material events affecting the tax-exempt status of the Series 2013 Bonds; (7) modifications to rights of holders of the Series 2013 Bonds, if material; (8) bond or certificate calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Series 2013 Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and (14) appointment of a successor or additional trustee or the change of name of a trustee, if material. For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. Neither the Series 2013 Bonds nor the Bond Ordinance make any provision for debt service reserves, credit enhancement or liquidity enhancement. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

**AVAILABILITY OF INFORMATION FROM MSRB**

The City has agreed to provide the foregoing information only to the MSRB. The MSRB has made the information available to the public without charge through EMMA at www.emma.msrb.org.

**AMENDMENTS**

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Series 2013 Bonds in the offering described herein in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Series 2013 Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Series 2013 Bonds, as applicable. The City may also amend or repeal the provisions of this continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Series 2013 Bonds in the primary offering of the Series 2013 Bonds, as applicable. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS**

The City has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12 for the last five years except as described in this paragraph. The annual financial information and operating data of the City for fiscal year 2011 was not timely filed. The City has subsequently filed the missing information, including a notice of late filing, and has put certain administrative procedures in place to help ensure timely compliance with it annual obligations in the future.

## OTHER INFORMATION

### RATINGS

The Series 2013 Bonds are rated "Aa2" by Moody's Investors Service, Inc. ("Moody's") and "AA" by Standard & Poor's Ratings Services, A Division of McGraw-Hill Companies, Inc. ("S&P"), without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by (either or both) of such rating companies (company), if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings, or either of them, may have an adverse effect on the market price of the Series 2013 Bonds.

### LITIGATION

It is the opinion of the City Attorney and City Staff that there is no pending litigation against the City that would have a material adverse financial impact upon the City or its operations.

### REGISTRATION AND QUALIFICATION OF OBLIGATIONS FOR SALE

The sale of the Series 2013 Bonds has not been registered under the Federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Series 2013 Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Series 2013 Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Series 2013 Bonds under the securities laws of any jurisdiction in which the Series 2013 Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for qualification for sale or other disposition of the Series 2013 Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Series 2013 Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State of Texas. With respect to investment in the Series 2013 Bonds by municipalities or other political subdivisions or public agencies of the State of Texas, the Public Funds Investment Act, Chapter 2256, Texas Government Code, requires that the Series 2013 Bonds be assigned a rating of "A" or its equivalent as to investment quality by a national rating agency. See "OTHER INFORMATION - RATINGS" herein. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Series 2013 Bonds are legal investments for state banks, savings banks, trust companies with at capital of one million dollars or more, and savings and loan associations. The Series 2013 Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Series 2013 Bonds are legal investments for various institutions in those states.

### LEGAL MATTERS

The City will furnish a complete transcript of proceedings incident to the authorization and issuance of each of the Series 2013 Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond the effect that the Series 2013 Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Series 2013 Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under " TAX MATTERS" herein, including the alternative minimum tax on corporations. The customary closing papers, including a certificate to the effect that no litigation of any nature has been filed or is then pending to restrain the issuance and delivery of the Series 2013 Bonds, or which would affect the provision made for their payment or security, or in any manner questioning the validity of said Series 2013 Bonds will also be furnished. Bond Counsel has reviewed the statements and information appearing in this Official Statement under the captions "THE SERIES 2013 BONDS" (except the subcaptions "Book-Entry-Only System", and "Bond Holders Remedies") "THE SERIES 2013 BONDS - Tax Rate Limitation," "TAX MATTERS," "OTHER INFORMATION - Legal Matters," "- Registration and Qualification of Bonds for Sale," and "- Legal Investments and Eligibility to Secure Public Funds in Texas," and Bond Counsel is of the opinion that statements and information contained therein describing the Bonds and the Bond Ordinance are accurate and fair descriptions of such instruments for the purposes intended, and the information contained under such captions and subcaptions describing laws and legal issues is correct as to matters of law. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Series 2013 Bonds. Bond Counsel only represents the City in connection with the issuance of the Bonds. Certain matters will be passed upon for the Underwriters by Andrews Kurth LLP, Houston, Texas, Counsel for the Underwriters, whose fee is contingent upon the sale and delivery of the Series 2013 Bonds.

### AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

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

**CO-FINANCIAL ADVISORS**

Hutchinson, Shockey, Erley & Co., and M.E. Allison and Co., Inc. are employed as Financial Advisors to the City in connection with the issuance of the Series 2013 Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Series 2013 Bonds is contingent upon the issuance and delivery of the Series 2013 Bonds. Hutchinson, Shockey, Erley & Co., and M.E. Allison and Co., Inc. have agreed, in their Financial Advisory contract, not to bid for the Series 2013 Bonds, either independently or as a member of a syndicate organized to submit a bid for the Series 2013 Bonds. Hutchinson, Shockey, Erley & Co., and M.E. Allison and Co., Inc., in their capacity as Financial Advisors, do not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Series 2013 Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

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

**INITIAL UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the Series 2013 Bonds from the City, at an underwriting discount of $84,302.71. The Underwriters will be obligated to purchase all of the Series 2013 Bonds if any Series 2013 Bonds are purchased. The Series 2013 Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and any other dealers depositing Series 2013 Bonds into investment trusts) at prices lower than the public offering prices of such Series 2013 Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

**VERIFICATION OF ARITHMETICAL AND MATHEMATICAL COMPUTATIONS**

Grant Thornton LLP, a firm of independent public accountants, will deliver to the City, on or before the settlement date of the Series 2013 Bonds, its verification report indicating that it has verified, in accordance with attestation standards established by the American Institute of Certified Public Accountants, the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on the federal securities to be purchased with proceeds of the Series 2013 Bonds, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Obligations and (b) the mathematical computations of yields and certain other calculations used by Bond Counsel to support its opinion that interest on the Series 2013 Bonds will be excluded from gross income for federal income tax purposes. The verification performed by Grant Thornton LLP will be solely based upon data, information and documents provided to Grant Thornton LLP by the Financial Advisors on behalf of the City. Grant Thornton LLP has restricted its procedures to recalculating the computations provided by the Financial Advisors on behalf of the City and has not evaluated or examined the assumptions or information used in the computations.

**FORWARD-LOOKING STATEMENT DISCLAIMER**

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

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

**MISCELLANEOUS**

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

The Bond Ordinance authorizing the issuance of the Series 2013 will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Series 2013 Bonds by the Underwriters.

**APPROVAL OF THE OFFICIAL STATEMENT**

The Ordinances authorizing the issuance of the Series 2013 Bonds will also approve the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorize its further use in the reoffering of the Series 2013 Bonds by the Underwriters.

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## SCHEDULE I – REFUNDED OBLIGATIONS

**Summary of Bonds Refunded**

| | Bond | Maturity Date | Interest Rate | Par Amount | Call Date | Call Price |
|---|---|---|---|---|---|---|
| 2003 CTFS OBLIG-SER A: | | | | | | |
| | Serial | 2/15/2014 | 3.250% | $ 145,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2015 | 3.375% | 150,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2016 | 3.500% | 155,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2017 | 3.625% | 160,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2018 | 3.875% | 165,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2019 | 4.000% | 175,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2020 | 4.000% | 180,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2021 | 4.125% | 190,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2022 | 4.125% | 195,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2023 | 4.250% | 205,000.00 | 4/25/2013 | 100.000 |
| | | | | **$ 1,720,000.00** | | |
| 2003 CTFS OBLIG-SER B: | | | | | | |
| | Serial | 2/15/2014 | 3.250% | $ 10,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2015 | 3.375% | 15,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2016 | 3.500% | 150,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2017 | 3.625% | 155,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2018 | 3.750% | 165,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2019 | 4.000% | 170,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2020 | 4.000% | 175,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2021 | 4.125% | 185,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2022 | 4.125% | 190,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2023 | 4.250% | 200,000.00 | 4/25/2013 | 100.000 |
| | Term Bond | 2/15/2024 | 4.375% | 210,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2025 | 4.375% | 220,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2026 | 4.375% | 230,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2027 | 4.375% | 240,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2028 | 4.375% | 245,000.00 | 4/25/2013 | 100.000 |
| | Term Bond | 2/15/2029 | 4.375% | 260,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2030 | 4.375% | 270,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2031 | 4.375% | 285,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2032 | 4.375% | 295,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2033 | 4.375% | 310,000.00 | 4/25/2013 | 100.000 |
| | | | | **$ 3,980,000.00** | | |

| | Bond | Maturity Date | Interest Rate | Par Amount | Call Date | Call Price |
|---|---|---|---|---|---|---|
| 2003 REF: | | | | | | |
| | Serial | 2/15/2014 | 4.000% | $ 1,985,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2015 | 3.375% | 905,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2016 | 3.500% | 675,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2017 | 3.625% | 675,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2018 | 3.750% | 680,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2019 | 4.000% | 685,000.00 | 4/25/2013 | 100.000 |
| | | 2/15/2020 | 4.000% | 685,000.00 | 4/25/2013 | 100.000 |
| | | | | **$ 6,290,000.00** | | |
| 2004 CTFS OBLIG-SER B: | | | | | | |
| | Serial | 2/15/2015 | 3.600% | $ 270,000.00 | 2/15/2014 | 100.000 |
| | | 2/15/2016 | 3.700% | 280,000.00 | 2/15/2014 | 100.000 |
| | | 2/15/2017 | 3.750% | 290,000.00 | 2/15/2014 | 100.000 |
| | | 2/15/2018 | 3.850% | 305,000.00 | 2/15/2014 | 100.000 |
| | | | | **$ 1,145,000.00** | | |
| 2006 CTFS OBLIG: | | | | | | |
| | Serial | 2/15/2016 | 4.200% | $ 225,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2017 | 4.300% | 235,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2018 | 4.375% | 245,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2019 | 4.500% | 255,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2020 | 4.500% | 270,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2021 | 4.500% | 280,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2022 | 4.600% | 295,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2023 | 4.625% | 305,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2024 | 4.625% | 320,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2025 | 4.625% | 335,000.00 | 2/15/2015 | 100.000 |
| | | 2/15/2026 | 4.625% | 350,000.00 | 2/15/2015 | 100.000 |
| | | | | **$ 3,115,000.00** | | |
| | | | | **$16,250,000.00** | | |

**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

**THE CITY**

The City is located in the north central part of Galveston County and part of Harris County five miles south of the city limits of Houston, Texas. The City was incorporated December 9, 1961 and adopted its Home Rule Charter March 27, 1962. The City provides basic municipal services to its citizens including fire and police protection, ambulance service, water, sanitary sewer and garbage services, library, parks and recreational facilities.

**ECONOMICS**

The City is located approximately 14 to 20 miles from the industrial and petrochemical complexes located in Harris County along the Houston Ship Channel and approximately 10 miles from the petrochemical refineries located in Texas City in Galveston County. National Aeronautics and Space Administration's ("NASA"), Johnson Space Center is located just north of the City in Harris County. In addition, residents find employment in the numerous retail and service establishments located in the City and surrounding area.

**BUILDING PERMITS**

| Fiscal Year Ended 9/30[(1)] | Residential Gross Value | Commercial Gross Value | Total Gross Value |
|---|---|---|---|
| 2006 | $ 266,426,720 | $ 36,033,628 | $ 302,460,348 |
| 2007 | 256,555,787 | 78,638,198 | 335,193,985 |
| 2008 | 156,165,260 | 227,543,950 | 383,709,210 |
| 2009 | 117,751,909 | 39,936,940 | 157,688,849 |
| 2010 | 145,502,081 | 11,486,880 | 156,988,961 |
| 2011 | 129,701,416 | 15,256,600 | 144,958,016 |
| 2012 | 135,708,582 | 22,958,177 | 158,666,759 |

(1) Provided by the City.

**EDUCATION**

The City is located primarily within the Clear Creek Independent School District which consists of 26 elementary schools, 10 intermediate schools, and 7 high schools.

Higher education institutions serve the local area, including the University of Houston-Clear Lake, located three miles from the City. The University of Houston-Clear Lake, constructed on a 524-acre site, has an 8,200 student enrollment and includes four schools: The School of Human Sciences and Humanities, the School of Business, the School of Education, and the School of Sciences and Computer Engineering. These four schools offer undergraduate degrees in 39 fields of study, master's degrees in 45 fields of study and one doctoral degree.

The College of the Mainland, a junior college located on a 200-acre campus in Texas City, is less than ten miles from the City near the intersection of FM1764 and State Highway 3.

**HEALTHCARE AND FACILITIES**

The greater Houston-Galveston region is noted for the availability of exceptional hospital and medical care. The League City – Clear Lake area is served by two modern hospitals with Life Flight capability. The Clear Lake Regional Medical Center represents over 40 medical specialties and associated services including open heart surgery, Level IIIb Neonatal Intensive Care Unit and comprehensive cardiovascular services.

**TRANSPORTATION**

The City has convenient access to several interstate and major US highways. Interstate Highway 45 passes directly through the City giving access to other transportation routes such as Interstate Highway 10, US Highways 59 and 290, and State Highways 288, 225 and 146. The area's trucking industry is well-integrated with the Port of Houston, Houston Intercontinental Airport, Hobby Airport, Ellington Field, and the mainline railroads serving the area. Each draws from the others while supporting the others. The Houston Airport System is 9th largest in the United States and 18th largest in the world. The Houston Bush Intercontinental Airport ranks 11th in the U.S. for international passengers. The City is served by Union Pacific Railroad who operates one main line through the City with daily service.

### JOHNSON SPACE CENTER

The Johnson Space Center (JSC) of NASA, which was responsible for NASA's prior space shuttle program and remains the central control point for the space station project, is an important part of the Clear Lake City area economy. The JSC Civil Service workforce consists of about 3000 employees, the majority of whom are professional engineers and scientists. Of these, approximately 110 are astronauts. The Johnson Space Center is an attraction to over 50 private companies who act as subcontractors to provide contract personnel to JSC.

### SPACE CENTER HOUSTON

The $70 million Space Center Houston, a visitor's center designed by Walt Disney Imagineering, opened in the fall of 1992. It is a project of the non-profit Manned Space Flight Education Foundation, Inc. in collaboration with the NASA space center. The project is a "hands-on" experience center presenting the inspirational story of human space exploration and behind-the-scenes tours of the space center complex.

### MAJOR EMPLOYERS IN LEAGUE CITY

| Employer | Nature of Business | Number of Employees |
|---|---|---|
| Clear Creek Independent School District | School District | 5680 |
| American National Insurance | Insurance | 750 |
| City of League City | Government | 532 |
| Walmart | Retail | 398 |
| Krogers | Supermarket | 333 |
| H.E.B. | Supermarket | 280 |
| Devereaux Texas Treatment Network | Hospital | 273 |
| Harborview Care Center | Assisted Living Center | 175 |
| Randall's | Supermarket | 92 |

### THE COUNTY

The City lies primarily within Galveston County (the "County") which is located on the upper Texas coast of the Gulf of Mexico. The County comprises a land area of 430 square miles, including Galveston Island, the Mainland and Bolivar Peninsula. The official establishment of Galveston County dates back to May 15, 1838, when Sam Houston, the President of the Republic of Texas, approved an article passed by the Congress, establishing the "County of Galveston." The 2010 census population was 291,309 an increase of 16.45% over 2000.

Galveston County has a diversified economy based on manufacturing, oil and gas production, shipping, agriculture, commercial fishing and tourism. The Galveston County Mainland area is the center of one of the most important industrial concentrations on the Gulf Coast of Texas. Major industries located at Texas City and La Marque include BP, Marathon-Ashland Petroleum, Valero Refining, Sterling Chemical, Dow Chemicals, International Specialty Products, and others.

The County is home to the world's largest dog racing complex. The site consists of 100 acres and includes a clubhouse with full- service dining. The track seats 8,100 people and has a total capacity of 15,200. Construction of the $40-million facility was completed in the fall of 1992 and races began immediately.

## EMPLOYMENT STATISTICS

**League City**

| Year | Labor Force | Total Employment | Unemployment | Rate |
|---|---|---|---|---|
| 2006 | 34,597 | 33,551 | 1,406 | 4.0% |
| 2007 | 36,504 | 35,190 | 1,314 | 3.6% |
| 2008 | 38,412 | 36,762 | 1,650 | 4.3% |
| 2009 | 38,492 | 36,087 | 2,405 | 6.2% |
| 2010 | 44,821 | 41,682 | 3,139 | 7.0% |
| 2011 | 46,001 | 42,654 | 3,347 | 7.3% |
| 2012 | 46,948 | 44,180 | 2,767 | 5.9% |

**Galveston County**

| Year | Labor Force | Total Employment | Unemployment | Rate |
|---|---|---|---|---|
| 2006 | 137,329 | 130,271 | 7,058 | 5.1% |
| 2007 | 137,804 | 131,420 | 6,384 | 4.6% |
| 2008 | 141,726 | 133,585 | 8,141 | 5.7% |
| 2009 | 141,168 | 129,671 | 11,497 | 8.1% |
| 2010 | 145,100 | 131,782 | 13,318 | 9.2% |
| 2011 | 148,320 | 134,854 | 13,466 | 9.1% |
| 2012 | 151,286 | 139,679 | 11,607 | 7.7% |

Source: Texas Workforce Commission (01/24/2013)
Statistics reported are annual averages

## APPENDIX B

EXCERPTS FROM THE CITY OF LEAGUE CITY, TEXAS ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2011

The information contained in this Appendix consists of excerpts from the City of League City, Texas Annual Financial Report for the Year Ended September 30, 2011, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

## APPENDIX C

FORM OF BOND COUNSEL'S OPINION