

Dated September 10, 2018

NEW ISSUE - Book-Entry-Only

In the opinion of the Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

THE BONDS ARE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.



\$9,050,000
CITY OF LANCASTER, TEXAS
(Dallas County)
GENERAL OBLIGATION BONDS, SERIES 2018

Dated Date: September 1, 2018

Due: February 15, as shown below

Interest to accrue from Delivery Date (as defined below)

PAYMENT TERMS . . . Interest on the \$9,050,000 City of Lancaster, Texas, General Obligation Bonds, Series 2018 (the "Bonds") will accrue from the Delivery Date (as defined below), and will be payable February 15 and August 15 of each year, commencing February 15, 2019, until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive 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 Bonds may be acquired in denominations of \$5,000 or any integral multiple thereof within a maturity. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (see "THE BONDS - Paying Agent/Registrar").

AUTHORITY FOR ISSUANCE . . . The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas, Government Code, Chapter 1331, as amended, and an election held on November 6, 2007 and approved by a majority of the participating voters and are direct obligations of the City of Lancaster, Texas (the "City"), payable from a continuing, direct, annual ad valorem tax levied on all taxable property within the City, within the limits prescribed by law, as provided in the ordinance authorizing the Bonds (the "Bond Ordinance") (see "THE BONDS - Authority for Issuance").

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) planning, designing, constructing, reconstruction, improving, extending and expanding streets, thoroughfares, freeways, alleys, sidewalks, bridges, pedestrianways, trolleyways and other multi-modal transportation facilities, including related storm drainage facilities and improvements, signalization, signage, video roadside cameras, and other traffic and signal controls, street lighting, landscaping, streetscape and median improvements and the acquisition of land therefor; and (ii) to pay the costs associated with the issuance of the Bonds.

MATURITY SCHEDULE

CUSIP Prefix ⁽¹⁾: 514444

<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>	<u>Amount</u>	<u>Feb 15 Maturity</u>	<u>Interest Rate</u>	<u>Initial Yield</u>	<u>CUSIP Suffix ⁽¹⁾</u>
\$ 145,000	2019	3.000%	1.700%	G77	\$ 475,000	2029	3.000%	2.850% ⁽²⁾	H92
110,000	2020	3.000%	1.900%	G85	490,000	2030	3.000%	2.900% ⁽²⁾	J25
370,000	2021	3.000%	2.000%	G93	500,000	2031	3.000%	3.000%	J33
385,000	2022	3.000%	2.150%	H27	520,000	2032	3.250%	3.050% ⁽²⁾	J41
395,000	2023	3.000%	2.250%	H35	535,000	2033	3.250%	3.100% ⁽²⁾	J58
405,000	2024	3.000%	2.350%	H43	555,000	2034	3.250%	3.150% ⁽²⁾	J66
420,000	2025	3.000%	2.450%	H50	570,000	2035	3.500%	3.200% ⁽²⁾	J74
430,000	2026	3.000%	2.550%	H68	590,000	2036	3.500%	3.250% ⁽²⁾	J82
445,000	2027	3.000%	2.650%	H76	615,000	2037	3.500%	3.270% ⁽²⁾	J90
460,000	2028	3.000%	2.750%	H84	635,000	2038	3.500%	3.300% ⁽²⁾	K23

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the City, the Financial Advisor nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield shown is yield to first call date, February 15, 2028.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

LEGALITY . . . The Bonds are offered for delivery when, as and if issued and received by the Initial Purchaser subject to the approving opinion of the Attorney General of Texas the opinion of West & Associates, L.L.P., Bond Counsel, Dallas, Texas. (see APPENDIX C, "Form of Bond Counsel's Opinion") and Orrick Herrington & Sutcliffe, Special Tax Counsel, Houston, Texas. (see APPENDIX D - "Form of Special Tax Counsel's Opinion").

DELIVERY . . . It is expected that the Bonds will be available for delivery through DTC on October 11, 2018 (the "Delivery Date").

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 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 herein. See "CONTINUING DISCLOSURE OF INFORMATION" for a description of the City's undertaking to provide certain information on a continuing basis.

NEITHER THE CITY, ITS FINANCIAL ADVISOR, NOR THE INITIAL PURCHASER OF THE BONDS MAKE ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY ONLY SYSTEM.

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

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

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The cover page hereof, this page, the schedule, 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 Bonds 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 Lancaster is a political subdivision and municipal corporation of the State located in Dallas County, Texas. The City was incorporated in 1952, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The City Manager is the chief administrative officer. The City covers approximately 34 square miles (see "INTRODUCTION - Description of the City").

- THE BONDS**..... The \$9,050,000 General Obligation Bonds, Series 2018 (the "Bonds") are scheduled to mature on February 15 in the years 2019 through 2038 (see "THE BONDS - Description of the Bonds").

- PAYMENT OF INTEREST** Interest on the Bonds accrues from the Delivery Date and is payable February 15, 2019, and each August 15 and February 15 thereafter until maturity or prior redemption (see "THE BONDS - Description of The Bonds "and "THE BONDS – Optional Redemption").

- AUTHORITY FOR ISSUANCE**..... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas (the "State"), including particularly Texas , Government Code, Chapter 1331, as amended, and an election held on November 6, 2007 and approved by a majority of the participating voters. (see "THE BONDS - Authority for Issuance").

- SECURITY FOR THE BONDS** The Bonds constitute direct obligations of the City, payable from continuing annual ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the City (see "THE BONDS - Security and Source of Payment").

- QUALIFIED TAX-EXEMPT OBLIGATIONS**..... The City designated the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions (see "TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions").

- REDEMPTION** The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption (see "THE BONDS - Optional Redemption").

- TAX EXEMPTION** In the opinion of the Orrick, Herrington & Sutcliffe, LLP, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

- USE OF PROCEEDS** Proceeds from the sale of the Bonds will be used to (i) planning, designing, constructing, reconstruction, improving, extending and expanding streets, thoroughfares, freeways, alleys, sidewalks, bridges, pedestrianways, trolleyways and other multi-modal transportation facilities, including related storm drainage facilities and improvements, signalization, signage, video roadside cameras, and other traffic and signal controls, street lighting, landscaping, streetscape and median improvements and the acquisition of land therefor and (ii) to pay the costs associated with the issuance of the Bonds.

- RATINGS** The Bonds and presently outstanding tax-supported debt of the City are rated "AA-" by S&P Global Ratings, a division of S&P Global Inc. ("S&P"). The City also has outstanding tax-supported debt that is rated by Moody's Investors Service, Inc. ("Moody's") (see "OTHER INFORMATION - Ratings").

BOOK-ENTRY-ONLY SYSTEM..... The definitive 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 Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

PAYMENT RECORD The City has never defaulted on the payment of its tax-supported indebtedness.

SELECTED FINANCIAL INFORMATION

Fiscal Year Ended 9/30	Estimated City Population	Taxable Assessed Valuation	Per Capita Taxable Assessed Valuation	Tax-Supported Debt ⁽³⁾	Per Capita Tax-Supported Debt	Ratio Tax-Supported Debt to Taxable Assessed Valuation	% of Total Tax Collections
2014	37,150 ⁽¹⁾	\$ 1,558,041,404	\$ 41,939	\$ 81,000,000	\$ 2,180	5.20%	102.46%
2015	37,360 ⁽¹⁾	1,689,126,480	45,212	85,850,000	2,298	5.08%	103.04%
2016	37,550 ⁽¹⁾	1,980,250,690	52,736	82,110,000	2,187	4.15%	94.12%
2017	37,730 ⁽¹⁾	2,157,523,836	57,183	77,825,000	2,063	3.61%	92.33%
2018	38,361 ⁽²⁾	2,277,848,200	59,379	83,060,000 ⁽⁴⁾	2,165	3.65%	94.76% ⁽⁵⁾

(1) Source: North Central Texas Council of Governments.

(2) Estimate provided by city staff.

(3) Includes self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting debt from other revenues is subject to change in the future, but the City currently has no plans to change such policy. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax to pay such debt service.

(4) Projected, includes the Bonds and the \$500,000 General Obligation Bonds, Taxable Series 2018A (the "2018A Bonds") that are anticipated to be sold via private sale on September 10, 2018.

(5) Collections through August 1, 2018.

For additional information regarding the City, please contact:

Opal Mauldin-Jones
 Baron Sauls
 City of Lancaster
 211 North Henry Street
 Lancaster, Texas 75146
 (972) 218-1300

or

Nick Bulaich
 Hilltop Securities Inc.
 777 Main Street, Suite 1200
 Fort Worth, Texas 76102-3123
 (817) 332-9710

CITY OFFICIALS, STAFF, AND CONSULTANTS

ELECTED OFFICIALS

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>	<u>Occupation</u>
Clyde C. Hairston Mayor	7 Years	May, 2021	Minister
Marco Mejia Mayor Pro Tem, Councilmember District 3	8 Years	May, 2019	Business Owner, Construction Company
Stanley Jaglowski Deputy Mayor Pro Tem, Councilmember District 2	7 Years	May, 2020	Automotive Service Professional
Carol Strain-Burk Councilmember, District 1	13 Years	May, 2019	Self-Employed Consultant
Derrick D. Robinson Councilmember, District 4	1 Year	May, 2020	Professional Driver
Racheal Hill Councilmember, District 5	1 Year	May, 2019	Manager
Nina Morris Councilmember, District 6	11 Years	May, 2020	Assist Advocate for children with disabilities

SELECTED ADMINISTRATIVE STAFF

<u>Name</u>	<u>Position</u>	<u>Length of Service with City</u>	<u>Service to Municipal Governments</u>
Opal Mauldin-Jones	City Manager	15 Years	26 Years
Baron Sauls	Director of Finance	4 Years	17 Years
Sorangel "Angie" Arenas	City Secretary	4 Years	8 Years
David T. Ritter	City Attorney	1 Year	10 Years

INDEPENDENT AUDITORS, CONSULTANTS AND ADVISORS

Independent Auditors	BKD, L.L.P. Dallas, Texas
Bond Counsel	West & Associates, L.L.P. Dallas, Texas
Special Tax Counsel	Orrick Herrington & Sutcliffe Houston, Texas
Financial Advisor	Hilltop Securities Inc. Fort Worth, Texas

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OFFICIAL STATEMENT
RELATING TO
\$9,050,000
CITY OF LANCASTER, TEXAS
GENERAL OBLIGATION BONDS, SERIES 2018

INTRODUCTION

This Official Statement, which includes Appendices hereto, provides certain information regarding the issuance of \$9,050,000 City of Lancaster, Texas, General Obligation Bonds, Series 2018 (the "Bonds"). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the ordinance adopted on the date of sale of the Bonds (the "Bond Ordinance"), except as otherwise indicated herein.

There follows in this Official Statement descriptions of the 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 Financial Advisor, Hilltop Securities Inc. ("HilltopSecurities"), Fort Worth, Texas.

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

DESCRIPTION OF THE CITY . . . The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1952, and first adopted its Home Rule Charter in 1956. The City operates under a Council/Manager form of government with a City Council comprised of the Mayor and six Councilmembers. The Mayor and Councilmembers are elected for staggered three year terms with elections held annually in May. The City Manager is the chief administrative officer for the City. Some of the services that the City provides are: public safety (police and fire protection), municipal court, streets, engineering, water and wastewater, sanitation, recreation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 36,361, while the estimated 2018 population is 38,361. The City covers approximately 34 square miles.

CONCURRENT BOND ISSUES . . . The City is issuing its \$500,000 General Obligation Bonds, Taxable Series 2018A Bonds (the "Series 2018A Bonds") concurrently with the Bonds and are anticipated to be sold via private sale on September 10, 2018.

PLAN OF FINANCING

PURPOSE . . . Proceeds from the sale of the Bonds will be used to (i) planning, designing, constructing, reconstruction, improving, extending and expanding streets, thoroughfares, freeways, alleys, sidewalks, bridges, pedestrianways, trolleyways and other multi-modal transportation facilities, including related storm drainage facilities and improvements, signalization, signage, video roadside cameras, and other traffic and signal controls, street lighting, landscaping, streetscape and median improvements and the acquisition of land therefor and (ii) to pay the costs associated with the issuance of the Bonds.

THE BONDS

DESCRIPTION OF THE BONDS . . . The Bonds are dated September 1, 2018, and mature on February 15 in each of the years and in the amounts shown on the cover page hereof. Interest will accrue from the date of their initial delivery to the Initial Purchaser, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on August 15 and February 15 of each year, commencing February 15, 2019, until maturity or prior redemption. The definitive 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, New York, New York ("DTC") pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "THE BONDS - Book-Entry-Only System" herein.

AUTHORITY FOR ISSUANCE . . . The Bonds are being issued pursuant to the Constitution and general laws of the State, particularly Chapter 1331, as amended, an election held on November 6, 2007 and approved by a majority of the participating voters, and the Bond Ordinance.

SECURITY AND SOURCE OF PAYMENT . . . The principal of and interest on the Bonds is payable from a direct and continuing annual ad valorem tax levied by the City, within the limits prescribed by law, upon all taxable property in the City.

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 to provide for the operations of the City, including 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. 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 obligations debt, as calculated at the time of issuance and based on a 90% tax collection factor.

OPTIONAL REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after February 15, 2029, in whole or in part in principal amounts of \$5,000 or any integral multiple thereof, on February 15, 2028, or any date thereafter, at the par value thereof plus accrued interest to the date of redemption. If less than all of the Bonds are to be redeemed, the City may select the maturities of Bonds to be redeemed. If less than all the Bonds of any maturity are to be redeemed, the Paying Agent/Registrar (or DTC while the Bonds are in Book-Entry-Only form) shall determine by lot the Bonds, or portions thereof, within such maturity to be redeemed. If a 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 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.

Notice of Redemption. Not less than 30 days prior to a redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the registered owner appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing such notice.

ANY NOTICE GIVEN SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN, WHETHER OR NOT THE REGISTERED OWNER RECEIVES SUCH NOTICE, AND ANY REDEMPTION NOTICE HAVING BEEN SO GIVEN, THE BONDS CALLED FOR REDEMPTION SHALL BECOME DUE AND PAYABLE ON THE SPECIFIED REDEMPTION DATE, AND, NOTWITHSTANDING THAT ANY BOND OR PORTION THEREOF HAS NOT BEEN SURRENDERED FOR PAYMENT, INTEREST ON SUCH BOND OR PORTION THEREOF SHALL CEASE TO ACCRUE.

The City reserves the right, in the case of an optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice, and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any obligations subject to conditional redemption if such redemption has been rescinded shall remain outstanding, and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

Limitation on Transfer of Bonds Called for Redemption. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, when such redemption is scheduled to occur within 45 calendar days of the transfer or exchange date; provided, however, such limitation on transferability shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

BOOK-ENTRY-ONLY SYSTEM . . . *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City 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 Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

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

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

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

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

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

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on 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, 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 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, 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 one or both series of the 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, obligation certificates 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, obligation certificates 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 Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and (ii) except as described above, notices that are to be given to registered owners under the Bond 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 Initial Purchaser.

Effect of Termination of Book-Entry-Only System . . . In the event that the Book-Entry-Only System of the Bonds is discontinued, printed certificates will be issued to the DTC Participants or the registered owner of the Bonds, as the case may be, and such Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

PAYING AGENT/REGISTRAR . . . The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. In the Bond Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar at all times until the Bonds are duly paid and any successor Paying Agent/Registrar shall be a commercial bank, financial institution or trust company or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds affected by the changes by United States mail, first class, postage prepaid, 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, Bond certificates will be printed and delivered to the registered owners thereof and thereafter may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender to the Paying Agent/Registrar of such Bond certificates 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. Bonds may be assigned by the execution of an assignment form on the respective Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. New Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the designated office of the Paying Agent/Registrar, or sent by United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the 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 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 and series as the Bonds surrendered for exchange or transfer. See "THE BONDS - Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds. Neither the City nor the Paying Agent/Registrar shall be required to transfer or exchange any Bond called for redemption, in whole or in part, within 45 days of the date fixed for redemption; provided, however, such limitation on transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

Principal of the Bonds will be payable to the registered owner at maturity or prior redemption upon presentation at the designated payment office of the Paying Agent/Registrar. Interest on the Bonds will be payable by check, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered owners as shown on the records of the Paying Agent/Registrar on the Record Date (see "THE BONDS - Record Date for Interest Payment" herein), or by such other method, acceptable to the Paying Agent/Registrar, requested by and at the risk and expense of, the registered owner. If the date for the payment of the principal or of interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day on which banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original payment date. So long as Cede & Co. is the registered owner of the Bonds, principal and interest on the Bonds will be made as described in "THE BONDS - Book-Entry-Only System".

RECORD DATE FOR INTEREST PAYMENT . . . The record date ("Record Date") for the interest payable on the 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 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the

past due interest (which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing on the 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.

REMEDIES . . . The Bond Ordinance provides for specific events of default. If the City defaults in the payment of the principal of or interest on any Bond when due, or the City defaults in the observance or performance of any of the covenants, conditions, or obligations of the City, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Ordinance, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the City, any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the City to make such payment or observe and perform such covenants, obligations, or conditions. Such right is in addition to any other rights the registered owners of the Bonds may be provided by the laws of the State. Under Texas law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Bonds. Although a registered owner of Bonds could presumably obtain a judgment against the City if a default occurred in the payment of principal of or interest on any such Bond, such judgment could not be satisfied by execution against any property of the City. Such registered owner's only practical remedy, if a default occurs, is a mandamus or mandatory injunction proceeding to compel the City, to assess and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due. The enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) ("Tooke") that a waiver of sovereign immunity must be provided for by statute in "clear and unambiguous" language. In so ruling, the Court declared that statutory language such as "sue and be sued", in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the "Local Government Immunity Waiver Act"), which, according to the Court, waives "immunity from suit for contract claims against most local governmental entities in certain circumstances." Because it is not clear that the Texas Legislature has effectively waived the City's immunity from suit of money damages, registered owners of the Bonds may not be able to bring suit against the City for breach of the Bond Ordinance or the Bonds. As noted above, the Bond Ordinance provides that registered owners may exercise the remedy of mandamus to enforce the obligations of the City under the Bond Ordinance. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally-imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of monies due under a contract). Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its obligations, but in connection with the issuance of the obligations, the City has not waived sovereign immunity in the proceedings authorizing the Bonds.

The Bond Ordinance does not provide for the appointment of a trustee to represent the interest of the owners upon any failure of the City to perform in accordance with the terms of the Bond Ordinance, or upon any other condition. 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 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 Bond owners 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 opinions of Bond Counsel will note that all opinions relative to the enforceability of the Bond Ordinance and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

DEFEASANCE . . . The Bond Ordinance provides that the City may discharge its Bonds to the registered owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law.

AMENDMENTS . . . The City may amend the Bond Ordinance without the consent of or notice to any registered owners of the Bonds in any manner not detrimental to the interests of such registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the consent of the registered owners of a majority in aggregate principal amount of the Bonds then Outstanding, amend, add to, or rescind any of the provisions of the Bond Ordinance; provided that, without the consent of all registered owners of Outstanding Bonds, no such amendment, addition, or rescission may (1) extend the time or times of payment of the principal of, premium, if any, and interest on the Bonds, reduce the principal amount, the redemption price, or the rate of interest, or in any other way modify the terms of payment of the principal of, premium, if any, or interest on the Bonds, (2) give any preference to any Bond over any other Bond,

or (3) reduce the aggregate principal amount of Bonds required to be held by registered owners of such Bonds for consent to any such amendment, addition, or rescission of the Bond Ordinance.

TAX INFORMATION

AD VALOREM TAX LAW . . . The appraisal of property within the City is the responsibility of the Dallas Central Appraisal District (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 Title 1 of 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 the market value of property, different methods of appraisal may be used, including the cost method of appraisal, the income method of appraisal and the market data comparison method of appraisal, and the method considered most appropriate by the chief appraiser is to be used. State law requires the appraised value of a residence homestead to be based solely on the property's value as a residence homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a residence homestead for a tax year to an amount not to exceed the lesser of (1) the market value of the property for the most recent tax year that the market value was determined by the appraisal office or (2) the sum of (a) 10% of the property's appraised value the preceding year plus (b) the property's appraised value in the preceding year plus (c) the market value of all new improvements to the property. The value placed upon property within the Appraisal District is subject to review by an Appraisal Review Board, consisting of 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 Property 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 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. Once authorized, such exemption may be repealed or decreased or increased in amount (i) by the governing body of the political subdivision or (ii) by a favorable vote of a majority of the qualified voters at an election called by the governing body of the political subdivision, which election must be called upon receipt of a petition signed by at least 20% of the number of qualified voters who voted in the preceding election of the political subdivision. In the case of a decrease, the amount of the exemption may not be reduced to less than \$3,000 of the market value.

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

In addition to any other exemptions provided by the Property Tax Code, the governing body of a political subdivision, at its option, may grant an exemption of up to 20% of the market value of residence homesteads, with a minimum exemption of \$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.

Under Article VIII and State law, the governing body of a county, municipality or junior college district may provide for a freeze on total amount of ad valorem 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. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. If improvements (other than repairs or improvements required to comply with governmental requirements) 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 such freeze cannot be repealed or rescinded.

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; provided, however, that a disabled veteran who receives from the United States Department of Veterans Affairs or its successor 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or of individual unemployability is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied.

A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation in an amount equal to the percentage of the veteran's disability, if the residence was donated at no cost to the veteran by a charitable organization. Effective January 1, 2018, this exemption will also apply to a residence homestead that was donated by a charitable organization at some cost. The surviving spouse of a member of the armed forces who is killed in action is entitled to a property tax exemption for all or part of the market value of such surviving spouse's residence homestead, if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption is transferable to a different property of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received. Effective January 1, 2018, the surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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 Sections 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. Notwithstanding such exemption, counties, school district, junior college districts and cities may tax such tangible personal property provided official action to tax the same was taken before April 1, 1990. Decisions to continue to tax may be reversed in the future; decisions to exempt freeport property are not subject to reversal.

Under Section 11.253 of the Texas Tax Code, "Goods-in-Transit" are exempt from taxation unless a taxing unit opts out of the exemption. Goods-in-Transit are defined as tangible personal property that: (i) is acquired in or imported into the state to be forwarded to another location in the state or outside the state; (ii) is stored under a contract bailment by a public warehouse operator at one or more public warehouse facilities that are not in any way owned or controlled by the person who acquired or imported the property; (iii) is transported to another location in the state or outside the state not later than 175 days after the date the person acquired the property in or imported the property into the state; and (iv) does not include oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory. A taxpayer may receive either the freeport exemptions or the goods-in-transit exemptions for items of personal property.

The City may create one or more tax increment financing districts ("TIF") within the City, and freeze the taxable values of property in the TIF at the value at the time of its creation. Other overlapping taxing units levying taxes in the TIF may agree to contribute all or part of future ad valorem taxes levied and collected against the value of property in the TIF in excess of the "frozen values" to pay or finance the costs of certain public improvements in the TIF. Taxes levied by the City against the values of real property in the TIF in excess of the "frozen" value are not available for general city use but are restricted to paying or financing "project costs" within the TIF.

The City also may enter into tax abatement agreements to encourage economic development. Under tax abatement agreement, a property owner typically 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.

The City also authorized, pursuant to Chapter 380, Texas Local Government Code, as amended ("Chapter 380"), to establish programs or promote state or local economic development and to stimulate business and commercial activity in the City. In accordance with a program established pursuant to Chapter 380, the City may make loans or grants of public funds for economic development purposes, however, no bonds secured by ad valorem taxes may be issued for such purposes unless approved by voters of the City. Any agreement into which the City has entered pursuant to Chapter 380 is hereinafter referred to as a "Chapter 380 Agreement".

EFFECTIVE TAX RATE AND ROLLBACK TAX RATE . . . The City Council of the City is 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, and a failure to adopt a tax rate by such required date will result in the tax rate for the City for the tax year to be 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. Furthermore, the City Council may not adopt a tax rate that exceeds the lower of the rollback tax rate or the effective tax rate until two public hearings are held on the proposed tax rate following a 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. 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". 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 August 1. Oil and gas reserves are assessed on the basis of a valuation process which uses pricing information contained in the most recently published Early Release Overview of the Annual Energy Outlook published by the United States Energy Information Administration, as well as appraisal formulas developed by the State Comptroller of Public Accounts. Taxes become due October 1 of the same year, and become delinquent on August 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 August 1 of each year and the final installment due on February 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 accrues at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid. A delinquent tax continues to accrue interest as long as the tax remains unpaid, regardless of whether a judgment for the delinquent tax has been rendered. The purpose of imposing such interest penalty is to compensate the taxing unit for revenue lost because of the delinquency. In addition, a taxing unit may contract with an attorney for the collection of delinquent taxes and the amount of compensation as set forth in such contract may provide for a fee up to 20% of the amount of delinquent tax, penalty, and interest collected. 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 a 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 \$30,000; the disabled are also granted an exemption of \$30,000.

The City has not granted any part of the additional exemption of up to 20% 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.

The City has not adopted the tax freeze for citizens who are disabled or are 65 years of age or older, which became a local option and subject to local referendum on January 1, 2004.

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 and the Dallas County Tax Office collects taxes for the City.

The City does not permit split payments of taxes and discounts for the early payment of taxes are not allowed.

The City does not tax freeport property.

The City has taken action to continue taxing goods-in-transit in 2015 and future years.

The City does collect the additional one-quarter cent sales tax for reduction of ad valorem taxes.

TAX ABATEMENTS . . . The City has adopted a tax abatement policy and currently grants abatements to the following companies.

<u>Corporation Name</u>	<u>2018 Market Value</u>	<u>2018 Tax Value</u>	<u>Year on Tax Roll</u>
Prologis	\$ 161,000,000	\$ 161,000,000	2008
Quaker	19,450,900	19,450,900	2014
United National Foods	1,300,000	1,300,000	2011
In N Out	5,884,000	5,884,000	2018
Holt Lunsford	39,000,000	39,000,000	2017
Stainback	3,400,000	3,400,000	2016
Pauls - (SouthPoint)	74,000,000	74,000,000	2009
Panatonni (White Tract LLC)	12,200,000	12,200,000	2018
Texas Nameplate	1,929,410	1,929,410	2017
Brad Copeland	35,000,000	35,000,000	2018
Huntington / Artemis	17,327,100	17,327,100	2018
Duke	2,564,640	2,564,640	2017
Crow Holdings	7,300,000	7,300,000	2018

TAX INCREMENT FINANCING ZONES . . . Tax Increment Financing District #1, City of Lancaster (the “Inland Port Water Project TIF” or the “TIF”), was created in October 2014, by the City with the consent of other taxing units overlapping the Inland Port Water Project TIF. The 1337.4 acre TIF encompassed by Loop 12 on the north, I-35 on the west, the Trinity River on the east and the Dallas County-Ellis County boundary on the south, this area is called an “inland port” because of its unique characteristics including a Union Pacific intermodal facility, which enable it to quickly receive and ship goods from the West Coast, the East Coast, and the Gulf of Mexico. Ad valorem taxes on incremental growth in real property values (levied at the tax rates of each taxing unit assessing real property in the TIF) within the TIF from a base value established January 1, 2015, are used to contribute to the development of the TIF; these tax increment revenue funds can be used only for public improvements in the TIF. The TIF terminates December 31, 2034, or when the contributions by the City total \$2,781,759. The City participates at 50% and of their respective tax increments within the Zone.

CHAPTER 380 AGREEMENTS . . . The City has a policy in place relating to Chapter 380 economic development incentive programs, and has entered into one such agreement which does not have a material financing impact on the City.

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TABLE 1 - VALUATION, EXEMPTIONS AND GENERAL OBLIGATION DEBT

2017/18 Market Valuation Established by Dallas Central Appraisal District		\$ 2,641,253,300
Less Exemptions/Reductions at 100% Market Value:		
Over 65/Disabled Persons Exemptions	\$ 62,652,223	
Disabled Veterans Exemptions	17,375,580	
Freeport Exemption	97,775,253	
Capped Value Loss	80,896,849	
Pollution Control Exemption	806,439	
Prorated Total Exempt	8,802	
Agricultural and Other Exemptions	<u>103,889,954</u>	<u>363,405,100</u>
2017/18 Taxable Assessed Valuation		\$ 2,277,848,200
2018/19 Taxable Assessed Valuation (as certified 7-25-18)		\$ 2,564,358,642
City Funded Debt Payable from Ad Valorem Taxes (as of 8-1-18)		
General Obligation Bonds	\$ 54,040,000	
Certificates of Obligation	19,470,000	
The Bonds	9,050,000	
The 2018A Bonds	<u>500,000</u> ⁽¹⁾	
Funded Debt Payable from Ad Valorem Taxes		\$ 83,060,000
Less Self-Supporting Debt: ⁽²⁾		
Water and Sewer System General Obligation Debt	\$ 8,065,000	
Stormwater System General Obligation Debt	365,000	
Airport System General Obligation Debt	65,000	
Economic Development Corporation General Obligation Debt	1,735,000	
Recreational Development Corporation General Obligation Debt	<u>5,555,000</u>	<u>15,785,000</u>
General Purpose Funded Debt Payable from Ad Valorem Taxes		\$ 67,275,000
Interest and Sinking Fund (as of 8-1-18)		\$ 2,944,989
Ratio Total Funded Debt to Taxable Assessed Valuation		3.65%
Ratio Net Funded Debt to Taxable Assessed Valuation		2.95%

2018 Estimated Population - 38,361
Per Capita Taxable Assessed Valuation - \$59,379
Per Capita Total Funded Debt - \$2,165
Per Capita Net Funded Debt - \$1,754

- (1) The 2018A Bonds are being issued concurrently with the Bonds and are anticipated to be sold via private sale on September 10, 2018.
- (2) 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 10. It is the City's current policy to provide these payments from the respective system revenues. This policy is subject to change in the future, but the City currently has no plans to change such policy. To the extent such policy is changed and such self-supporting debt is not paid from the respective system revenues, such debt will be paid from ad valorem taxes.

TABLE 2 - TAXABLE ASSESSED VALUATIONS BY CATEGORY

Category	Taxable Appraised Value for Fiscal Year Ended September 30,					
	2018		2017		2016	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 1,284,662,720	48.64%	\$ 1,159,793,970	45.98%	\$ 996,753,620	46.52%
Real, Residential, Multi-Family	111,615,880	4.23%	98,089,920	3.89%	91,753,730	4.28%
Real, Vacant Lots/Tracts	60,637,850	2.30%	65,642,580	2.60%	60,610,160	2.83%
Real, Acreage (Land Only)	105,785,100	4.01%	110,493,790	4.38%	90,078,200	4.20%
Real, Farm and Ranch Improvements	10,921,120	0.41%	11,091,520	0.44%	10,735,530	0.50%
Real, Commercial	478,949,730	18.13%	467,608,680	18.54%	416,261,200	19.43%
Real, Industrial	36,882,690	1.40%	35,465,840	1.41%	33,517,340	1.56%
Oil, Gas and Mineral Reserves	-	0.00%	460	0.00%	460	0.00%
Real and Tangible Personal, Utilities	132,620,960	5.02%	125,144,770	4.96%	101,873,450	4.76%
Tangible Personal, Commercial	350,377,960	13.27%	380,592,570	15.09%	269,547,400	12.58%
Tangible Personal, Industrial	64,617,210	2.45%	64,970,990	2.58%	68,461,580	3.20%
Tangible Personal, Other	6,750	0.00%	13,500	0.00%	13,500	0.00%
Tangible Personal, Mobile Homes	577,890	0.02%	616,300	0.02%	630,110	0.03%
Special Inventory	3,597,440	0.14%	3,028,570	0.12%	2,203,790	0.10%
Total Appraised Value Before Exemptions	\$ 2,641,253,300	100.00%	\$ 2,522,553,460	100.00%	\$ 2,142,440,070	100.00%
Adjustments	-		89,039,916		203,535,460	
Total Exemptions/Reductions	(363,405,100)		(454,069,540)		(365,724,840)	
Taxable Assessed Value	<u>\$ 2,277,848,200</u>		<u>\$ 2,157,523,836</u>		<u>\$ 1,980,250,690</u>	

Category	Taxable Appraised Value for Fiscal Year Ended September 30,			
	2015		2014	
	Amount	% of Total	Amount	% of Total
Real, Residential, Single-Family	\$ 897,187,140	46.02%	\$ 842,432,030	50.11%
Real, Residential, Multi-Family	84,795,830	4.35%	76,397,010	4.54%
Real, Vacant Lots/Tracts	62,311,560	3.20%	46,515,170	2.77%
Real, Acreage (Land Only)	84,303,490	4.32%	82,364,920	4.90%
Real, Farm and Ranch Improvements	13,521,860	0.69%	13,037,900	0.78%
Real, Commercial	393,090,220	20.16%	248,424,530	14.78%
Real, Industrial	30,867,460	1.58%	30,896,080	1.84%
Oil, Gas and Mineral Reserves	460	0.00%	-	0.00%
Real and Tangible Personal, Utilities	93,323,500	4.79%	93,784,050	5.58%
Tangible Personal, Commercial	226,478,600	11.62%	183,840,280	10.94%
Tangible Personal, Industrial	61,150,060	3.14%	61,527,280	3.66%
Tangible Personal, Other	13,500	0.00%	13,500	0.00%
Tangible Personal, Mobile Homes	674,190	0.03%	668,620	0.04%
Special Inventory	1,805,760	0.09%	1,110,970	0.07%
Total Appraised Value Before Exemptions	\$ 1,949,523,630	100.00%	\$ 1,681,012,340	100.00%
Adjustments	47,260,426		87,006,527	
Total Exemptions/Reductions	(307,657,576)		(209,977,463)	
Taxable Assessed Value	<u>\$ 1,689,126,480</u>		<u>\$ 1,558,041,404</u>	

NOTE: Valuations shown are certified taxable assessed values reported by the Dallas Central Appraisal District to the State Comptroller of Public Accounts. Certified values are subject to change throughout the year as contested values are resolved and the Appraisal District updates records.

TABLE 3 - VALUATION AND GENERAL OBLIGATION DEBT HISTORY

Fiscal Year Ended 9/30	Estimated Population	Taxable Assessed Valuation	Taxable Assessed Valuation Per Capita	Tax Debt Outstanding at End of Year ⁽³⁾	Ratio Tax Debt to Taxable Assessed Valuation	Funded Debt Per Capita
2014	37,150 ⁽¹⁾	\$ 1,558,041,404	\$ 41,939	\$ 81,000,000	5.20%	\$ 2,180
2015	37,360 ⁽¹⁾	1,689,126,480	45,212	85,850,000	5.08%	2,298
2016	37,550 ⁽¹⁾	1,980,250,690	52,736	82,110,000	4.15%	2,187
2017	37,730 ⁽¹⁾	2,157,523,836	57,183	77,825,000	3.61%	2,063
2018	38,361 ⁽²⁾	2,277,848,200	59,379	83,060,000 ⁽⁴⁾	3.65%	2,165

(1) Source: North Central Texas Council of Governments.

(2) Estimate, provided by City Staff.

(3) Projected. Includes self-supporting debt. See Tables 1 and 10 herein and accompanying footnotes for more detailed information on the City's general obligation self-supporting debt. The City's policy to pay such self-supporting debt from other revenues is subject to change in the future, but the City currently has no plans to change such policy. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax sufficient to pay such debt service.

(4) Projected, includes the Bonds and the 2018A Bonds that are anticipated to be sold via private sale on September 10, 2018.

TABLE 4 - TAX RATE, LEVY, AND COLLECTION HISTORY

Fiscal Year Ended 9/30	Tax Rate	Distribution		Tax Levy	% of Current Tax Collections to Tax Levy	% of Total Tax Collections to Tax Levy
		General Fund	Interest and Sinking Fund			
2014	\$ 0.8675	\$ 0.6012	\$ 0.2663	\$ 12,731,142	99.84% ⁽¹⁾	102.46% ⁽¹⁾
2015	0.8675	0.6012	0.2663	13,892,617	100.89% ⁽¹⁾	103.04% ⁽¹⁾
2016	0.8675	0.6012	0.2663	16,852,274	92.53% ⁽¹⁾	94.12% ⁽¹⁾
2017	0.8675	0.6012	0.2663	19,778,473	90.47% ⁽¹⁾	92.33% ⁽¹⁾
2018	0.8675	0.6012	0.2663	19,562,730 ⁽²⁾	93.05% ⁽³⁾	94.76% ⁽³⁾

(1) Source: City's Audit.

(2) Calculated.

(3) Collections for partial year only, through August 1, 2018.

TABLE 5 - TEN LARGEST TAXPAYERS

Name of Taxpayer	Nature of Property	2017/18 Taxable Assessed Valuation	% of Total Taxable Assessed Valuation
CSHV 20 35 LLC	Industrial Park	\$ 124,737,580	5.48%
Oncor Electric Delivery	Utility Delivery	60,215,550	2.64%
Southwestern Bell Telephone	Telephone	52,420,460	2.30%
United Natural Foods Inc.	Commercial	41,307,840	1.81%
Mobis Parts America LLC	Auto Parts Distribution	36,122,749	1.59%
2935 Danieldale Rd Holdings LLC	Development	31,096,750	1.37%
Swift Transportation	Transportation	26,743,730	1.17%
CSHV 20 35 LLC	Industrial Park	25,934,510	1.14%
Quaker Pepsico	Food Products Distribution	18,427,946	0.81%
Brasscraft Manufacturing Co	Plumbing Products	13,672,703	0.60%
		<u>\$ 430,679,818</u>	<u>18.91%</u>

Note: Provided by the Dallas Central Appraisal District.

GENERAL OBLIGATION DEBT LIMITATION . . . Other than as described under "THE BONDS – Tax Rate Limitation", no general obligation debt limitation is imposed on the City under current State law or the City's Home Rule Charter (see "THE BONDS – Tax Rate Limitation").

TABLE 6 – TAX ADEQUACY ⁽¹⁾

2018 Principal and Interest Requirements	\$ 5,328,700
\$0.2363 Tax Rate at 99.00% Collection Produces	\$ 5,328,730
Average Annual Principal and Interest Requirements, 2018 - 2040	\$ 4,921,473
\$0.2183 Tax Rate at 99.00% Collection Produces	\$ 4,922,817
Maximum Principal and Interest Requirements, 2019	\$ 5,959,519
\$0.2643 Tax Rate at 99.00% Collection Produces	\$ 5,960,149

(1) Includes the Bonds and the 2018A Bonds. Also, includes that portion of interest offset by the refundable tax credit to be received by the City from the United States Department of Treasury as a result of a portion of the related outstanding obligations being designated as "Build America Bonds." See "Table 9 – Interest and Sinking Fund Budget Projection" herein.

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 debt ("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 Tax Debt since the date hereof, and such entities may have programs requiring the issuance of substantial amounts of additional Tax Debt, the amount of which cannot be determined. The following table reflects the estimated share of overlapping Tax Debt of the City.

Taxing Jurisdiction	2017/18 Taxable Assessed Value	2017/18 Tax Rate	Total Tax Debt	Estimated % Applicable	City's Overlapping Tax Debt As of 8/1/18	Authorized But Unissued Debt as of 8/1/2018 ⁽²⁾
City of Lancaster	\$ 2,277,848,200	\$ 0.867500	\$ 67,275,000 ⁽¹⁾	100.00%	\$ 67,275,000	\$ -
Lancaster Independent School District	2,289,653,258	1.540000	207,941,933	86.08%	178,996,416	-
Dallas Independent School District	109,626,365,195	1.282100	2,830,495,000	0.05%	1,415,248	950,595,000
Dallas County	224,416,323,244	0.243100	187,435,000	1.04%	1,949,324	-
Dallas County Community College	231,510,039,944	0.124200	228,350,000	1.04%	2,374,840	-
Dallas County Hospital District	225,319,083,792	0.279400	703,770,000	1.04%	7,319,208	-
Ferris Independent School District	330,939,377	1.387300	33,732,801	0.05%	<u>16,866</u>	-
Total Direct and Overlapping Tax Debt					\$ 259,346,902	
Ratio of Direct and Overlapping Tax Debt to Taxable Assessed Valuation					11.39%	
Per Capita Overlapping Tax Debt					\$ 6,760.69	

(1) Includes the Bonds and the 2018A Bonds.

(2) Reflects remaining authorization after the issuance of the Bonds and the 2018A Bonds.

TABLE 8 – GENERAL OBLIGATION DEBT SERVICE REQUIREMENTS

Fiscal Year Ended 9/30	Outstanding Debt ⁽¹⁾		The Bonds ⁽²⁾		The 2018A Bonds ⁽³⁾		Total Outstanding Debt	Less:	Less:	Less:	Less:	Less:	Total Debt Less Self- Supporting Requirements	% of Principal Retired
	Principal	Interest	Principal	Interest	Principal	Interest		W&S Self- Supporting Requirements	Stormwater Self-Supporting Requirements	LEDC Self Supporting Requirements	LRDC Self Supporting Requirements	Airport Self- Supporting Requirements		
								Requirements	Requirements	Requirements	Requirements	Requirements		
2018	\$ 4,315,000	\$ 3,700,681	\$ -	\$ -	\$ -	\$ -	\$ 8,015,681	\$ 1,485,106	\$ 44,850	\$ 230,550	\$ 913,825	\$ 12,650	\$ 5,328,700	
2019	3,635,000	3,578,760	145,000	240,666	250,000	10,700	7,860,126	692,506	49,200	227,350	924,150	7,400	5,959,519	
2020	3,745,000	3,432,245	110,000	281,575	250,000	4,500	7,823,320	685,906	43,150	212,350	921,000	12,050	5,948,864	
2021	3,905,000	3,255,681	370,000	274,375			7,805,056	687,556	41,750	210,425	922,500	11,550	5,931,275	
2022	4,090,000	3,068,257	385,000	263,050			7,806,307	693,731	45,275	213,125	926,875	11,050	5,916,250	24.26%
2023	4,270,000	2,874,318	395,000	251,350			7,790,668	705,631	43,725	210,450	923,600	10,600	5,896,662	
2024	4,395,000	2,679,126	405,000	239,350			7,718,476	706,806	42,175	207,525	923,100	10,200	5,828,670	
2025	3,630,000	2,494,011	420,000	226,975			6,770,986	672,981	50,375	214,100	-	-	5,833,530	
2026	3,785,000	2,313,583	430,000	214,225			6,742,808	674,031	48,275	214,900	-	-	5,805,602	
2027	3,955,000	2,119,976	445,000	201,100			6,721,076	684,156	46,100	215,050	-	-	5,775,769	49.59%
2028	3,710,000	1,935,526	460,000	187,525			6,293,051	537,056	-	-	-	-	5,755,994	
2029	3,875,000	1,760,024	475,000	173,500			6,283,524	547,369	-	-	-	-	5,736,155	
2030	4,025,000	1,576,100	490,000	159,025			6,250,125	551,281	-	-	-	-	5,698,844	
2031	4,195,000	1,383,250	500,000	144,175			6,222,425	558,900	-	-	-	-	5,663,525	
2032	3,800,000	1,180,861	520,000	128,225			5,629,086	-	-	-	-	-	5,629,086	74.83%
2033	2,935,000	1,010,605	535,000	111,081			4,591,686	-	-	-	-	-	4,591,686	
2034	3,080,000	853,365	555,000	93,369			4,581,734	-	-	-	-	-	4,581,734	
2035	3,225,000	688,456	570,000	74,375			4,557,831	-	-	-	-	-	4,557,831	
2036	1,700,000	548,678	590,000	54,075			2,892,753	-	-	-	-	-	2,892,753	
2037	1,770,000	435,418	615,000	32,988			2,853,405	-	-	-	-	-	2,853,405	92.65%
2038	1,850,000	317,261	635,000	11,113			2,813,373	-	-	-	-	-	2,813,373	
2039	1,925,000	194,045	-	-			2,119,045	-	-	-	-	-	2,119,045	
2040	2,010,000	65,606	-	-			2,075,606	-	-	-	-	-	2,075,606	100.00%
	<u>\$ 77,825,000</u>	<u>\$ 41,465,833</u>	<u>\$ 9,050,000</u>	<u>\$ 3,362,116</u>	<u>\$ 500,000</u>	<u>\$ 15,200</u>	<u>\$ 132,218,150</u>	<u>\$ 9,883,019</u>	<u>\$ 454,875</u>	<u>\$ 2,155,825</u>	<u>\$ 6,455,050</u>	<u>\$ 75,500</u>	<u>\$ 113,193,881</u>	

DEBT INFORMATION

- (1) "Outstanding Debt" includes self-supporting debt. Includes that portion of interest offset by the refundable tax credit to be received by the City from the Department of Treasury as a result of a portion of the related outstanding obligations being designated as "Build America Bonds".
- (2) Average life of the issue – 11.376 Years. Interest on the Bonds has been calculated at the rates stated on the cover page hereof.
- (3) The 2018A Bonds are anticipated to be sold via private sale on September 10, 2018.

TABLE 9 - INTEREST AND SINKING FUND BUDGET PROJECTION

Tax-Supported Debt Service Requirements, Fiscal Year Ending 9-30-18		\$ 5,328,700
Interest and Sinking Fund Balance, 9-30-17	\$ 1,749,893	
Budgeted Interest and Sinking Fund Tax Levy	5,588,373	
Budgeted Transfers	283,750	
Estimated Build America Bonds Subsidy	606,294	
Estimated Investment Earnings	<u>6,500</u>	<u>8,234,810</u>
Estimated Balance, 9-30-18		<u><u>\$ 2,906,110</u></u>

TABLE 10 - COMPUTATION OF SELF-SUPPORTING DEBT ⁽¹⁾

Revenue Available for Debt Service from Waterworks and Sewer System ("System"), Fiscal Year Ended 9-30-17	\$ 6,779,078
Less: Revenue Bonds Requirements, 2018 Fiscal Year	<u>-</u>
Balance Available for Other Purposes	\$ 6,779,078
System General Obligation Bond Requirements, 2018 Fiscal Year	<u>1,485,106</u>
Balance	\$ 5,293,972
Percentage of System General Obligation Bonds, Self-Supporting	100.00%
Revenue Available for Debt Service from Stormwater Fund, Fiscal Year Ended 9-30-17	\$ 492,208
Stormwater General Obligation Bond Requirements, 2018 Fiscal Year	<u>44,850</u>
Balance	\$ 447,358
Percentage of Stormwater General Obligation Bonds, Self-Supporting	100.00%
Fund Balances Available for Debt Service from LEDC, Fiscal Year Ended 9-30-17	\$ 5,061,547
LEDC General Obligation Bond Requirements, 2018 Fiscal Year	<u>230,550</u>
Balance	\$ 4,830,997
Percentage of LEDC General Obligation Bonds, Self-Supporting	100.00%
Fund Balances Available for Debt Service from LRDC, Fiscal Year Ended 9-30-17	\$ 1,249,947
LRDC General Obligation Bond Requirements, 2018 Fiscal Year	<u>913,825</u>
Balance	\$ 336,122
Percentage of LRDC General Obligation Bonds, Self-Supporting	100.00%
Revenue Available for Debt Service from Airport Fund, Fiscal Year Ended 9-30-17	\$ 14,408
Airport General Obligation Bond Requirements, 2018 Fiscal Year	<u>12,650</u>
Balance	\$ 1,758
Percentage of Airport General Obligation Bonds, Self-Supporting	100.00%

(1) It is the City's current policy to pay the above-described self-supporting debt from the respective revenue sources shown above; this policy is subject to change in the future. In the event the City changes its policy, or such revenues are not sufficient to pay debt service on such obligations, the City will be required to levy an ad valorem tax sufficient to pay such debt service.

TABLE 11 - AUTHORIZED BUT UNISSUED GENERAL OBLIGATION BONDS

<u>Purpose</u>	<u>Date Authorized</u>	<u>Amount Authorized</u>	<u>Amount Heretofore Issued</u>	<u>Amount Being Issued ⁽¹⁾</u>	<u>Unissued Balance</u>
Permanent Public Improvements	11/6/2007	\$ 37,545,695	\$ 27,995,000	\$ 9,550,695	\$ -

(1) Includes the Bonds and the 2018A Bonds.

ANTICIPATED ISSUANCE OF ADDITIONAL GENERAL OBLIGATION DEBT . . . The City does not anticipate issuing additional general obligation debt within the next 12 months.

TABLE 12 - OTHER OBLIGATIONS

The annual requirements to amortize the capital leases as of August 1, 2018 are as follows:

<u>Fiscal Year</u>	<u>Capital Leases Government Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 258,715	\$ 36,911	\$ 295,626
2020	189,507	29,813	219,320
2021	193,068	24,226	217,294
2022	196,758	18,512	215,270
2023	200,579	12,665	213,244
2024-2025	249,643	9,168	258,811
Total	<u>\$ 1,288,270</u>	<u>\$ 131,295</u>	<u>\$ 1,419,565</u>

PENSION FUND . . . The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. The plan provisions that have been adopted by the City are within options available in the governing state statutes of TMRS. Lancaster Economic Development Corporation and Lancaster Recreational Development Corporation contribute to the plan with a cost share of 0.93% and 4.45%, respectively. There were no significant changes in the component unit's proportion to the plan during fiscal year 2017.

TMRS issues a publicly available comprehensive financial report that includes financial statements and required supplementary information (RSI) for TMRS; the report also provides detailed explanations of the contributions, benefits and actuarial methods and assumptions used by the system. This report may be obtained by writing to Texas Municipal Retirement System (TMRS), P.O. Box 149153, Austin, Texas, 78714-9153 or by calling 800-924-8677; in addition, the report is available on TMRS' website at www.TMRS.com.

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

Employee deposit rate	7.0%
Matching ratio (city to employee)	2 to 1
Years required for vesting	5
	60/5, 0/20
Service retirement eligibility (expressed as age/years of service)	
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	50% of CPI Repeating

At December 31, 2016 valuation and measurement date, the following employees were covered by the benefit terms:

Inactive Employees or Beneficiaries Currently Receiving Benefits	176
Inactive Employees Entitled to But Not Yet Receiving Benefits	214
Active Employees	<u>244</u>
	634

Contributions

Under the state law governing TMRS, the contribution rate for each city is determined annually by the actuary, using the entry age normal actuarial cost method beginning with the 2013 valuations. This rate consists of the normal cost contribution rate and the prior service contribution rate, which is calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the portion of an active member's projected benefit allocated annually; the prior service contribution rate amortizes the unfunded actuarial liability over the applicable period for that city. Both the normal cost and prior service contribution rates include recognition of the projected impact of annually repeating benefits, such as Updated Service Credits and Annuity Increases.

The City's contributions to TMRS for the year ended September 30, 2017, were \$2,134,819, and were equal to the required contributions.

The City contributes to the TMRS plan at an actuarially determined rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect (*i.e.*, December 31, 2012, valuation is effective for the rates beginning January 1, 2014).

Actuarial assumptions:

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

Inflation	2.5% per year
Overall payroll growth	3.0% per year
Investment Rate of Return	6.75%, net of pension plan investment expense, including inflation

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

Actuarial assumptions used in the December 31, 2016, valuation were based on the results of actuarial experience studies. The experience study in TMRS was for the period December 31, 2010 through December 31, 2014. Healthy post-retirement mortality rates and annuity purchase rates were updated based on a *Mortality Experience Investigation Study* covering 2009 through 2011, and dated December 31, 2013. These assumptions were first used in the December 31, 2013, valuation along with a change to the Entry Age Normal (EAN) actuarial cost method. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan's policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

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

Discount Rate:

The discount rate used to measure the total pension liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7.00% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the Net Pension Liability:

	Increase (Decrease)		
	Total	Fiduciary	Net Pension
	Pension Liability	Net Position	Liability
	(a)	(b)	(a) - (b)
Balance as of 09/30/2016	\$ 73,946,109	\$ 58,847,251	\$ 15,098,858
Changes for the year:			
Service cost	2,335,235	-	\$ 2,335,235
Interest on total pension liability	4,963,011	-	4,963,011
Effect of difference in expected and actual experience	(1,104,406)	-	(1,104,406)
Benefit Payments	(3,175,270)	(3,175,270)	-
Administrative expenses	-	(44,915)	44,915
Member contributions	-	1,049,207	(1,049,207)
Net investment income	-	3,975,648	(3,975,648)
Employer contributions	-	1,994,083	(1,994,083)
Other	-	(2,420)	2,420
Net changes	<u>3,018,570</u>	<u>3,796,333</u>	<u>(777,763)</u>
Balance as of 09/30/2017	\$ 76,964,679	\$ 62,643,584	\$ 14,321,095

Sensitivity of the Net Pension Liability to Changes in the Discount Rate:

	1% Decrease (5.75%)	Current Single Rate Assumption (6.75%)	1% Increase (7.75%)
Primary Government	\$ 24,929,301	\$ 13,550,087	\$ 4,370,189
Lancaster Economic Development Corporation	246,521	133,994	43,216
Lancaster Recreational Development Corporation	1,171,971	637,014	205,450
Plan's net pension liability	<u>\$ 26,347,793</u>	<u>\$ 14,321,095</u>	<u>\$ 4,618,855</u>

OTHER POST-EMPLOYMENT BENEFITS . . . The City provides post-employment medical care (OPEB) for employees through a single-employer defined benefit medical plan. The plan provides medical benefits for eligible retirees, their spouses and dependents through the City's group health insurance plans, which cover both active and retired members. The benefit levels and contribution rates are approved annually by the City management and the City Council as part of the budget process.

Since an irrevocable trust has not been established, the plan is not accounted for as a trust fund. The plan does not issue a separate financial report.

Benefits Provided:

The City provides post-employment medical and dental care benefits to its retirees. Retirees who elect COBRA cannot later elect retiree coverage. To be eligible for coverage an employee must qualify under all three of the following:

1. The retiree must have been covered for medical benefits under the City Health Plan as an employee immediately prior to termination of employment.
2. Apply for pension benefits from TMRS in accordance with their requirements and deadlines, but in no event later than 90 days from termination of employment; and
3. Enroll for retiree Health coverage within 31 days of the date of termination.

Funding Policy

The plan's premium rates are determined annually by City management and approved by the City Council as part of the annual budget. Members receiving HMO medical benefits contribute \$518 per month for retiree-only coverage, \$1,140 per month for retiree and spouse, and \$1,765 per month for retiree and family. Members receiving PPO medical benefits contribute \$574 per month for retiree-only coverage, \$1,264 per month for retiree and spouse, and \$1,956 per month for retiree and family. By the City not contributing anything toward this plan in advance, the City employs a pay-as-you-go method through ensuring the annual employer contributions each year are equal to the benefits that are paid on behalf of the retirees.

Annual OPEB Cost

The City's annual OPEB cost is calculated based on the annual required contribution of the City (ARC), an amount actuarially determined in accordance with the parameters of GASB 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The unfunded actuarial accrued liabilities were amortized as a level percent of active payroll over an open period of 30 years. The City's annual OPEB cost and the related information are as follows at September 30, 2017, 2016 and:

	September 30,		
	2017	2016	2015
Annual Required Contribution	\$ 88,361	\$ 76,437	\$ 74,211
Interest on OPEB Obligation	8,572	7,896	5,883
Adjustment to ARC	(8,351)	(7,315)	(5,450)
Annual OPEB Cost (Expense)	\$ 88,582	\$ 77,018	\$ 74,644
Contributions Made	(41,828)	(38,171)	(29,908)
Change in OPEB Obligation	\$ 46,754	\$ 38,847	\$ 44,736
Net OPEB Obligation (Asset) – Beginning of Year	214,307	175,460	130,724
Net OPEB Obligation (Asset) – End of Year	\$ 261,061	\$ 214,307	\$ 175,460
Percent of OPEB Costs Contributed	47.2%	49.6%	40.1%

For more information concerning the OPEB plan and funding progress relating thereto see "APPENDIX B – Excerpts from City's Comprehensive Annual Financial Report".

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FINANCIAL INFORMATION

TABLE 13 – CHANGES IN NET ASSETS

	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
<u>Revenues:</u>					
Program Revenues:					
Charges for Services	\$ 4,495,333	\$ 5,649,792	\$ 3,275,363	\$ 2,846,642	\$ 2,651,439
Operating Grants & Contributions	748,338	894,947	1,351,379	1,339,640	2,814,031
Capital Grants & Contributions	-	-	-	-	-
General Revenues:					
Taxes & Fees	28,241,385	25,390,599	24,215,602	20,586,653	20,114,364
Other	851,508	404,480	505,390	334,862	366,363
Total Revenues	<u>\$ 34,336,564</u>	<u>\$ 32,339,818</u>	<u>\$ 29,347,734</u>	<u>\$ 25,107,797</u>	<u>\$ 25,946,197</u>
<u>Expenses:</u>					
Program Expenses:					
General Government	\$ 7,327,188	\$ 7,337,257	\$ 3,891,404	\$ 4,055,911	\$ 4,171,973
Public Safety	18,869,618	18,522,908	16,540,660	14,898,549	14,350,239
Public Works	3,869,238	3,651,258	5,987,362	4,926,327	4,991,125
Community Development and Recreation	1,829,003	1,366,830	1,225,730	1,260,500	1,238,745
Social and Welfare	-	-	-	3,623	2,048,769
Interest and Fiscal Charges	2,935,851	3,200,431	3,379,380	3,054,899	1,836,254
Total Expenses	<u>\$ 34,830,898</u>	<u>\$ 34,078,684</u>	<u>\$ 31,024,536</u>	<u>\$ 28,199,809</u>	<u>\$ 28,637,105</u>
Increase (Decrease in Net Assets Before Transfers)	\$ (494,334)	\$ (1,738,866)	\$ (1,676,802)	\$ (3,092,012)	\$ (2,690,908)
Transfers	<u>1,722,208</u>	<u>(193,511)</u>	<u>1,635,572</u>	<u>1,679,963</u>	<u>1,856,628</u>
Change in Net Assets	\$ 1,227,874	\$ (1,932,377)	\$ (41,230)	\$ (1,412,049)	\$ (834,280)
Net Assets - Beginning	45,303,412	47,235,789	54,822,317	56,234,366	57,760,986
Prior Period Adjustments	-	-	(7,545,298) ⁽¹⁾	-	(692,340)
Net Assets - Ending	<u>\$ 46,531,286</u>	<u>\$ 45,303,412</u>	<u>\$ 47,235,789</u>	<u>\$ 54,822,317</u>	<u>\$ 56,234,366</u>

(1) Net position as of October 1, 2014 has been restated for the effects of adopting GASB No. 68.

TABLE 13A - GENERAL FUND REVENUES AND EXPENDITURES HISTORY

Revenues	Fiscal Year Ended September 30,				
	2017	2016	2015	2014	2013
Taxes and Fees	\$ 20,802,099	\$ 18,439,703	\$ 17,301,959	\$ 15,632,121	\$ 14,698,446
Licenses and Permits	1,204,769	1,522,638	657,735	681,212	875,112
Intergovernmental	98,071	369,534	758,579	147,090	1,022,357
Charges for Services	1,447,290	1,516,187	886,838	881,346	715,540
Fines and Forfeitures	1,175,488	1,257,743	1,264,493	798,272	785,089
Interest	64,369	26,187	3,918	1,807	5,885
Miscellaneous	528,231	261,553	272,160	254,112	253,973
Total Revenues	\$ 25,320,317	\$ 23,393,545	\$ 21,145,682	\$ 18,395,960	\$ 18,356,402
Expenditures					
General Government	\$ 4,801,896	\$ 4,171,215	\$ 3,648,643	\$ 3,437,170	\$ 3,375,903
Public Safety	16,096,810	16,110,529	14,866,020	13,589,450	13,267,811
Public Works	1,873,516	1,191,225	1,655,802	1,471,110	1,655,272
Cultural and Recreational	1,322,065	889,728	808,467	843,176	809,093
Capital Outlay	211,039	481,788	1,434,754	734,429	1,499,018
Debt Service	652,716	947,393	991,290	576,704	-
Total Expenditures	\$ 24,958,042	\$ 23,791,878	\$ 23,404,976	\$ 20,652,039	\$ 20,607,097
Excess (Deficiency) of Revenues Over Expenditures	\$ 362,275	\$ (398,333)	\$ (2,259,294)	\$ (2,256,079)	\$ (2,250,695)
Transfers In	\$ 1,730,755	\$ 1,673,308	\$ 1,900,157	\$ 1,751,362	\$ 1,904,628
Transfers Out	-	(968,358)	(80,343)	(85,399)	-
Proceeds from Capital Lease	-	-	1,250,000	-	-
Total Sources (Uses)	\$ 1,730,755	\$ 704,950	\$ 3,069,814	\$ 1,665,963	\$ 1,904,628
Net Increase (Decrease)	\$ 2,093,030	\$ 306,617	\$ 810,520	\$ (590,116)	\$ (346,067)
Beginning Fund Balance	6,974,910	6,668,293	5,857,773	6,447,889	6,793,956
Prior Period Adjustments	-	-	-	-	-
Ending Fund Balance	\$ 9,067,940	\$ 6,974,910	\$ 6,668,293	\$ 5,857,773	\$ 6,447,889

TABLE 14 - MUNICIPAL SALES TAX HISTORY

In addition to the sales and use tax levied by the State, the City levies the following local sales and use taxes for the purposes described: (i) a one percent (1%) sales and use tax the proceeds of which are credited to the General Fund of the City and are not pledged to the payment of debt; (ii) a voter-authorized one-half of one percent (1/2 of 1%) sales and use tax collected on behalf of Lancaster Recreational Development Corporation ("LRDC") for park and recreational development; (iii) a voter-authorized one-quarter of one percent (1/4 of 1%) sales and use tax collected on behalf of Lancaster Economic Development Corporation ("LEDC") for economic development and which may be pledged to the payment of debt issued by the LEDC; and (iv) a voter-authorized one-quarter of one percent (1/4 of 1%) sales and use tax for property tax reduction. Collection and enforcement of the sales and use taxes are effected through the Comptroller of Public Accounts, State, who remits the proceeds of the taxes, after deduction of a 2% service fee, to the City monthly. **Such sales tax revenues are not pledged to the payment of the Bonds.**

DISTRIBUTION OF SALES AND USE TAXES

Property Tax Relief	0.25¢
Economic and Community Development	0.25¢
Recreational Development Corporation	0.50¢
City Sales & Use Tax	1.00¢
State Sales & Use Tax	<u>6.25¢</u>
Total	8.25¢

GENERAL FUND SALES AND USE TAX

Fiscal Year Ended 9/30	Total Collected	% of Ad Valorem Tax Levy	Equivalent of Ad Valorem Tax Rate	Per Capita
2014	\$ 4,960,391	34.89%	\$ 0.3184	\$ 134
2015	5,545,413	39.92%	0.3283	148
2016	5,633,760	33.43%	0.2845	150
2017	6,168,242	31.19%	0.2859	163
2018 ⁽¹⁾	6,637,207	33.93%	0.2914	173

(1) Collections through August 1, 2018.

ECONOMIC DEVELOPMENT, RECREATION DEVELOPMENT AND PROPERTY REDUCTION SALES AND USE TAXES

Fiscal Year Ended Collected	1/4% Economic Development Tax Collected	1/2% Recreational Development Tax Collected	1/4% Property Reduction Tax Collected
2012	\$ 1,240,098	\$ 2,480,196	\$ 1,240,098
2013	1,386,353	2,772,707	1,386,353
2014	1,408,440	2,816,880	1,408,440
2015	1,542,061	3,084,121	1,542,061
2016 ⁽¹⁾	1,659,302	3,318,604	1,659,302

(1) Collections through August 1, 2018.

FINANCIAL POLICIES

Basis of Accounting . . . The City's accounting records of the governmental fund revenues and expenditures are recognized on the modified accrual basis. Revenues are recognized in the accounting period in which they are available and measurable. Expenditures are recognized in the accounting period in which the fund liability occurred, if measurable, except for unmatured interest on general long-term debt.

Proprietary Fund revenues and expenses are recognized on the full accrual basis. Revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the accounting period in which they are incurred.

Fund Balances . . . It is the City's policy regarding the General Fund and Enterprise Funds that working capital resources should be maintained at a minimum of 12%, with a stated target of 15% of the respective fund's operating expenditure budget. The City maintains its various debt service funds in accordance with the covenants of the related bond ordinances.

Use of Bond Proceeds . . . The City's policy is to use bond proceeds for capital expenditures only. Such revenues are never to be used to fund normal City operations.

Budgetary Procedures . . . The City Charter establishes the fiscal year as the twelve-month period beginning each October 1. Each year between May and July, the City Manager analyzes, and then after review, submits a budget of estimated revenues and expenditures to the City Council. Subsequently, the City Council will hold work sessions to discuss and amend the budget to coincide with their direction of the City. Various public hearings may be held to comply with applicable law. The City Council will adopt a budget prior to September 30. If the Council fails to adopt a budget then the budget presented to the Council by the City Manager becomes the adopted budget.

During the fiscal year, budgetary control is maintained by the monthly review of departmental appropriation balances. Actual operations are compared to the amounts set forth in the budget. Departmental appropriations that have not been expended lapse at the end of the fiscal year. Therefore, funds that were budgeted and not used by the departments during the fiscal year are not available for their use unless appropriated in the ensuing fiscal year's budget.

INVESTMENTS

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

LEGAL INVESTMENTS . . . Pursuant to Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the "PFIA"), the City is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit, (2) direct obligations of the State or its agencies and instrumentalities, (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, (4) other obligations, the principal and interest of which are unconditionally guaranteed, insured, or backed by the full faith and credit of the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent, (6) bonds issued, assumed, or guaranteed by the State of Israel, (7) certificates of deposit or share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (6) or in any other manner and provided for by law for City deposits, or (ii) where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (8) fully collateralized repurchase agreements that (i) have a defined termination date, (ii) are fully secured by a combination of cash and obligations described in clause (1) above, (iii) require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and (iv) are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (9) bankers' acceptances with a stated maturity of 270 days or less from the date of its issuance, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and 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, (12) 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 obligations described in the preceding clauses, 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, and (13) public funds investment pools that have an advisory board which includes participants in the pool 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 or no lower than investment grade with a weighted average maturity no greater than 90 days. Texas law also permits the City to invest bond proceeds in a guaranteed investment contract, subject to limitations as set forth in the PFIA.

A political subdivision such as the City may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (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 obligations described in clauses (1) through (6) above, clauses (10) through (12) above, 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 through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAA-m or an equivalent by at least one nationally recognized rating service.

The City is specifically prohibited from investing in (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years, and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

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

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

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

TABLE 15 - CURRENT INVESTMENTS

As of August 1, 2018, the City's investable funds were invested in the following categories:

<u>Description</u>	<u>Percent</u>	<u>Market Value</u>
TexPool	58.23%	\$ 38,671,813
Logic	29.95%	19,886,518
Logic 2010 GO Bond Fund	2.19%	1,452,300
Logic 2015 GO Bond Fund	2.65%	1,761,338
Texas Class	6.98%	4,636,148
	<u>100.00%</u>	<u>\$ 66,408,117</u>

No funds of the City are invested in derivative securities, i.e., securities whose rate of return is determined by reference to some other instrument, index, or commodity.

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TAX MATTERS

TAX EXEMPTION . . . In the opinion of the Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel (“Special Tax Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Special Tax Counsel is set forth in Appendix D hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel’s judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Special Tax Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the City and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

QUALIFIED TAX-EXEMPT OBLIGATIONS FOR FINANCIAL INSTITUTIONS . . . The City has designated the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

CONTINUING DISCLOSURE OF INFORMATION

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

ANNUAL REPORTS . . . The City shall provide annually to the MSRB (1) within six months after the end of each fiscal year of the City ending in or after 2018, 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 15 and (2) if not provided as part of such financial information and operating data, audited financial statements of the City when and if available. Any financial statements to be provided shall be (i) prepared in accordance with the accounting principles described in the Bond Ordinance or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation, and in substantially the form included in the Official Statement, and (ii) audited, if the City commissions an audit of such financial statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City shall file unaudited financial statements within such 12-month period and audited financial statements for the applicable fiscal year, when and if the audit report on such statements becomes available.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 of the United States Securities and Exchange Commission (the "Rule").

Accordingly, the City must provide updated information included in the above-referenced tables by March 31 in each year, and audited financial statements for the preceding fiscal year must be provided by September 30 in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of the change (and of the date of the new fiscal year end) with the MSRB prior to the next date by which the City otherwise would be required to provide financial information and operating data pursuant to this Section.

NOTICE OF CERTAIN EVENTS . . . The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event): (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of holders of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into 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. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "Annual Reports".

For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has

assumed jurisdiction over substantially all of the assets or business of the City, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City.

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

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

The City's continuing disclosure agreements for the Bonds may be amended by the City 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, but only if (1) the provisions, as so amended, would have permitted an underwriter to purchase or sell the Bonds in the primary offering of such Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount (or any greater amount required by any other provision of the Bond Ordinance that authorizes such an amendment) of the outstanding Bonds consent to such amendment or (b) a person that is unaffiliated with the City (such as nationally recognized Bond Counsel) determines that such amendment will not materially impair the interest of the registered owners and beneficial owners of such Bonds. The City may also amend or repeal the provisions of the continuing disclosure agreement if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of such Bonds. If the City amends its agreements, it must include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

COMPLIANCE WITH PRIOR UNDERTAKINGS . . . During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. Updated unaudited financial information of the general type included in Appendix B has, in each of the last five years, been timely filed in the form of updates to certain tables containing similar information. This information has been subsequently amended when the City's audited financial statements have become available. The City's 2013 and 2014 audited financial statements release dates were July 27, 2014 and May 12, 2015, respectively. The City has implemented several administrative changes to increase the efficiency of its annual reporting procedures and to ensure timely preparation of its annual audited financial statements.

OTHER INFORMATION

RATINGS

The Bonds and the presently outstanding unenhanced tax supported debt of the City are rated "AA-" by S&P and the City also has unenhanced tax supported debt rated by Moody's. 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, 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 Bonds.

LITIGATION

The City is currently involved in litigation and are appealing judgment regarding the White Rock Commercial, LLC, vs. City of Lancaster, Cause No. DC-14-06471. This case is filed in the City involving a Chapter 380 Agreement by and between White Rock Commercial, LLC and the City of Lancaster. Under terms of the Chapter 380 Agreement, the City was to make certain payments in consideration for the construction of certain infrastructures stemming from the development of the property owned by White Rock Commercial, LLC. The infrastructure is purported to have been constructed in accordance with the terms of the Chapter 380 Agreement. It does appear that the City may, in fact, owe in the future economic development payments for the total amount of \$2.1 million dollars over a 20-year period to repay the cost of the infrastructure improvements placed by White Rock Commercial, LLC. To date, we have been unable to determine what, if any, amounts are due and owing under the terms of the Chapter 380 Agreement due to the imposition of impact fees and other considerations concerning the payment of the funds. The trial court has ruled in favor of the developer and determined that the City's liability is 4.7 million dollars plus pre-judgment and post judgment interest under the development agreements. The City does not believe this litigation will have a material impact on its finances or its ability to make debt service payments.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201), the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before the Bonds are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

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

LEGAL OPINIONS AND NO-LITIGATION CERTIFICATE

The City will furnish to the Initial Purchaser a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the 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, The City will also furnish an opinion of Special Tax Counsel to the effect that the interest on the 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 Bonds, or which would affect the provision made for their payment or security or in any manner questioning the validity of said Bonds will also be furnished. Though it represents the Financial Advisor and purchasers of debt from governmental issuers from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by and only represents the City in connection with the issuance of the Bonds. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Notice of Sale and Bidding Instructions, the Official Bid Form and the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Official Statement to verify that such description conforms to the provisions of the Bond Ordinance. The legal fee to be paid Bond Counsel and Special Tax Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinions will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited and unaudited 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 Bond Ordinance contained in this Preliminary Official Statement are made subject to all of the provisions of such statutes, documents and Bond Ordinance. 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.

FINANCIAL ADVISOR

HilltopSecurities, is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. HilltopSecurities, in its capacity as Financial Advisor, has not verified and does 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 Bonds, or the possible impact of any present, pending, or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, 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 does not guarantee the accuracy or completeness of such information.

USE OF AUDITED FINANCIAL STATEMENTS

BKD LLP, the City's independent auditor for fiscal year 2017, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the fiscal year 2017 financial statements addressed in that report. BKD also has not performed any procedures relating to this Official Statement.

INITIAL PURCHASER OF THE BONDS

After requesting competitive bids for the Bonds, the City accepted the bid of FTN Financial Capital Markets (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the cover page of the Official Statement at a price of par plus a cash premium of \$80,468.45. The Initial Purchaser can give no assurance that any trading market will be developed for the Bonds after their sale by the City to the Initial Purchaser. The City has no control over the price at which the Bonds are subsequently sold and the initial yield at which the Bonds will be priced and reoffered will be established by and will be the sole responsibility of the Initial Purchaser.

CERTIFICATION OF THE OFFICIAL STATEMENT

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

FORWARD-LOOKING STATEMENTS DISCLAIMER

The statements contained in this Official Statement, and in any other information provided by the City, that are not purely historical, are forward-looking statements, including statements regarding the City's expectations, hopes, intentions, or strategies regarding the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the City on the date hereof, and the City assumes no obligation to update any such forward-looking statements. 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 Bond Ordinance authorized the issuance of the Bonds and approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Initial Purchaser.

/s/ CLYDE C. HAIRSTON

Mayor
City of Lancaster, Texas

ATTEST:

/s/ SORANGEL ARENAS

City Secretary
City of Lancaster, Texas

APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

LOCATION . . . The City of Lancaster is a growing community located in south central Dallas County approximately twelve miles south of the downtown Dallas business district. The City is located near the major intersections of Interstate Highways 35, 635 and 45, providing ready access to all parts of the Dallas-Fort Worth Metroplex.

POPULATION . . . The City has grown steadily since the mid-1970's, when it was a small bedroom community.

Population history is as follows:

<u>Year</u>	<u>Population</u>	<u>Year</u>	<u>Population</u>
1970 Census	10,612	2013	36,980
1980 Census	14,807	2014	37,150
1990 Census	22,117	2015	37,360
2000 Census	25,894	2016	37,550
2010 Census	36,361	2017	37,730
2011	36,390	2018	38,361
2012	36,700		

Source: U.S. Census Bureau, North Central Texas Council of Governments, and the City.

EDUCATION . . . Educational facilities are primarily provided by the Lancaster Independent School District. The District is comprised of a Developmental Center, six elementary, one intermediate, one junior high and one high school. All campuses in the District are accredited by the Southern Association of Colleges and Schools and the Texas Education Agency. The high school curriculum offers sound basics for college preparation with college credit available in senior-level honors courses and features a strong vocational training program. Lancaster Independent School District boasts a student-to-computer ratio of four-to-one, the lowest in the Dallas area and one of the lowest nationwide. The District has been recognized nationally for its commitment to instructional technology.

Higher education facilities located within a 45-mile radius of the City include Southern Methodist University, the University of Texas at Arlington, Texas Christian University, the University of North Texas at Dallas, Northwood University, Cedar Valley Community College, Tarrant County College, Paul Quinn College, ILT Charter School and Life School.

TRANSPORTATION . . . The City is bounded in the west by Interstate Highway 35 East, in the east by Interstate Highway 45, and in the north by Interstate Highway 20 South, and is traversed by State Highway 342. The City is served by the Lancaster Regional Airport, M-K-T Railroad, BNSF Railroad, two bus lines and five freight lines. The City is approximately 30 miles southeast of the Dallas-Fort Worth International Airport and 18 miles from Dallas Love Field.

RECREATION . . . Recreational facilities in the City are provided by sixteen City parks covering 786 acres of land. Facilities include a Recreation Center with Indoor Aquatic Center, Senior Life Center, Library, Visitor’s Center and Auxiliary Museum, and Country View Golf Course. Amenities include a 200+ acre Nature Park, One nature preserve, three football fields, nine soccer fields, eight lighted ball diamonds, two tennis courts, one Dog Park, 2.4 miles of Hike and Bike trails, over 4 miles of Soft Surface Hiking Trails, and 2.25 miles of Equestrian Trails.

GROWTH INDICES

<u>Fiscal Year</u>	<u>Population</u>	<u>Building Permits⁽¹⁾</u>	
		<u>Number</u>	<u>Value</u>
2013	36,980	64	\$ 10,569,845
2014	37,150	1,090	40,776,897
2015	37,360	587	19,661,403
2016	37,550	359	10,737,484
2017	37,730	1,502	160,698,265

(1) Sources: City of Lancaster, Planning Department.

ECONOMY . . . The City has five major industrial or commercial sites totaling over 3,500 acres available for marketing to new business and industry with all utilities available. Lancaster Regional Airport has undergone major changes by adding to its capacity for general aviation and offering a natural opportunity for freight-related industries. Additions include a runway extension lengthening the runway to 6,500 feet, a full length parallel taxiway, self-service fueling facilities, 180,000 square feet of new ramp space, helicopter parking circles, and a new terminal building to be completed in late 2018/early 2019

The City is primarily a suburban residential area with industry and manufacturing becoming increasingly important to the local economy.

APPENDIX B

EXCERPTS FROM THE
CITY OF LANCASTER, TEXAS
COMPREHENSIVE ANNUAL FINANCIAL REPORT

For the Year Ended September 30, 2017

The information contained in this Appendix consists of excerpts from the City of Lancaster, Texas Comprehensive Annual Financial Report for the Year Ended September 30, 2017, 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

APPENDIX D

FORM OF SPECIAL TAX COUNSEL'S OPINION